Matthew R. Bernier
Associate General Counsel
Duke Energy Florida, LLC.

May 9, 2018

**VIA ELECTRONIC FILING**

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Application for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Irma and Nate, by Duke Energy Florida, LLC; Docket No. 20170272-EI*

Dear Ms. Stauffer:

Please find enclosed for electronic filing, on behalf of Duke Energy Florida, LLC ("DEF"), DEF's Request for Confidential Classification filed in connection to its response to OPC's First Request for Production of Documents (1-8) filed on April 18, 2018.

The filing includes the following:

- DEF's Request for Confidential Classification
- Slipsheet for confidential Exhibit A
- Redacted Exhibit B (two copies)
- Exhibit C (justification matrix), and
- Exhibit D (affidavit of Bryan Buckler)

Please return DEF's confidential Exhibit A (document no. 03031-2018), filed with DEF's Notice of Intent to Request Confidential Classification on April 18, 2018.

Thank you for your assistance in this matter. Please feel free to call me at (850) 521-1428 should you have any questions concerning this filing.

Respectfully,

*s/Matthew R. Bernier*

Matthew R. Bernier
Matthew.Bernier@duke-energy.com

MRB/mw
Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Irma and Nate by Duke Energy Florida, LLC

Docket No. 20170272-EI

Dated: May 9, 2018

**DUKE ENERGY FLORIDA, LLC'S**
**REQUEST FOR CONFIDENTIAL CLASSIFICATION**

Duke Energy Florida, LLC, ("DEF" or "Company"), pursuant to Section 366.093, Florida Statutes (F.S.), and Rule 25-22.006, Florida Administrative Code (F.A.C.), submits this Request for Confidential Classification for certain information provided in response to the Office of the Public Counsel's ("OPC") First Request for the Production of Documents (Nos. 1-10), filed on April 18, 2018. In support of this Request, DEF states:

1. The information provided in response to OPC's First Request for the Production of Documents (Nos. 1-10), specifically question 1, contains "proprietary confidential business information" under Section 366.093(3), Florida Statutes.

2. The following exhibits are included with this request:

(a) Sealed Composite Exhibit A is a package containing an unredacted copy of all the documents for which DEF seeks confidential treatment. Composite Exhibit A is being submitted separately in a sealed envelope labeled "CONFIDENTIAL." In the unredacted version, the information asserted to be confidential is highlighted in yellow.

(b) Composite Exhibit B is a package containing two copies of redacted versions of the documents for which the Company requests confidential classification. The specific

information for which confidential treatment is requested has been blocked out by opaque marker or other means.

(c) Exhibit C is a table which identifies by page and line the information for which DEF seeks confidential classification and the specific statutory bases for seeking confidential treatment.

(d) Exhibit D is an affidavit attesting to the confidential nature of information identified in this request.

3. As indicated in Exhibit C, the information for which DEF requests confidential classification is "proprietary confidential business information" within the meaning of Section 366.093(3), F.S. Specifically, the information at issue relates to DEF's Regulated Electric and Gas Capitalization Guidelines, which include policies and standards for business practices. DEF must ensure that sensitive business information such as internal policies and procedures are kept confidential, the disclosure of which would impair the Company's to contract on favorable terms. *See* § 366.093(3)(d), F.S.; Affidavit of Bryan Buckler at ¶ 4. Furthermore, the information at issue contains confidential proprietary information, the disclosure of which would impair the Company's ability to protest proprietary information. *See* § 366.093(3)(e), F.S.; Affidavit of Bryan Buckler at ¶ 4. Accordingly, such information constitutes "proprietary confidential business information" which is exempt from disclosure under the Public Records Act pursuant to Section 366.093(1), F.S.

4. The information identified as Exhibit "A" is intended to be and is treated as confidential by the Company. *See* Affidavit of Bryan Buckler at ¶ 5. The information has not been disclosed to the public, and the Company has treated and continues to treat the information and contracts at issue as confidential. *See* Affidavit of Bryan Buckler at ¶ 5.

5. DEF requests that the information identified in Exhibit A be classified as "proprietary confidential business information" within the meaning of section 366.093(3), F.S., that the information remain confidential for a period of at least 18 months as provided in section 366.093(4) F.S., and that the information be returned as soon as it is no longer necessary for the Commission to conduct its business.

WHEREFORE, for the foregoing reasons, DEF respectfully requests that this Request for Confidential Classification be granted.

RESPECTFULLY SUBMITTED this 9th day of May, 2018.

*s/Matthew R. Bernier*

DIANNE M. TRIPLETT
Deputy General Counsel
Duke Energy Florida, LLC.
299 First Avenue North
St. Petersburg, FL 33701
T: 727.820.4692
F: 727.820.5041
E: Dianne.Triplett@duke-energy.com

MATTHEW R. BERNIER
Associate General Counsel
Duke Energy Florida, LLC
106 East College Avenue
Suite 800
Tallahassee, Florida 32301
T: 850.521.1428
F: 727.820.5041
E: Matthew.Bernier@duke-energy.com

**Duke Energy Florida, LLC**
Docket No.: 20170272
**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 9th day of May, 2018 to all parties of record as indicated below.

*s/Matthew R. Bernier*
Attorney

| | |
|---|---|
| Kyesha Mapp<br>Office of General Counsel<br>Florida Public Service Commission<br>2540 Shumard Oak Blvd.<br>Tallahassee, FL 32399-0850<br>kmapp@psc.state.fl.us<br><br>J. R. Kelly / C. Rehwinkel / E. Sayler<br>Office of Public Counsel<br>c/o The Florida Legislature<br>111 West Madison Street, Room 812<br>Tallahassee, FL 32399<br>kelly.jr@leg.state.fl.us<br>rehwinkel.charles@leg.state.fl.us<br>sayler.erik@leg.state.fl.us<br><br>Jon C. Moyle, Jr. / Karen A. Putnal<br>Moyle Law Firm, P.A.<br>118 North Gadsden Street<br>Tallahassee, FL 32301<br>jmoyle@moylelaw.com<br>kputnal@moylelaw.com | James Brew / Laura Wynn<br>Stone Law Firm<br>1025 Thomas Jefferson St., N.W.<br>Suite 800 West<br>Washington, DC 20007<br>jbrew@smxblaw.com<br>law@smxblaw.com<br><br>Robert Scheffel Wright / John T. LaVia, III<br>c/o Gardner Law Firm<br>1300 Thomaswood Drive<br>Tallahassee, FL 32308<br>schef@gbwlegal.com<br>jlavia@gbwlegal.com<br><br>George Cavros, Esq.<br>Southern Alliance for Clean Energy<br>120 E. Oakland Park Blvd., Suite 105<br>Fort Lauderdale, FL 33334<br>george@cavros-law.com |

# Exhibit A

# “CONFIDENTIAL”

(submitted under separate cover)

# Exhibit B

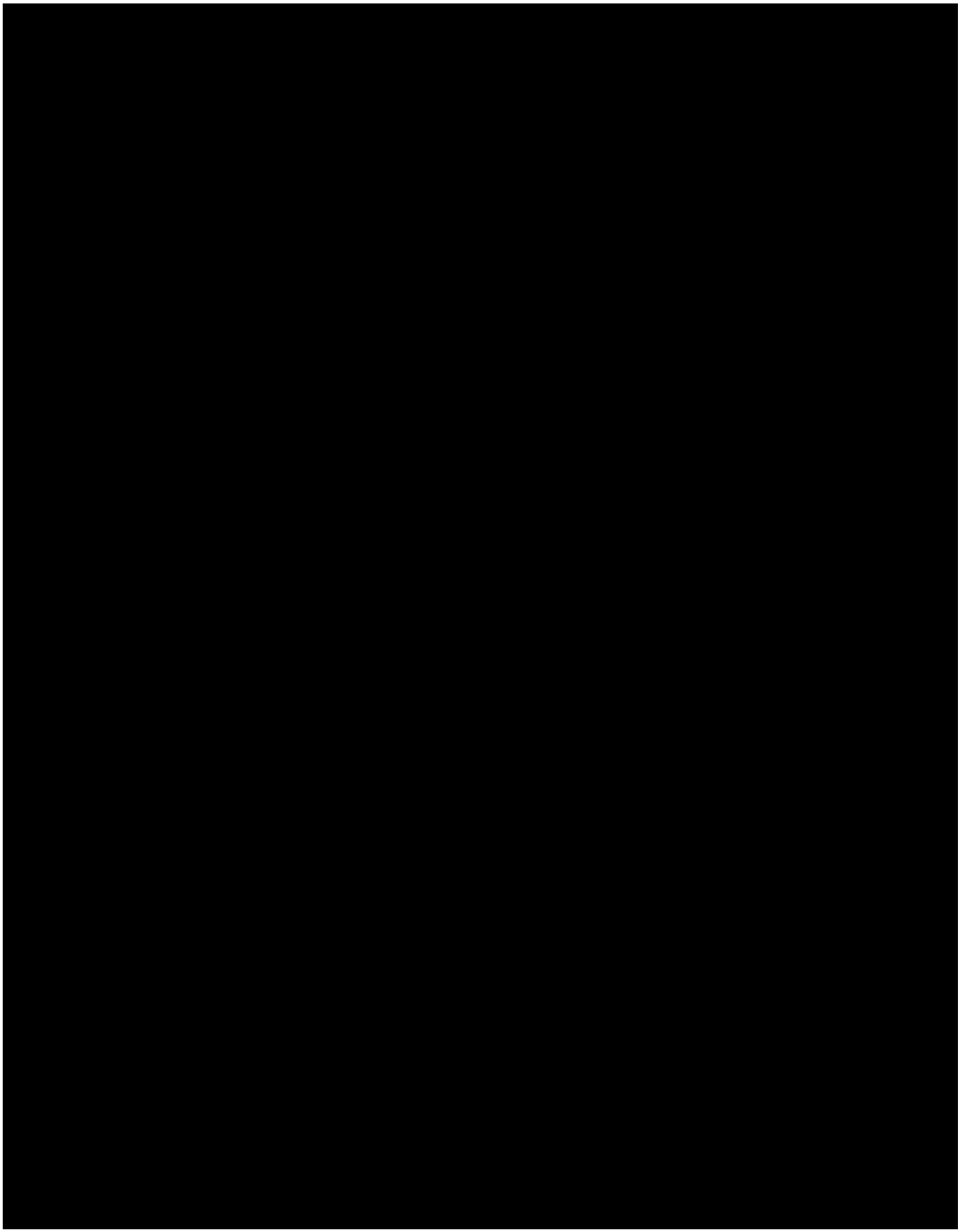
# REDACTED
# (two copies)

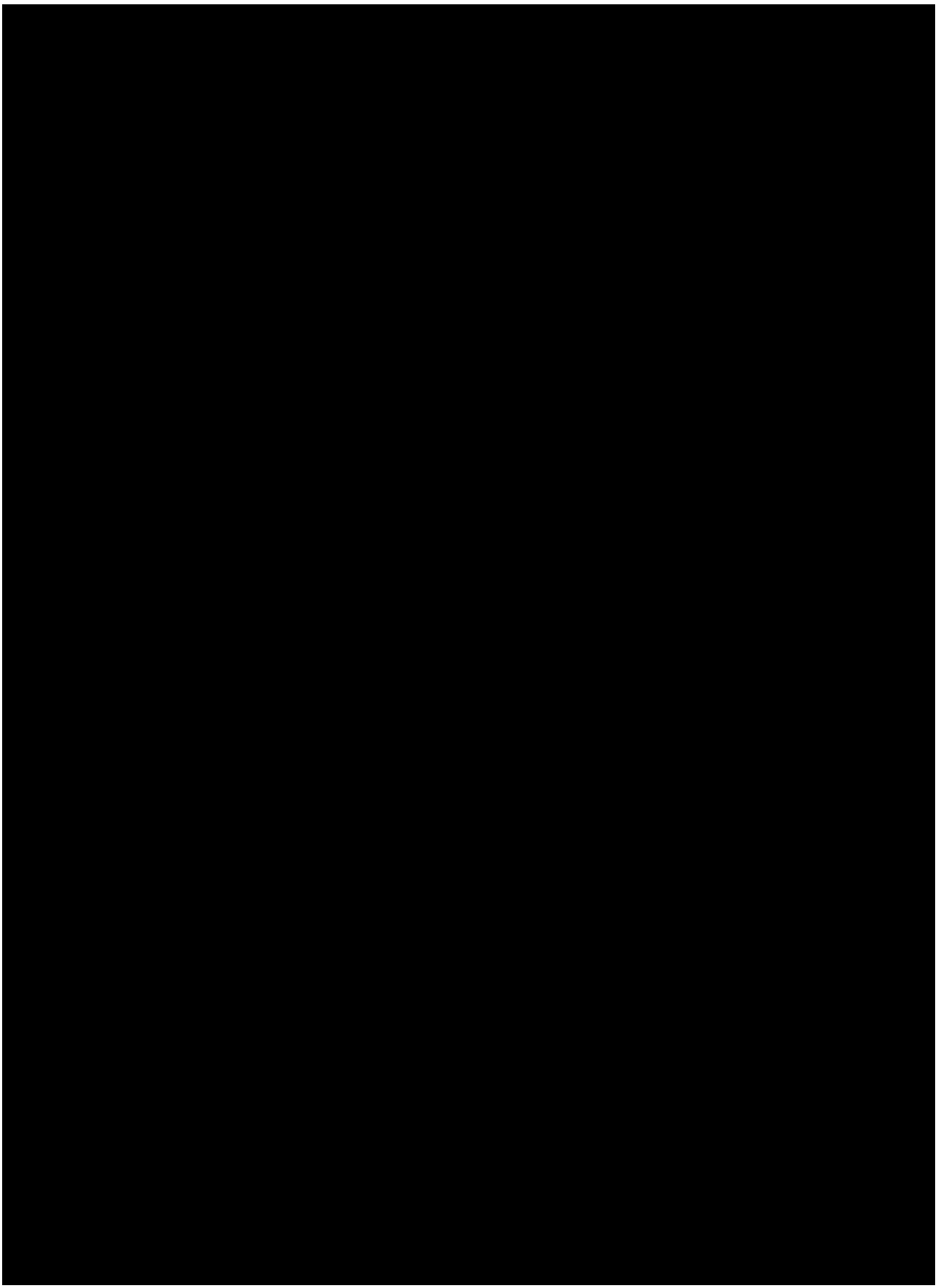
# Summary of Merger Consolidation

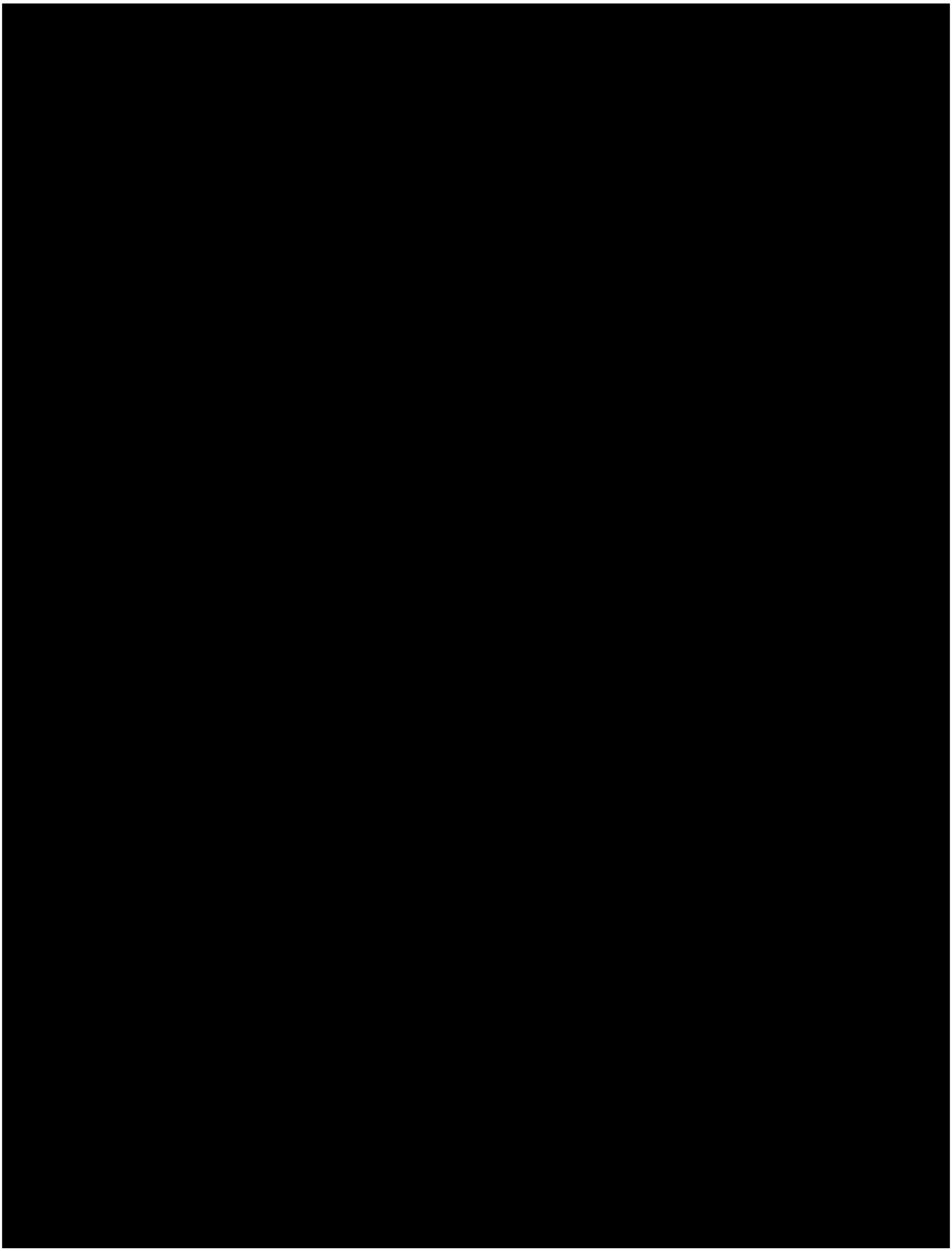
Asset Accounting has analyzed the legacy Duke Energy and Piedmont Natural Gas (PNG) capitalization guidelines in order to establish uniform standards which are not only in compliance with applicable accounting and regulatory guidance, but also set forth streamlined and efficient business practices. Below is a high level summary comparing legacy guidelines with the new consolidated guidelines. Any questions in application should be directed to the Asset Accounting Research Group.

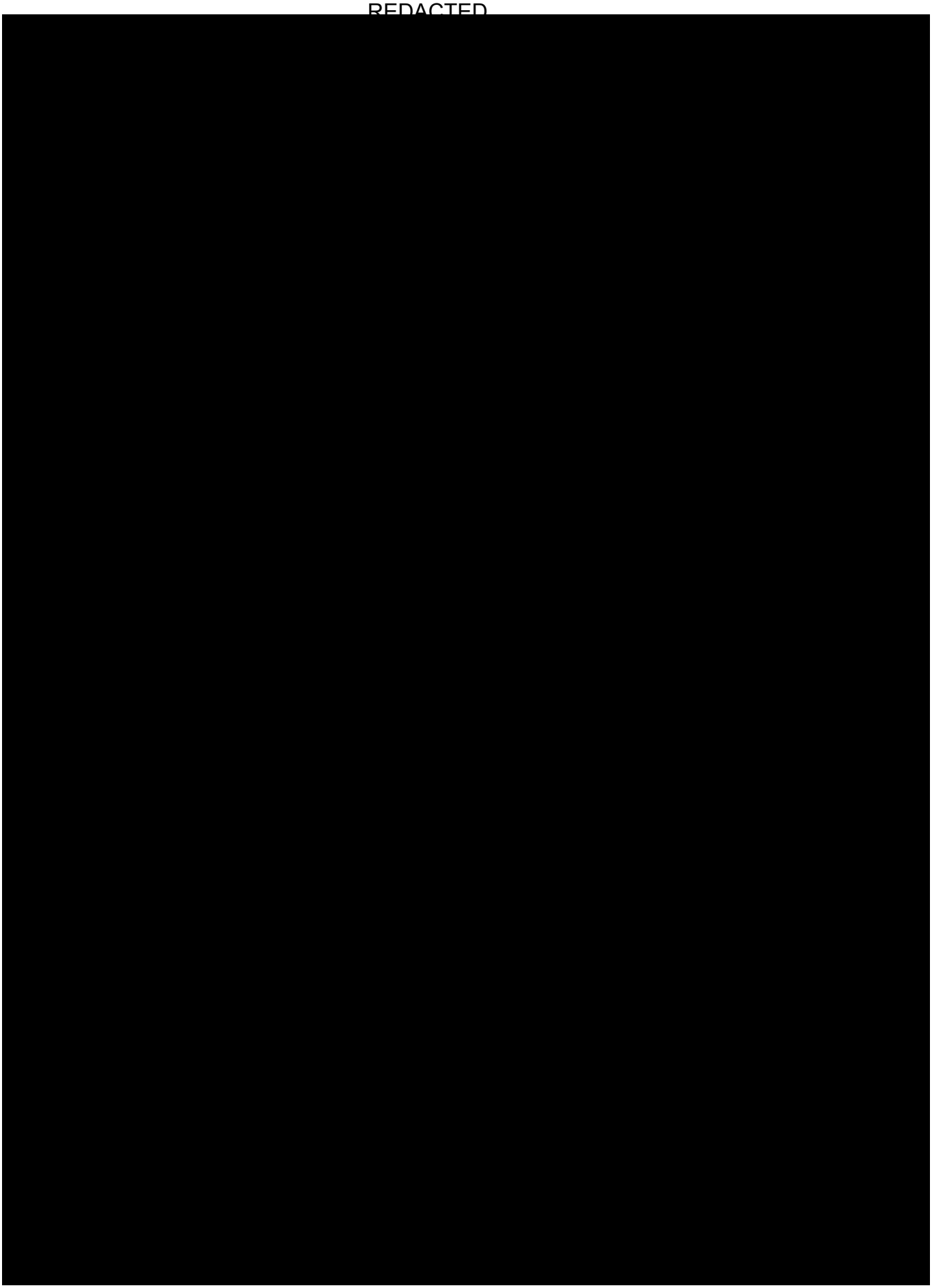
Key Capitalization Issues:

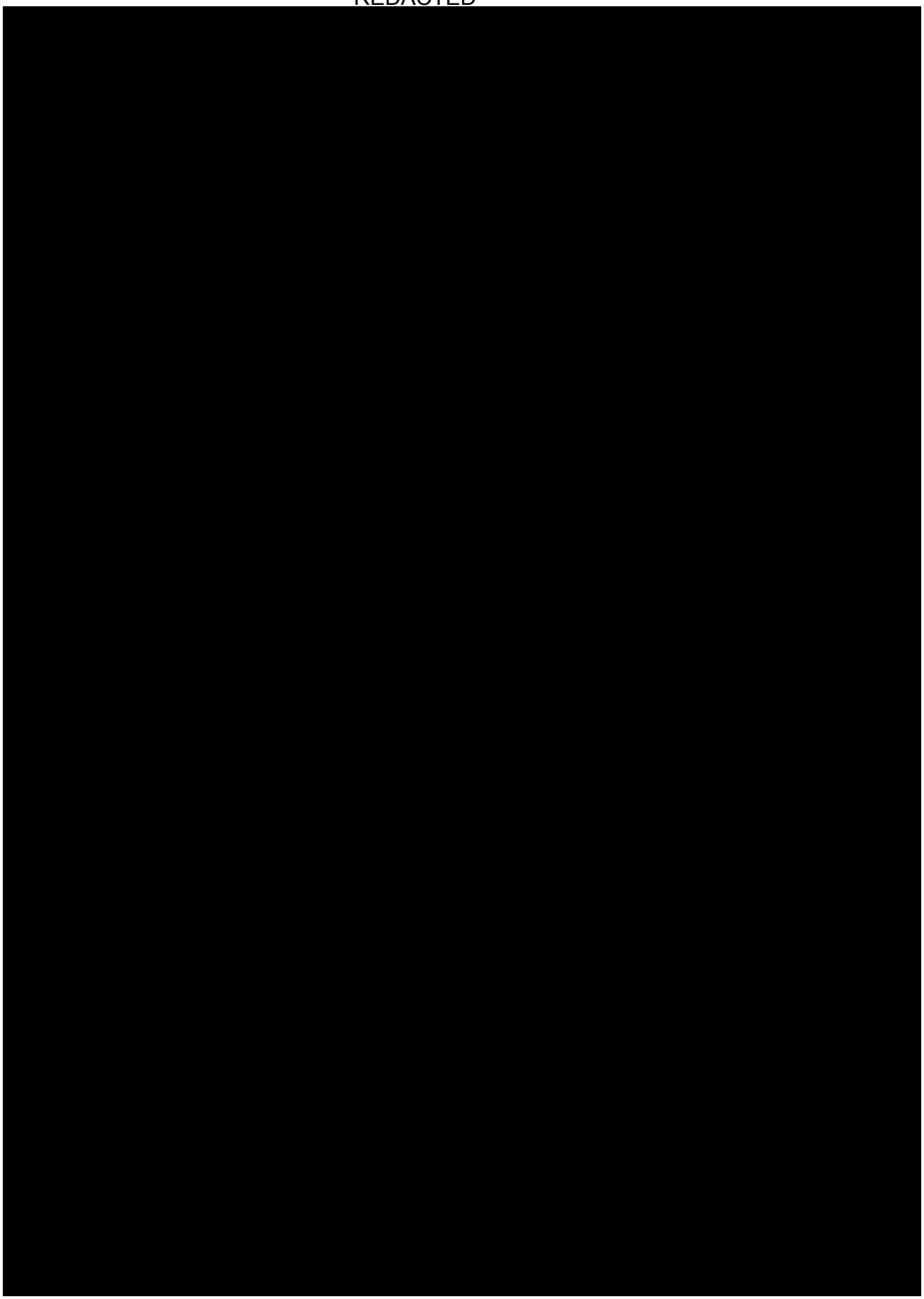
[redacted]

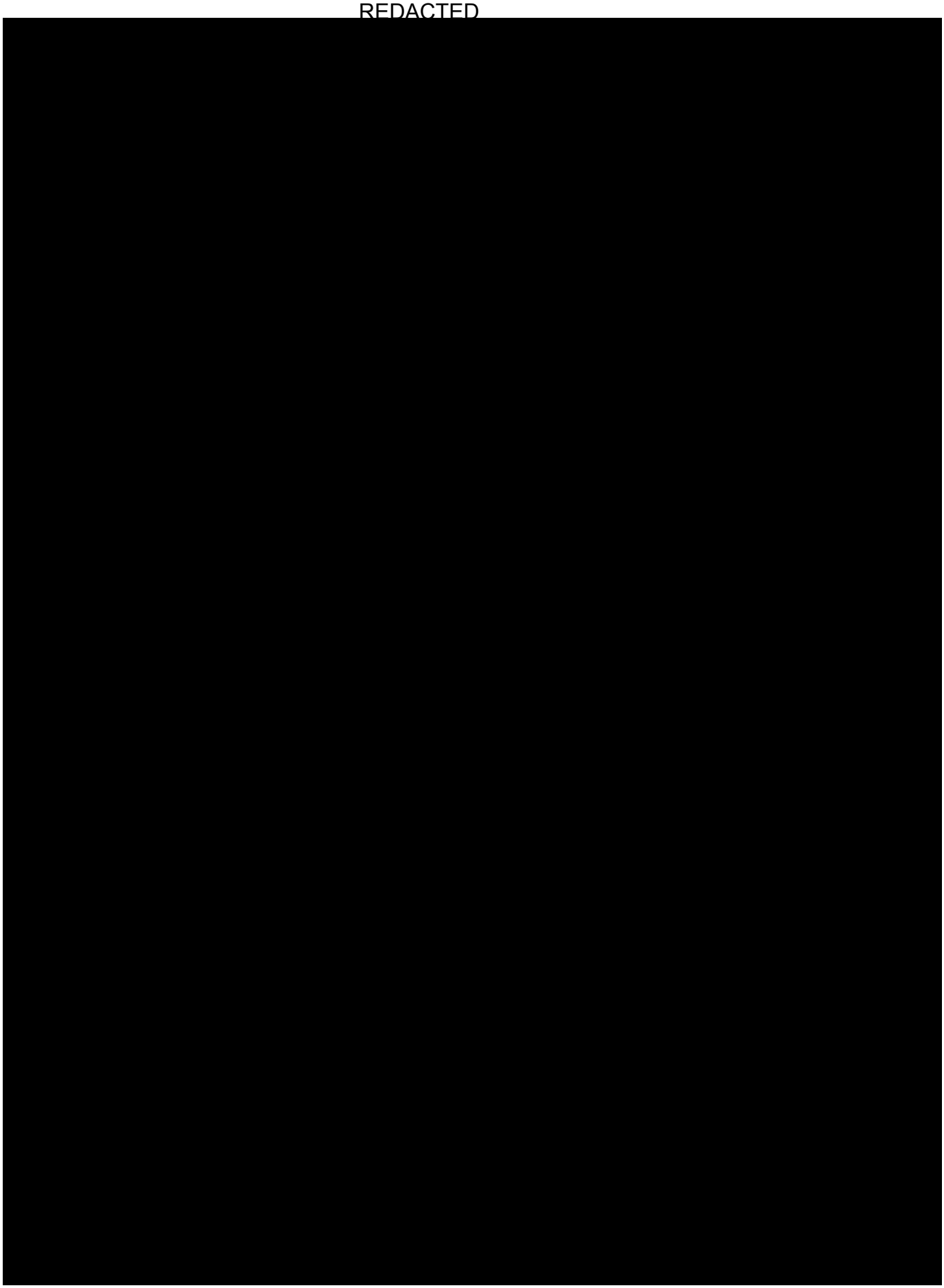












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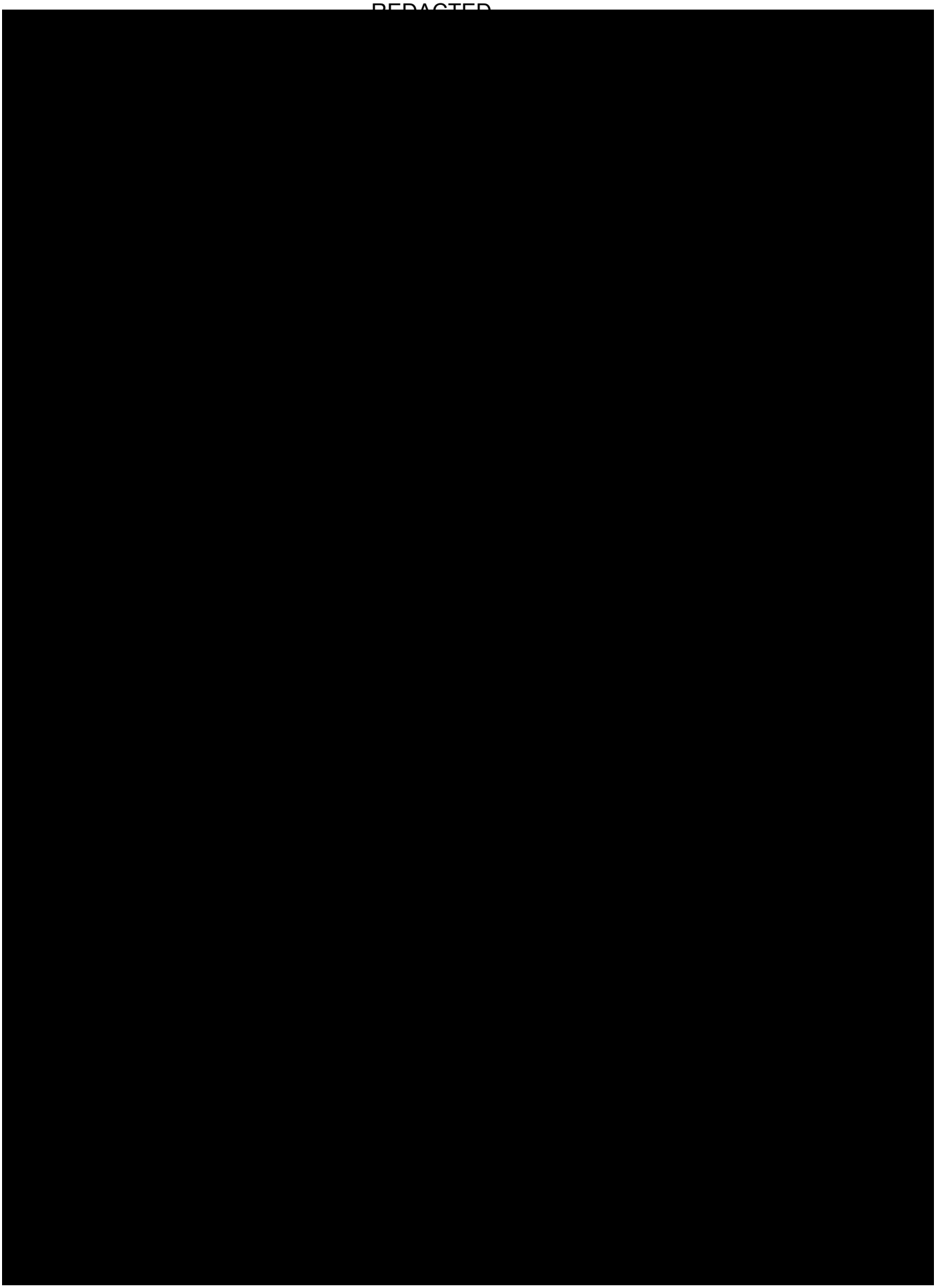

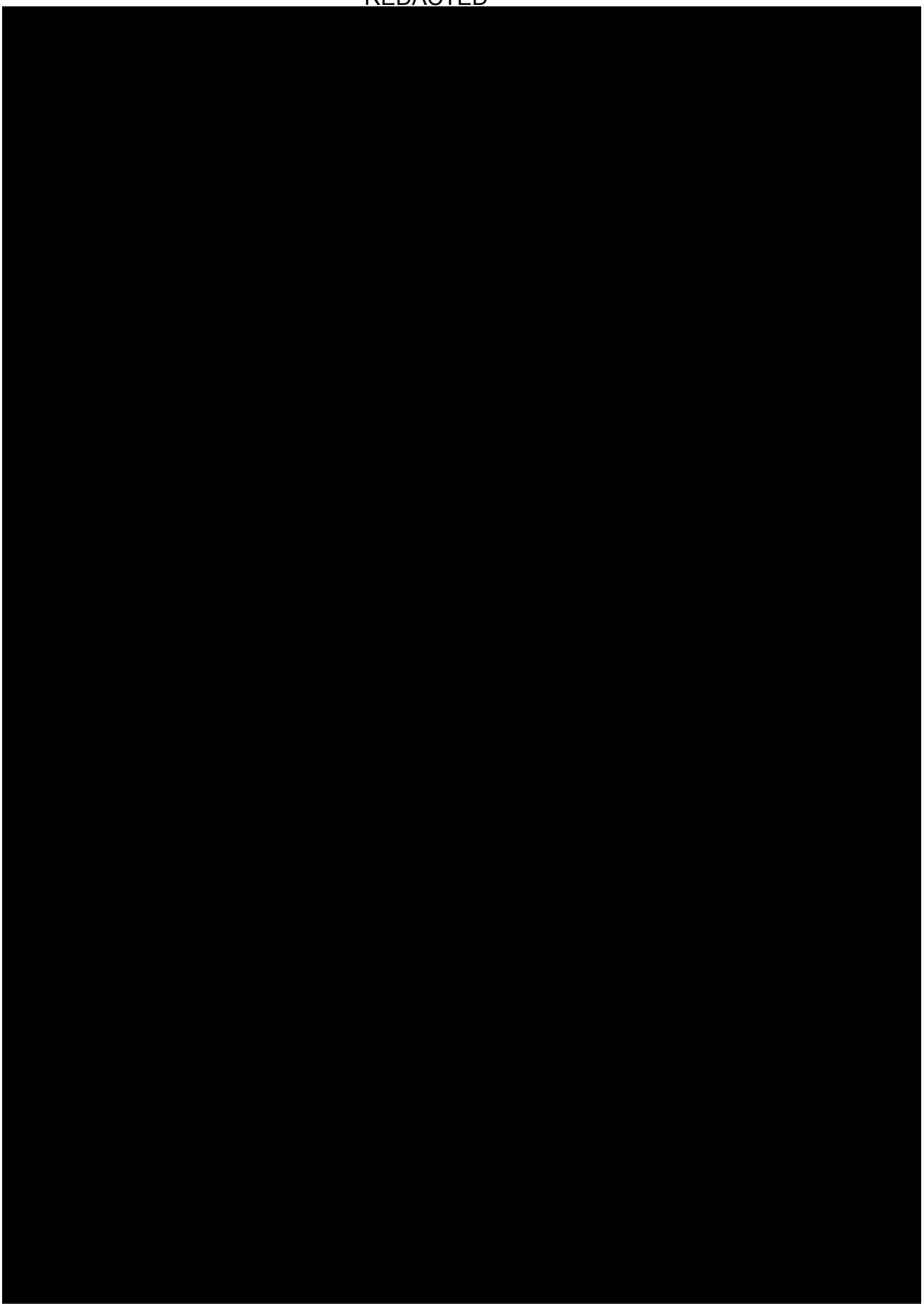

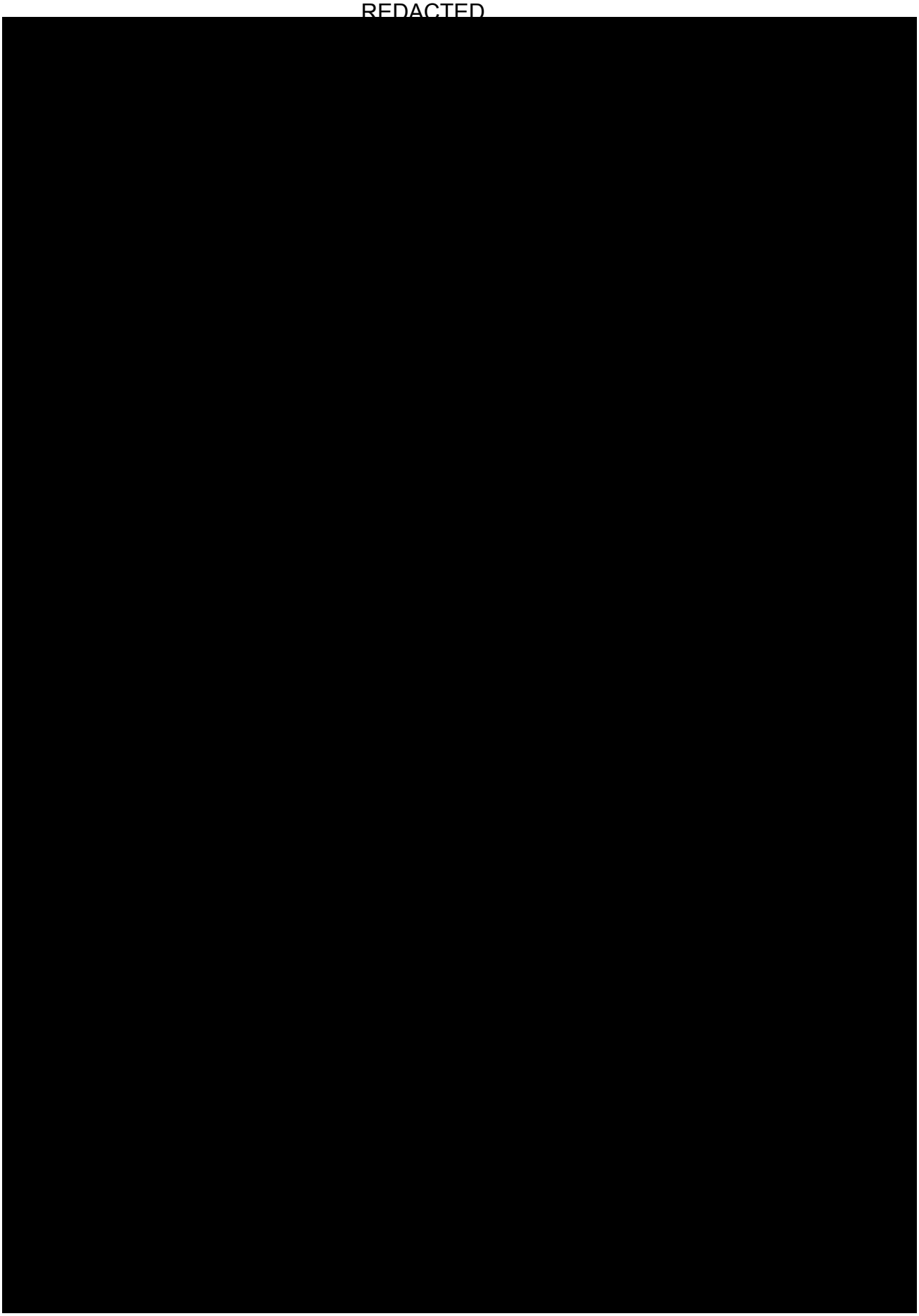

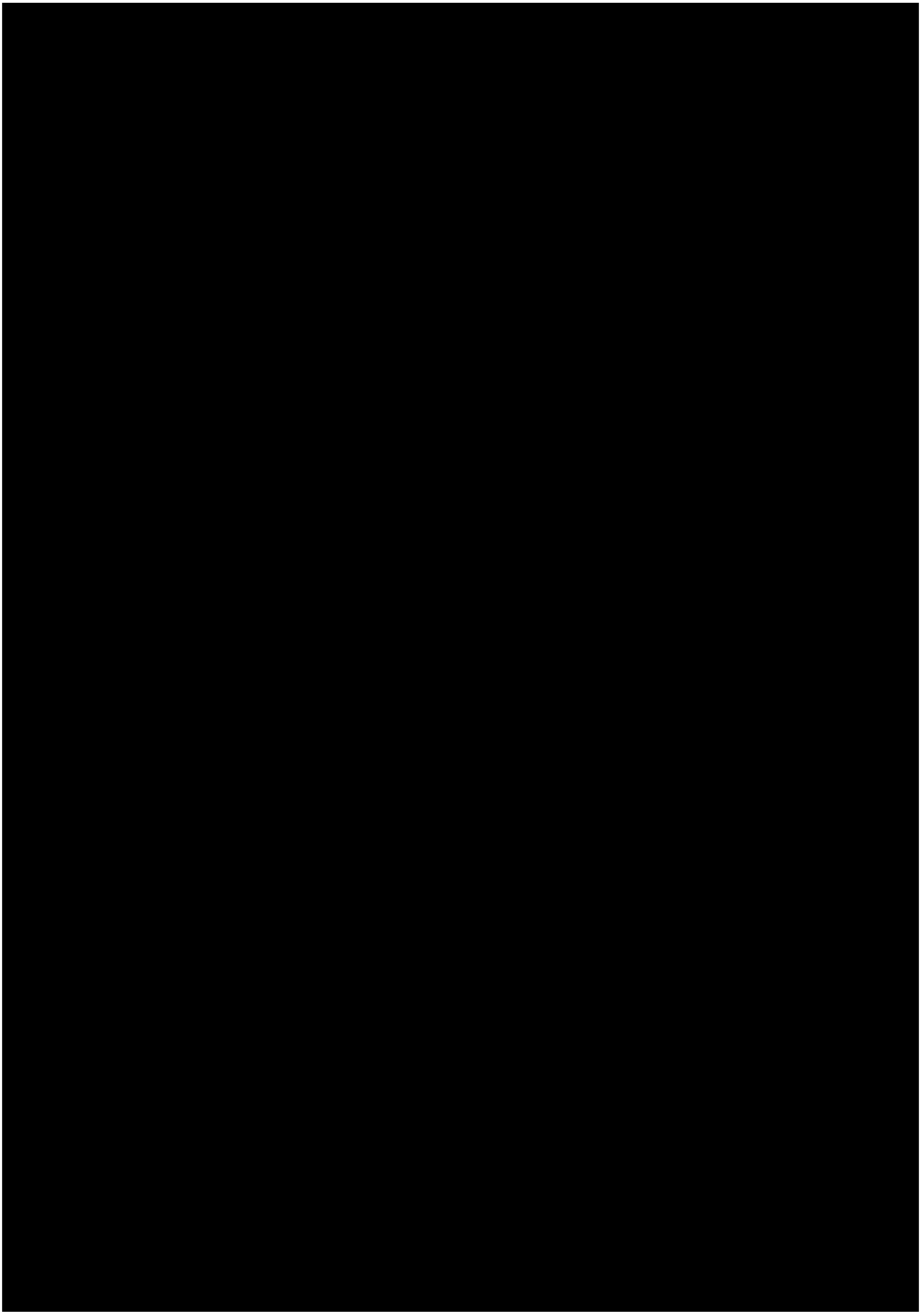

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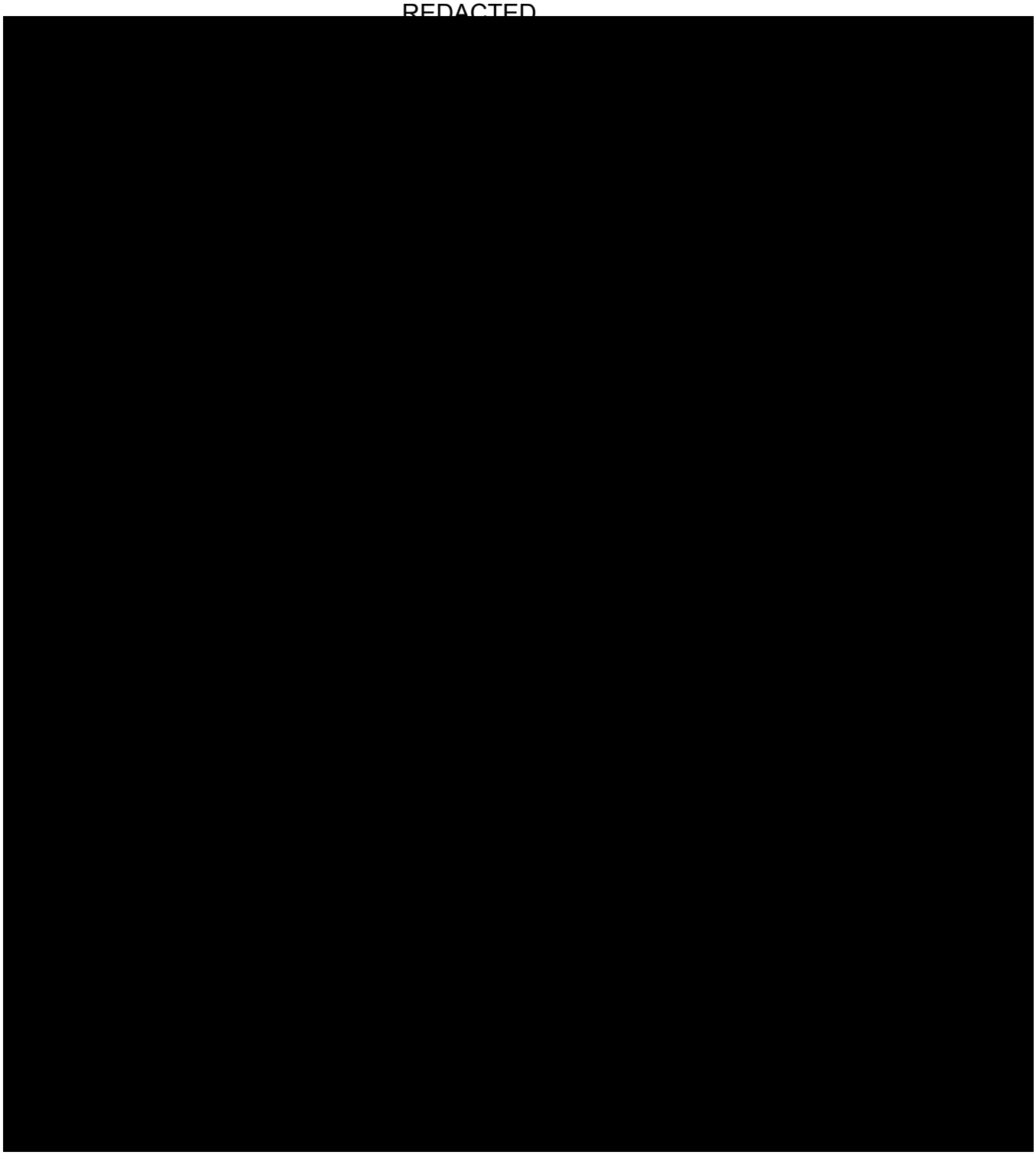

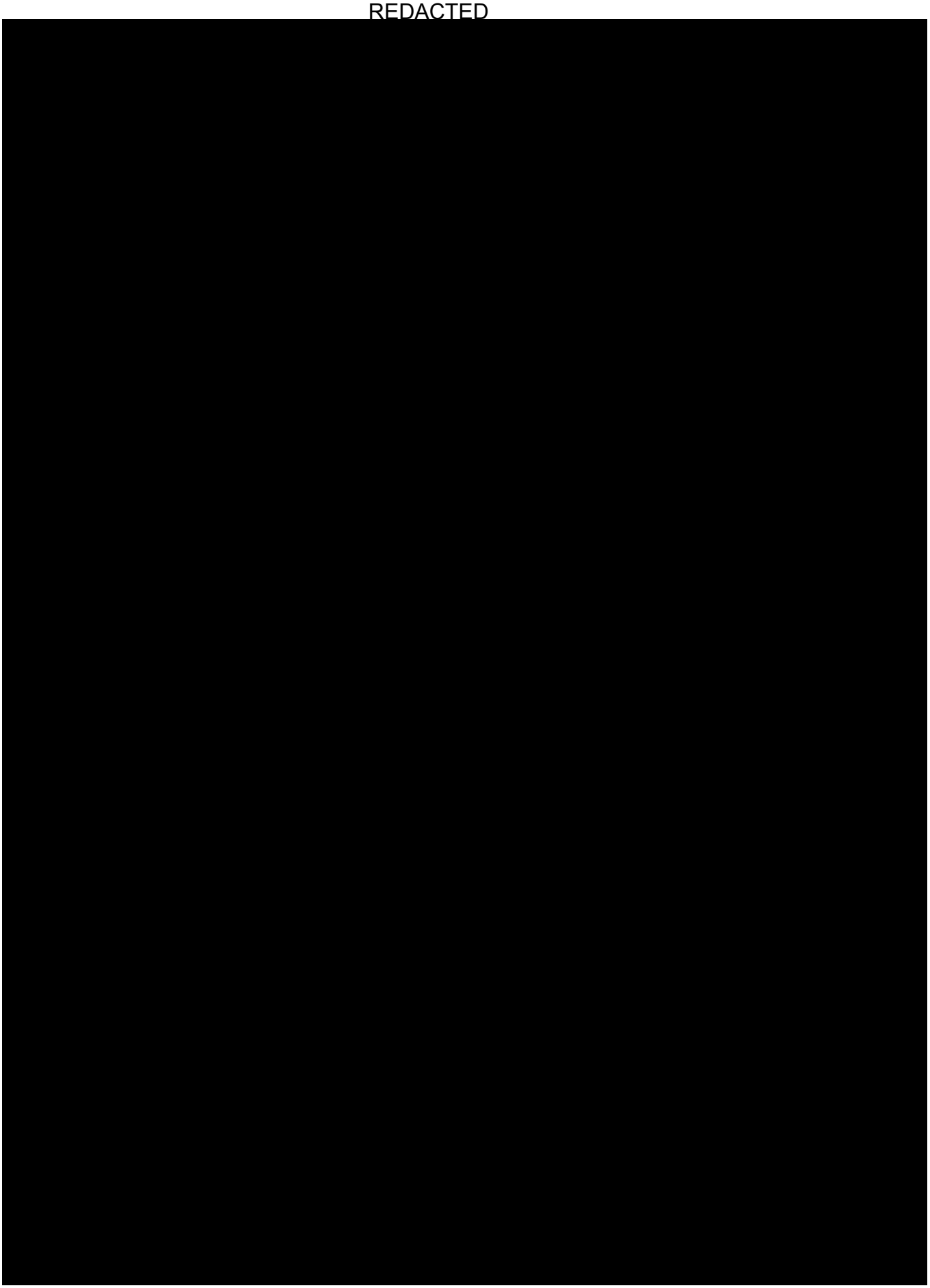

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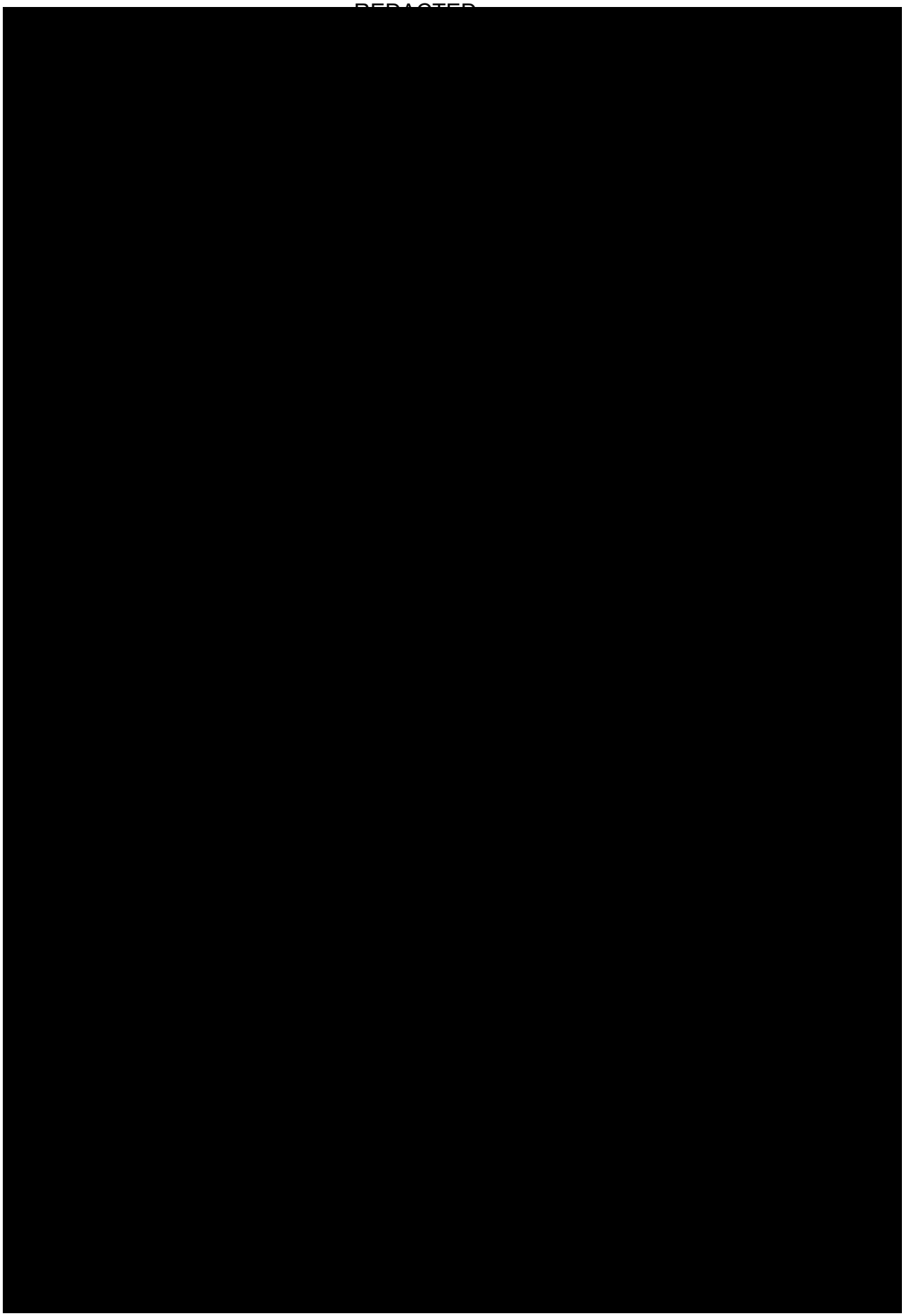

accounted for prior to the Feeder Close Date. The project will automatically close to feeder charges as of this date, and CPA must approve any extension.

**Note:** This is the standard criteria for population of the Feeder Close Date.

Twice per month, CPA provides a listing of projects approaching or past their estimated in-service dates, as well as projects idle for 3 months or greater. This is a SOX control and requires action by the business function.

Asset Accounting will unitize projects (final close the project) appropriately based upon the Completion Date and the receipt of additional business unit specific data requirements for unitization being provided (e.g., As-built estimates, etc.).

Upon completion of the unitization process, PowerPlan will establish the Charge Closed Date based upon the date of unitization. PeopleSoft will be updated automatically with this date. *All* ability to charge the project will then be locked. Exceptions to charging after unitization may occur, and should be discussed with CPA or AARG.

Example:

| 2010 | | | | | 2011 | | |
|---|---|---|---|---|---|---|---|
| August | September | October | November | December | January | February | March |
| Project Placed In Service (8/1) | | | Completion Date (11/1) | | Project can no longer receive charges (1/31) | | |
| In Service Period | | | Late Charge Wait Period | | | No Charges to be Received | |

[redacted]

The automatic assignment of the Completion Date and Feeder Close Date in PowerPlan is based on the period of testing that the FERC allows as a cost chargeable to construction for equipment (see Electric Plant Instruction 9(D)). Most construction projects will not need this amount of time and should be completed as soon after the In-Service Date as possible.

[redacted]

**Note: A delay by a vendor to invoice Duke Energy where no dispute exists is not a reason for delaying the close of the construction work**. The business unit should make every effort to get the invoice from the vendor in a timely manner and to process the invoice immediately upon receipt. In situations where the work has been performed and the amount of the invoice is known but the invoice has not been received, an accrual should be recorded to provide for recognition of the cost to construction.

# Basic Capitalization Guidelines

All property will be considered as consisting of:

1. Units of property (or retirement units)
2. Minor items of property

New Acquisition or Addition to Existing Property

- Addition of a property unit – all related costs are capitalized and accounted for through the appropriate plant account.
- Addition of a minor item of property that did not previously exist – all related costs should be:
  - Expensed, with the costs accounted for through the appropriate expense account, unless a substantial addition results
  - Capitalized if a substantial addition results, with the costs accounted for through the appropriate plant account.
  - A capital decision form must be submitted to Asset Accounting for approval prior to the capital project set up to document the request for substantial addition accounting.

Repair or Maintenance

- Expense the cost of repair and maintenance for a property unit or minor item of property and account for the cost through the applicable maintenance expense account, unless a substantial betterment occurs.
- Capitalize if a substantial betterment occurs. Capitalize the excess cost of the actual expenditure over the estimated expenditure needed to maintain normal operation without the betterment, adding the cost to the appropriate plant account
  - A capital decision form must be submitted to Asset Accounting for approval prior to the capital project set up to document the request for substantial betterment accounting.

Replacement

- When replacing a retirement unit with another retirement unit:
  - Retire the old retirement unit
  - Deduct the cost from the applicable plant account
  - Capitalize the new retirement unit
  - Add the new retirement unit cost to the appropriate plant account
- When replacing a minor unit of property with an identical one, expense the cost of the replacement using the appropriate maintenance expense account unless a substantial betterment occurs.

Reinstallation or Rearrangement

- Follow repair or maintenance steps

Relocation

- Expensed

Retirement

A unit of property, or retirement unit, is the level at which utilities set items to be capitalized.

- When a property unit is removed from service, retire the unit and deduct the cost from the appropriate plant account.
- When a minor item of property is removed and not replaced, capitalize the removal and salvage costs. Non-regulated plant cost of removal should be expensed. Retirement of the minor item of property is not required. Retirement of the minor item of property will occur at such time when the retirement unit of which it is a part is retired.
- The retirement entry shall be recorded no later than two months following the transfer of expenditures from Construction Work In Progress (Account 107) to Electric Plant in Service (Account 101/106). Associated cost of removal charges will be recorded when incurred and gross salvage will be recorded when received.

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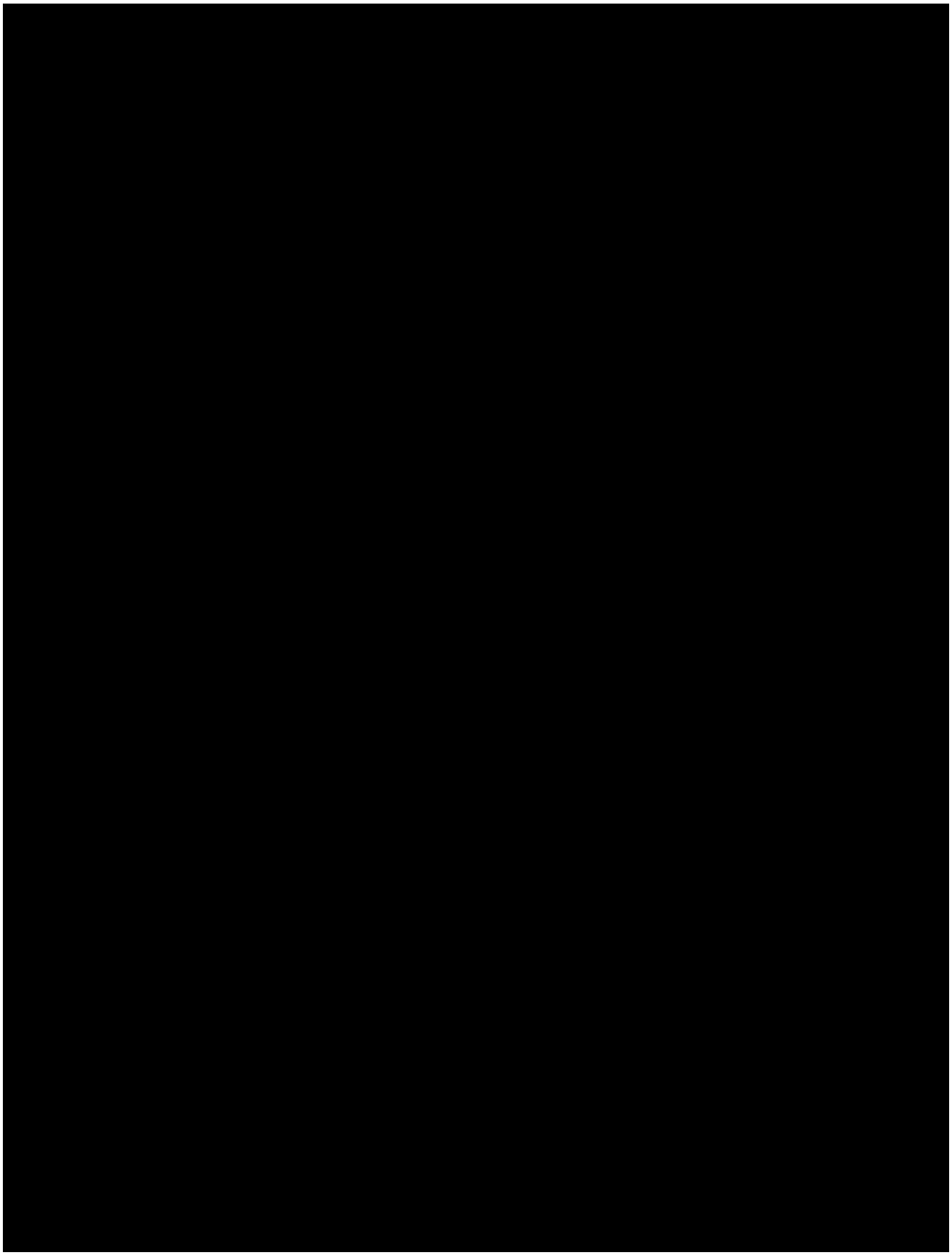
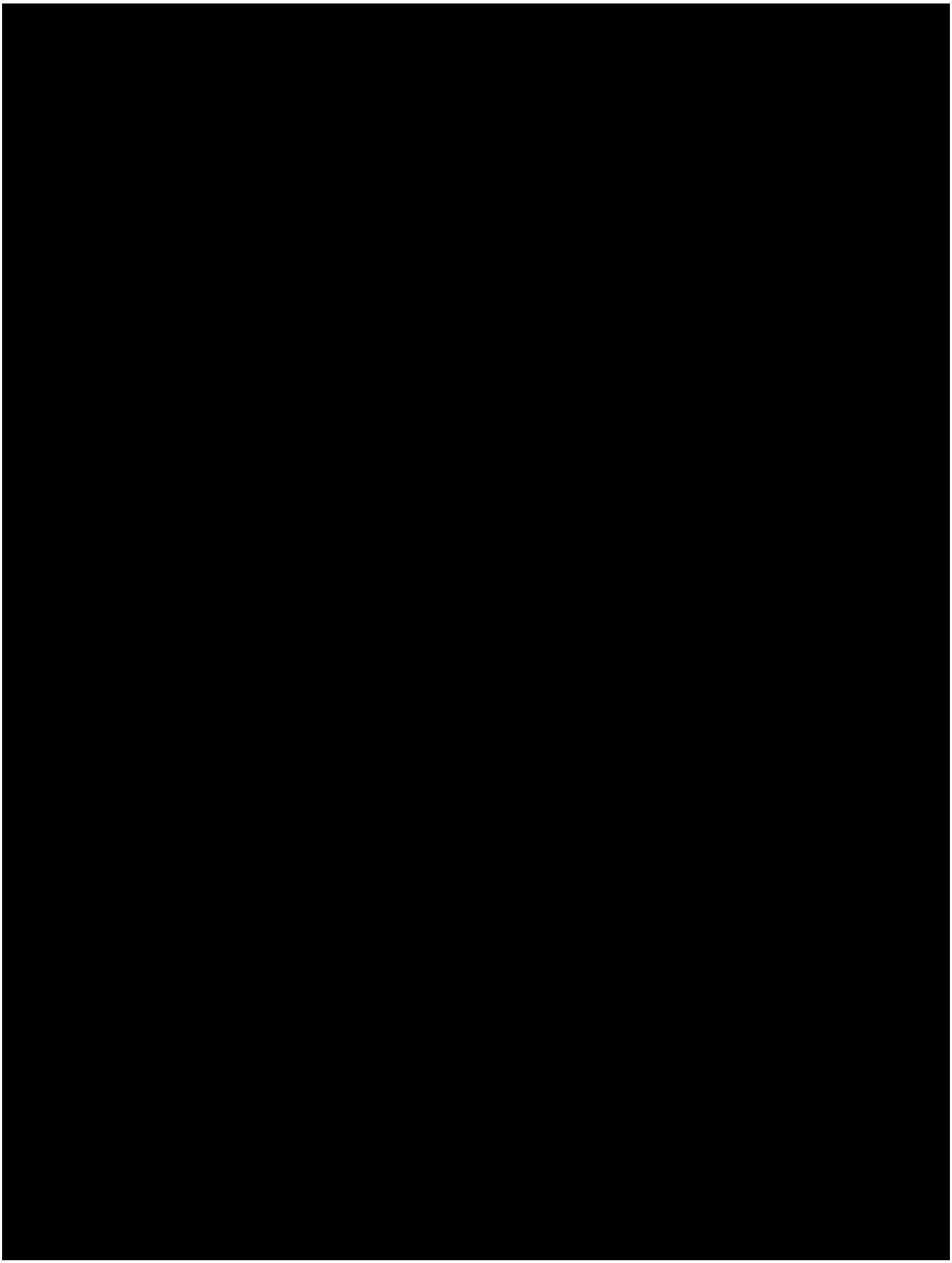
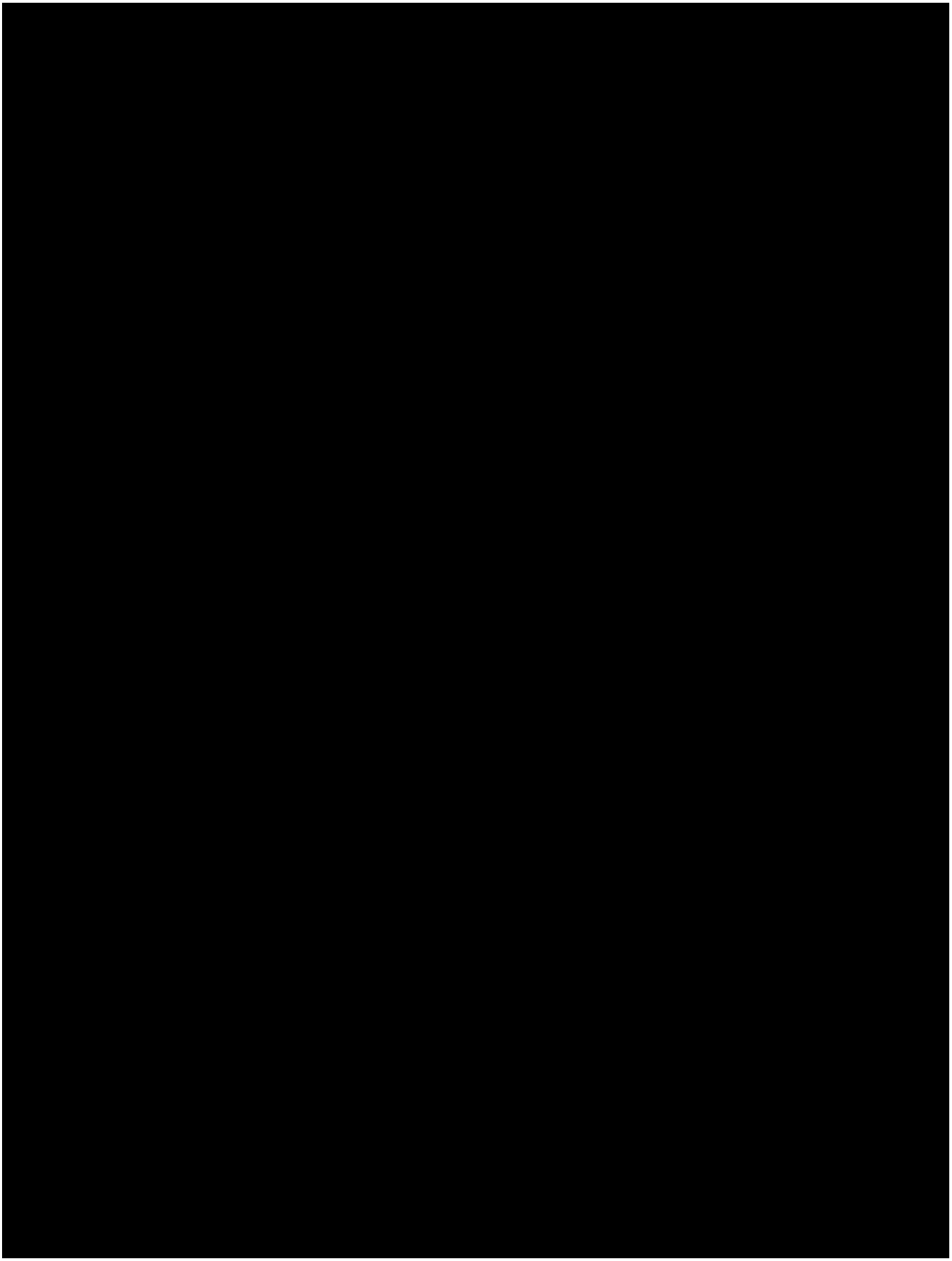
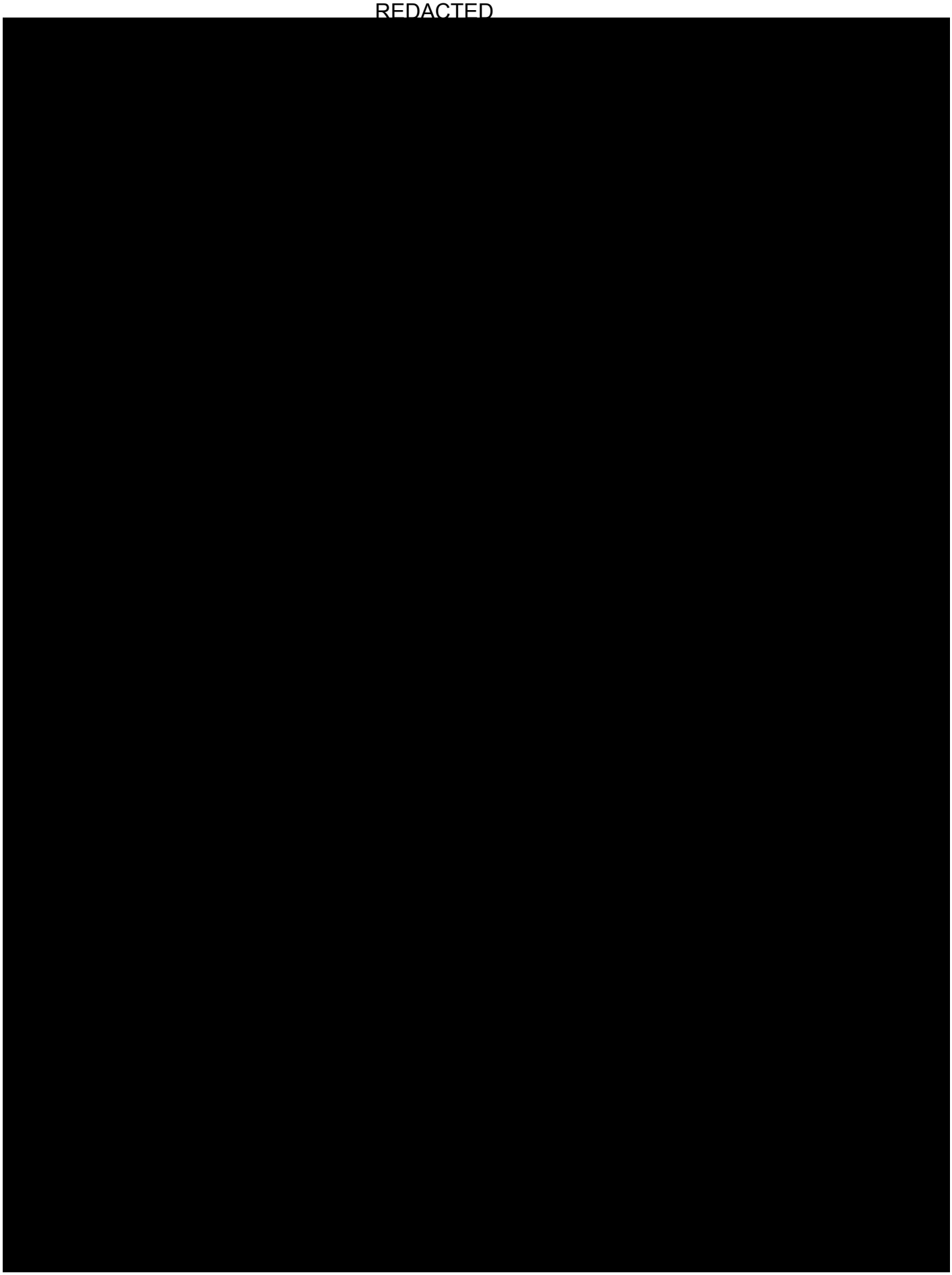








## New Units of Property

Asset Accounting maintains a detailed unit of property listing for Duke Energy. To ensure compliance with FERC and GAAP requirements for consistent application, major reviews and updates of the property catalog will occur infrequently. Between these updates, there may be specific situations which require review. Asset Accounting will review these situations on a case-by-case basis to determine if a change or update is appropriate.

**Currently there are two UOP catalogs:**

- Progress Florida UOP Listing, and
- Duke energy US Electric Gas excl PEF Property Unit Catalogue

The business functions may review and analyze existing units of property and request updates at any time, but requests should be grounded in correctly identifying the property units vs. being tied to the annual budget cycle. However, due to the consistency requirements, some updates may be deferred until the next major review.

**Request to Add a New Unit of Property**

Before establishing a new property unit, every effort must be made to use an existing item from the Unit of Property catalog located on the portal and Capital Project Questions SharePoint. If no suitable like items can be identified, complete the Capital Decision/New Unit of Property Form and submit to Asset Accounting via the Capital Project Questions SharePoint for review prior to setting up the project in Power Plan.

[redacted]

DEF catalog must follow FAC (Florida Administrative Code) guidance:
25-6.0142 Uniform Retirement Units for Electric Utilities "A utility may further subdivide retirement units in order to achieve a list more reflective of common, major replacement items providing that the cost of the additional subdivided unit is $1,000 or more. The Director of the Division of Economic Regulation, Florida Public Service Commission, shall be notified annually of additions and subdivisions to the utility's retirement unit List with explanations of the nature and justification."

**Primary justifications** for adding new units of property include:

1. Implementation of new technology
2. Situations, although rare, where existing units of property were not originally defined at the appropriate level.

**Business Function Approval** – requests to update the unit of property lists should be approved by the business manager in each function. The approval will indicate the level of detail is at the appropriate level to manage the assets and any future work, and that no further "breakdowns" of the existing units of property are anticipated.

**Accounting Approval** - updates to the unit of property listing are approved as follows:

**New Technology:**

| **Estimated Cost** | **Approval Required** |
|---|---|
| [redacted] | |

Dollar threshold based on a per asset cost

**Breakdown of Existing Unit of Property:**
**Estimated Cost** **Approval Required**

[redacted]

Dollar threshold based on potential total future impact, taking into account the total number of existing units being broken down (i.e., how much potential O&M work is being shifted to capital), on an annual basis.

# AFUDC

**Overview:**
Allowance for funds used during construction (AFUDC) is an accounting procedure whereby the composite interest and equity costs of capital funds used to finance construction are capitalized. The interest and equity costs are capitalized the same as construction labor and material costs, which are recognized as a cost of "Plant". Offsetting credits go to "Other Income" and "Interest Deductions" on the Income Statement to defer recognition of the company's current operations from construction financing costs.

- Allowance for funds used during construction (AFUDC) is accrued on construction projects from the first charge, and will be recorded to the specific day in the ready for service / in-service month.

- AFUDC begins when charges are posted to construction work in progress (e.g., 107) and continues as long as work continues on a progressive basis (note exclusions listed below).

    - FERC states in Accounting Release #5, "Interest during construction may be capitalized starting from the date that construction costs are continuously incurred on a planned progressive basis". Duke Energy interprets "construction costs" in a manner consistent with the SFAS 34 definition of expenditures which states "…expenditures to which capitalization rates are to be applied are capitalized expenditures (net of progress payment collections) for the qualifying asset that have required the payment of cash, the transfer of other assets, or the incurring of a liability on which interest is recognized (in contrast to liabilities, such as trade payables, accruals, and retention on which interest is not recognized)."

    - Therefore, if expenditures are incurred which are integral to the asset being placed in service, and these expenditures require the payment of cash, it is appropriate to accrue AFUDC.

AFUDC for major construction assets will be calculated on all costs of all assets until the major construction asset is substantially complete and ready for its intended use.

> SFAS 34, paragraph 18, states "…Some assets must be completed in their entirety before any part of the asset can be used. An example is a facility designed to manufacture products by sequential processes. For such assets, interest capitalization shall continue until the entire asset is substantially complete and ready for use."

**AFUDC is not accrued on the following types of charges and projects:**
- Retirement work in progress
- Preliminary survey and investigation charges
- Plant held for future use
- Contract retentions
- Property tax accruals
- Invoice accruals (manual or un-vouchered invoices)
- Blanket projects
- Special projects < 30 days in duration

AFUDC reversals occur when Asset Accounting is not notified that a project is closed until sometime after the asset is actually ready for service / in-service. Since AFUDC continued to accrue after the ready for service / in-service date, these charges will be reversed.

While reviewing projects / projects, Asset Accounting is responsible for reviewing and assuring the proper AFUDC code for the project is established.

# Capital Standby (Emergency) Spares and Rotable (Emergency) Spares

Select emergency spare parts may be capitalized into plant-in-service, even though they are held in reserve to meet future needs. To be classified as a Capital Emergency Spare part, an item must meet all of the following criteria:

1. The item is vital to the continued operation of the plant/facility.
2. The item requires a long lead time to purchase and is not readily available from the vendor.
3. The item is unique/specific to the facility and not inter-changeable. Generally, the spare is located at the facility such that it can be installed quickly when needed.
4. The item will be used only for non-routine/emergency replacement – i.e. no foreseeable plans for use.
5. The item will not be acquired in quantity - generally, only one is on-hand for each piece of machinery or equipment.
6. The item is a unit of property.
7. Normally expensive [redacted]

Purchased and/or replacements of capital emergency spare parts, which are retirement units, will be charged to the plant-in-service accounts. At the time when a capital emergency spare is needed for use, costs to install are charged to O&M.

The establishment of new capital emergency spares must be approved by the Functional Business Finance contact and Asset Accounting. The Capital Emergency Spare Approval form (located on the Duke Portal) must be completed to document how the item meets the criteria listed above.

Home>Policies>Finance Policies

**Process:**

1. Obtain the form from the Portal
2. Fill out all necessary information and attached any necessary support
3. Send the form along with any supporting documentation to Functional Business Finance Contact for approval
4. Once approved by Finance send the form and any support to Property & Inventory Team for review
5. Property & Inventory Team will send back the form to the requestor after review is completed with final determination.
6. If approved, the requestor should contact the catalog id team to set up the new item # or catalog id #.
7. Property & Inventory Team will approve the setup of this new item # or catalog id # in the inventory system.
8. Requester then needs to send the approved form along any support when providing project setup information to CPA.

Transmission Transformer Spares:

Generally, spare transformers are maintained within Account 154 – Inventory until needed for use and installed. Certain spare transformers that are held at substations are capitalized. These items are at a substation, on a pad, and ready for quick use if needed. Transformers held within a warehouse may be capitalized only if they meet the criteria listed above. Generally these are transformers which are unique to a given substation and may not be used at other substations within the system.

Please refer to the Duke Energy Materials and Supplies Inventory Accounting Guidelines located on the portal at the path below:

Home>Our Company>Policies>Finance Policies>Materials and Supplies Inventory

## Coatings

The following guidance does not apply to external gas main coating. See the gas UOP catalog for the criteria that shall be used only by PNG for life extension work.

In limited situations, the first time application of specialized coatings to structures and / or equipment may be capitalized. All requests for capitalization of coatings will be reviewed by Asset Accounting on a case by case basis. Submit request to AARG via the on the Capital Project Questions SharePoint using the capital decision form located on the portal or Capital Project Questions SharePoint.

[redacted]

For purposes of this criterion, the condition of the unit of property (not a minor item of property) after the costs are incurred must be improved as compared with the condition of that unit of property when it was originally constructed or acquired.

All costs incurred for surface preparation (cleaning, sand blasting, reconditioning, etc.) are to be expensed. These costs which may be incurred as part of the process are not considered to contribute to the life extension and should therefore be expensed.

**Accounting Guidance**
**Generally Accepted Accounting Principles (GAAP)**

ASC 410-30-25-18 states that "…costs may be capitalized if recoverable but only if any one of the following criteria is met:

1. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by the entity. For purposes of this criterion, the condition of that property after the costs are incurred must be improved as compared with the condition of that property when originally constructed or acquired, if later

2. The costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations or activities. In addition, the costs improve the property compared with its condition when constructed or acquired, if later.

3. The costs are incurred in preparing for sale that property currently held for sale."

*Note that life extension and environmental mitigation claims must be supported by documentation from third party evidence usually supported by vendor warranty.*

Case B from ASC 410-30-55-20 provides the following instruction.
Rusty Chemical Storage Tank:

A. Remove rust that developed during ownership.
   1. Removing the rust has not improved the tank compared with its condition when built or acquired.
   2. Removing the rust has mitigated the possibility of future leaks. However, removing the rust has not improved the tank compared with its condition when built or acquired.

   **Conclusion:** Rust removal costs should be expensed unless the tank is currently held for sale and the costs were incurred to prepare the tank for sale.

B. Apply rust prevention chemicals.
   1. The application of rust prevention chemicals has improved the tank's condition compared with its condition when built or acquired.
   2. Rust prevention chemicals mitigate the possibility that future rust will cause leaks and also improve the tank's condition compared with its condition when built or acquired.

   **Conclusion:** The costs of applying the rust prevention chemicals may be capitalized under either the first or second criterion.

## Distribution and Transmission Right of Way Clearing Costs

To properly account for distribution and transmission right-of-way clearing costs in accordance with GAAP and applicable regulatory requirements:

1. Expenditures associated with the initial clearing of a right-of-way, including removal of danger trees and overhang from outside of the actual right-of-way, shall be capitalized.

[redacted]

4. Expenditures associated with the clearing or reclamation of an existing right-of-way, including charges for routine circuit maintenance, customer ticket work, and herbicide programs, shall be expensed.

[redacted]

Sufficient supporting documentation will be maintained by Power Delivery for all capital work performed.

Summary:

| **Right-of-Way Work Performed** | **Capital or Expense** |
|---|---|
| | |
| Initial Clearing | Capital |
| Initial Danger Tree Removal | Capital |
| Initial Trimming of Overhang | Capital |
| [redacted] | |
| Subsequent Clearing | Expense |
| Subsequent Trimming of Overhang | Expense |

# Plant Licenses

**Eligible items**

- Plant licenses and Plant License Renewals

Plant licenses and renewals are considered intangible assets and shall be recorded in FERC account 302 Franchises and Consents.

**Guidance**
In accordance with ASC 350-30-35, intangible assets with a 'finite useful life' are amortized over the useful life without the constraint of an arbitrary ceiling.

Intangible assets with an 'indefinite useful life' are not amortized but are tested at least annually for impairment.

Intangible assets such as plant licenses have 'statutorily established useful lives' and will be capitalized and amortized over the expected useful economic life.

[redacted]

**Accounting Guidance**

**FERC Electric Plant Accounts**

**302 Franchises and Consents**

A. This account shall include amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents, water power licenses, or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents, water power licenses, or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require, solely for the purpose of acquiring franchises.

B. If a franchise, consent, water power license or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426.5, Other Deductions.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426.5, Other Deductions, or to account 111, Accumulated Provision for Amortization of Electric Utility Plant (for Nonmajor utilities, account 110, Accumulated Provision for Depreciation and Amortization of Electric Plant), as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise or consent.

See "Software" section of the Capitalization Guidelines for additional guidance related to the accounting for software and software licenses.

## "Major" Projects

Major Projects receive specific accounting treatment from an Asset Accounting perspective. Major Projects are considered to be construction of new generation facilities or installation of significant additions to production plant, [redacted] in total Funding Project expenditures.

Examples of Historic Major Projects

[redacted]

Capital projects constituting normal plant maintenance and upkeep will not be classified as Major projects even though the cost of these projects may be viewed as significant.

**Accounting treatment for Major Projects**

[redacted]

- Depreciation expense will be manually calculated from the specific day the project is placed in service. If the impact to the Income Statement exceeds the dollar threshold required to be reported on the monthly corporate data request ("Pass Sheet"), an entry will be recorded to recognize depreciation expense based on the actual in-service date. Otherwise, depreciation will be recognized in the subsequent month following normal depreciation calculation and recognition procedures.

**Project Attributes Required for Major Projects**

[redacted]

- In the case of Nuclear Fuel, the AFUDC Type attribute should be set to the type designated for "Nuclear Fuel".

**Roles and Responsibilities**

- Project initiators should work with Asset Accounting to determine if the Funding Project should be classified as a Major Project.
- Management decisions to stop / suspend work on a Major Project shall be communicated by the Project Manager to the Asset Accounting plant accountant.
- Management decisions to resume work on a previously suspended Major Project shall be communicated by the Project Manager to the Asset Accounting plant accountant.

## Nuclear Plant Life Extension

On July 6, 1998 the Company filed with the Nuclear Regulatory Commission (NRC) an application requesting a 20-year extension of the operating licenses for Units 1, 2, and 3 of the Oconee Nuclear Station. New licenses were granted by the NRC on May 23, 2000, and extended the operating period from 2013-2014 to 2033-2034. In preparation for the extended operating period, the Company developed a plan, referred to as the "Oconee Refurbishment Program," to perform the work necessary (refurbishments, replacements, and additions, etc.) which would enable the station to operate beyond the original license. The cost of the work, including replacement of the steam generators, was estimated to be approximately $1 billion.

On November 4, 1998 the Company requested the FERC approve capitalization of costs incurred under the Oconee Refurbishment Program. The proposed accounting treatment included the capitalization of replacing minor units of property and related miscellaneous costs which may not have been capitalized under the Company's existing capitalization criteria unless certain conditions are met. The Company also indicated in the request that all units of property, including minor units, would be properly retired, and any salvage credits or cost of removal would be properly handled.

On February 19, 1999 the FERC approved the request to capitalize the costs associated with the life extension of the Oconee Nuclear Station. The following stipulations were included:

1. "As the equipment is added to plant and becomes ready for service, you will cease the accrual of allowance for funds used during construction (AFUDC) and begin recording depreciation on the asset."
2. "You must charge the appropriate expense accounts for the cost of maintenance work performed which is not contributing to the extension of the life of the units and would have been incurred regardless of your plans to extend the life of the plant."

GAAP Analysis

Generally accepted accounting principles generally require costs for ordinary repair and maintenance of an asset occurring subsequent to its acquisition be expensed. However, extraordinary repairs or maintenance benefiting future periods by extending the useful or productive life may be capitalized and depreciated over those future periods (useful life). Expenditures incurred as part of the Oconee Refurbishment Program which qualified for capital treatment per the FERC order were required to extend operations past the original license date, would not have been undertaken otherwise, and will be matched to the revenue produced by the station over the extended operating life. Therefore, it is our conclusion these costs are appropriately classified as capital for SEC reporting purposes.

See "Inspections and Testing' section of the Capitalization Guidelines for additional guidance.

# Overhauls, Refurbishments, and Major Maintenance Activities

Expenditures for existing property which are viewed as an overhaul, refurbishment, or major maintenance activity are accounted for through application of the basic capitalization guidelines, which are based on GAAP, FERC Electric Plant Instruction No. 10, and FERC Operating Expense Instruction 2. All requests for capitalization of overhauls, refurbishments, or major maintenance activities require submittal of the Capital Decision Form (located on the Portal and SharePoint) to Asset Accounting Research for review and approval prior to project set up. See Capital Project Questions SharePoint for more information on the submittal process.

1. Subsequent to the initial installation of an asset, all work is considered "maintenance" (with a few exceptions discussed in #2 below). Per accounting guidance, work that, in substance, represents maintenance, including major maintenance, should be expensed as incurred, including the following types of activities:

   - Work performed on retirement units at regular intervals (months or years, number of hours in operation, miles driven, number of starts, etc.) per manufacturer specifications or other available guidance.
   - Work undertaken to maintain original operating performance through the estimated service life.

2. Guidelines where "maintenance" of the asset(s) may be accounted for as a capital expenditure:

   - Replacement of a retirement unit
   - Work performed represents a "substantial addition" – Adding a minor item of property with a cost material enough to warrant capitalization. [redacted]

   - Work performed represents a "substantial betterment" – Improvement to a retirement unit through ***replacement of a minor item of property*** that makes the retirement unit more useful, efficient, or durable, or increases capacity by [redacted]. Capitalize only the portion of expenditure that adds at least [redacted] betterment (subtract the current cost of installing without betterment from the current cost of installing with betterment).

[redacted]

3. The repair/refurbishment/overhaul of existing equipment where the item will be returned to inventory (i.e., not considered a capital spare) shall be accounted for as follows:

   For retirement units:

   - Purchase of the additional retirement unit(s) shall be recorded in materials inventory at cost.
   - When work begins, the retirement unit(s) are issued out of materials inventory and charged to the appropriate capital project.
   - The existing retirement unit(s) are removed, retired from plant-in-service, and placed in materials inventory at original cost of materials. (If original cost is unknown, the cost can be estimated by trending current cost of like materials to the appropriate vintage year using Handy Whitman.) These entries shall be recorded when the asset is removed from service. These entries are required whether the unit(s) are kept on-site or shipped

# Overhead Allocations

[redacted]

Capitalized overheads reflect direct and indirect costs incurred in support of construction activity which cannot easily or readily be charged directly to specific projects. Overheads consist of functional engineering and support, functional management supervision and support, and administrative and shared support.

1. **Is the capitalization of overhead supported in GAAP?**
   The capitalization of overhead costs is supported in GAAP only to the extent that a direct relationship to the project can be supported. GAAP clearly requires expensing of indirect costs, with guidance provided in literature addressing software, real estate, and inventory, but allows capitalization if expenditures are directly related.

2. **How is capitalization of overhead supported?**
   Based on the available guidance, the presumption is that these costs are to be expensed unless there is a direct or very close indirect relationship to the construction project. FERC states only costs that "have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted." GAAP states capitalization is only appropriate when such costs are specifically identifiable with a particular project and are identifiable in the accounting records. GAAP also states indirect costs capitalized should be incremental (costs that would not have been incurred had the project not been developed.)

   The burden of proof is on the Company to support costs are directly identifiable with the construction project. Identified costs are based on what activities are performed in support of construction projects, and not simply based on what department personnel are associated with. In defining these costs the following factors should be considered:

   a. Specific information should be available (such as timecards) to support the allocation of overhead costs to specific projects.
   b. The costs incurred should be incremental costs. That is, in the absence of the project or projects under development or construction, these costs would not be incurred.
   c. The impact of capitalization of such indirect costs on the results of operations should be consistent with the pervasive principle of matching costs with related revenue.
   d. The principle of conservatism.

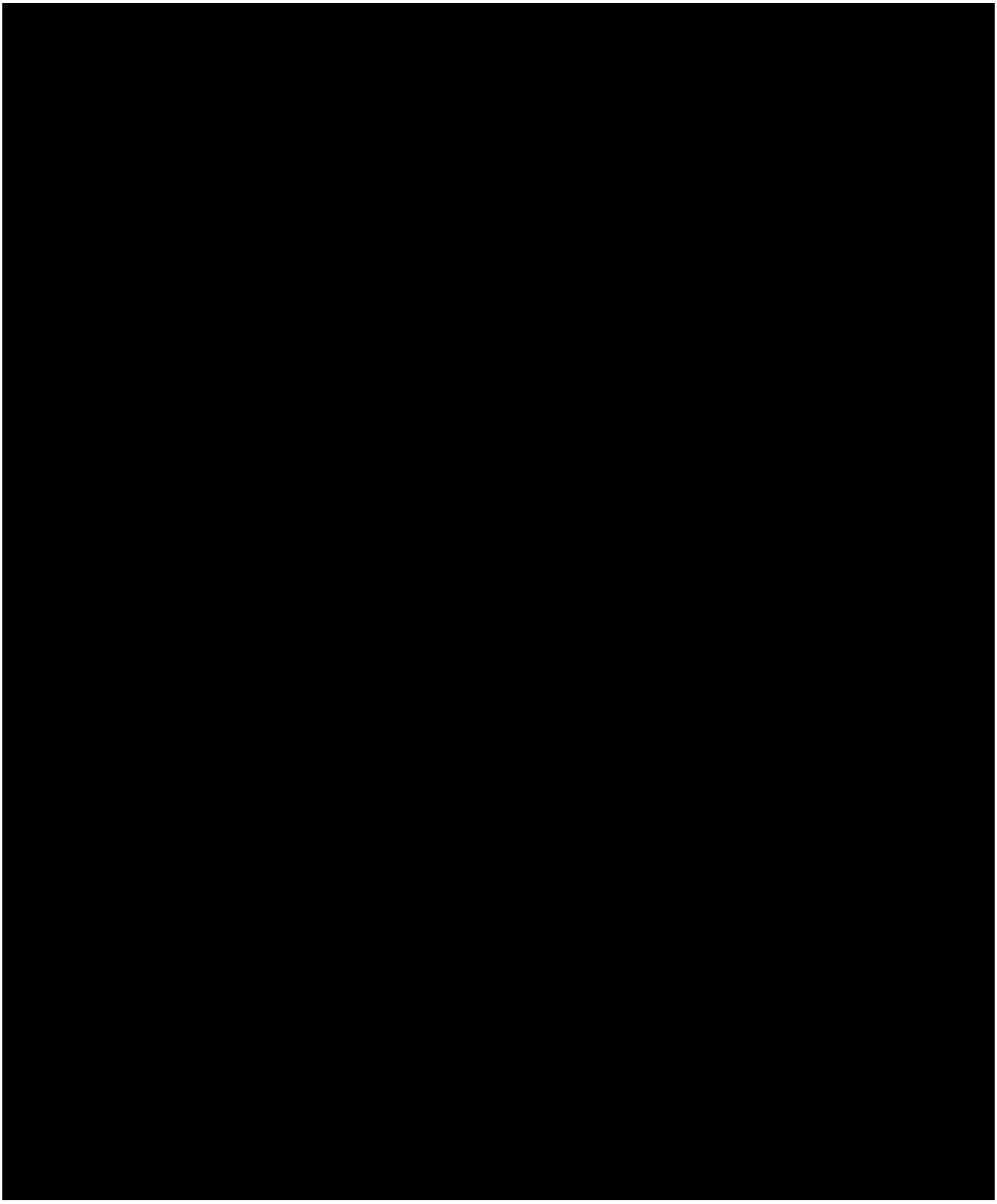
   Payroll timesheets and/or special studies of where personnel spend their time are methods which could provide acceptable support.

3. **Can the policy of capitalization of overheads be changed under the Uniform System of Accounts?**
   Yes. Per Electric Plant Instruction 4-b, "….special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized."

4. **Is the capitalization of overheads a preferable accounting policy?**
   Yes. Overhead expenditures, given the capital-intensive nature of electric utilities, are an integral part of the total cost of a capital project. There is a definite need to associate these types of expenditures to capital projects if they are incurred specifically in relation to the creation of an asset that provides future benefit to the electric utility beyond the current accounting period. Utilities should, and are required by existing regulatory guidance, to charge an appropriate amount of such costs to capital projects, if they are specifically incurred to create an asset that provides a future benefit.

   Periodic studies, also required by the regulatory guidance, ensure an appropriate justification is developed and supported for distribution of costs. Not all overhead costs should be expensed, because many of these costs in a capital-intensive business do relate directly to the construction activities. The direct charging of all these costs is not prudent given the large volume of construction projects, but the fact that the overheads are rationally allocated should not exclude the costs from being associated with a capital project. Utilities generally have well defined capitalization policies and perform detailed studies to assure that only the capital portion of overheads are applied toward construction work.

   GAAP guidance is in sync, permitting capitalization of directly related overhead if properly supported.



# Preliminary Survey and Investigation Costs

Preliminary studies, plans, and investigations., ("183")for the purpose of determining the feasibility of utility projects should be charged to the appropriate Preliminary Survey and Investigation account. If construction results, the Preliminary Survey and Investigation account should be credited for the study costs directly attributable to the new plant construction and charged to the appropriate plant account (e.g., 107, Construction Work in Progress). Study costs not directly attributable to the new construction should be credited to the Preliminary Survey and Investigation account and charged to the appropriate operating expense account. Note that common costs which are incurred regardless of the option chosen shall be allocated equally to each of the options (i.e., if 4 options exist and one common project, each option will receive an allocation of 25% of the common project).

Preliminary studies to identify land for an appropriate site location should be charged to the appropriate Preliminary Survey and Investigation account. If the study results in a purchase of land, the Preliminary Survey and Investigation account should be credited for the associated study costs. If development of the land for its intended use begins immediately, the study costs should be charged to account 107 (Construction Work in Progress). If the land will be held for future development, the study costs should be charged to account 105 (Plant Held for Future Use). If the land is purchased and no plan exists for the use of the land as 'utility plant', the study costs should be charged to account 121 (Non-utility Property). If the land being assessed is not purchased, the Preliminary Survey and Investigation account should be credited for the associated study costs and charged to the appropriate operating expense account.

Preliminary Study and Investigation Accounts

- 183 – Preliminary survey and Investigation – Electric – This account shall be charged with all expenditures for preliminary surveys, plans, investigations etc., made for the purpose of determining the feasibility of electric utility projects under contemplation and costs of studies and analyses mandated by regulatory bodies related to plant in service.
- 183.1 – Preliminary natural gas survey and investigation charges – Gas – This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc. made for the purpose of determining the feasibility of acquiring land and land rights to provide a future supply of natural gas.
- 183.2 – Other preliminary survey and investigation charges – Gas – This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of gas utility projects under contemplation and costs of studies and analyses mandated by regulatory bodies related to plant in service.

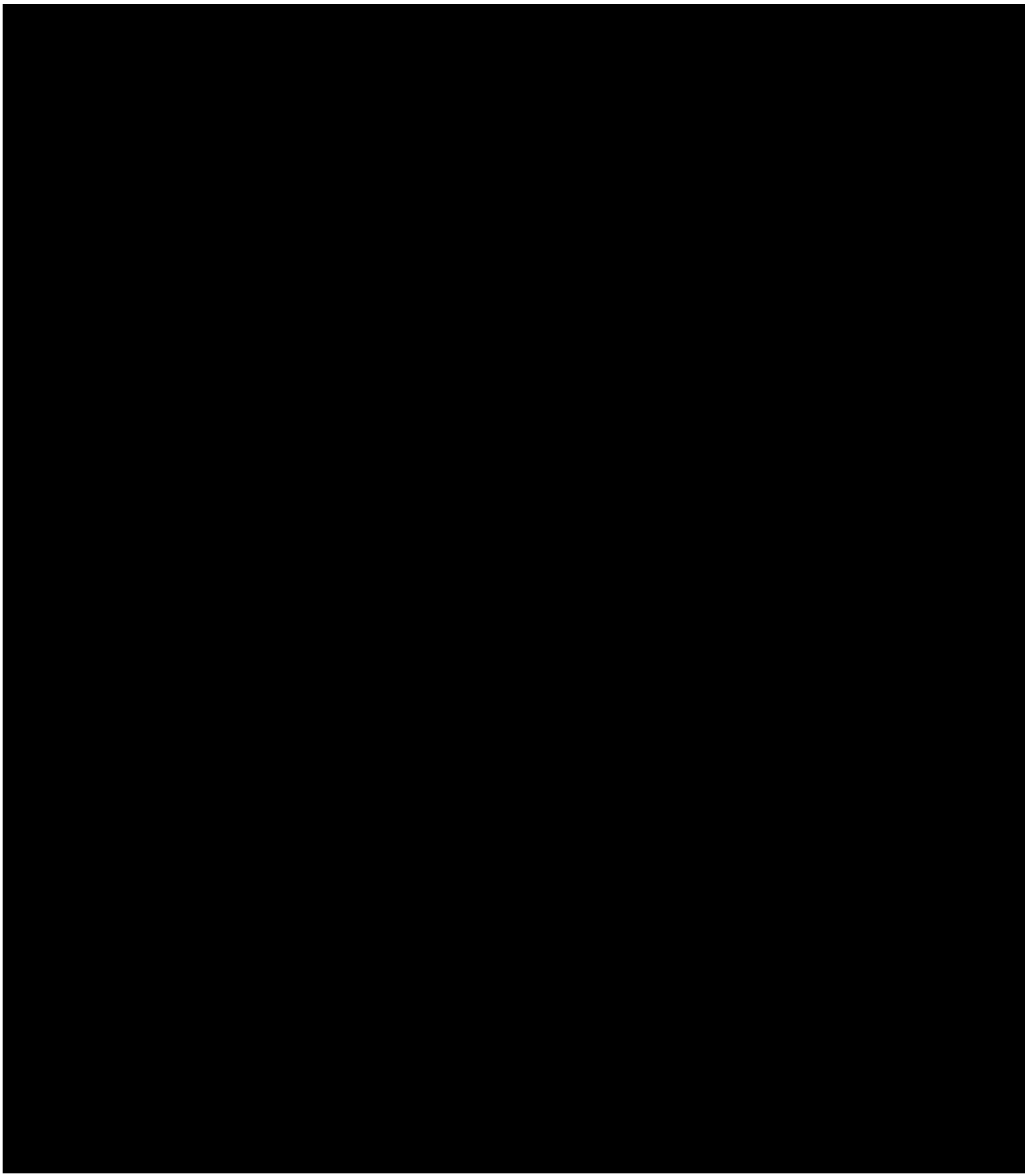
Requirements for Preliminary Study and Investigation projects:

- Asset Accounting approval is required to set up 183 study projects.

  Prior to requesting a charging project in Power Plan, prepare a capital decision form (located on the Portal and SharePoint) to Asset Accounting Research for review and approval prior to project set up. See Capital Project Questions SharePoint for more information on the submittal process.

- As soon as an option is no longer being considered, study costs, including an appropriate allocation of the common costs, should be charged to the appropriate operating expense account.

- Since preliminary and survey and investigation related expenditures may result in a capital project, and are in fact carried on the balance sheet until a final determination is made, Asset Accounting may require projects to be established in PowerPlan for each option studied. Alternative methods for tracking of 183 project costs must be approved by Asset Accounting prior to commencing study activities.



## Project Completion - Returning Material to Inventory

For inventory items charged to O&M Projects, items must be returned to stock at original cost or system average price within [redacted] of project completion. For capital projects, materials not used by the in-service date or ready-for service date *(whichever occurs first)* should be returned to inventory as soon as possible but no later than [redacted] after the in-service date or ready-for service date of the project. They should be returned to stock at original cost or system average price.

Please refer to the topic "*Returning Material to Inventory after Project Completion"* in the Duke Energy Materials and Supplies Guidelines located on the portal at the path below:

Home » Our Company » Policies » Finance Policies » Materials and Supplies Inventory

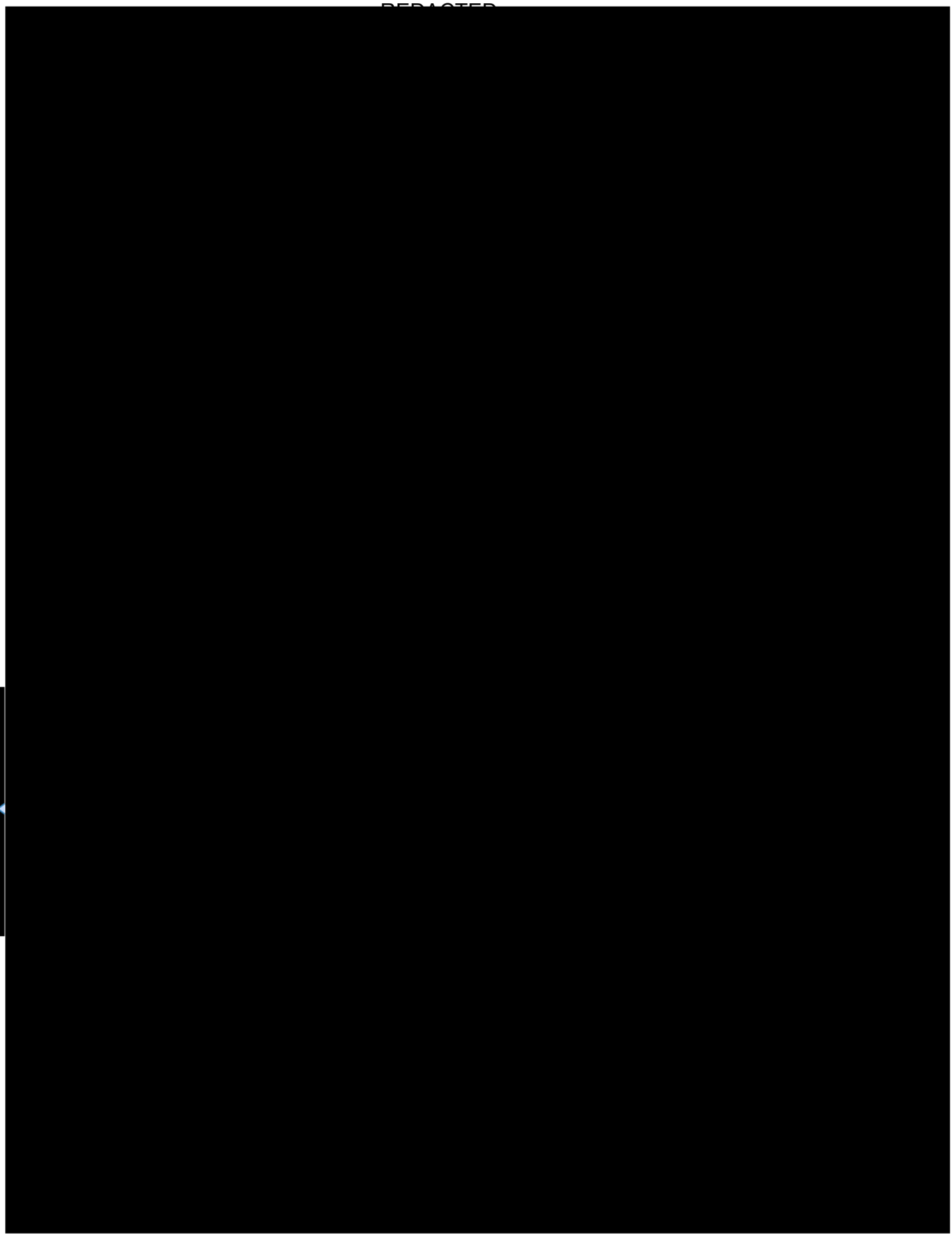
# Salvage and Cost of Removal

Removal cost is the cost of demolishing, dismantling, tearing down or otherwise removing plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation.
Salvage value is the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale; or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

**Guidelines**

- Business units charge retirement project ids / work codes for all removal costs and salvage costs.
- When a retirement unit is retired from plant, if the retirement unit is of a depreciable class, the cost of removal and the salvage shall be charged or credited, as appropriate, to the accumulated depreciation account.
- When a minor item of property is retired and not replaced, and the minor item is a part of depreciable plant, the accumulated depreciation account shall be charged with cost of removal and credited with salvage.
- Non-regulated plant cost of removal is expensed and is not part of capital.

Additional related information can be found in the Code of Federal Regulations, Title 18, Electric / Gas Plant Instruction 10(b)(2).



## Software

Duke Energy software guidelines reflect instruction provided in ASC 350-40. All software projects to be considered for capitalization require the **Asset Accounting – Software Request Form** (located on the Asset / Project portal page and AARG SharePoint) be completed and submitted to and approved by Asset Accounting, or IT Sharepoint Project Initiation Form for software prior to the capital project being set up in Power Plan. Contact IT Project Controls for more information on the IT SharePoint.

**Minimum Requirements for Software Capitalization**

**Eligibility - Eligible software projects must meet all of the following requirements:**

- Software program / module acquired, internally developed, or modified solely to meet internal needs (during software development or modification, no plan exists or is being developed to market the software externally).
- Software program / module whose total capital cost is [redacted] or more after the preliminary project stage. All eligible capital costs are capitalized, not just the portion exceeding $[redacted]
- Software program / module with an expected life of 3 years or more.

**Capitalization Start - Capitalization begins when both of the following have occurred:**

- Preliminary project stage is completed.
- Feasibility is established.

**The preliminary project stage may include the following types of tasks:**

- Make strategic decisions to allocate resources between alternative projects.
- Determine performance requirements and system requirements for the new software.
- Vendor software demonstrations.
- Explore alternative means of achieving specified performance requirements.
- Determine that the technology needed to achieve performance requirements exists.
- Select a consultant for development and installation of software.
- Select a vendor if purchasing software.
- Project funding for application development stage (purchase / development and implementation) are approved by management. (e.g., 201 approval, project authorization). See also Supplemental Information on Software Capitalization section, paragraph 13.

**Accounting treatment of software project costs during the application development stage. Costs eligible for capitalization during application development stage include the following:**

- Internal and external costs incurred to develop internal-use software. Examples of these costs include:
  - Payroll and payroll-related costs (fringes & taxes, employee incentive plan, unproductive labor, etc.) for employees charging project directly for designing, coding, testing of software
  - Materials and contractor services
  - AFUDC
- All costs incurred for interfaces that feed required data to the new software program / module. Example: Costs to build an interface that sends data from existing system ABC to new system DEF are eligible for capitalization. Note that this does not include data conversion costs. See specific guidance for data conversion.
- Costs incurred to code and develop interfaces that feed required data from the ***new*** Duke-owned software program / module to ***existing*** Duke-owned software systems (replacing of existing interfaces and reconnection of existing interfaces).

[redacted]

- Costs to develop software specific training instructions / procedures. The period benefited by development of these instructions / procedures should be the same as the life of the software being developed. Costs of actually training employees are not included here.

[redacted]

**Costs not eligible for capitalization:**

These costs may occur in any phase of the project. They include, but may not be limited to:

- Actual data conversion costs.

- Internal or external training of employees. ASC 350-40-25-4 states that "training costs are not software development costs and should be expensed as they are incurred".
- Internal or external maintenance costs. When external maintenance costs are combined with software development costs in contracts, the maintenance costs must be separated and charged to expense.
- All departmental allocations and overheads (e.g., functional and administrative overheads, computer charge-backs, building space allocations, etc.).
- All costs relating to re-engineering of functional processes rather than software development.
- Costs of rolling out existing software already in-service in one jurisdiction to other jurisdictions. See "**Supplemental Information on Software Capitalization"** section below for guidance**.**

The development of internal-use computer software may not follow the order of the stages identified in ASC 350-40 (e.g., preliminary, application development, post implementation). For example, coding and testing are often performed simultaneously. Regardless, for costs incurred subsequent to completion of the preliminary project stage, this guidance should be applied based on the nature of the costs incurred, not the timing of their incurrence. For example, while some training may occur in the application development stage, it should be expensed as incurred.

**Capitalization stops when:**

- Software is substantially complete and ready for its intended use. Computer software is considered ready for its intended use after all "substantial testing" is completed. This should occur no later than the in-service date and is the end of the application development stage.
- Warranty support (Agile developed software has different warranty periods, see "Agile Development" section below):

[redacted]

- When it is no longer probable that software will be completed and placed in-service, all costs incurred to date will be expensed unless the Company can recoup costs as a regulated asset.

Central Project Accounting (CPA) should receive a project ready for service / in-service notification when the software has been loaded into production for use. AFUDC ceases and amortization begins when the project is placed in service.

**Upgrades / Enhancements**

Upgrades and enhancements are defined as modifications to existing in-service internal-use software that result in additional functionality. Additional functionality is defined as modifications to enable software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. Upgrades and enhancements which provide a "new look" or "different presentation" of information are not considered additional functionality. See additional requirements:

- Upgrades and enhancements must meet the [redacted] cost minimum for each software program (application) or functionally independent module.
- All guidelines stated above for purchase, development / implementation of new internal-use software are also applicable to upgrades / enhancements.
- When external maintenance costs are combined with software development costs in contracts, the maintenance costs must be separated and charged to expense.
- When obtaining new releases for existing software, those costs directly attributable to new functionality are eligible for capitalization if the cost is [redacted] or more.

**See below for an example of when upgrades/enhancements are eligible for capitalization:**

"A PC computer retailer manages its hardware inventory for purposes of stock replenishments based on the manufacturer and quantities on hand. However, because of rapid technology changes in the market place, the CEO believes that in addition to managing inventory by manufacturer and quantity, it is preferable to also manage inventory based on the PC's processor speed. However, the retailer's existing systems are not capable of sorting inventory using the processor speed as such data currently does not exist in the system's database. As a result, the existing

system requires substantial modifications to reconfigure the existing database to accept this new information and permit the system to sort the company's inventory based on a PC's processor speed. Because the enhancement to the system results in additional functionality, qualifying application development costs incurred to make the necessary modifications should be capitalized in accordance with the capitalization requirements discussed above.

In contrast, the same CEO, because of growth in the number of stores the company operates, desires to review sales based on geographic regions rather than on store-by-store basis. Because the report of sales by geographic region is based on information already readily available in the system and the request merely is summarizing existing information in a new format, the change generally would not be considered a modification that results in additional functionality. Accordingly, the cost incurred to make the necessary modifications would be expensed as incurred."

**Amortization Period**

- When determining the amortization period, entities should consider the effects of obsolescence, technology, competition, and other economic factors. Consideration should be given to rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware. Given the history of rapid changes in technology, software often has had a relatively short useful life.
- Amortization of functionally independent modules should begin when the software / module is ready for its intended use, regardless of whether the software / module will be placed in service in planned stages that may extend beyond a reporting period.
- Computer software is ready for its intended use after all "substantial testing" is completed.

**Retirement**

Business units should notify Asset Accounting when software is replaced or otherwise retired from service.
Per FERC Account 111, Accumulated Provision for Amortization of Electric / Gas Utility Plant, "when any property to which this account applies is sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such property. The book cost of the property so retired less the amount chargeable to this account and less the net proceeds realized at retirement shall be included in account 421.1, Gain on Disposition of Property, or account 421.2 , Loss on Disposition of Property, as appropriate."

**Software Project Cost matrix:**

The following table provides a summary checklist for application.

[redacted]

**Supplemental Information on Software Capitalization**

The following guidance is provided as a supplement to the Regulated Electric & Gas Capitalization Guidelines to address common questions related to software projects.

1. **Rolling out existing software already in-service in one jurisdiction to other jurisdictions**

[redacted]

**From Price Waterhouse Coopers Guidance:**
**PWC ARM 5140 Capitalized costs of internal-use software**

"In situations in which a company expands its use of existing internal-use software to other locations or geographic areas, we believe that the accounting for such costs should be consistent with the accounting for specified upgrades/enhancements. That is, qualifying costs incurred in the application development stage can be capitalized, provided it is probable that the expenditures will result in additional functionality."

"In the post-implementation/operation stage, all internal and external training and maintenance costs should be expensed as incurred. ASC 350-40-25-9 further states that maintenance costs incurred solely to extend the useful life of existing internal-use software should be expensed as incurred. In contrast to maintenance costs, the accounting for specified upgrades and enhancements to internal-use software should follow the same accounting model for new internal-use software (i.e., qualifying costs incurred during the application development stage for the related upgrade/enhancement should be capitalized), provided it is probable that these expenditures will result in additional functionality (see ASC 350-40-05-9 for the definition of additional functionality and further guidance on specified upgrades/enhancements)."

2. **Incremental purchases/expenditures directly related to the project**
   What is the definition of a "direct and incremental" purchase? Does it include expenses (mileage, meals, recognition, etc.) that the project team incurs during all phases of the project?

   A "direct and incremental" purchase/expense is that which contributes directly to the completion of the software project and would not have been made were it not for the software project. All costs incurred during the Preliminary Stage are expensed. Costs incurred after the Preliminary Stage are capitalized / expensed 'based on the nature of the charge, not the timing of the charge.' For example, training is expensed regardless of the stage during which training costs are incurred. Incremental purchases, including costs for mileage, meals, recognition, etc., will only be capitalized during the Application Development Stage.

3. **Overhead**
   ASC 350-40 excluded overhead costs from internal-use software because, as a practical manner, costs of accurately accumulating such information generally would exceed the benefit that might be derived. Only costs that are "directly" related to the software development and that are deemed an "incremental" cost to the company as a result of the software development may be capitalized. General and administrative and other "overhead" type costs are to be expensed as incurred unless the direct and incremental criteria can be supported.

4. **Charging Methodology**
   The method of distributing direct and incremental capital costs within the project can be either direct charge or allocation, provided the direct and incremental support exists. General management pool allocations and capital targets are not appropriate methods of charging, as they are not supportable as direct and incremental to the

In some instances, ongoing software development projects will become troubled before being discontinued. ASC 350-40 requires management assess the likelihood of successful completion of projects in progress. When it becomes no longer probable that the computer software being developed will be completed and placed in service, the asset should be written down to the lower of the carrying amount or fair value, if any, less costs to sell. Importantly, it is a rebuttable presumption that any uncompleted software has a zero fair value.

Management may on occasion decide an in-service software system is no longer needed and will therefore no longer be used. When no longer used, the system should be retired, with any remaining unamortized balance taken to income. If the date at which the software will be no longer used is known ahead of time, the amortization should be accelerated to reflect the revised life of the asset. Costs associated with removing and retiring the software should be expensed.

8. **Training, including development of training material**
Generally, training is viewed as a post-implementation activity associated with new software implementations and should be expensed per ASC 350-40. However, there are certain related tasks which are viewed as being a component of the software development, and may be capitalized.

[redacted]

9. **Software not qualifying as "internal use" software and therefore not eligible for capitalization**
ASC 350-40 provides examples of internal use software not eligible for capitalization. If you have any questions in analogizing and applying these examples, please contact Asset Accounting Research Group:

1. Software sold by a robot manufacturer to purchasers of its products
2. The cost of developing programs for microchips used in automobile electronic systems
3. Software developed for both sale to customers and internal use
4. Computer programs written for use in research and development efforts
5. Costs of developing software under contract from another entity

10. **License Acquisitions**
When acquiring software licenses for internal-use software, aggregation of per-license costs may be permissible under certain circumstances. For example, upon completion of an in-house software development project any number of employees may be granted access.

[redacted] A project manager whose role is limited to status and budget reporting for one or more projects and who does not directly contribute to the technical aspect of a project should expense all costs.

12. **Warranty Support by development project team**
Commonly, during a software development project, there is a short period of time after the project is placed in-service where the project team is still working together to address and resolve final implementation issues. This type of support activity is not specifically categorized in ASC 350-40 as part of the preliminary project stage, application development stage, or post-implementation operation stage. However, ASC 350-40-55-4 does indicate that "for costs incurred subsequent to completion of the preliminary project stage, the guidance shall be applied based on the **nature** of the costs incurred, not the timing of their incurrence." [redacted]

# Software – Agile Development

Agile software development is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. In an agile project, working software is deployed in iterations or sprints of typically one to eight weeks in duration, each of which provides a segment of functionality. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

The FASB has not issued new or revised guidance for Agile software development, so the current ASC 350 still applies to these projects, including recording the appropriate amount of AFUDC and amortization based on the in-service date of the **released functionality**, which represents a segment of the software asset that is used and useful once it is released to production for most users.

- Releases that are functionally dependent on one another should be considered in-service at the point the later portion of functionality is released.

- Releases that are NOT functionally dependent on another segment or iteration should be individually put into service at the date of release (AFUDC ceases, amortization begins).

Because of the potential for numerous capital projects for each in-service date on multiple release projects, which could necessitate a burdensome process to separately charge and track each release, Duke has chosen to use an "Accounting Convention" on some Agile projects as described in this Section. *For all other matters related to software capitalization, the preceding Software guidance should be followed.*

**Agile Method (Scrum)**

**In-Servicing and Amortization**

# Training

**FERC Guidance**

**FERC Code of Federal Regulations**
**Operating Expense Instructions**

When it is necessary that employees be trained to specifically operate or maintain plant facilities that are being constructed, the related costs shall be accounted for as a current operating and maintenance expense. These expenses shall be charged to the appropriate functional accounts currently as they are incurred.

**FERC Code of Federal Regulations**
**Electric Plant Instruction 3(19)**

When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature, or are new to the company's operations, these costs may be capitalized as a component of construction cost. Once plant is placed in service, the capitalization of training costs shall cease and subsequent training costs shall be expensed.

**Generally Accepted Accounting Principles (GAAP) Guidance**

**PWC Utilities and Power Co. Guide**
**Chapter 12. Plant**

# Warranty Purchases and Replacements

Warranty Purchases – Tangible Assets (see Software Section for software related warranty purchases)

Warranty purchases should be considered either "assurance-type" or "service-type" in accordance with ASC 606 Revenue from Contracts with Customers, which Duke has analogized to for purposes of providing a policy on these types of costs.

- *Assurance-type Warranty*: provides the customer with the peace of mind that the entity will fix or possibly replace a good or service if the original good or service was faulty.
  - Indicators of an Assurance-type warranty may include some or all of the following:
    - Replacement of same type of item initially purchased
    - Repair faulty item to same condition as purchased
    - No service obligation exists for the seller *as part of the warranty (separate service contracts should be accounted for as an expense or prepaid expense, as applicable)*
- *Service-type Warranty*: provides the customer with a service that is incremental to the assurance that the good or service will meet expectations agreed to in the contract.
  - Indicators of a Service-type warranty may include some or all of the following:
    - An option to purchase a separate warranty
    - Longer coverage period (i.e., and extended warranty)
    - A specific obligation exists by the seller other than replacement or repair of original item

***Accounting Treatment:***

[redacted]

- Burden of proof is on the business to provide support for the type of warranty, and allocate to capital and O&M appropriately as applicable.

- For an accounting determination on a warranty where the criteria above does not provide clear treatment, the business or FP&A should complete a Capital Decision Form and submit to Asset Accounting Research Group.

- If the invoice is not specific for the service-type warranty costs, a market value will need to be obtained by the business for that type of service, timeframe, and any other pertinent specs, and be charged to O&M.

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Replacement of Capital Assets Under Warranty

When assets which are covered under warranty are replaced, the theory is that the assets are being returned to their original intended use. Therefore, unless there is a significant betterment or a replacement of an older asset with a new type of technology, the asset being replaced will remain on the books at its original cost rather than being retired and the new asset being recognized at its cost.

Duke's position is that the cost of the original asset is what should be included in rate base, rather than the cost of the replacement asset.

In general, unreimbursed costs incurred to replace the warrantied asset are O&M.

It is the responsibility of the Project Manager or the Business Function to contact Asset Accounting Research Group when an asset covered under warranty is to be replaced to ensure appropriate accounting treatment.

## Accounting Guidance

Accounting Standard Codification (ASC) 606 – Revenue from Contracts with Customers
606-10-55-30 – "It is common for an entity to provide (in accordance with the contract, the law, or the entity's customary business practices) a warranty in connection with the sale of a product (whether a good or service).

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# Post Capitalization

## Asset Donations

Business/corporate unit management must authorize the donation of Company property, equipment or inventory in accordance with the Delegation of Authority prior to any transaction being initiated. See the ***Delegation of Authority Policy*** for additional information.

A different person should perform each of the following functions. These functions must be segregated between at least two people. Weaker segregation structures should be accompanied by additional management review.

- Declaration/approval of the intent to donate
- Accounting entries
- Donation of the asset

**Donations to Non-Profit Organizations**

The non-profit organization is required to submit their request using their letterhead (mail or fax) to Duke Energy Asset Recovery for the items they would like to receive as a donation as well as confirmation of their 501 (c) (3) status. Once the letter of request is received, Asset Recovery will prepare and send a Donation/Approval letter including the following information:

- Organization Name
- Contact Name and telephone number
- List of items donated
- Fair Market Value of the donation

Upon receipt of the donated assets, the contact for the organization must sign the Donation/Approval letter and mail or fax a copy to Asset Recovery. Asset Recovery will maintain a database of all donations and will provide necessary information to Corporate Community Relations for review. A year-end report detailing donation activity will be created for the Corporate Tax Department.

* Exceptions are made only with appropriate DOA or ABT approval, and in accordance with the Real Estate Land Disposition Process.

**Accounting for Donations**

<u>If a capital asset:</u>
DR Accumulated Depreciation (108)
CR Plant-In-Service (101)
**(To retire the asset)**

DR Donation Expense (426.1)
CR Accumulated Depreciation (108)
**(To recognize the donation. Represents the FMV of the asset donated)**

<u>If an inventoried asset:</u>
DR Donation Expense (426.1)
CR Inventory (154)
**(To recognize the donation. Represents the FMV of the asset donated)**

# Group Depreciation and "Normal" vs. "Not Normal" Retirements

**1. Is the application of group depreciation appropriate/acceptable under Generally Accepted Accounting Principles (GAAP)? What about for regulatory accounting and reporting purposes?**
Yes. Use of group depreciation methodology is acceptable under GAAP and for regulatory accounting and reporting purposes.

**2. How is a group defined for group depreciation purposes?**
GAAP, and various interpretations as excerpted above, states that for practical purposes, property items are frequently grouped and an average life applied to determine depreciation. Groupings may be by year of acquisition, by type (such as all drill presses), by classification (such as all machinery), by location, or by a combination of these ways. Depreciation based on groups that include items with varying lives is referred to as composite depreciation. Additionally, the disparities of the lives of the assets in a group should not be so great as to materially understate depreciation in the earlier years, and when group methods are applied, periodic studies should be undertaken to ensure that the average life being used is appropriate.

The FERC Code of Federal Regulations provides more detailed guidance specific to the electric utility industry, and contemplates application of a composite depreciation rate to book cost of depreciable plant.

General instruction 22 (Depreciation Accounting) states "utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property. Where composite depreciation rates are used, they should be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group."

For general ledger and balance sheet purposes, the Account 108 (Accumulated Depreciation) guidance states that the account shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant:
(1) Steam production,
(2) Nuclear production,
(3) Hydraulic production,
(4) Other production,
(5) Transmission,
(6) Distribution, and
(7) General.

Cost of Service filing requirements in FERC Section 35.13 (Filing of Changes in Rate Schedules) states the utility shall show the electric plant in service in accordance with each of the following five major functional classifications:
(A) Production;
(B) Transmission;
(C) Distribution;
(D) General and Intangible; and
(E) Common and Other.

Segregation below these major classifications is not required, unless a utility designs its rate recovery structure so that subdivision of the major functional classifications is necessary to support rates. Additional guidance is provided in selecting sub-functional categories. For example, segregating production according to some special characteristic, such as base, intermediate, or peaking load. Or segregating transmission and distribution property according to engineering or use characteristics.

**3. How are depreciation rates established under group depreciation?**
Depreciation studies are conducted at periodic intervals to support regulatory initiatives or to comply with the GAAP requirement to periodically assess depreciation rates. Depreciation rate estimates are based on analyses of historical plant data at a utility account level, supplemented with a review of Company practice and outlook, current industry practices, and, of course, informed judgment. Various methods (straight-line, declining-balance, based on output, etc.), procedures (average-life, equal-life), and techniques (remaining-life, whole-life) may be analyzed and selected for use depending on Company and/or regulatory requirements. Depending on at what level a company defines a group, rates at an account level may be composited at a higher level, and there may be segregation by sub-account.

**4. Does depreciation expense recorded differ depending on the level at which depreciation rates are established?**
Theoretically there is no difference. However, after the first year of use changes in actual plant balances due to additions and retirements will begin to generate small differences. Unless there is a major transaction these differences typically remain immaterial between depreciation studies.

**5. How is net book value determined for a specific asset under group depreciation?**
Determination of net book value under group depreciation is a process of allocation, whereby the total group reserve is allocated based on a theoretical reserve calculation. Cost information is captured separately for each asset and maintained in the continuing property records as part of the group total.

must be determination as to whether the retirement is normal or abnormal, as discussed above, in order to properly assess whether there is an impact to current income.

Also, FERC guidance from plant instructions no. 5 and 10 must be followed. Duke Energy defines an "operating unit or system" for accounting purposes as a generating unit or plant. . FERC clearly prescribes gain/loss recognition when an operating unit is disposed of through sale, conveyance, or transfer (plant instruction no. 5), whereas property disposed of through retirement is processed through the accumulated depreciation reserve (plant instruction no. 10).See Purchase/Sale of Operating Unit or System in these Guidelines for more instruction on this topic.

**10. If a net book value remains at the date of retirement based on the allocation of the group reserve to the specific asset using the theoretical reserve methodology, how is the net book value recovered from a regulatory perspective?**

Three approaches are available: 1) if the depreciable group is defined at a level higher than the individual asset, then the net book value for the asset retired is allocated among the remaining assets in the group. An evaluation of the depreciation rate may be necessary at the same time if a large or abnormal retirement is involved; 2) the net book value can be moved into a regulatory asset and amortized if allowed by a regulator; 3) the theoretical remaining net book value can be taken as a charge to income.

Strategic business objectives may drive the choice in the recovery mechanism. The approach where recovery is sought through amortization of a regulatory asset will provide for faster cash recovery if the recovery period established is less than the average life of the group, but will also result in depletion of rate base at a faster rate. In contrast, the approach where the group depreciation rate is adjusted will match cash recovery to that of the group, but rate base will not deplete as quickly.

**11. For retired assets not removed and salvaged immediately, does the accounting differ based on how the depreciable group is defined?**

No. Assets retired from service are removed from the books "fully depreciated." When the asset is finally removed and salvaged, any cost of removal or salvage is booked to the group reserve.

**12. If subdivision of the major functional classifications exists to support rates charged to customers, is use of a functional composite rate appropriate/allowable?**

A group composite rate by definition reflects the multiple rates for any sub-classifications within the group. If specific rates are specified through legal or regulatory proceedings, they would be included in a composite calculation. However, if special recovery mechanisms are established, such as through periodic specific filings, the need to maintain a depreciation reserve matching that of the special rate may be required. Per FERC cost of service filing requirements, segregation below the major classifications is not required, unless a utility designs its rate recovery structure so that subdivision of the major functional classifications is necessary to support rates.

**14. Accounting for the potential retirement of units should be assessed as follows:**

Under the group concept of depreciation, a depreciation reserve is not maintained for individual items of property. Each asset in a depreciable group is assumed to have the life of the group and to be fully depreciated at the time of retirement. In a "normal" retirement, the capital cost is removed from the property, plant and equipment account, and the same amount is removed from the depreciation reserve. No gains or losses are recognized, and no adjustment to the depreciation rate for the group is required – in theory the rate reflects, through time, the dispersion of lives around the average rate. When an "abnormal" or highly unusual retirement occurs, GAAP indicates any gain or loss should be recognized in income immediately. Unless a very large unknown and unanticipated retirement occurs, in practice it would be very unusual to have anything classified as "abnormal" under the group concept.

# Depreciation Rate and Nuclear Decommissioning Study Approval

**Statement of Purpose and Philosophy**
The purpose of this policy is to set policy for the appropriate level of approval for changes in depreciation rates and nuclear decommissioning trust funding levels.

**Policy Expectations**
This policy applies to all functions within Duke Energy Regulated Electric & Gas operations. Any exceptions or deviations from the policy require prior approval of the Director, Asset Accounting.

**Policy - Accountability, Roles and Responsibilities**

The depreciation rates used for the calculation of depreciation expense are established through periodic depreciation studies. Depreciation studies are conducted by Asset Accounting approximately every 5 years, absent regulatory activity or material changes in business conditions, and are approved by the Director of Asset Accounting for regulated entities. Depreciation rates may be adjusted as long as the requisite regulatory approval is received. The Director of Asset Accounting and the Manager of Property Accounting approves adjustments to depreciation rates for regulated entities, including new rates established during the interim period between official depreciation studies. Once approval is obtained, the adjusted depreciation rates are entered into PowerPlan and are checked for accuracy.

Duke contracts with industry depreciation specialists to perform detailed depreciation studies. The depreciation study report provided by the consultant serves as the basis for filing with the appropriate regulatory authorities, and generally includes the following types of information,

a. A comparison of current and proposed depreciation rates and components for each category of depreciable plant.
b. A comparison of annual depreciation expense as of the proposed effective date, resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.
c. Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.
d. A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.
e. A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.
f. An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, and trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.
g. The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.
h. The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

[redacted]

## Service Company

A Service Company Asset is an asset which meets at least one of the following criteria:

[redacted]

Assets maintained at the service company due to cost/benefit considerations (case-by-case)

Regulated Utility projects should not be set up on the Service Company books unless the following criteria are established:

a. Asset Accounting, Service Company and, if necessary, the Rates and Regulatory and Tax groups should be consulted to ensure establishing assets to Service Company does not conflict with regulatory strategy or property tax returns. Determination of whether to record assets on the Service Company's books will be made on a case-by-case basis depending on the relevant facts and circumstances of each transaction.
b. An approved method to move costs from Service Company to the Regulated utility jurisdiction's books that is approved by Shared Services.
c. Charges must be moved on a monthly basis to allow for proper calculation of AFUDC.

**Basic Guidelines**

1. Charges for capital assets which service only one business segment should be recorded directly on the books of the individual business units which use the assets. See the Shared Assets section of the Capitalization Guidelines.

2. Charges for capital assets which service multiple business segments may be recorded on the Service Company's books, with depreciation expense and return on un-depreciated balance allocated across the various business units which use the assets via an allocation factor determined by the Service Company. Such allocation/distribution of costs will occur prior to initiation of the accounting close process each month to ensure appropriate classification of costs and related financing costs.

Examples of Service Company assets could include:

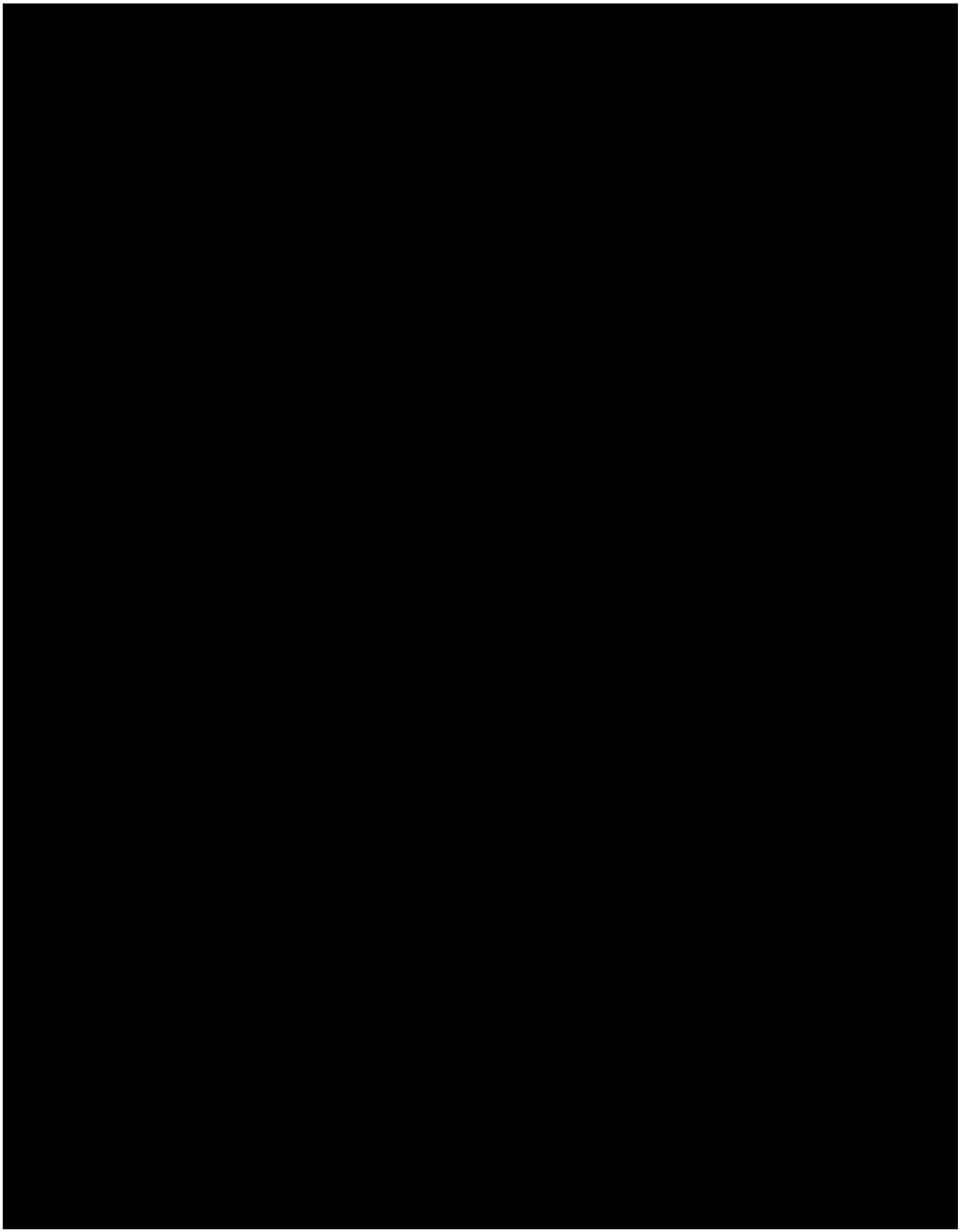
[redacted]

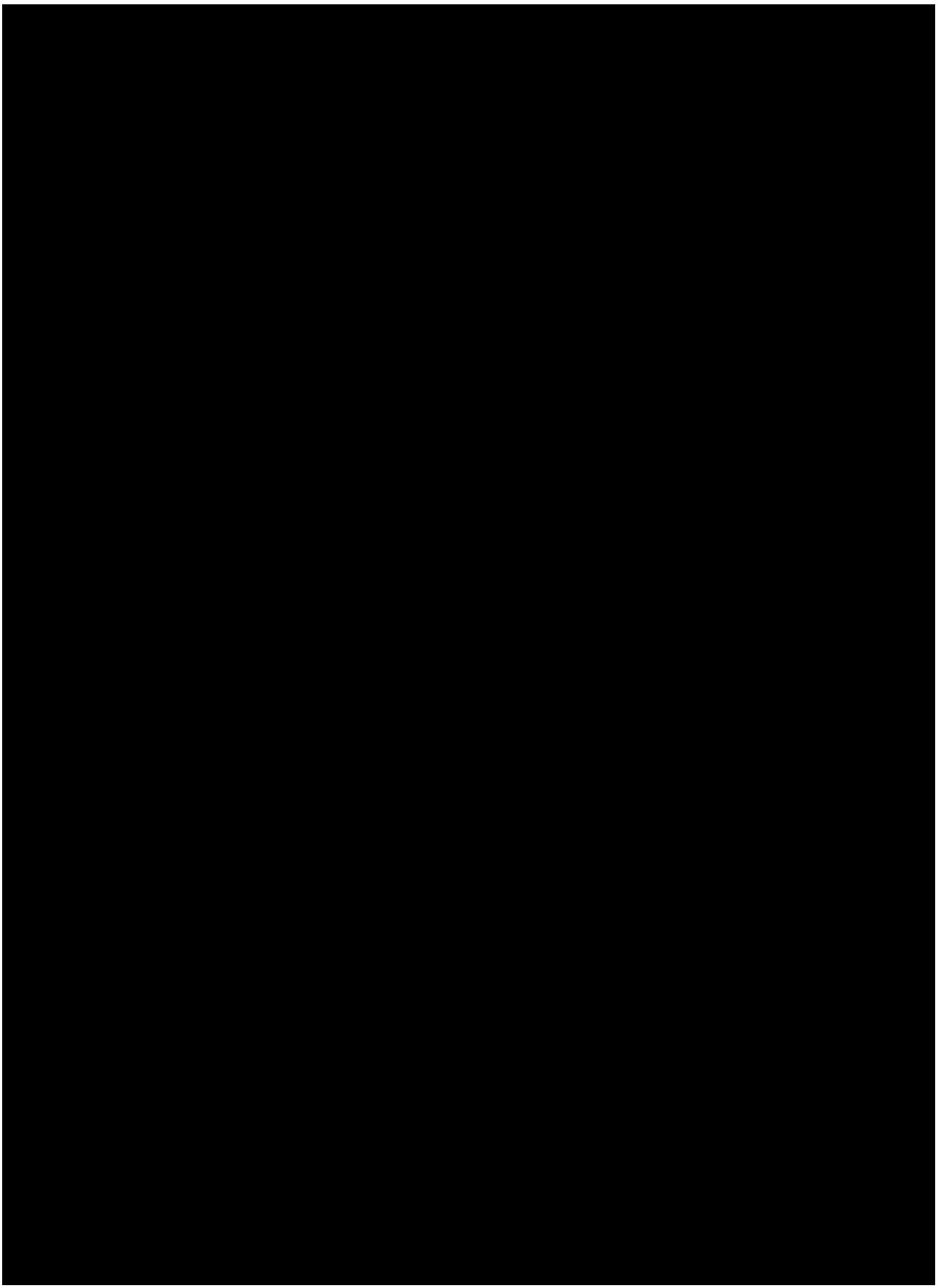
# Summary of Merger Consolidation

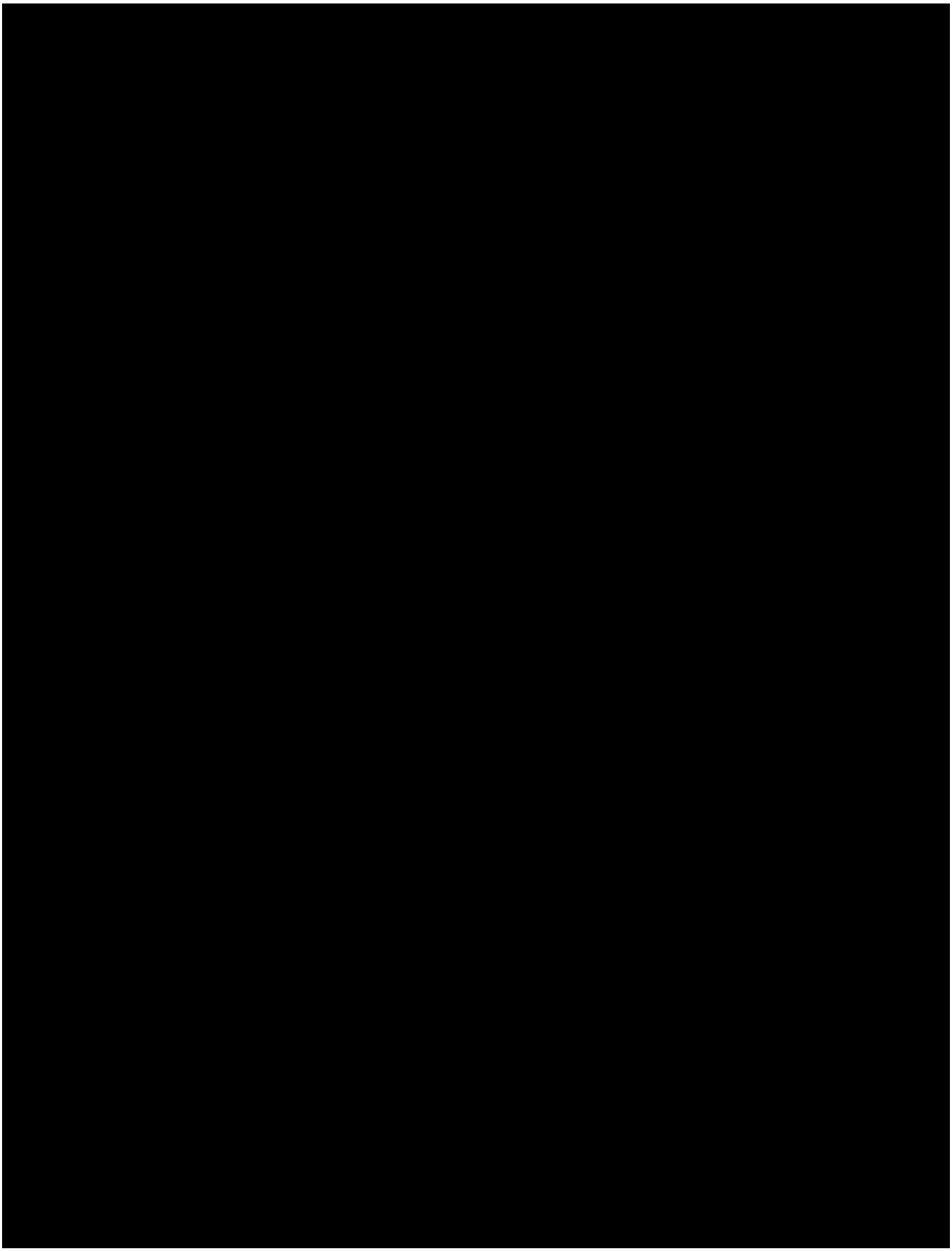
Asset Accounting has analyzed the legacy Duke Energy and Piedmont Natural Gas (PNG) capitalization guidelines in order to establish uniform standards which are not only in compliance with applicable accounting and regulatory guidance, but also set forth streamlined and efficient business practices. Below is a high level summary comparing legacy guidelines with the new consolidated guidelines. Any questions in application should be directed to the Asset Accounting Research Group.

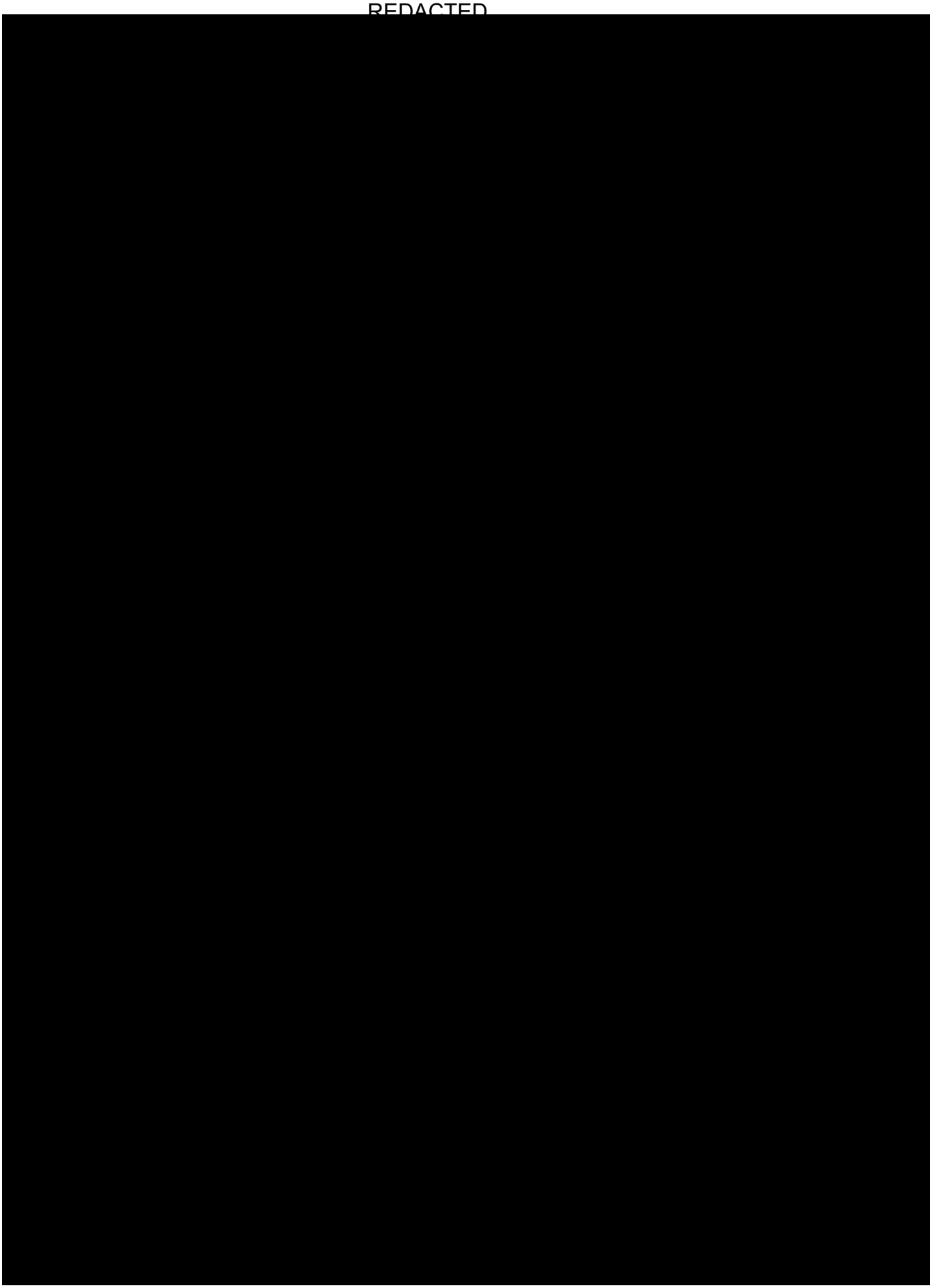
Key Capitalization Issues:

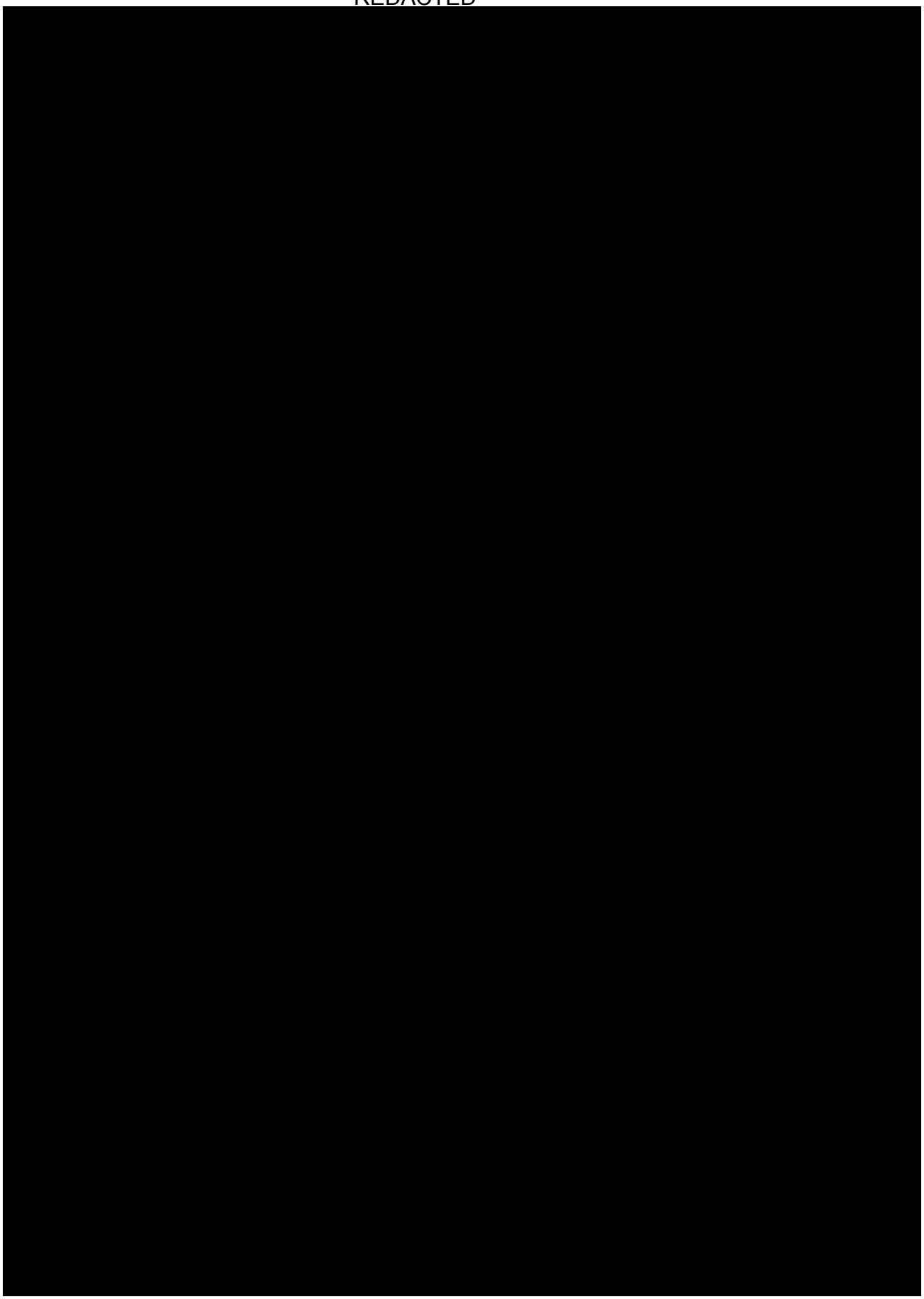
[redacted]

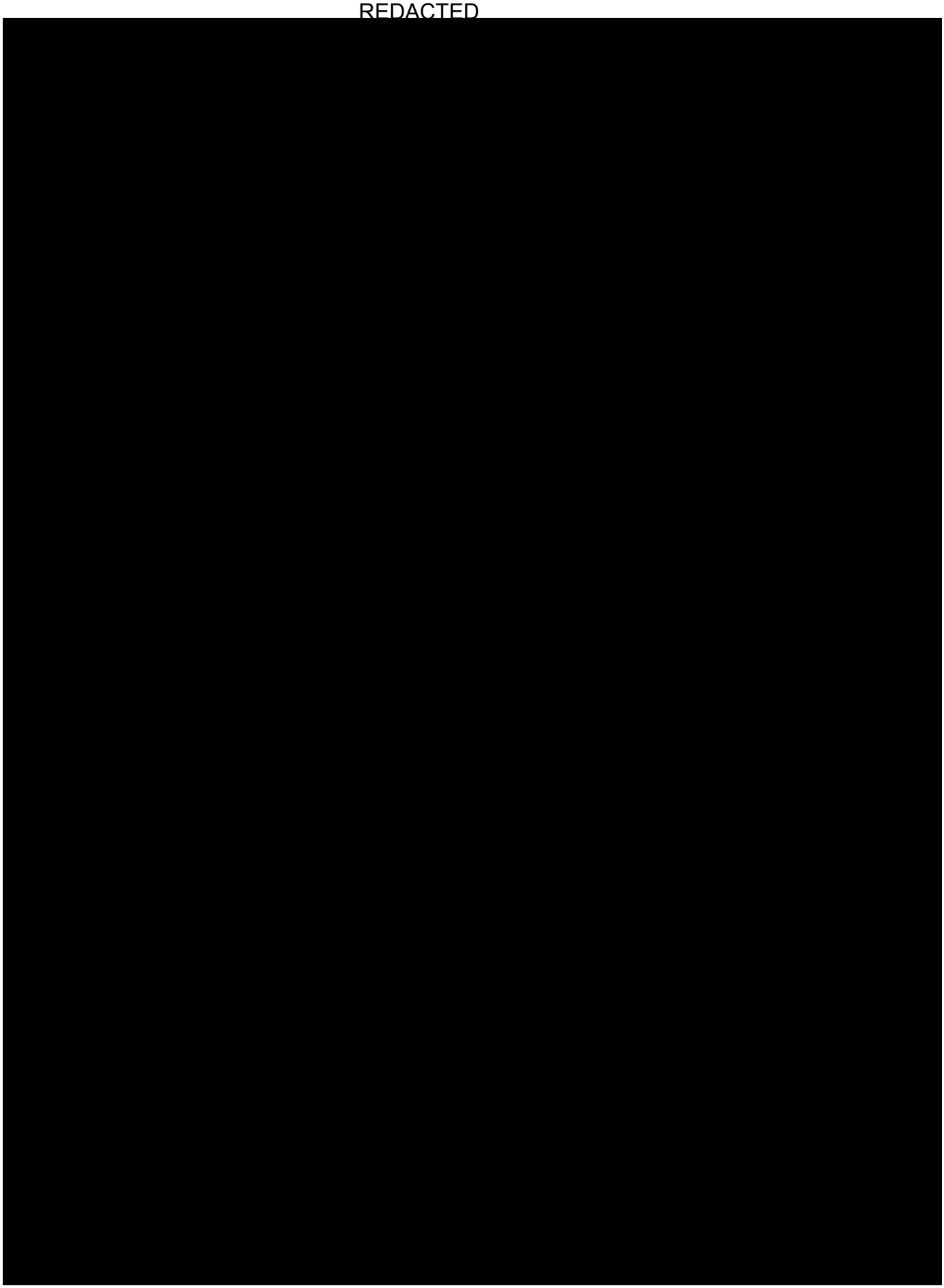












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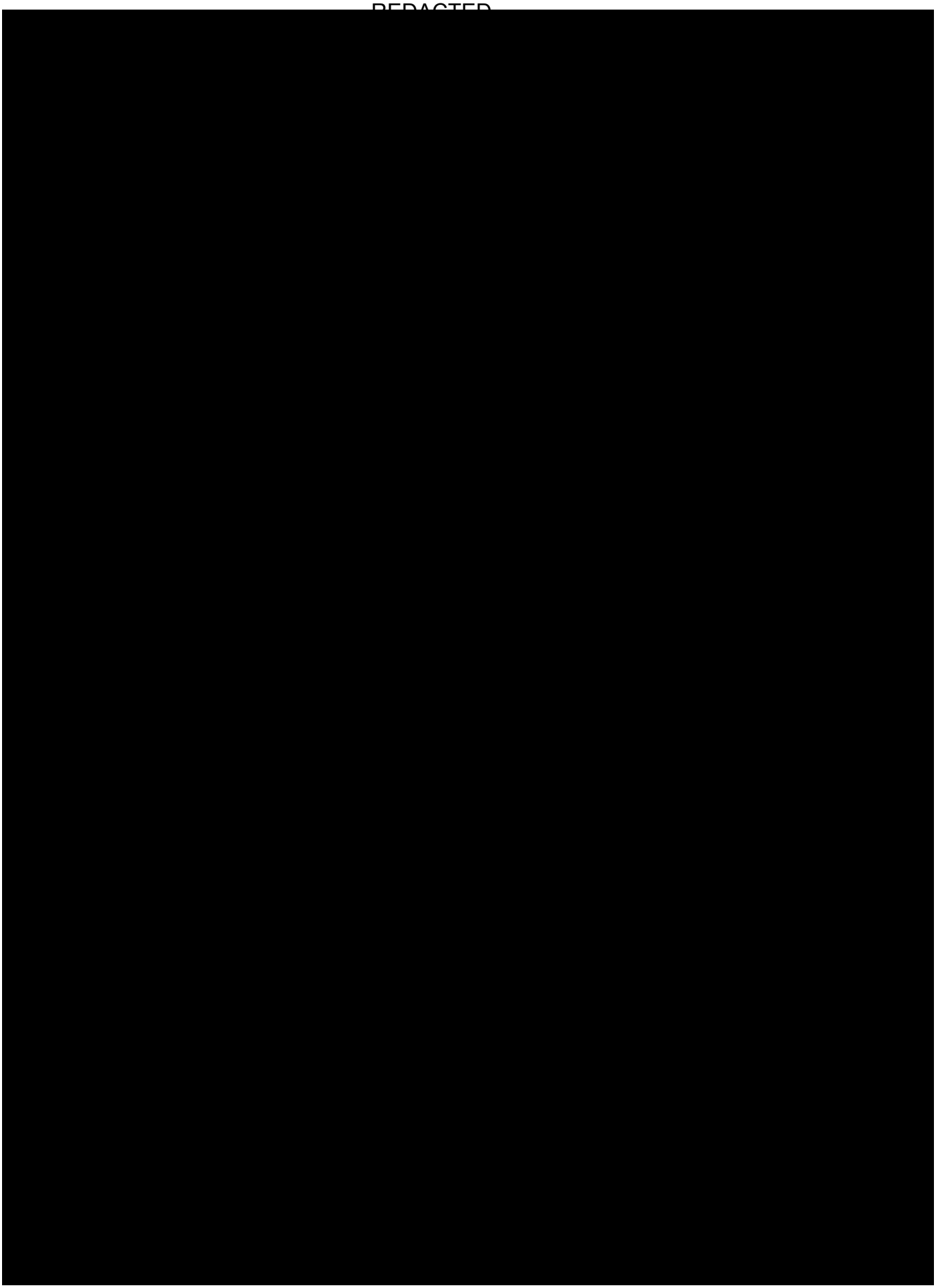

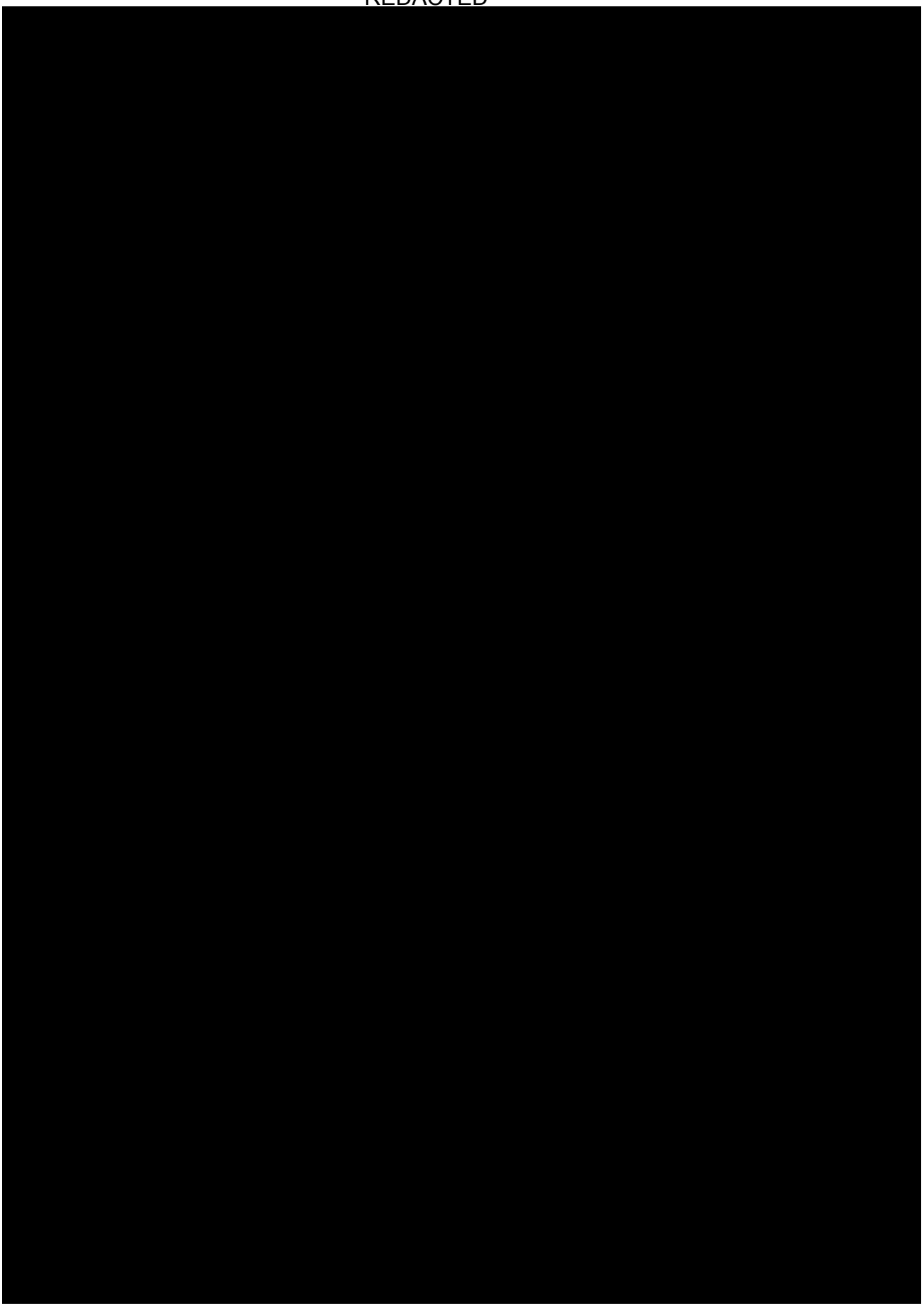

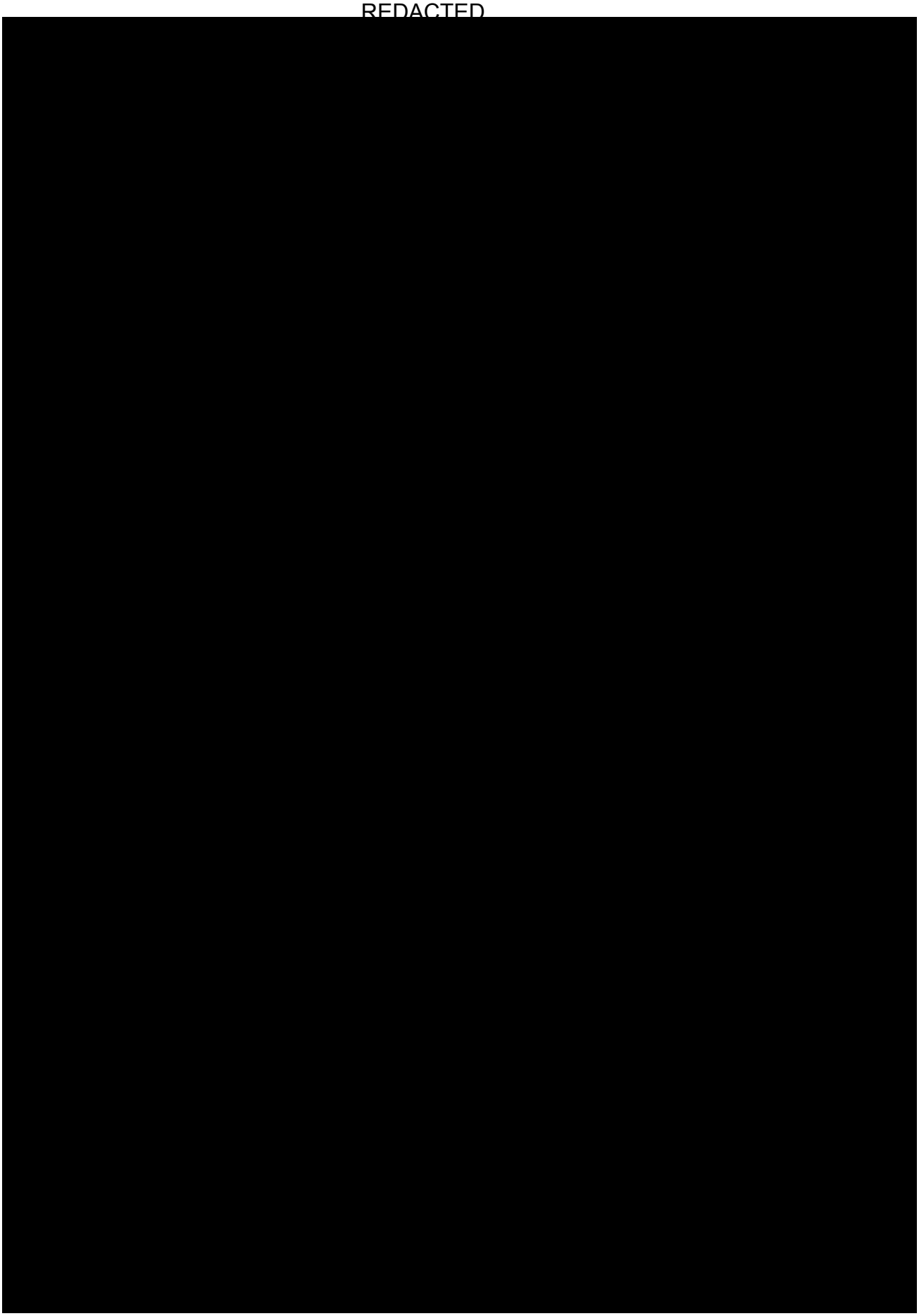

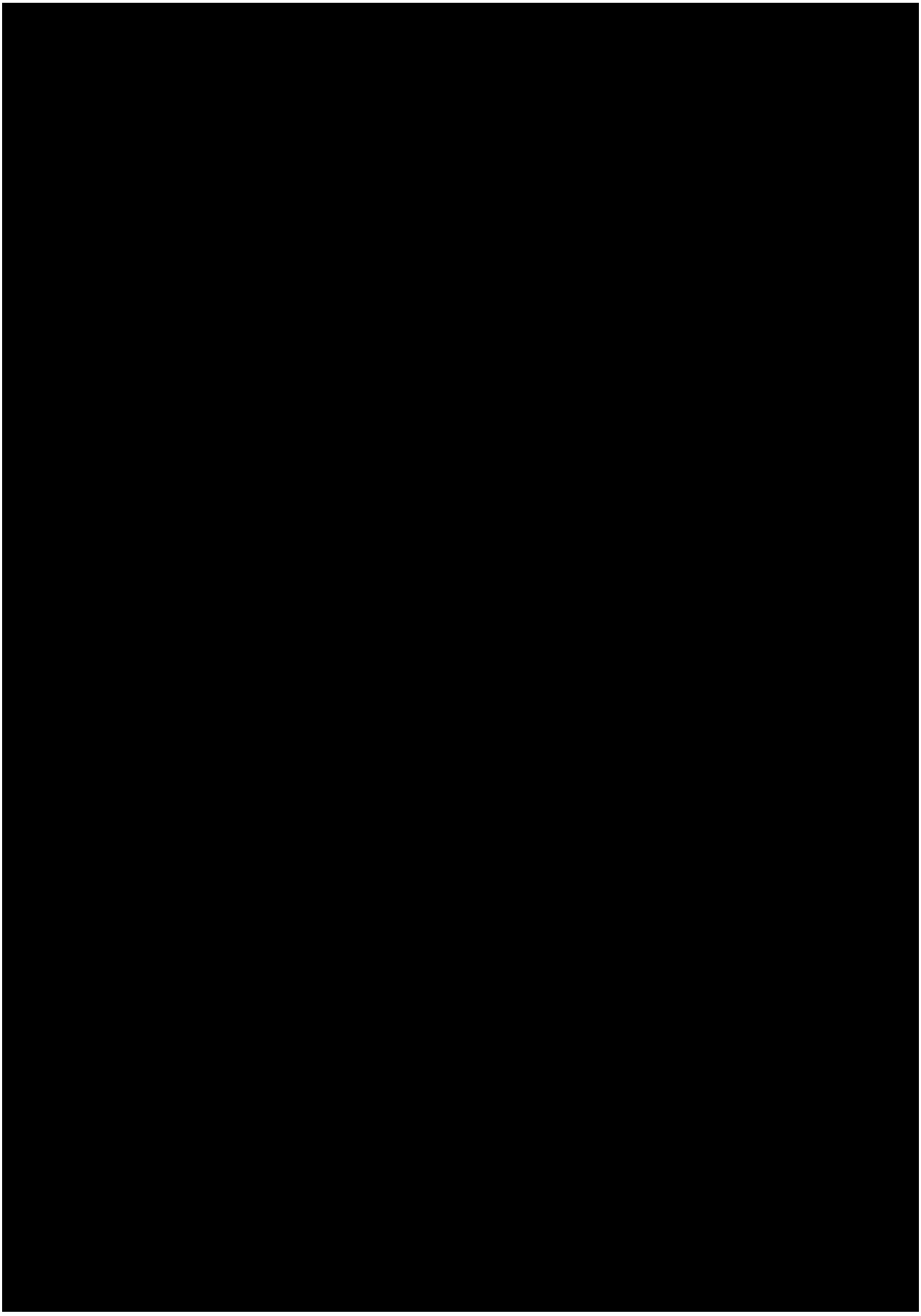

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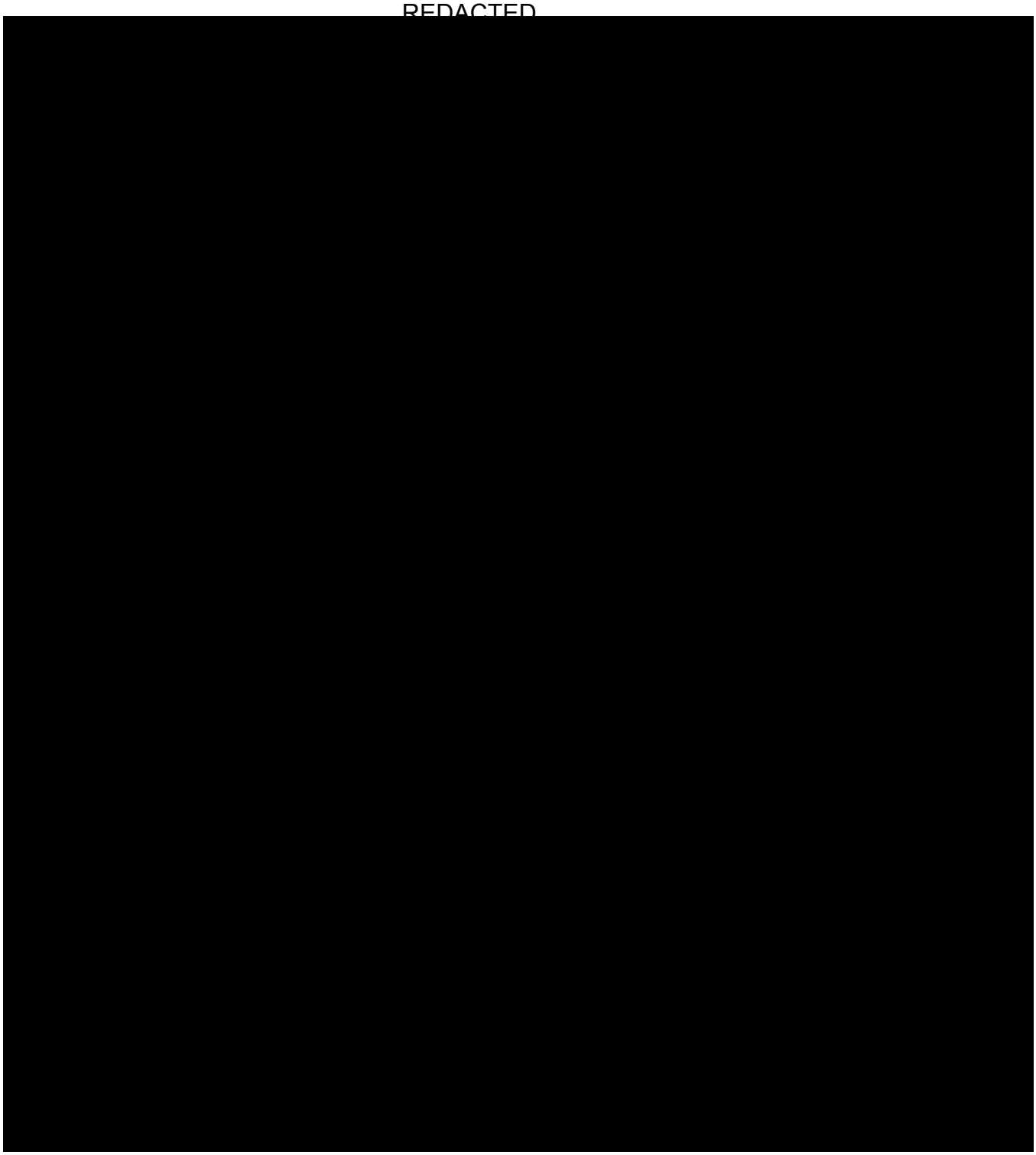

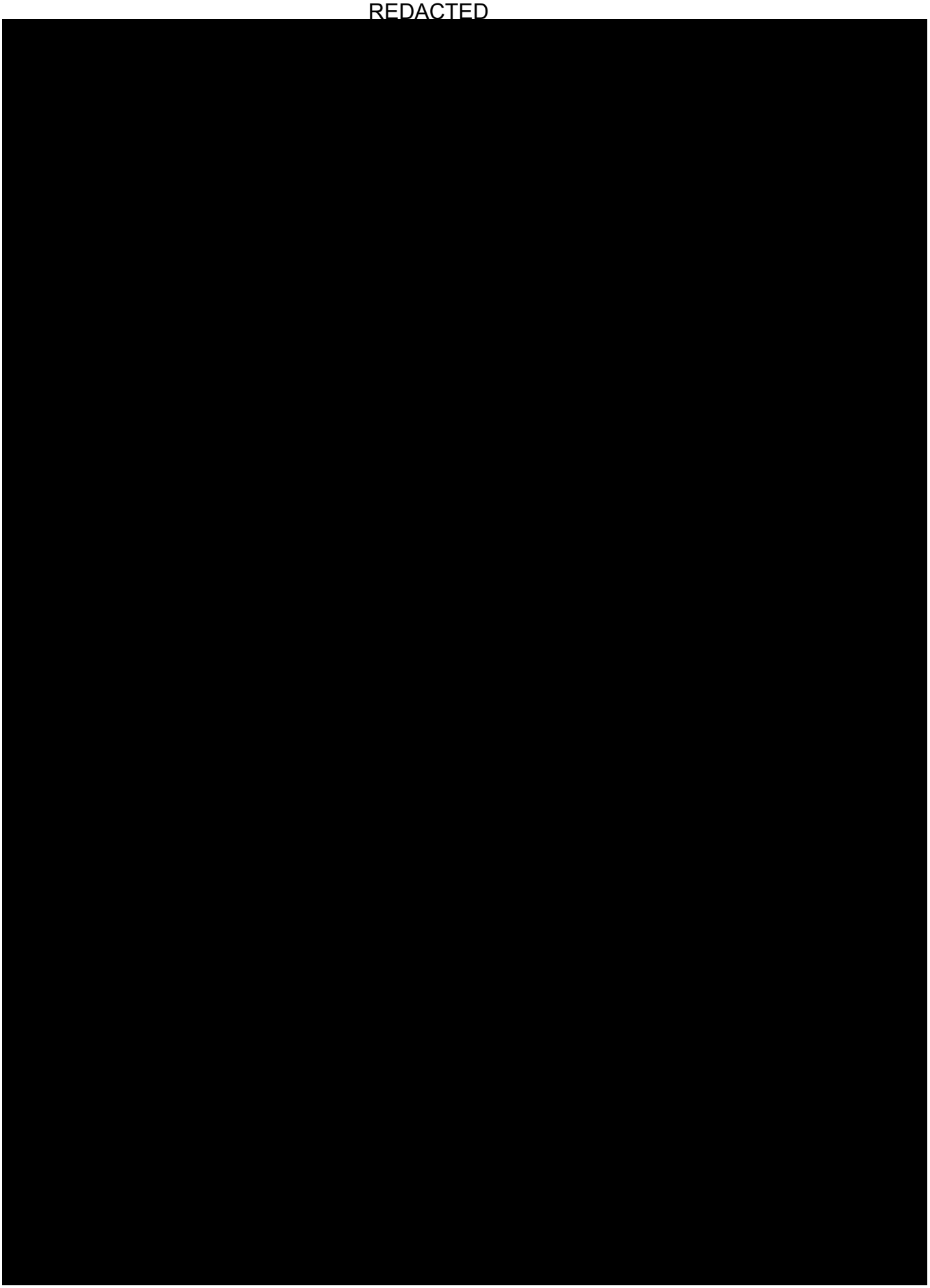

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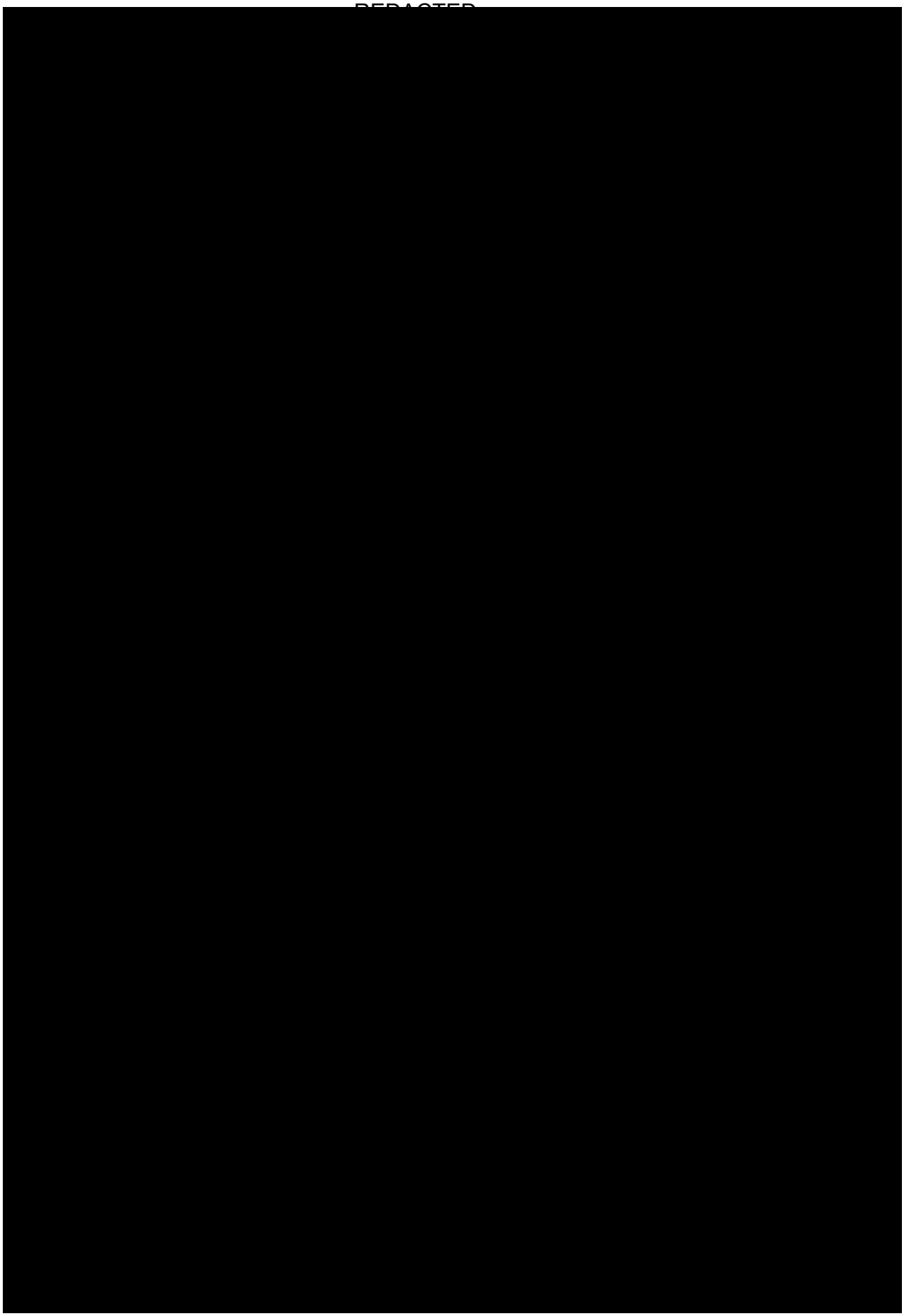

accounted for prior to the Feeder Close Date. The project will automatically close to feeder charges as of this date, and CPA must approve any extension.

**Note:** This is the standard criteria for population of the Feeder Close Date.

Twice per month, CPA provides a listing of projects approaching or past their estimated in-service dates, as well as projects idle for 3 months or greater. This is a SOX control and requires action by the business function.

Asset Accounting will unitize projects (final close the project) appropriately based upon the Completion Date and the receipt of additional business unit specific data requirements for unitization being provided (e.g., As-built estimates, etc.).

Upon completion of the unitization process, PowerPlan will establish the Charge Closed Date based upon the date of unitization. PeopleSoft will be updated automatically with this date. *All* ability to charge the project will then be locked. Exceptions to charging after unitization may occur, and should be discussed with CPA or AARG.

Example:

| 2010 | | | | | 2011 | | |
|---|---|---|---|---|---|---|---|
| August | September | October | November | December | January | February | March |
| Project Placed In Service (8/1) | | | Completion Date (11/1) | | Project can no longer receive charges (1/31) | | |
| In Service Period | | | Late Charge Wait Period | | | No Charges to be Received | |

[redacted]

The automatic assignment of the Completion Date and Feeder Close Date in PowerPlan is based on the period of testing that the FERC allows as a cost chargeable to construction for equipment (see Electric Plant Instruction 9(D)). Most construction projects will not need this amount of time and should be completed as soon after the In-Service Date as possible.

[redacted]

**Note: A delay by a vendor to invoice Duke Energy where no dispute exists is not a reason for delaying the close of the construction work**. The business unit should make every effort to get the invoice from the vendor in a timely manner and to process the invoice immediately upon receipt. In situations where the work has been performed and the amount of the invoice is known but the invoice has not been received, an accrual should be recorded to provide for recognition of the cost to construction.

# Basic Capitalization Guidelines

All property will be considered as consisting of:

1. Units of property (or retirement units)
2. Minor items of property

New Acquisition or Addition to Existing Property

- Addition of a property unit – all related costs are capitalized and accounted for through the appropriate plant account.
- Addition of a minor item of property that did not previously exist – all related costs should be:
  - Expensed, with the costs accounted for through the appropriate expense account, unless a substantial addition results
  - Capitalized if a substantial addition results, with the costs accounted for through the appropriate plant account.
  - A capital decision form must be submitted to Asset Accounting for approval prior to the capital project set up to document the request for substantial addition accounting.

Repair or Maintenance

- Expense the cost of repair and maintenance for a property unit or minor item of property and account for the cost through the applicable maintenance expense account, unless a substantial betterment occurs.
- Capitalize if a substantial betterment occurs. Capitalize the excess cost of the actual expenditure over the estimated expenditure needed to maintain normal operation without the betterment, adding the cost to the appropriate plant account
  - A capital decision form must be submitted to Asset Accounting for approval prior to the capital project set up to document the request for substantial betterment accounting.

Replacement

- When replacing a retirement unit with another retirement unit:
  - Retire the old retirement unit
  - Deduct the cost from the applicable plant account
  - Capitalize the new retirement unit
  - Add the new retirement unit cost to the appropriate plant account
- When replacing a minor unit of property with an identical one, expense the cost of the replacement using the appropriate maintenance expense account unless a substantial betterment occurs.

Reinstallation or Rearrangement

- Follow repair or maintenance steps

Relocation

- Expensed

Retirement

A unit of property, or retirement unit, is the level at which utilities set items to be capitalized.

- When a property unit is removed from service, retire the unit and deduct the cost from the appropriate plant account.
- When a minor item of property is removed and not replaced, capitalize the removal and salvage costs. Non-regulated plant cost of removal should be expensed. Retirement of the minor item of property is not required. Retirement of the minor item of property will occur at such time when the retirement unit of which it is a part is retired.
- The retirement entry shall be recorded no later than two months following the transfer of expenditures from Construction Work In Progress (Account 107) to Electric Plant in Service (Account 101/106). Associated cost of removal charges will be recorded when incurred and gross salvage will be recorded when received.

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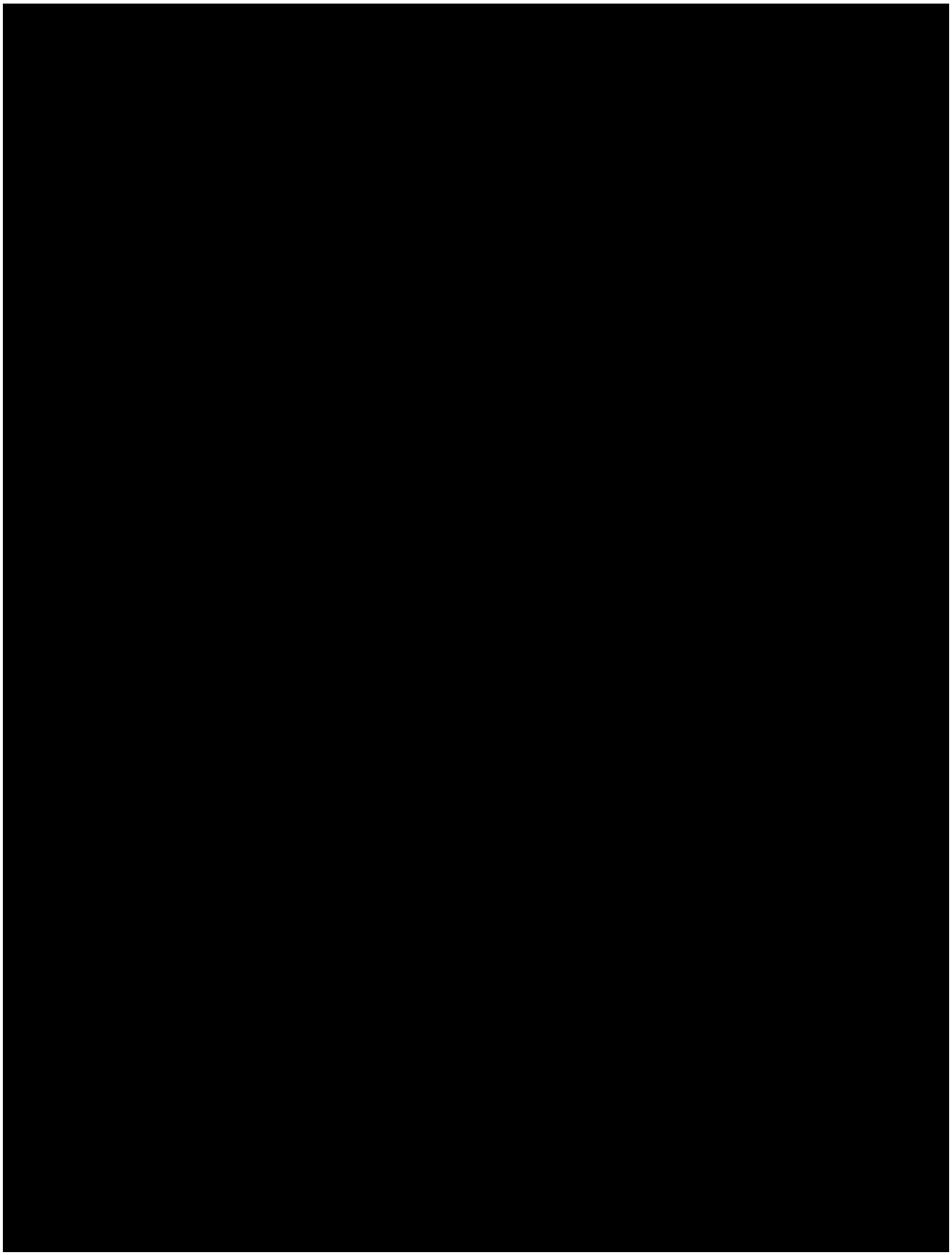
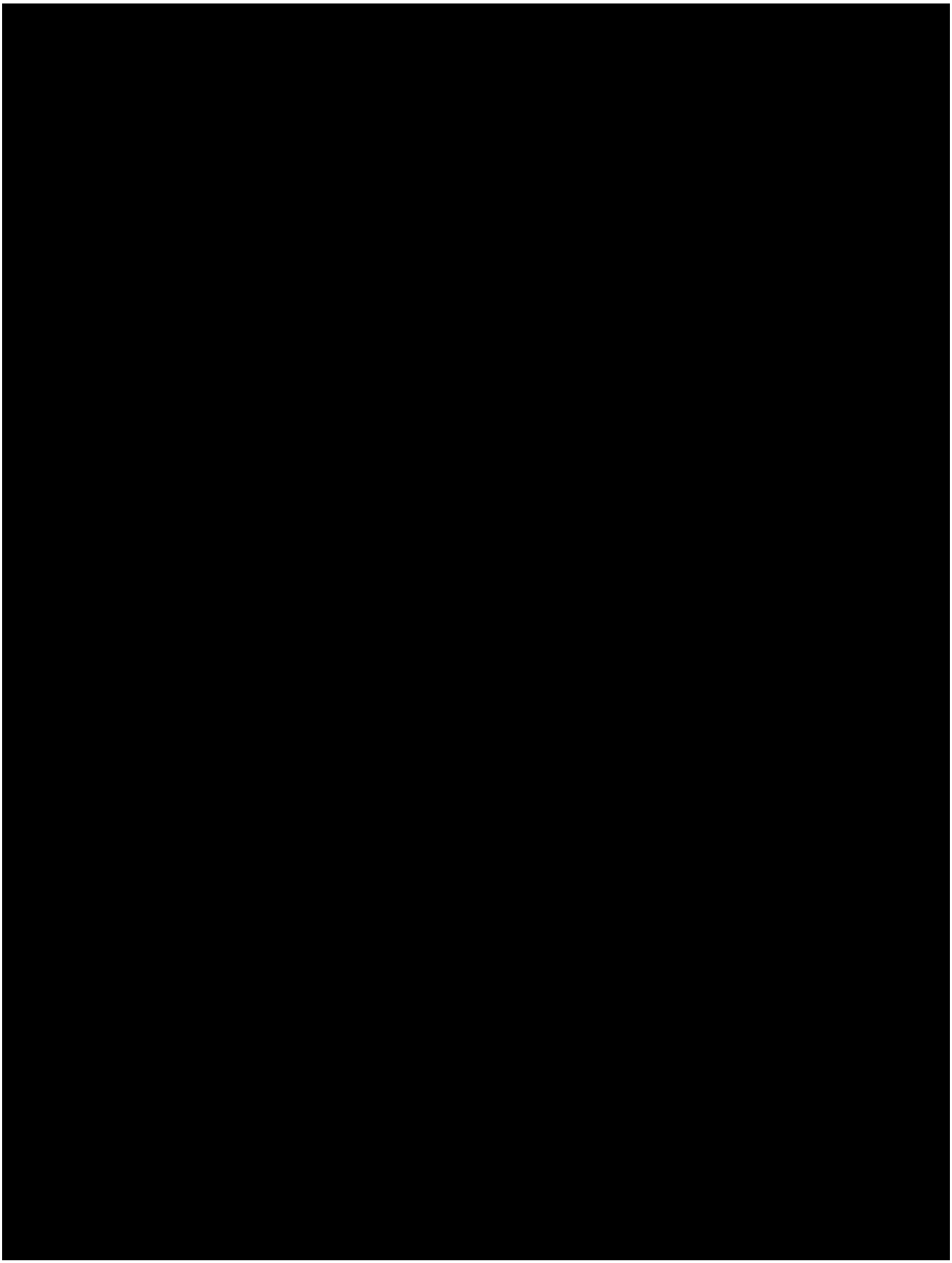
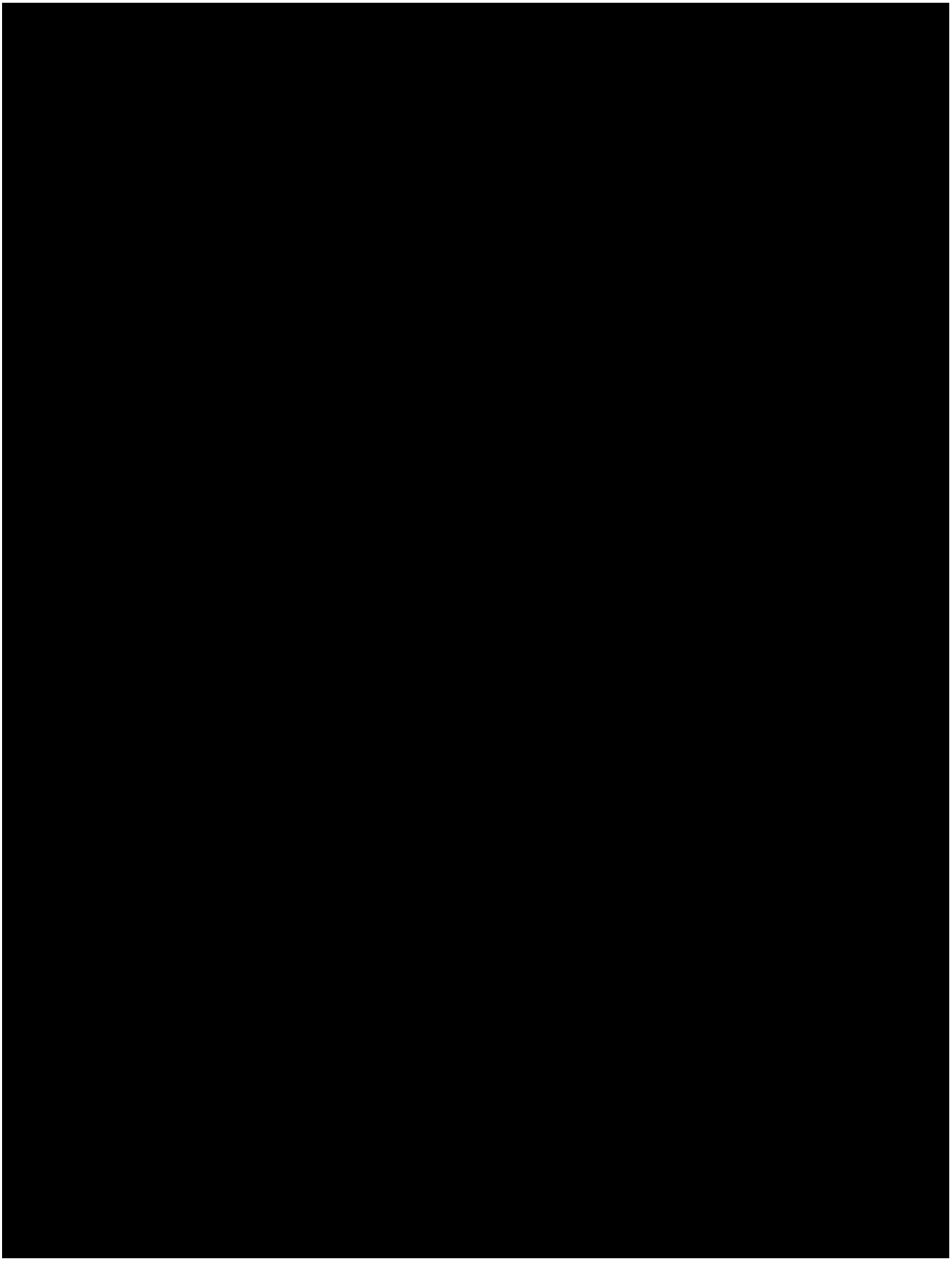
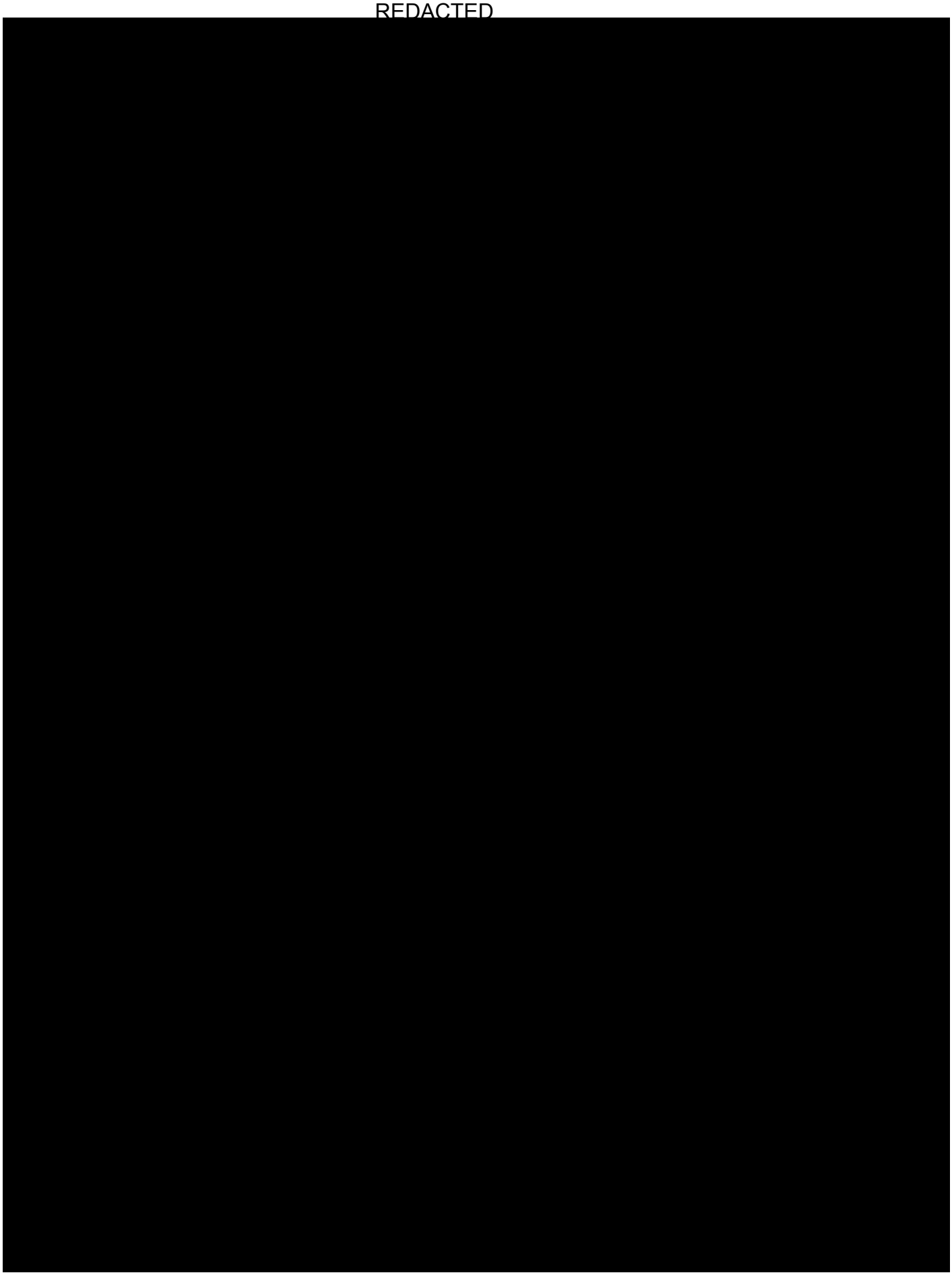








## New Units of Property

Asset Accounting maintains a detailed unit of property listing for Duke Energy. To ensure compliance with FERC and GAAP requirements for consistent application, major reviews and updates of the property catalog will occur infrequently. Between these updates, there may be specific situations which require review. Asset Accounting will review these situations on a case-by-case basis to determine if a change or update is appropriate.

**Currently there are two UOP catalogs:**

- Progress Florida UOP Listing, and
- Duke energy US Electric Gas excl PEF Property Unit Catalogue

The business functions may review and analyze existing units of property and request updates at any time, but requests should be grounded in correctly identifying the property units vs. being tied to the annual budget cycle. However, due to the consistency requirements, some updates may be deferred until the next major review.

**Request to Add a New Unit of Property**

Before establishing a new property unit, every effort must be made to use an existing item from the Unit of Property catalog located on the portal and Capital Project Questions SharePoint. If no suitable like items can be identified, complete the Capital Decision/New Unit of Property Form and submit to Asset Accounting via the Capital Project Questions SharePoint for review prior to setting up the project in Power Plan.

[redacted]

DEF catalog must follow FAC (Florida Administrative Code) guidance:
25-6.0142 Uniform Retirement Units for Electric Utilities "A utility may further subdivide retirement units in order to achieve a list more reflective of common, major replacement items providing that the cost of the additional subdivided unit is $1,000 or more. The Director of the Division of Economic Regulation, Florida Public Service Commission, shall be notified annually of additions and subdivisions to the utility's retirement unit List with explanations of the nature and justification."

**Primary justifications** for adding new units of property include:

1. Implementation of new technology
2. Situations, although rare, where existing units of property were not originally defined at the appropriate level.

**Business Function Approval** – requests to update the unit of property lists should be approved by the business manager in each function. The approval will indicate the level of detail is at the appropriate level to manage the assets and any future work, and that no further "breakdowns" of the existing units of property are anticipated.

**Accounting Approval** - updates to the unit of property listing are approved as follows:

**New Technology:**

| **Estimated Cost** | **Approval Required** |
|---|---|
| [redacted] | |

Dollar threshold based on a per asset cost

**Breakdown of Existing Unit of Property:**
**Estimated Cost** **Approval Required**

[redacted]

Dollar threshold based on potential total future impact, taking into account the total number of existing units being broken down (i.e., how much potential O&M work is being shifted to capital), on an annual basis.

# AFUDC

**Overview:**
Allowance for funds used during construction (AFUDC) is an accounting procedure whereby the composite interest and equity costs of capital funds used to finance construction are capitalized. The interest and equity costs are capitalized the same as construction labor and material costs, which are recognized as a cost of "Plant". Offsetting credits go to "Other Income" and "Interest Deductions" on the Income Statement to defer recognition of the company's current operations from construction financing costs.

- Allowance for funds used during construction (AFUDC) is accrued on construction projects from the first charge, and will be recorded to the specific day in the ready for service / in-service month.

- AFUDC begins when charges are posted to construction work in progress (e.g., 107) and continues as long as work continues on a progressive basis (note exclusions listed below).

    - FERC states in Accounting Release #5, "Interest during construction may be capitalized starting from the date that construction costs are continuously incurred on a planned progressive basis". Duke Energy interprets "construction costs" in a manner consistent with the SFAS 34 definition of expenditures which states "…expenditures to which capitalization rates are to be applied are capitalized expenditures (net of progress payment collections) for the qualifying asset that have required the payment of cash, the transfer of other assets, or the incurring of a liability on which interest is recognized (in contrast to liabilities, such as trade payables, accruals, and retention on which interest is not recognized)."

    - Therefore, if expenditures are incurred which are integral to the asset being placed in service, and these expenditures require the payment of cash, it is appropriate to accrue AFUDC.

AFUDC for major construction assets will be calculated on all costs of all assets until the major construction asset is substantially complete and ready for its intended use.

> SFAS 34, paragraph 18, states "…Some assets must be completed in their entirety before any part of the asset can be used. An example is a facility designed to manufacture products by sequential processes. For such assets, interest capitalization shall continue until the entire asset is substantially complete and ready for use."

**AFUDC is not accrued on the following types of charges and projects:**
- Retirement work in progress
- Preliminary survey and investigation charges
- Plant held for future use
- Contract retentions
- Property tax accruals
- Invoice accruals (manual or un-vouchered invoices)
- Blanket projects
- Special projects < 30 days in duration

AFUDC reversals occur when Asset Accounting is not notified that a project is closed until sometime after the asset is actually ready for service / in-service. Since AFUDC continued to accrue after the ready for service / in-service date, these charges will be reversed.

While reviewing projects / projects, Asset Accounting is responsible for reviewing and assuring the proper AFUDC code for the project is established.

# Capital Standby (Emergency) Spares and Rotable (Emergency) Spares

Select emergency spare parts may be capitalized into plant-in-service, even though they are held in reserve to meet future needs. To be classified as a Capital Emergency Spare part, an item must meet all of the following criteria:

1. The item is vital to the continued operation of the plant/facility.
2. The item requires a long lead time to purchase and is not readily available from the vendor.
3. The item is unique/specific to the facility and not inter-changeable. Generally, the spare is located at the facility such that it can be installed quickly when needed.
4. The item will be used only for non-routine/emergency replacement – i.e. no foreseeable plans for use.
5. The item will not be acquired in quantity - generally, only one is on-hand for each piece of machinery or equipment.
6. The item is a unit of property.
7. Normally expensive [redacted]

Purchased and/or replacements of capital emergency spare parts, which are retirement units, will be charged to the plant-in-service accounts. At the time when a capital emergency spare is needed for use, costs to install are charged to O&M.

The establishment of new capital emergency spares must be approved by the Functional Business Finance contact and Asset Accounting. The Capital Emergency Spare Approval form (located on the Duke Portal) must be completed to document how the item meets the criteria listed above.

Home>Policies>Finance Policies

**Process:**

1. Obtain the form from the Portal
2. Fill out all necessary information and attached any necessary support
3. Send the form along with any supporting documentation to Functional Business Finance Contact for approval
4. Once approved by Finance send the form and any support to Property & Inventory Team for review
5. Property & Inventory Team will send back the form to the requestor after review is completed with final determination.
6. If approved, the requestor should contact the catalog id team to set up the new item # or catalog id #.
7. Property & Inventory Team will approve the setup of this new item # or catalog id # in the inventory system.
8. Requester then needs to send the approved form along any support when providing project setup information to CPA.

Transmission Transformer Spares:

Generally, spare transformers are maintained within Account 154 – Inventory until needed for use and installed. Certain spare transformers that are held at substations are capitalized. These items are at a substation, on a pad, and ready for quick use if needed. Transformers held within a warehouse may be capitalized only if they meet the criteria listed above. Generally these are transformers which are unique to a given substation and may not be used at other substations within the system.

Please refer to the Duke Energy Materials and Supplies Inventory Accounting Guidelines located on the portal at the path below:

Home>Our Company>Policies>Finance Policies>Materials and Supplies Inventory

## Coatings

The following guidance does not apply to external gas main coating. See the gas UOP catalog for the criteria that shall be used only by PNG for life extension work.

In limited situations, the first time application of specialized coatings to structures and / or equipment may be capitalized. All requests for capitalization of coatings will be reviewed by Asset Accounting on a case by case basis. Submit request to AARG via the on the Capital Project Questions SharePoint using the capital decision form located on the portal or Capital Project Questions SharePoint.

[redacted]

For purposes of this criterion, the condition of the unit of property (not a minor item of property) after the costs are incurred must be improved as compared with the condition of that unit of property when it was originally constructed or acquired.

All costs incurred for surface preparation (cleaning, sand blasting, reconditioning, etc.) are to be expensed. These costs which may be incurred as part of the process are not considered to contribute to the life extension and should therefore be expensed.

**Accounting Guidance**
**Generally Accepted Accounting Principles (GAAP)**

ASC 410-30-25-18 states that "…costs may be capitalized if recoverable but only if any one of the following criteria is met:

1. The costs extend the life, increase the capacity, or improve the safety or efficiency of property owned by the entity. For purposes of this criterion, the condition of that property after the costs are incurred must be improved as compared with the condition of that property when originally constructed or acquired, if later

2. The costs mitigate or prevent environmental contamination that has yet to occur and that otherwise may result from future operations or activities. In addition, the costs improve the property compared with its condition when constructed or acquired, if later.

3. The costs are incurred in preparing for sale that property currently held for sale."

*Note that life extension and environmental mitigation claims must be supported by documentation from third party evidence usually supported by vendor warranty.*

Case B from ASC 410-30-55-20 provides the following instruction.
Rusty Chemical Storage Tank:

A. Remove rust that developed during ownership.
   1. Removing the rust has not improved the tank compared with its condition when built or acquired.
   2. Removing the rust has mitigated the possibility of future leaks. However, removing the rust has not improved the tank compared with its condition when built or acquired.

   **Conclusion:** Rust removal costs should be expensed unless the tank is currently held for sale and the costs were incurred to prepare the tank for sale.

B. Apply rust prevention chemicals.
   1. The application of rust prevention chemicals has improved the tank's condition compared with its condition when built or acquired.
   2. Rust prevention chemicals mitigate the possibility that future rust will cause leaks and also improve the tank's condition compared with its condition when built or acquired.

   **Conclusion:** The costs of applying the rust prevention chemicals may be capitalized under either the first or second criterion.

## Distribution and Transmission Right of Way Clearing Costs

To properly account for distribution and transmission right-of-way clearing costs in accordance with GAAP and applicable regulatory requirements:

1. Expenditures associated with the initial clearing of a right-of-way, including removal of danger trees and overhang from outside of the actual right-of-way, shall be capitalized.

[redacted]

4. Expenditures associated with the clearing or reclamation of an existing right-of-way, including charges for routine circuit maintenance, customer ticket work, and herbicide programs, shall be expensed.

[redacted]

Sufficient supporting documentation will be maintained by Power Delivery for all capital work performed.

Summary:

| **Right-of-Way Work Performed** | **Capital or Expense** |
|---|---|
| | |
| Initial Clearing | Capital |
| Initial Danger Tree Removal | Capital |
| Initial Trimming of Overhang | Capital |
| [redacted] | |
| Subsequent Clearing | Expense |
| Subsequent Trimming of Overhang | Expense |

# Plant Licenses

**Eligible items**

- Plant licenses and Plant License Renewals

Plant licenses and renewals are considered intangible assets and shall be recorded in FERC account 302 Franchises and Consents.

**Guidance**
In accordance with ASC 350-30-35, intangible assets with a 'finite useful life' are amortized over the useful life without the constraint of an arbitrary ceiling.

Intangible assets with an 'indefinite useful life' are not amortized but are tested at least annually for impairment.

Intangible assets such as plant licenses have 'statutorily established useful lives' and will be capitalized and amortized over the expected useful economic life.

[redacted]

**Accounting Guidance**

**FERC Electric Plant Accounts**

**302 Franchises and Consents**

A. This account shall include amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents, water power licenses, or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents, water power licenses, or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require, solely for the purpose of acquiring franchises.

B. If a franchise, consent, water power license or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426.5, Other Deductions.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426.5, Other Deductions, or to account 111, Accumulated Provision for Amortization of Electric Utility Plant (for Nonmajor utilities, account 110, Accumulated Provision for Depreciation and Amortization of Electric Plant), as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise or consent.

See "Software" section of the Capitalization Guidelines for additional guidance related to the accounting for software and software licenses.

## "Major" Projects

Major Projects receive specific accounting treatment from an Asset Accounting perspective. Major Projects are considered to be construction of new generation facilities or installation of significant additions to production plant, [redacted] in total Funding Project expenditures.

Examples of Historic Major Projects

[redacted]

Capital projects constituting normal plant maintenance and upkeep will not be classified as Major projects even though the cost of these projects may be viewed as significant.

**Accounting treatment for Major Projects**

[redacted]

- Depreciation expense will be manually calculated from the specific day the project is placed in service. If the impact to the Income Statement exceeds the dollar threshold required to be reported on the monthly corporate data request ("Pass Sheet"), an entry will be recorded to recognize depreciation expense based on the actual in-service date. Otherwise, depreciation will be recognized in the subsequent month following normal depreciation calculation and recognition procedures.

**Project Attributes Required for Major Projects**

[redacted]

- In the case of Nuclear Fuel, the AFUDC Type attribute should be set to the type designated for "Nuclear Fuel".

**Roles and Responsibilities**

- Project initiators should work with Asset Accounting to determine if the Funding Project should be classified as a Major Project.
- Management decisions to stop / suspend work on a Major Project shall be communicated by the Project Manager to the Asset Accounting plant accountant.
- Management decisions to resume work on a previously suspended Major Project shall be communicated by the Project Manager to the Asset Accounting plant accountant.

## Nuclear Plant Life Extension

On July 6, 1998 the Company filed with the Nuclear Regulatory Commission (NRC) an application requesting a 20-year extension of the operating licenses for Units 1, 2, and 3 of the Oconee Nuclear Station. New licenses were granted by the NRC on May 23, 2000, and extended the operating period from 2013-2014 to 2033-2034. In preparation for the extended operating period, the Company developed a plan, referred to as the "Oconee Refurbishment Program," to perform the work necessary (refurbishments, replacements, and additions, etc.) which would enable the station to operate beyond the original license. The cost of the work, including replacement of the steam generators, was estimated to be approximately $1 billion.

On November 4, 1998 the Company requested the FERC approve capitalization of costs incurred under the Oconee Refurbishment Program. The proposed accounting treatment included the capitalization of replacing minor units of property and related miscellaneous costs which may not have been capitalized under the Company's existing capitalization criteria unless certain conditions are met. The Company also indicated in the request that all units of property, including minor units, would be properly retired, and any salvage credits or cost of removal would be properly handled.

On February 19, 1999 the FERC approved the request to capitalize the costs associated with the life extension of the Oconee Nuclear Station. The following stipulations were included:

1. "As the equipment is added to plant and becomes ready for service, you will cease the accrual of allowance for funds used during construction (AFUDC) and begin recording depreciation on the asset."
2. "You must charge the appropriate expense accounts for the cost of maintenance work performed which is not contributing to the extension of the life of the units and would have been incurred regardless of your plans to extend the life of the plant."

GAAP Analysis

Generally accepted accounting principles generally require costs for ordinary repair and maintenance of an asset occurring subsequent to its acquisition be expensed. However, extraordinary repairs or maintenance benefiting future periods by extending the useful or productive life may be capitalized and depreciated over those future periods (useful life). Expenditures incurred as part of the Oconee Refurbishment Program which qualified for capital treatment per the FERC order were required to extend operations past the original license date, would not have been undertaken otherwise, and will be matched to the revenue produced by the station over the extended operating life. Therefore, it is our conclusion these costs are appropriately classified as capital for SEC reporting purposes.

See "Inspections and Testing' section of the Capitalization Guidelines for additional guidance.

# Overhauls, Refurbishments, and Major Maintenance Activities

Expenditures for existing property which are viewed as an overhaul, refurbishment, or major maintenance activity are accounted for through application of the basic capitalization guidelines, which are based on GAAP, FERC Electric Plant Instruction No. 10, and FERC Operating Expense Instruction 2. All requests for capitalization of overhauls, refurbishments, or major maintenance activities require submittal of the Capital Decision Form (located on the Portal and SharePoint) to Asset Accounting Research for review and approval prior to project set up. See Capital Project Questions SharePoint for more information on the submittal process.

1. Subsequent to the initial installation of an asset, all work is considered "maintenance" (with a few exceptions discussed in #2 below). Per accounting guidance, work that, in substance, represents maintenance, including major maintenance, should be expensed as incurred, including the following types of activities:

   - Work performed on retirement units at regular intervals (months or years, number of hours in operation, miles driven, number of starts, etc.) per manufacturer specifications or other available guidance.
   - Work undertaken to maintain original operating performance through the estimated service life.

2. Guidelines where "maintenance" of the asset(s) may be accounted for as a capital expenditure:

   - Replacement of a retirement unit
   - Work performed represents a "substantial addition" – Adding a minor item of property with a cost material enough to warrant capitalization. [redacted]

   - Work performed represents a "substantial betterment" – Improvement to a retirement unit through ***replacement of a minor item of property*** that makes the retirement unit more useful, efficient, or durable, or increases capacity by [redacted]. Capitalize only the portion of expenditure that adds at least [redacted] betterment (subtract the current cost of installing without betterment from the current cost of installing with betterment).

[redacted]

3. The repair/refurbishment/overhaul of existing equipment where the item will be returned to inventory (i.e., not considered a capital spare) shall be accounted for as follows:

   For retirement units:

   - Purchase of the additional retirement unit(s) shall be recorded in materials inventory at cost.
   - When work begins, the retirement unit(s) are issued out of materials inventory and charged to the appropriate capital project.
   - The existing retirement unit(s) are removed, retired from plant-in-service, and placed in materials inventory at original cost of materials. (If original cost is unknown, the cost can be estimated by trending current cost of like materials to the appropriate vintage year using Handy Whitman.) These entries shall be recorded when the asset is removed from service. These entries are required whether the unit(s) are kept on-site or shipped

# Overhead Allocations

[redacted]

Capitalized overheads reflect direct and indirect costs incurred in support of construction activity which cannot easily or readily be charged directly to specific projects. Overheads consist of functional engineering and support, functional management supervision and support, and administrative and shared support.

1. **Is the capitalization of overhead supported in GAAP?**
   The capitalization of overhead costs is supported in GAAP only to the extent that a direct relationship to the project can be supported. GAAP clearly requires expensing of indirect costs, with guidance provided in literature addressing software, real estate, and inventory, but allows capitalization if expenditures are directly related.

2. **How is capitalization of overhead supported?**
   Based on the available guidance, the presumption is that these costs are to be expensed unless there is a direct or very close indirect relationship to the construction project. FERC states only costs that "have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted." GAAP states capitalization is only appropriate when such costs are specifically identifiable with a particular project and are identifiable in the accounting records. GAAP also states indirect costs capitalized should be incremental (costs that would not have been incurred had the project not been developed.)

   The burden of proof is on the Company to support costs are directly identifiable with the construction project. Identified costs are based on what activities are performed in support of construction projects, and not simply based on what department personnel are associated with. In defining these costs the following factors should be considered:

   a. Specific information should be available (such as timecards) to support the allocation of overhead costs to specific projects.
   b. The costs incurred should be incremental costs. That is, in the absence of the project or projects under development or construction, these costs would not be incurred.
   c. The impact of capitalization of such indirect costs on the results of operations should be consistent with the pervasive principle of matching costs with related revenue.
   d. The principle of conservatism.

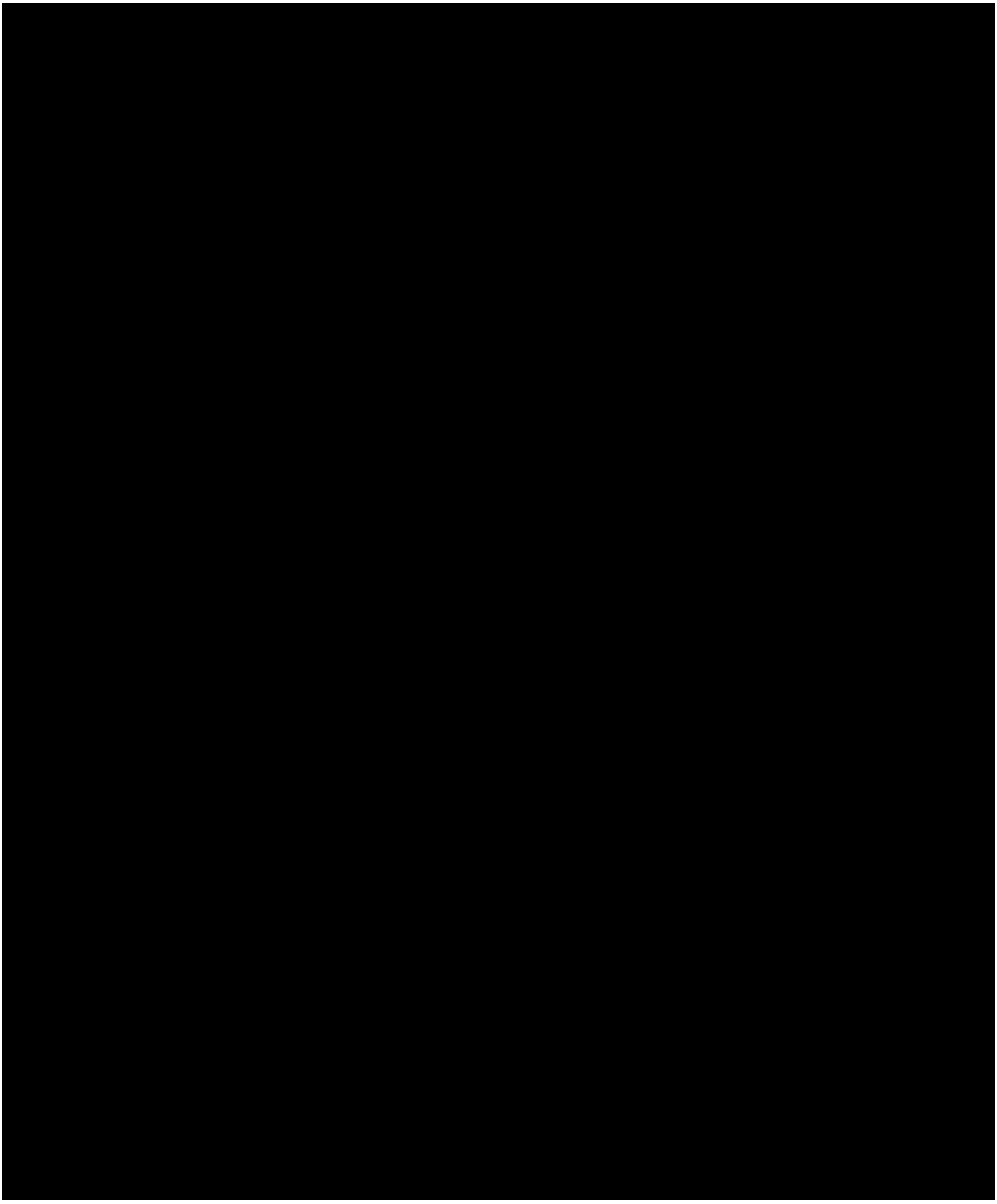
   Payroll timesheets and/or special studies of where personnel spend their time are methods which could provide acceptable support.

3. **Can the policy of capitalization of overheads be changed under the Uniform System of Accounts?**
   Yes. Per Electric Plant Instruction 4-b, "….special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized."

4. **Is the capitalization of overheads a preferable accounting policy?**
   Yes. Overhead expenditures, given the capital-intensive nature of electric utilities, are an integral part of the total cost of a capital project. There is a definite need to associate these types of expenditures to capital projects if they are incurred specifically in relation to the creation of an asset that provides future benefit to the electric utility beyond the current accounting period. Utilities should, and are required by existing regulatory guidance, to charge an appropriate amount of such costs to capital projects, if they are specifically incurred to create an asset that provides a future benefit.

   Periodic studies, also required by the regulatory guidance, ensure an appropriate justification is developed and supported for distribution of costs. Not all overhead costs should be expensed, because many of these costs in a capital-intensive business do relate directly to the construction activities. The direct charging of all these costs is not prudent given the large volume of construction projects, but the fact that the overheads are rationally allocated should not exclude the costs from being associated with a capital project. Utilities generally have well defined capitalization policies and perform detailed studies to assure that only the capital portion of overheads are applied toward construction work.

   GAAP guidance is in sync, permitting capitalization of directly related overhead if properly supported.



# Preliminary Survey and Investigation Costs

Preliminary studies, plans, and investigations., ("183")for the purpose of determining the feasibility of utility projects should be charged to the appropriate Preliminary Survey and Investigation account. If construction results, the Preliminary Survey and Investigation account should be credited for the study costs directly attributable to the new plant construction and charged to the appropriate plant account (e.g., 107, Construction Work in Progress). Study costs not directly attributable to the new construction should be credited to the Preliminary Survey and Investigation account and charged to the appropriate operating expense account. Note that common costs which are incurred regardless of the option chosen shall be allocated equally to each of the options (i.e., if 4 options exist and one common project, each option will receive an allocation of 25% of the common project).

Preliminary studies to identify land for an appropriate site location should be charged to the appropriate Preliminary Survey and Investigation account. If the study results in a purchase of land, the Preliminary Survey and Investigation account should be credited for the associated study costs. If development of the land for its intended use begins immediately, the study costs should be charged to account 107 (Construction Work in Progress). If the land will be held for future development, the study costs should be charged to account 105 (Plant Held for Future Use). If the land is purchased and no plan exists for the use of the land as 'utility plant', the study costs should be charged to account 121 (Non-utility Property). If the land being assessed is not purchased, the Preliminary Survey and Investigation account should be credited for the associated study costs and charged to the appropriate operating expense account.

Preliminary Study and Investigation Accounts

- 183 – Preliminary survey and Investigation – Electric – This account shall be charged with all expenditures for preliminary surveys, plans, investigations etc., made for the purpose of determining the feasibility of electric utility projects under contemplation and costs of studies and analyses mandated by regulatory bodies related to plant in service.
- 183.1 – Preliminary natural gas survey and investigation charges – Gas – This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc. made for the purpose of determining the feasibility of acquiring land and land rights to provide a future supply of natural gas.
- 183.2 – Other preliminary survey and investigation charges – Gas – This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of gas utility projects under contemplation and costs of studies and analyses mandated by regulatory bodies related to plant in service.

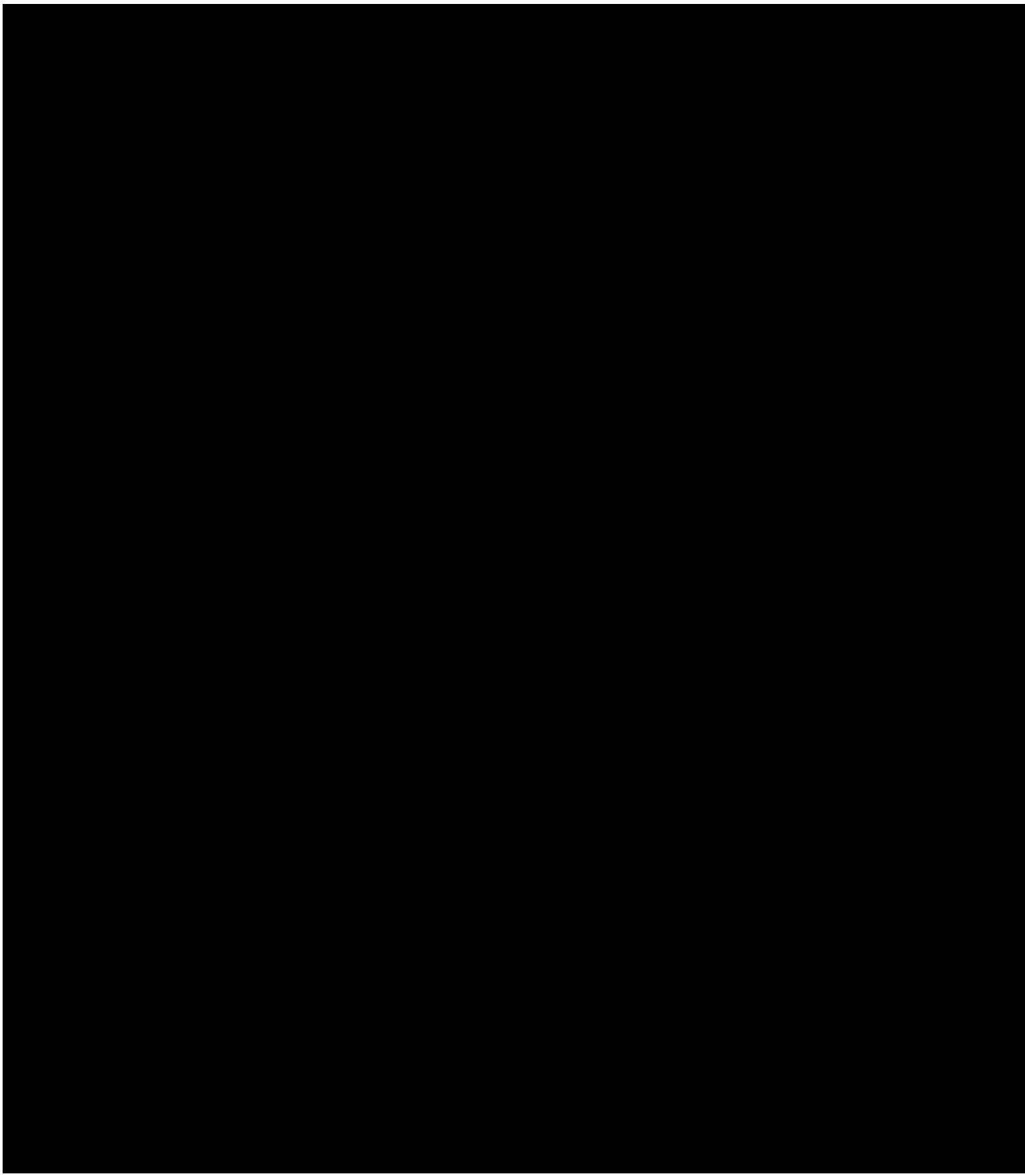
Requirements for Preliminary Study and Investigation projects:

- Asset Accounting approval is required to set up 183 study projects.

  Prior to requesting a charging project in Power Plan, prepare a capital decision form (located on the Portal and SharePoint) to Asset Accounting Research for review and approval prior to project set up. See Capital Project Questions SharePoint for more information on the submittal process.

- As soon as an option is no longer being considered, study costs, including an appropriate allocation of the common costs, should be charged to the appropriate operating expense account.

- Since preliminary and survey and investigation related expenditures may result in a capital project, and are in fact carried on the balance sheet until a final determination is made, Asset Accounting may require projects to be established in PowerPlan for each option studied. Alternative methods for tracking of 183 project costs must be approved by Asset Accounting prior to commencing study activities.



## Project Completion - Returning Material to Inventory

For inventory items charged to O&M Projects, items must be returned to stock at original cost or system average price within [redacted] of project completion. For capital projects, materials not used by the in-service date or ready-for service date *(whichever occurs first)* should be returned to inventory as soon as possible but no later than [redacted] after the in-service date or ready-for service date of the project. They should be returned to stock at original cost or system average price.

Please refer to the topic "*Returning Material to Inventory after Project Completion"* in the Duke Energy Materials and Supplies Guidelines located on the portal at the path below:

Home » Our Company » Policies » Finance Policies » Materials and Supplies Inventory

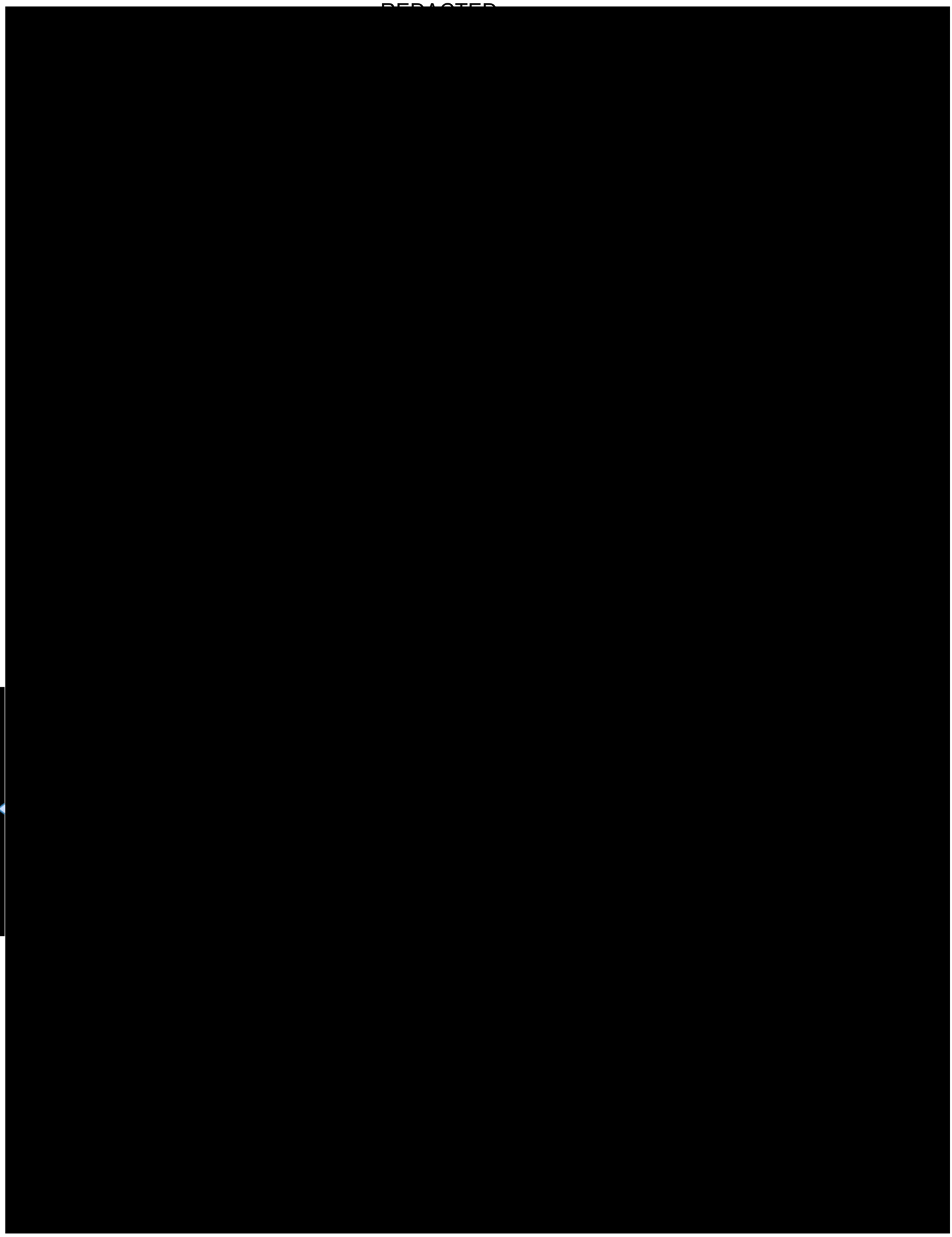
# Salvage and Cost of Removal

Removal cost is the cost of demolishing, dismantling, tearing down or otherwise removing plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation.
Salvage value is the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale; or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

**Guidelines**

- Business units charge retirement project ids / work codes for all removal costs and salvage costs.
- When a retirement unit is retired from plant, if the retirement unit is of a depreciable class, the cost of removal and the salvage shall be charged or credited, as appropriate, to the accumulated depreciation account.
- When a minor item of property is retired and not replaced, and the minor item is a part of depreciable plant, the accumulated depreciation account shall be charged with cost of removal and credited with salvage.
- Non-regulated plant cost of removal is expensed and is not part of capital.

Additional related information can be found in the Code of Federal Regulations, Title 18, Electric / Gas Plant Instruction 10(b)(2).



## Software

Duke Energy software guidelines reflect instruction provided in ASC 350-40. All software projects to be considered for capitalization require the **Asset Accounting – Software Request Form** (located on the Asset / Project portal page and AARG SharePoint) be completed and submitted to and approved by Asset Accounting, or IT Sharepoint Project Initiation Form for software prior to the capital project being set up in Power Plan. Contact IT Project Controls for more information on the IT SharePoint.

**Minimum Requirements for Software Capitalization**

**Eligibility - Eligible software projects must meet all of the following requirements:**

- Software program / module acquired, internally developed, or modified solely to meet internal needs (during software development or modification, no plan exists or is being developed to market the software externally).
- Software program / module whose total capital cost is [redacted] or more after the preliminary project stage. All eligible capital costs are capitalized, not just the portion exceeding $[redacted]
- Software program / module with an expected life of 3 years or more.

**Capitalization Start - Capitalization begins when both of the following have occurred:**

- Preliminary project stage is completed.
- Feasibility is established.

**The preliminary project stage may include the following types of tasks:**

- Make strategic decisions to allocate resources between alternative projects.
- Determine performance requirements and system requirements for the new software.
- Vendor software demonstrations.
- Explore alternative means of achieving specified performance requirements.
- Determine that the technology needed to achieve performance requirements exists.
- Select a consultant for development and installation of software.
- Select a vendor if purchasing software.
- Project funding for application development stage (purchase / development and implementation) are approved by management. (e.g., 201 approval, project authorization). See also Supplemental Information on Software Capitalization section, paragraph 13.

**Accounting treatment of software project costs during the application development stage. Costs eligible for capitalization during application development stage include the following:**

- Internal and external costs incurred to develop internal-use software. Examples of these costs include:
  - Payroll and payroll-related costs (fringes & taxes, employee incentive plan, unproductive labor, etc.) for employees charging project directly for designing, coding, testing of software
  - Materials and contractor services
  - AFUDC
- All costs incurred for interfaces that feed required data to the new software program / module. Example: Costs to build an interface that sends data from existing system ABC to new system DEF are eligible for capitalization. Note that this does not include data conversion costs. See specific guidance for data conversion.
- Costs incurred to code and develop interfaces that feed required data from the ***new*** Duke-owned software program / module to ***existing*** Duke-owned software systems (replacing of existing interfaces and reconnection of existing interfaces).

[redacted]

- Costs to develop software specific training instructions / procedures. The period benefited by development of these instructions / procedures should be the same as the life of the software being developed. Costs of actually training employees are not included here.

[redacted]

**Costs not eligible for capitalization:**

These costs may occur in any phase of the project. They include, but may not be limited to:

- Actual data conversion costs.

- Internal or external training of employees. ASC 350-40-25-4 states that "training costs are not software development costs and should be expensed as they are incurred".
- Internal or external maintenance costs. When external maintenance costs are combined with software development costs in contracts, the maintenance costs must be separated and charged to expense.
- All departmental allocations and overheads (e.g., functional and administrative overheads, computer charge-backs, building space allocations, etc.).
- All costs relating to re-engineering of functional processes rather than software development.
- Costs of rolling out existing software already in-service in one jurisdiction to other jurisdictions. See "**Supplemental Information on Software Capitalization"** section below for guidance**.**

The development of internal-use computer software may not follow the order of the stages identified in ASC 350-40 (e.g., preliminary, application development, post implementation). For example, coding and testing are often performed simultaneously. Regardless, for costs incurred subsequent to completion of the preliminary project stage, this guidance should be applied based on the nature of the costs incurred, not the timing of their incurrence. For example, while some training may occur in the application development stage, it should be expensed as incurred.

**Capitalization stops when:**

- Software is substantially complete and ready for its intended use. Computer software is considered ready for its intended use after all "substantial testing" is completed. This should occur no later than the in-service date and is the end of the application development stage.
- Warranty support (Agile developed software has different warranty periods, see "Agile Development" section below):

[redacted]

- When it is no longer probable that software will be completed and placed in-service, all costs incurred to date will be expensed unless the Company can recoup costs as a regulated asset.

Central Project Accounting (CPA) should receive a project ready for service / in-service notification when the software has been loaded into production for use. AFUDC ceases and amortization begins when the project is placed in service.

**Upgrades / Enhancements**

Upgrades and enhancements are defined as modifications to existing in-service internal-use software that result in additional functionality. Additional functionality is defined as modifications to enable software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. Upgrades and enhancements which provide a "new look" or "different presentation" of information are not considered additional functionality. See additional requirements:

- Upgrades and enhancements must meet the [redacted] cost minimum for each software program (application) or functionally independent module.
- All guidelines stated above for purchase, development / implementation of new internal-use software are also applicable to upgrades / enhancements.
- When external maintenance costs are combined with software development costs in contracts, the maintenance costs must be separated and charged to expense.
- When obtaining new releases for existing software, those costs directly attributable to new functionality are eligible for capitalization if the cost is [redacted] or more.

**See below for an example of when upgrades/enhancements are eligible for capitalization:**

"A PC computer retailer manages its hardware inventory for purposes of stock replenishments based on the manufacturer and quantities on hand. However, because of rapid technology changes in the market place, the CEO believes that in addition to managing inventory by manufacturer and quantity, it is preferable to also manage inventory based on the PC's processor speed. However, the retailer's existing systems are not capable of sorting inventory using the processor speed as such data currently does not exist in the system's database. As a result, the existing

system requires substantial modifications to reconfigure the existing database to accept this new information and permit the system to sort the company's inventory based on a PC's processor speed. Because the enhancement to the system results in additional functionality, qualifying application development costs incurred to make the necessary modifications should be capitalized in accordance with the capitalization requirements discussed above.

In contrast, the same CEO, because of growth in the number of stores the company operates, desires to review sales based on geographic regions rather than on store-by-store basis. Because the report of sales by geographic region is based on information already readily available in the system and the request merely is summarizing existing information in a new format, the change generally would not be considered a modification that results in additional functionality. Accordingly, the cost incurred to make the necessary modifications would be expensed as incurred."

**Amortization Period**

- When determining the amortization period, entities should consider the effects of obsolescence, technology, competition, and other economic factors. Consideration should be given to rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware. Given the history of rapid changes in technology, software often has had a relatively short useful life.
- Amortization of functionally independent modules should begin when the software / module is ready for its intended use, regardless of whether the software / module will be placed in service in planned stages that may extend beyond a reporting period.
- Computer software is ready for its intended use after all "substantial testing" is completed.

**Retirement**

Business units should notify Asset Accounting when software is replaced or otherwise retired from service.
Per FERC Account 111, Accumulated Provision for Amortization of Electric / Gas Utility Plant, "when any property to which this account applies is sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such property. The book cost of the property so retired less the amount chargeable to this account and less the net proceeds realized at retirement shall be included in account 421.1, Gain on Disposition of Property, or account 421.2 , Loss on Disposition of Property, as appropriate."

**Software Project Cost matrix:**

The following table provides a summary checklist for application.

[redacted]

**Supplemental Information on Software Capitalization**

The following guidance is provided as a supplement to the Regulated Electric & Gas Capitalization Guidelines to address common questions related to software projects.

1. **Rolling out existing software already in-service in one jurisdiction to other jurisdictions**

[redacted]

**From Price Waterhouse Coopers Guidance:**
**PWC ARM 5140 Capitalized costs of internal-use software**

"In situations in which a company expands its use of existing internal-use software to other locations or geographic areas, we believe that the accounting for such costs should be consistent with the accounting for specified upgrades/enhancements. That is, qualifying costs incurred in the application development stage can be capitalized, provided it is probable that the expenditures will result in additional functionality."

"In the post-implementation/operation stage, all internal and external training and maintenance costs should be expensed as incurred. ASC 350-40-25-9 further states that maintenance costs incurred solely to extend the useful life of existing internal-use software should be expensed as incurred. In contrast to maintenance costs, the accounting for specified upgrades and enhancements to internal-use software should follow the same accounting model for new internal-use software (i.e., qualifying costs incurred during the application development stage for the related upgrade/enhancement should be capitalized), provided it is probable that these expenditures will result in additional functionality (see ASC 350-40-05-9 for the definition of additional functionality and further guidance on specified upgrades/enhancements)."

2. **Incremental purchases/expenditures directly related to the project**
   What is the definition of a "direct and incremental" purchase? Does it include expenses (mileage, meals, recognition, etc.) that the project team incurs during all phases of the project?

   A "direct and incremental" purchase/expense is that which contributes directly to the completion of the software project and would not have been made were it not for the software project. All costs incurred during the Preliminary Stage are expensed. Costs incurred after the Preliminary Stage are capitalized / expensed 'based on the nature of the charge, not the timing of the charge.' For example, training is expensed regardless of the stage during which training costs are incurred. Incremental purchases, including costs for mileage, meals, recognition, etc., will only be capitalized during the Application Development Stage.

3. **Overhead**
   ASC 350-40 excluded overhead costs from internal-use software because, as a practical manner, costs of accurately accumulating such information generally would exceed the benefit that might be derived. Only costs that are "directly" related to the software development and that are deemed an "incremental" cost to the company as a result of the software development may be capitalized. General and administrative and other "overhead" type costs are to be expensed as incurred unless the direct and incremental criteria can be supported.

4. **Charging Methodology**
   The method of distributing direct and incremental capital costs within the project can be either direct charge or allocation, provided the direct and incremental support exists. General management pool allocations and capital targets are not appropriate methods of charging, as they are not supportable as direct and incremental to the

In some instances, ongoing software development projects will become troubled before being discontinued. ASC 350-40 requires management assess the likelihood of successful completion of projects in progress. When it becomes no longer probable that the computer software being developed will be completed and placed in service, the asset should be written down to the lower of the carrying amount or fair value, if any, less costs to sell. Importantly, it is a rebuttable presumption that any uncompleted software has a zero fair value.

Management may on occasion decide an in-service software system is no longer needed and will therefore no longer be used. When no longer used, the system should be retired, with any remaining unamortized balance taken to income. If the date at which the software will be no longer used is known ahead of time, the amortization should be accelerated to reflect the revised life of the asset. Costs associated with removing and retiring the software should be expensed.

8. **Training, including development of training material**
Generally, training is viewed as a post-implementation activity associated with new software implementations and should be expensed per ASC 350-40. However, there are certain related tasks which are viewed as being a component of the software development, and may be capitalized.

[redacted]

9. **Software not qualifying as "internal use" software and therefore not eligible for capitalization**
ASC 350-40 provides examples of internal use software not eligible for capitalization. If you have any questions in analogizing and applying these examples, please contact Asset Accounting Research Group:

1. Software sold by a robot manufacturer to purchasers of its products
2. The cost of developing programs for microchips used in automobile electronic systems
3. Software developed for both sale to customers and internal use
4. Computer programs written for use in research and development efforts
5. Costs of developing software under contract from another entity

10. **License Acquisitions**
When acquiring software licenses for internal-use software, aggregation of per-license costs may be permissible under certain circumstances. For example, upon completion of an in-house software development project any number of employees may be granted access.

[redacted] A project manager whose role is limited to status and budget reporting for one or more projects and who does not directly contribute to the technical aspect of a project should expense all costs.

12. **Warranty Support by development project team**
Commonly, during a software development project, there is a short period of time after the project is placed in-service where the project team is still working together to address and resolve final implementation issues. This type of support activity is not specifically categorized in ASC 350-40 as part of the preliminary project stage, application development stage, or post-implementation operation stage. However, ASC 350-40-55-4 does indicate that "for costs incurred subsequent to completion of the preliminary project stage, the guidance shall be applied based on the **nature** of the costs incurred, not the timing of their incurrence." [redacted]

# Software – Agile Development

Agile software development is a group of software development methods in which requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. In an agile project, working software is deployed in iterations or sprints of typically one to eight weeks in duration, each of which provides a segment of functionality. Initial planning regarding cost, scope, and timing is usually conducted at a high level, and the project status is primarily evaluated based on software demonstrations.

The FASB has not issued new or revised guidance for Agile software development, so the current ASC 350 still applies to these projects, including recording the appropriate amount of AFUDC and amortization based on the in-service date of the **released functionality**, which represents a segment of the software asset that is used and useful once it is released to production for most users.

- Releases that are functionally dependent on one another should be considered in-service at the point the later portion of functionality is released.

- Releases that are NOT functionally dependent on another segment or iteration should be individually put into service at the date of release (AFUDC ceases, amortization begins).

Because of the potential for numerous capital projects for each in-service date on multiple release projects, which could necessitate a burdensome process to separately charge and track each release, Duke has chosen to use an "Accounting Convention" on some Agile projects as described in this Section. *For all other matters related to software capitalization, the preceding Software guidance should be followed.*

**Agile Method (Scrum)**

**In-Servicing and Amortization**

# Training

**FERC Guidance**

**FERC Code of Federal Regulations**
**Operating Expense Instructions**

When it is necessary that employees be trained to specifically operate or maintain plant facilities that are being constructed, the related costs shall be accounted for as a current operating and maintenance expense. These expenses shall be charged to the appropriate functional accounts currently as they are incurred.

**FERC Code of Federal Regulations**
**Electric Plant Instruction 3(19)**

When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature, or are new to the company's operations, these costs may be capitalized as a component of construction cost. Once plant is placed in service, the capitalization of training costs shall cease and subsequent training costs shall be expensed.

**Generally Accepted Accounting Principles (GAAP) Guidance**

**PWC Utilities and Power Co. Guide**
**Chapter 12. Plant**

# Warranty Purchases and Replacements

Warranty Purchases – Tangible Assets (see Software Section for software related warranty purchases)

Warranty purchases should be considered either "assurance-type" or "service-type" in accordance with ASC 606 Revenue from Contracts with Customers, which Duke has analogized to for purposes of providing a policy on these types of costs.

- *Assurance-type Warranty*: provides the customer with the peace of mind that the entity will fix or possibly replace a good or service if the original good or service was faulty.
  - Indicators of an Assurance-type warranty may include some or all of the following:
    - Replacement of same type of item initially purchased
    - Repair faulty item to same condition as purchased
    - No service obligation exists for the seller *as part of the warranty (separate service contracts should be accounted for as an expense or prepaid expense, as applicable)*
- *Service-type Warranty*: provides the customer with a service that is incremental to the assurance that the good or service will meet expectations agreed to in the contract.
  - Indicators of a Service-type warranty may include some or all of the following:
    - An option to purchase a separate warranty
    - Longer coverage period (i.e., and extended warranty)
    - A specific obligation exists by the seller other than replacement or repair of original item

***Accounting Treatment:***

[redacted]

- Burden of proof is on the business to provide support for the type of warranty, and allocate to capital and O&M appropriately as applicable.

- For an accounting determination on a warranty where the criteria above does not provide clear treatment, the business or FP&A should complete a Capital Decision Form and submit to Asset Accounting Research Group.

- If the invoice is not specific for the service-type warranty costs, a market value will need to be obtained by the business for that type of service, timeframe, and any other pertinent specs, and be charged to O&M.

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Replacement of Capital Assets Under Warranty

When assets which are covered under warranty are replaced, the theory is that the assets are being returned to their original intended use. Therefore, unless there is a significant betterment or a replacement of an older asset with a new type of technology, the asset being replaced will remain on the books at its original cost rather than being retired and the new asset being recognized at its cost.

Duke's position is that the cost of the original asset is what should be included in rate base, rather than the cost of the replacement asset.

In general, unreimbursed costs incurred to replace the warrantied asset are O&M.

It is the responsibility of the Project Manager or the Business Function to contact Asset Accounting Research Group when an asset covered under warranty is to be replaced to ensure appropriate accounting treatment.

## Accounting Guidance

Accounting Standard Codification (ASC) 606 – Revenue from Contracts with Customers
606-10-55-30 – "It is common for an entity to provide (in accordance with the contract, the law, or the entity's customary business practices) a warranty in connection with the sale of a product (whether a good or service).

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# Post Capitalization

## Asset Donations

Business/corporate unit management must authorize the donation of Company property, equipment or inventory in accordance with the Delegation of Authority prior to any transaction being initiated. See the ***Delegation of Authority Policy*** for additional information.

A different person should perform each of the following functions. These functions must be segregated between at least two people. Weaker segregation structures should be accompanied by additional management review.

- Declaration/approval of the intent to donate
- Accounting entries
- Donation of the asset

**Donations to Non-Profit Organizations**

The non-profit organization is required to submit their request using their letterhead (mail or fax) to Duke Energy Asset Recovery for the items they would like to receive as a donation as well as confirmation of their 501 (c) (3) status. Once the letter of request is received, Asset Recovery will prepare and send a Donation/Approval letter including the following information:

- Organization Name
- Contact Name and telephone number
- List of items donated
- Fair Market Value of the donation

Upon receipt of the donated assets, the contact for the organization must sign the Donation/Approval letter and mail or fax a copy to Asset Recovery. Asset Recovery will maintain a database of all donations and will provide necessary information to Corporate Community Relations for review. A year-end report detailing donation activity will be created for the Corporate Tax Department.

* Exceptions are made only with appropriate DOA or ABT approval, and in accordance with the Real Estate Land Disposition Process.

**Accounting for Donations**

<u>If a capital asset:</u>
DR Accumulated Depreciation (108)
CR Plant-In-Service (101)
**(To retire the asset)**

DR Donation Expense (426.1)
CR Accumulated Depreciation (108)
**(To recognize the donation. Represents the FMV of the asset donated)**

<u>If an inventoried asset:</u>
DR Donation Expense (426.1)
CR Inventory (154)
**(To recognize the donation. Represents the FMV of the asset donated)**

# Group Depreciation and "Normal" vs. "Not Normal" Retirements

**1. Is the application of group depreciation appropriate/acceptable under Generally Accepted Accounting Principles (GAAP)? What about for regulatory accounting and reporting purposes?**
Yes. Use of group depreciation methodology is acceptable under GAAP and for regulatory accounting and reporting purposes.

**2. How is a group defined for group depreciation purposes?**
GAAP, and various interpretations as excerpted above, states that for practical purposes, property items are frequently grouped and an average life applied to determine depreciation. Groupings may be by year of acquisition, by type (such as all drill presses), by classification (such as all machinery), by location, or by a combination of these ways. Depreciation based on groups that include items with varying lives is referred to as composite depreciation. Additionally, the disparities of the lives of the assets in a group should not be so great as to materially understate depreciation in the earlier years, and when group methods are applied, periodic studies should be undertaken to ensure that the average life being used is appropriate.

The FERC Code of Federal Regulations provides more detailed guidance specific to the electric utility industry, and contemplates application of a composite depreciation rate to book cost of depreciable plant.

General instruction 22 (Depreciation Accounting) states "utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property. Where composite depreciation rates are used, they should be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group."

For general ledger and balance sheet purposes, the Account 108 (Accumulated Depreciation) guidance states that the account shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant:
(1) Steam production,
(2) Nuclear production,
(3) Hydraulic production,
(4) Other production,
(5) Transmission,
(6) Distribution, and
(7) General.

Cost of Service filing requirements in FERC Section 35.13 (Filing of Changes in Rate Schedules) states the utility shall show the electric plant in service in accordance with each of the following five major functional classifications:
(A) Production;
(B) Transmission;
(C) Distribution;
(D) General and Intangible; and
(E) Common and Other.

Segregation below these major classifications is not required, unless a utility designs its rate recovery structure so that subdivision of the major functional classifications is necessary to support rates. Additional guidance is provided in selecting sub-functional categories. For example, segregating production according to some special characteristic, such as base, intermediate, or peaking load. Or segregating transmission and distribution property according to engineering or use characteristics.

**3. How are depreciation rates established under group depreciation?**
Depreciation studies are conducted at periodic intervals to support regulatory initiatives or to comply with the GAAP requirement to periodically assess depreciation rates. Depreciation rate estimates are based on analyses of historical plant data at a utility account level, supplemented with a review of Company practice and outlook, current industry practices, and, of course, informed judgment. Various methods (straight-line, declining-balance, based on output, etc.), procedures (average-life, equal-life), and techniques (remaining-life, whole-life) may be analyzed and selected for use depending on Company and/or regulatory requirements. Depending on at what level a company defines a group, rates at an account level may be composited at a higher level, and there may be segregation by sub-account.

**4. Does depreciation expense recorded differ depending on the level at which depreciation rates are established?**
Theoretically there is no difference. However, after the first year of use changes in actual plant balances due to additions and retirements will begin to generate small differences. Unless there is a major transaction these differences typically remain immaterial between depreciation studies.

**5. How is net book value determined for a specific asset under group depreciation?**
Determination of net book value under group depreciation is a process of allocation, whereby the total group reserve is allocated based on a theoretical reserve calculation. Cost information is captured separately for each asset and maintained in the continuing property records as part of the group total.

must be determination as to whether the retirement is normal or abnormal, as discussed above, in order to properly assess whether there is an impact to current income.

Also, FERC guidance from plant instructions no. 5 and 10 must be followed. Duke Energy defines an "operating unit or system" for accounting purposes as a generating unit or plant. . FERC clearly prescribes gain/loss recognition when an operating unit is disposed of through sale, conveyance, or transfer (plant instruction no. 5), whereas property disposed of through retirement is processed through the accumulated depreciation reserve (plant instruction no. 10).See Purchase/Sale of Operating Unit or System in these Guidelines for more instruction on this topic.

**10. If a net book value remains at the date of retirement based on the allocation of the group reserve to the specific asset using the theoretical reserve methodology, how is the net book value recovered from a regulatory perspective?**

Three approaches are available: 1) if the depreciable group is defined at a level higher than the individual asset, then the net book value for the asset retired is allocated among the remaining assets in the group. An evaluation of the depreciation rate may be necessary at the same time if a large or abnormal retirement is involved; 2) the net book value can be moved into a regulatory asset and amortized if allowed by a regulator; 3) the theoretical remaining net book value can be taken as a charge to income.

Strategic business objectives may drive the choice in the recovery mechanism. The approach where recovery is sought through amortization of a regulatory asset will provide for faster cash recovery if the recovery period established is less than the average life of the group, but will also result in depletion of rate base at a faster rate. In contrast, the approach where the group depreciation rate is adjusted will match cash recovery to that of the group, but rate base will not deplete as quickly.

**11. For retired assets not removed and salvaged immediately, does the accounting differ based on how the depreciable group is defined?**

No. Assets retired from service are removed from the books "fully depreciated." When the asset is finally removed and salvaged, any cost of removal or salvage is booked to the group reserve.

**12. If subdivision of the major functional classifications exists to support rates charged to customers, is use of a functional composite rate appropriate/allowable?**

A group composite rate by definition reflects the multiple rates for any sub-classifications within the group. If specific rates are specified through legal or regulatory proceedings, they would be included in a composite calculation. However, if special recovery mechanisms are established, such as through periodic specific filings, the need to maintain a depreciation reserve matching that of the special rate may be required. Per FERC cost of service filing requirements, segregation below the major classifications is not required, unless a utility designs its rate recovery structure so that subdivision of the major functional classifications is necessary to support rates.

**14. Accounting for the potential retirement of units should be assessed as follows:**

Under the group concept of depreciation, a depreciation reserve is not maintained for individual items of property. Each asset in a depreciable group is assumed to have the life of the group and to be fully depreciated at the time of retirement. In a "normal" retirement, the capital cost is removed from the property, plant and equipment account, and the same amount is removed from the depreciation reserve. No gains or losses are recognized, and no adjustment to the depreciation rate for the group is required – in theory the rate reflects, through time, the dispersion of lives around the average rate. When an "abnormal" or highly unusual retirement occurs, GAAP indicates any gain or loss should be recognized in income immediately. Unless a very large unknown and unanticipated retirement occurs, in practice it would be very unusual to have anything classified as "abnormal" under the group concept.

# Depreciation Rate and Nuclear Decommissioning Study Approval

**Statement of Purpose and Philosophy**
The purpose of this policy is to set policy for the appropriate level of approval for changes in depreciation rates and nuclear decommissioning trust funding levels.

**Policy Expectations**
This policy applies to all functions within Duke Energy Regulated Electric & Gas operations. Any exceptions or deviations from the policy require prior approval of the Director, Asset Accounting.

**Policy - Accountability, Roles and Responsibilities**

The depreciation rates used for the calculation of depreciation expense are established through periodic depreciation studies. Depreciation studies are conducted by Asset Accounting approximately every 5 years, absent regulatory activity or material changes in business conditions, and are approved by the Director of Asset Accounting for regulated entities. Depreciation rates may be adjusted as long as the requisite regulatory approval is received. The Director of Asset Accounting and the Manager of Property Accounting approves adjustments to depreciation rates for regulated entities, including new rates established during the interim period between official depreciation studies. Once approval is obtained, the adjusted depreciation rates are entered into PowerPlan and are checked for accuracy.

Duke contracts with industry depreciation specialists to perform detailed depreciation studies. The depreciation study report provided by the consultant serves as the basis for filing with the appropriate regulatory authorities, and generally includes the following types of information,

a. A comparison of current and proposed depreciation rates and components for each category of depreciable plant.
b. A comparison of annual depreciation expense as of the proposed effective date, resulting from current rates with those produced by the proposed rates for each category of depreciable plant. The plant balances may involve estimates. Submitted data including plant and reserve balances or company planning involving estimates shall be brought to the effective date of the proposed rates.
c. Each recovery and amortization schedule currently in effect should be included with any new filing showing total amount amortized, effective date, length of schedule, annual amount amortized and reason for the schedule.
d. A comparison of the accumulated book reserve to the prospective theoretical reserve based on proposed rates and components for each category of depreciable plant to which depreciation rates are to be applied.
e. A general narrative describing the service environment of the applicant company and the factors, e.g., growth, technology, physical conditions, necessitating a revision in rates.
f. An explanation and justification for each study category of depreciable plant defining the specific factors that justify the life and salvage components and rates being proposed. Each explanation and justification shall include substantiating factors utilized by the utility in the design of depreciation rates for the specific category, e.g., company planning, growth, technology, physical conditions, and trends. The explanation and justification shall discuss any proposed transfers of reserve between categories or accounts intended to correct deficient or surplus reserve balances. It should also state any statistical or mathematical methods of analysis or calculation used in design of the category rate.
g. The filing shall contain all calculations, analysis and numerical basic data used in the design of the depreciation rate for each category of depreciable plant. Numerical data shall include plant activity (gross additions, adjustments, retirements, and plant balance at end of year) as well as reserve activity (retirements, accruals for depreciation expense, salvage, cost of removal, adjustments, transfers and reclassifications and reserve balance at end of year) for each year of activity from the date of the last submitted study to the date of the present study. To the degree possible, data involving retirements should be aged.
h. The mortality and salvage data used by the company in the depreciation rate design must agree with activity booked by the utility. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained.

[redacted]

## Service Company

A Service Company Asset is an asset which meets at least one of the following criteria:

[redacted]

Assets maintained at the service company due to cost/benefit considerations (case-by-case)

Regulated Utility projects should not be set up on the Service Company books unless the following criteria are established:

a. Asset Accounting, Service Company and, if necessary, the Rates and Regulatory and Tax groups should be consulted to ensure establishing assets to Service Company does not conflict with regulatory strategy or property tax returns. Determination of whether to record assets on the Service Company's books will be made on a case-by-case basis depending on the relevant facts and circumstances of each transaction.
b. An approved method to move costs from Service Company to the Regulated utility jurisdiction's books that is approved by Shared Services.
c. Charges must be moved on a monthly basis to allow for proper calculation of AFUDC.

**Basic Guidelines**

1. Charges for capital assets which service only one business segment should be recorded directly on the books of the individual business units which use the assets. See the Shared Assets section of the Capitalization Guidelines.

2. Charges for capital assets which service multiple business segments may be recorded on the Service Company's books, with depreciation expense and return on un-depreciated balance allocated across the various business units which use the assets via an allocation factor determined by the Service Company. Such allocation/distribution of costs will occur prior to initiation of the accounting close process each month to ensure appropriate classification of costs and related financing costs.

Examples of Service Company assets could include:

[redacted]

# Exhibit C

**DUKE ENERGY FLORIDA**
**Confidentiality Justification Matrix**

| DOCUMENT/RESPONSES | PAGE/LINE | JUSTIFICATION |
|---|---|---|
| DEF's Response to OPC's First Request for Production of Documents (Nos. 1-10) | Question 1-Duke Energy Regulated Electric & Gas Capitalization Guidelines<br><br>Pages 6 through 20 of 199: All information included in the table titled "Key Capitalization Issues".<br><br>Page 42 of 199: All information under new after "no changes to be received" and before "the automatic" and after "possible" and before "Note"<br><br>Page 47 of 199: All information under New Acquisition or Addition to Existing Property after "plant account" and before "a capital"<br><br>Page 47 of 199: All information under Repair or Maintenance after "plant account" and before "a capital"<br><br>Page 50 of 199: All information on the entire page.<br><br>Pages 57 through 61 of 199: All information on the entire page. | §366.093(3)(d), F.S.<br>The document in question contains confidential information, the disclosure of which would impair DEF's efforts to contract for goods or services on favorable terms.<br><br>§366.093(3)(e), F.S.<br>The document in question contains confidential information relating to competitive business interests, the disclosure of which would impair the competitive business of the provider/owner of the information. |

| | | |
|---|---|---|
| | Page 62 of 199: All information under Request to add a new unit of property after “Power Plan” and before “DEF catalog” and after “approval required” and before “dollar threshold”.<br><br>Page 63 of 199: All information after “approval required” and before “dollar threshold”.<br><br>Page 66 of 199: All information under Overview, after ”AFUDC” and before “AFUDC”.<br><br>Page 79 of 199: All information after ”expensive” and before “purchased”.<br><br>Page 80 of 199: All information after ”SharePoint” and before “For purposes”.<br><br>Page 87 of 199: All information contained in bullets numbers 2 and 3 and after “expensed” and before “sufficient: and all information on the fifth and sixth lines in the table titled “right of way worked performed” and “capital expenses”.<br><br>Page 92 of 199: All information after ”economic life” and before “accounting guidance”. | |

| | | |
|---|---|---|
| | Page 99 of 199: All information after ”production” and before “in total”; all information after “major projects” and before “capital”; all information after “major projects” and before “depreciation expense”; and all information after “major projects” and before “in the case”.<br><br>Page 108 of 199: All information after ”reporting purposes” and before “See Inspections”.<br><br>Page 109 of 199: All information under bullet number two, after ”capitalization” and before “work performed”; all information after “capacity by” and before “capitalize”; information after “at least” and before “betterment”; all information after “with betterment” and before “the repair”.<br><br>Page 114 of 199: All information after ”Allocations” and before “Capitalized”.<br><br>Page 115 of 199: All information on the entire page.<br><br>Page 131 of 199: All information after ”process” and before “as soon as”. | |

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|---|---|---|
| | Page 133 of 199: All information after on the entire page.<br><br>Page 134 of 199: All information after ”within” and before “of projects” and all information after “no later than” and before “after”.<br><br>Page 135 of 199: All information on the entire page.<br><br>Page 139 of 199: All information on the remainder of the page after ”10(b)(2)”.<br><br>Page 141 of 199: All information on the entire page.<br><br>Page 142 of 199: All information after ”cost is” and before “or more”; information after “exceeding” and before “software”; all information after “existing interface” and before “costs to develop” and all information after “included here” and “costs not”.<br><br>Page 143 of 199: All information after ”section below” and before “when it is” and all information after “meet the” and before “cost” and the information after “cost is” and before “or more”. | |

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| | Page 144 and 145 of 199: All information contained in the “Software project cost matrix” table.<br><br>Page 145 of 199: All information after on the remaining after “other jurisdictions”.<br><br>Page 146 of 199: All information at the beginning of the page before “guidance”.<br><br>Page 148 of 199: All information in number 8, after ”capitalized” and before “Software”; information in number 11 after managers and before “A project”; information in number 12 after “occurrence”.<br><br>Page 150 of 199: All information after ”in-service amortization” and before “warranty support” and all information after “warranty support”.<br><br>Page 154 of 199: All information after ”Training” and before “FERC Guidance”.<br><br>Page 157 of 199: All information after ”Accounting Treatment” and before “burden”.<br><br>Page 160 of 199: All information after ”Tax | |

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|---|---|---|
| | Department” and before “Exceptions”.<br><br>Page 173 of 199: All information after ”characteristics”.<br><br>Page 174 of 199: All information before number 3, “How are depreciation”.<br><br>Page 176 of 199: All information after ”number 12” and before “number 14”.<br><br>Page 191 of 199: All information after “explained”.<br><br>Page 192 of 199: All information on the entire page.<br><br>Page 198 of 199: All information after “criteria” and before “assets” and information on the remainder of the page after “include”. | |

# Exhibit D

# AFFIDAVIT OF BRYAN BUCKLER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding for recovery of incremental storm restoration costs related to Hurricanes Irma and Nate by Duke Energy Florida, LLC

Docket No. 20170272-EI

Dated: May 9, 2018

**AFFIDAVIT OF BRYAN BUCKLER IN SUPPORT OF DUKE ENERGY FLORIDA, LLC'S REQUEST FOR CONFIDENTIAL CLASSIFICATION**

STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

BEFORE ME, the undersigned authority duly authorized to administer oaths, personally appeared Bryan Buckler, who being first duly sworn, on oath deposes and says that:

1. My name is Bryan Buckler. I am over the age of 18 years old and I have been authorized by Duke Energy Florida (hereinafter "DEF" or the "Company") to give this affidavit in the above-styled proceeding on DEF's behalf and in support of DEF's Request for Confidential Classification (the "Request"). The facts attested to in my affidavit are based upon my personal knowledge.

2. I am the Director of Finance supporting Duke Energy's operations in Distribution and Customer Operations, and I reside organizationally within Duke Energy's Finance department. This department is responsible for interpreting and

implementing the capitalization policies of the company, and work closely with the Controller's organization on all accounting matters, including Asset Accounting matters and the execution of the Capitalization Policy of Duke Energy.

3. As the Director of Finance, I am responsible, along with the other members of the department for the review of general ledger entries that affect expense and capital amounts associated with Distribution and Customer Operations expenses, including during major storm events.

4. DEF is seeking confidential classification for information provided in response to the Office of the Public Counsel's ("OPC") First Request for the Production of Documents (Nos. 1-10), specifically question 1, filed on April 18, 2018 in this docket. The confidential information at issue is contained in confidential Exhibit A to DEF's Request and is outlined in DEF's Justification Matrix that is attached to DEF's Request as Exhibit C. DEF is requesting confidential classification of this information because it contains proprietary confidential business information, the disclosure of which would impair the Company's ability to protect proprietary business information.

5. Additionally, the confidential information relates to DEF's Regulated Electric and Gas Capitalization Guidelines, which include policies and standards for business practices. DEF must ensure that sensitive business information such as internal policies and procedures are kept confidential, the disclosure could impair the Company's efforts to protect its internal business interests. With respect to the information at issue in this Request, DEF has kept confidential and has not publicly disclosed confidential information pertaining to its Regulated Electric and Gas Capitalization Guidelines.

6. Strict procedures are established and followed to maintain the confidentiality of the Company's internal policies and procedures, including restricting access to those persons who need the information to assist the Company, and restricting the number of, and access to the information. At no time since receiving the information in question has the Company publicly disclosed that information. The Company has treated and continues to treat the information at issue as confidential.

7. This concludes my affidavit.

Further affiant sayeth not.

Dated the 8th day of May, 2018.

Bryan Buckler
(Signature)
Bryan Buckler
Director of Finance
Finance Department
Duke Energy
550 South Tryon
Charlotte, NC 28202

THE FOREGOING INSTRUMENT was sworn to and subscribed before me this 8th day of May, 2018 by Bryan Buckler. He is personally known to me, or has produced his Drivers License driver's license, or his _____ as identification.

Aloma M. Felder
(Signature)
Aloma M. Felder
(Printed Name)

(AFFIX NOTARIAL SEAL)

ALOMA M. FELDER NOTARY PUBLIC CABARRUS COUNTY, N. C.

NOTARY PUBLIC, STATE OF North Carolina

July 21, 2020
(Commission Expiration Date)

(Serial Number, If Any)