

# **BPA Policy 460-3**

## **Capital Project Authorization**

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## 1. Purpose & Background

This policy establishes the responsibilities, process requirements and criteria for (1) proposing, evaluating, and authorizing capital projects, (2) establishing project parameters for cost, schedule and scope, (3) reporting and monitoring variances during project execution, and (4) evaluating projects after they have been placed in service.

## 2. Policy Owner

The Chief Financial Officer working through the Asset Management Committee and the Finance Committee has overall responsibility for monitoring, evaluating, and proposing revisions to this policy.

## 3. Applicability

- A. This policy applies to capital projects in these asset categories:
1. Transmission investment, regardless of funding source,
  2. Power Services hydroelectric investment allocable to power,
  3. Fleet Investment,
  4. Facilities investment,
  5. Security investment,
  6. Information Technology (IT) investment, and
  7. Fish and Wildlife investment.
- B. The Finance Committee, in consultation with affected business units, determines whether and how this policy should apply to additional asset categories.

## 4. Terms & Definitions

- A. Assets: ISO 55000, *Asset management - Overview, principles and terminology*, defines an asset as an “item, thing or entity that has potential or actual value to an organization.” BPA has adapted this definition to: “Physical item or thing including hardware and software applications; whether or not the asset is owned by BPA, and by minimizing their lifecycle costs, the asset has value for BPA’s customers and stakeholders.” In addition, an asset must generally meet the following principles:
1. It is owned, leased, or BPA has tangible interest in the asset;
  2. It has a Lifecycle all its own that we track;
  3. BPA performs or pays for the maintenance on the asset; and
  4. BPA has regulatory reporting or compliance guidelines for the asset.

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- A. Approval: used interchangeably with “authorization”. See definition for “authorization” below.
- B. Asset Category: BPA has defined seven asset categories: Transmission, Federal Hydro (Power Services hydroelectric installations), Facilities, Information Technology (IT), Fleet, Security, and Fish & Wildlife. Asset categories are led by Category Asset Managers (CAMs). This term is also used to refer to business units responsible for managing a set of assets.
- C. Asset Plan: Asset Plans specify the activities that BPA intends to undertake to implement asset strategies and deliver its asset management objectives, along with the resources required, timescales and costs for completion, and responsibilities for their delivery.
- D. Authorization: authorization of a capital business case provides the documentation that a specific investment aligns with Agency strategy, goals, and plans, has demonstrated appropriate analytical rigor, and is ready for BPA commitment and execution. While a business case should demonstrate a projects funding needs and if it has been included in budget processes, the ACPRT does not provide funding/budget authorization. Each business unit executive is responsible for funding authorization in accordance with BPA’s delegation of authorities.
- D. Business Case: A written proposal for a capital project (include associated expense costs as well) that demonstrates a business need for investment, determines the project’s financial and nonfinancial costs and benefits, assesses risks, evaluates alternatives, establishes project performance parameters and otherwise justifies the capital project.
- E. Capital Cost: For purposes of this policy, capital cost is defined as a project’s direct capital expenditures plus indirect or overhead costs and Allowance for Funds used during Construction (AFUDC) attributable to the project. Capital cost encompasses costs for the project as a whole, i.e. capital expenditures from project inception through placement in service. Only costs properly capitalized under BPA’s capitalization policy are included.
- F. Capital Project: An undertaking representing an investment in time and resources with a specified plan and budget, generally in a specific location, over a discrete period of time, intended to achieve a BPA long-term outcome for assets. Projects are scoped so that they are (1) clearly aligned with business objectives and (2) operationally sound as an asset or set of assets. Depending on the nature of a project, it may consist of one or more work orders.
- G. Capital Program (programmatic business cases): A program is a collection of projects that form a connected package or bundle of work. Such as replacement programs, but not limited to transmission wood pole replacement projects, insulator replacement projects, or line reconductoring projects, fleet vehicle replacements or similar aggregations of related projects.

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## 5. Policy

Capital projects must be directed at meeting reliability standards, adequacy guidelines, availability requirements, business operation needs, or other long-term outcomes that have been established for each asset category in Strategic Asset Management Plans (SAMPS) and detailed further in the associated asset plans. To be authorized, capital projects must be consistent with the investment needs and priorities established in the asset plans.

This policy establishes the requirements for capital project authorization, project reporting and monitoring and post investment review.

### A. Authorization

1. All capital projects require a business case. The business case is the approved vehicle for proposing, evaluating, and authorizing capital projects. Business case standards, requirements and the authorization process itself are contained in BPA Procedure 460-3-1.
2. Capital expenditures for planning, engineering, design and limited IT application development may occur prior to business case authorization, but authorization must be completed prior to BPA commitment to the project, contractually or otherwise and after final Environmental Impact Statement filing. See Procedure 460-3-1 for more detail on timing for authorization. Should the project not be authorized, those costs will be expensed.
3. All capital projects must be authorized by a business unit Vice President or delegate, either person or entity.
4. Additional levels of authorization are required by the ACPRT or FC, depending on the capital cost of the project. Those limits are specified in Appendix A of BPA Procedure 460-3-1. The Chief Financial Officer, FC or ACPRT may require additional authorization of a project, regardless of cost, if it is deemed to present significant implications for the agency.
5. Asset categories are authorized to approve in-kind replacements in emergency or urgent situations without submitting a business case for agency-level authorization in advance of, or after, expending capital funds. Emergency or urgent situations are caused by severe weather, sudden equipment failure, or other unforeseen events for which investment must be made without delay. Emergency or urgent situations for in-kind replacements are expected to take less than a year, otherwise a business case should be developed and approved in advance of work. For such situations, Asset Categories are responsible for establishing processes authorizing, tracking, and reporting emergency work.
6. When projects are authorized, the expected cost, schedule and scope must be memorialized to establish a basis for project execution reporting. The expected cost includes contingency as described in BPA Procedure 460-3-1. The project

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authorization remains in effect unless the authorizing entity or its senior directs corrective action up to and including termination of the project.

7. Variances from the expected cost, schedule and scope parameters must be thoroughly explained per the reporting requirements contained in BPA Procedure 460-3-2. The required reporting provides notification to the authorizing entities that changes have occurred since authorization.
8. Absent intervention by the authorizing body or its senior, variances do not change the authorization status of a project. Authorizing entities may reauthorize projects to reset the expected cost, schedule or scope parameters.
9. If a forecast cost variance would cause a project to exceed the authorization limit of the original authorizing entity, the next senior authorizing entity must be informed promptly and the ACPRT and/or FC may take action to:
  - i. Subject the project to the full authorization procedures of that body if the project is not yet committed;
  - ii. Take no authorization action, but include the project in the monitoring and reporting process presented to the Finance Committee quarterly as if that body had authorized the project if it is committed but a meaningful execution period remains; or
  - iii. Simply note the increase if the project is near completion.
10. Capital project authorization is separate from budget or funding approval. Authorization of a capital project does not relieve the sponsoring business unit of the responsibility of managing to their approved budget or funding levels.
11. Spot Checks: Capital projects approved at the asset category level that fall below the established threshold for ACPRT and FC approval are subject to periodic spot checks to assure that policy requirements are being met for those capital investments. These are randomly selected projects that have been recently approved but have not been substantially completed.

**B. Reporting and Monitoring**

1. Project implementation status reporting is required on a periodic basis. The reporting enables the authorizing entities to monitor the projects and take corrective action where appropriate. Reporting and monitoring requirements and processes are contained in BPA Procedure 460-3-2.

**C. Post Investment Review**

1. Post investment reviews of completed capital projects are encouraged in all cases and required in others. Post investment review selection criteria, requirements and standards are contained in BPA Procedure 460-3-3.

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## 6. Policy Exceptions

Columbia Generating Station investments

Environment capital program (Tier 2: EP)

## 7. Responsibilities

### A. Agency Asset Manager (AAM)

The Agency Asset Manager leads the development and monitors implementation of agency-level asset management processes and policies. The AAM advises the Category Asset Managers on developing SAMPS and asset plans and evaluates plan implementation. The AAM chairs the Asset Management Council (AMC).

### B. Asset Management Council (AMC)

The AMC supports the development and implementation of asset management strategies, policies and processes; ensures that practices in the business units reflect sound asset management, risk management and financial principles, promotes the capital authorization policy, and promotes adherence to the agency's standards of conduct. The AMC may initiate and approve updates to the procedures associated with this policy, with notification to the FC.

### C. Agency Capital Project Review Team (ACPRT)

The ACPRT works under the direction of the Finance Committee to review the business merits of the agency's large or strategically sensitive capital projects. The Financial Planning and Analysis Manager (FA) chairs the ACPRT. The ACPRT authorizes capital projects subject to the limits defined in BPA Procedure 460-3-1, Appendix A. If a project considered by the ACPRT exceeds the defined ACPRT limits, the project is elevated to the Finance Committee for final authorization. The ACPRT works with the asset categories to ensure that appropriate analytical rigor is brought to the project authorization process, and monitors project implementation.

### D. Finance Committee

All capital decisions, regardless of source of funding, related to budgeting and allocations are within the scope of the Finance Committee, although some elements may be delegated to other decision-making forums. The Finance Committee serves as the final level of review and authorization for capital projects that are large or strategically sensitive, or that meet other criteria set forth by the committee. Capital projects subject to Finance Committee authorization are defined in BPA Procedure 460-3-1, Appendix A. The Finance Committee monitors capital project execution performance through the established reporting mechanisms and may prescribe corrective actions if previously authorized projects encounter unforeseen difficulties or opportunities, including project expansion, redirection, or termination actions.

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E. Category Asset Managers (CAMs)

Category Asset Managers develop and implement SAMPS, asset plans, processes and policies for their asset categories. With regards to this policy, Category Asset Managers are responsible for the effective and efficient implementation of the capital project authorization policy; ensure that the asset category’s capital project review team is chartered and operating efficiently and effectively; ensure that business cases are properly developed, evaluated and approved in the business unit; ensure controls are in place so that capital project execution is monitored, variances are reported promptly, corrective action is taken when appropriate; and ensure that post investment reviews are completed consistent with this policy.

F. Project Sponsors

Project sponsors are the person or persons responsible for developing and justifying capital project proposals, obtaining necessary approvals for capital projects, and evaluating and reporting variances from expected project parameters during the course of the project.

## 8. Standards & Procedures

Standards and procedures are contained in the following:

1. BPA Procedure 460-3-1 Business Case Development and Authorization
2. BPA Procedure 460-3-2 Capital Project Reporting and Monitoring
3. BPA Procedure 460-3-3 Post Investment Review

## 9. Performance & Monitoring

Implementation of this policy is monitored by the Chief Financial Officer in conjunction with the Finance Committee through the mechanisms described in the policy and associated procedures.

## 10. Authorities & References

- A. Asset Management EPIP (Enterprise Process Improvement Program), January 17, 2006
- B. Finance Committee Charter, January 15, 2015
- C. Agency Capital Project Review Team (ACPRT) Charter, March 11, 2019
- D. OMB (Office of Management and Budget) Circular A-123, December 21, 2004
- E. OMB Circular A-11, July 2007
- G. IAM & ISO 55000 – Asset Management
- H. ISO 31000 – Risk Management

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## 11. Review

The Asset Management Committee will initiate a review of this policy every two years.

## 12. Revision History

Version	Issue Date	Description of Change
2	08/27/2014	Reformatted to new template
2.1	03/10/2016	Ownership of policy transferred from Corporate Strategy to Finance. Document references updated.
3.0	10/5/2018	General update and restructured with three procedures.
3.1	2/14/2020	<ul style="list-style-type: none"><li>• Document number changed from 240-3 to 460-3</li><li>• Policy review standard changed</li></ul> These are minor revisions. Effective date not changed.
3.2	12/12/2024	<ul style="list-style-type: none"><li>• Added definitions</li><li>• Added Security as a listed asset category</li><li>• Revised to reflect ACPRT Charter states FA manager as Chair.</li><li>• Added Spot check reviews of business case approvals</li><li>• Added CGS and Environment exemption</li><li>• Added clarification to emergency work and authorization timing.</li><li>• Updated references section</li></ul> These are minor revisions.

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