FPL	**Electric Utility Plant**	Policy #: FPL – 1.1
		Rev Date: 1/3/2017
		Former Policy #3.1

1. Scope & Overview

This document outlines FPL's accounting policies for significant accounts that are included in Electric Utility Plant (PPE) in FPL's consolidated balance sheets. Policies and procedures for Property Records and the Work Order System of Accounts are discussed in Property Procedures 601 through 604 located on the INFPL website at the Corporate Policies and Procedures website. This policy is organized as follows:

- Section 2 – Electric Utility Plant – FERC account descriptions
- Section 3 – Capitalization criteria and thresholds
- Section 4 – Construction Work in Progress, AFUDC and CIAC
- Section 5 – Additions, Betterments, Replacements and Retirements
- Section 6 – Specific Items

Detail processes and procedures are outlined in procedure manuals and Sarbanes-Oxley documents maintained by Property Accounting. Questions regarding the appropriate accounting for PPE should be directed as follows:

- Transmission, Distribution, General Plant and Land – Manager, Power Delivery Accounting
- Power Generation, Nuclear and Engineering & Construction – Manager, Power Generation Accounting

2. Electric Utility Plant - FERC account descriptions

Plant in Service (101) – This account shall include the original cost of electric plant, included in accounts 301 to 399 owned and used by the utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. This account is included in rate base unless otherwise directed by the commission.

Property under Capital Leases (101.1) –This account shall include the amount recorded under capital leases for plant leased from others and used by the utility in utility operations. The electric property included in this account shall be classified separately according to the detailed accounts (301 to 399) prescribed for electric plant in service.

Electric Plant Purchased or Sold (102) –This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Federal Energy Regulatory Commission (FERC) the proposed journal entries to clear from this account the amounts recorded herein.

FPL defines an operating unit or system as a group or network of interconnected assets in a specific location or territory that are integrated with or dependent on one another in performing a specific function, whether production, transmission or distribution of electricity.

Plant Held for Future Use (105) – This account shall include the original cost of electric plant and land and land rights owned and held for future use in electric service under a definite plan respectively for such use, to include: (1) property acquired but never used by the utility in electric service, but held for such

service in the future under a definite plan, and (2) property previously used by the utility in service, but retired from such service and held pending its reuse in the future, under a definite plan, in electric service.
Completed Construction not Classified/Electric (106) – This account shall include the total of the balances of work orders for electric plant which has been completed and placed in service but for which work orders have not been classified for transfer to the detailed electric plant accounts. The classification of electric plant in service by detailed account is required for purposes of reporting to the FERC. The utility shall also report the balance in this account as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omission in Electric Plant in Service. There are three sub accounts used:

- Utility Plant in Review (106.1) - This account is used for work orders that will be transferred out to Utility Plant in Service Account 101.
- Nonutility Property in Review (106.2) – This account is used for work orders that will be transferred out to Nonutility Property Account 121.
- Future Use in Review (106.5) – This account is used for work orders that will be transferred out to Plant held for Future Use Account 105.

Electric Plant Acquisition Adjustments (114) – This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise to the extent it is less than or equal to fair value, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property (i.e. net book value). To the extent the purchase price exceeds fair value, that portion must be recorded to goodwill in Account 186 (Miscellaneous deferred debits) pursuant to FERC policy as stated in 122 FERC ¶ 61,177 (2008).

Asset Retirement Costs – See Policy #3.6, Asset Retirement Obligations

Nuclear Fuel – See Policy #1.4, Nuclear Fuel

Nonutility Property (121) – This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not properly includible in account 105, Electric Plant Held for Future Use.

Construction Work in Progress (107) – This account shall include the total of the balances of work orders for electric plant in process of construction. Work orders shall be cleared from this account as soon as practicable after completion of the job and the asset being placed in-service. Further, if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in electric plant in service upon the completion and readiness for service of the first unit. Any expenditure that is identified exclusively with units of property not yet in service shall be included in this account. Expenditures on research, development, and demonstration projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with detail of nature and purpose together with related costs.

Accumulated Provision for depreciation of electric utility plant (108) – See Policy 3.3, Depreciation

Accumulated Provision for amortization of electric utility plant (111) – See Policy 3.3, Depreciation

Note: The above FERC accounts are further described and defined in the FERC Code of Federal Regulations.

Plant Accounts and Property Units

The FERC has specified a **uniform system of accounts** that requires that the plant accounts "be stated on the basis of cost to the utility of plant constructed by it and the original cost, estimated if not known, of plant acquired as an operating unit or system." The FERC further defines original cost as "the cost of such property to the person first devoting it to the public service".

FPL's facilities are grouped by primary plant accounts according to five functional groups as stated below. These primary accounts are suffixed with 3 or 4 digit numbers, to create property retirement unit accounts as described in the appropriate Property Retirement Unit Catalog (PRUC) for each business area. (There are additional accounts in the plant account series which are used for accounting controls and for allocation and overhead purposes, but are not used for property retirement unit purposes.)

- Intangible Plant
- Production Plant
  - Steam
  - Nuclear
  - Other
- Transmission
- Distribution
- General Plant

The Property Retirement Unit Catalog (PRUC) identifies the individual retirement units that comprise the fixed assets of the Company. A retirement unit is defined as the smallest distinct component of property that is identified and costed individually in the plant records. **If an asset or component is not defined as a retirement unit, generally it cannot be capitalized and must be expensed in the appropriate Operations and Maintenance expense account.**

3. Capitalization criteria and thresholds

The criterion for the recording of costs as either capital or expense is established by generally accepted accounting principles (GAAP). FASB Concepts Statement No. 6 defines assets as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Therefore, PPE expenditures that will benefit an organization beyond the current period shall be capitalized, i.e., recorded as an asset. An expenditure that benefits the operations of only the current period is recorded as an expense. A "current period" is defined as one fiscal year. The exceptions to this guideline are as follows:

- Generally, immaterial items, which otherwise qualify as capital costs, are not capitalized **(FPL threshold - $1,000)**.
- Research and development costs are expensed as incurred. For example the design, construction and testing of a prototype truck. If these costs were not considered research and development costs, they could be capitalized.

- The ratemaking action of a regulator can determine that an item which otherwise qualifies for expense treatment can be capitalized (*Regulated Operations*, ASC 980, see policy #9.1, Accounting for Regulated Operations).
- Developments of software costs have specific guidelines outlining capital vs. expense treatment. See policy #1.7, Accounting for Costs Related to Internal Use Software.
- Leases have specific guidelines under ASC 840.

ASC 970-360 – *Real Estate – General, Property, Plant and Equipment*, provides guidance on accounting for direct and indirect costs associated with the development or construction of a real estate project. It specifically excludes from its scope real estate developed by an enterprise for its own operations. However, due to the lack of any specific guidance regarding the capitalization of costs in developing PPE for use in a company's own operations, the guidance in ASC 970-360 is referenced by analogy.

In addition, FERC allows all overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, to be charged to the applicable jobs using a reasonable allocation method.

Direct Costs:
In accordance with the guidance in ASC 970-360, all costs that are clearly associated with the construction of a real estate project should be capitalized. These costs include the portion of payroll-related costs attributable to personnel working directly on the project. Bonuses paid to employees should be included in the total compensation for purposes of allocating payroll-related costs to the project.

Indirect Costs:
Indirect costs that do not clearly relate to projects under development or construction, including most general and administrative expenses, are expensed as incurred. Capitalization of indirect costs is only appropriate when such costs are specifically identifiable with a particular project(s) and are identifiable in the accounting records. FPL considers severance payments made to employees who were hired to work on capital projects to be an indirect project cost. In order for severance payments to be capitalized, the payments must be clearly associated to a particular project(s), which is evidenced by appropriate documentation. For example, FPL believes it would be appropriate to capitalize severance costs paid to an employee who was hired to work on one specific job and was subsequently terminated at the end of that project. However, it would not be appropriate to capitalize severance paid to an employee who was originally hired for a specific capital project, but who was subsequently transferred to another project after the completion of the first project.

Indirect project costs that benefit more than one project should be allocated to the projects benefited based on appropriate statistical bases. For example, construction overhead should be allocated on the basis of construction labor costs.

FERC requires a "provable relationship" in order to capitalize indirect costs and disallows use of percentage distribution based on an assumed relationship between operating expense and cost of construction. If not incremental, an annual study supporting a provable relationship is required. The provable relationship study consists of:

- Relationship of particular function to construction activities
- Proportion of employee's time
- Method of determination – time studies, daily time reports, etc; not allocations.

Examples of indirect costs include engineering, supervision, insurance, pensions, and taxes.

Additionally, some of the recurring fixed costs of *internal* development departments including *internal* payroll and related benefits for employees who work *directly* on construction stage projects are *capitalizable* if they are necessary costs to get the project to its intended use and place the asset in service. The timing of when these costs are incurred impacts whether or not costs can be capitalized. It must be determined that the capital project is probable and has been approved by accounting. See **Appendix A** for listing of the departments and examples of related activities that are considered capitalizable.

Prepaid Capital:

Prepaid capital consists of amounts paid to vendors for capital items that will not be received within the normal time frame for such items. In exchange for this advanced payment, FPL receives a discounted price on the capital items purchased.

Prepaid capital should be charged to Account 186 (*miscellaneous deferred debits*) when the payment is made. The cash outflow should be classified as an investing activity in the statement of cash flows.

When the capital asset is delivered the payment should be re-classified to one of the following FERC accounts:

1. Account 107 (*construction work in progress-Electric*) if the asset is delivered to a specific project site, or;
2. Account 101 *(electric plant in service)* if the asset goes straight into service or meets the definition of a capital spare part, or;
3. Account 154 (*plant materials and operating supplies*) if the asset is delivered and held for future use on a capital project.

Deposits or advanced payments for capital items
Any deposits or progress payments disbursed on behalf of a construction contract to secure the acquisition of assets that have a long construction lead times should be charged to Account 107 (*construction work in progress-Electric*).

General Plant Furniture, Tools and Equipment
Florida Public Service Commission (FPSC) Rule 25-6.0142 established a minimum capitalization criterion of $1,000 per unit for each retirement unit recorded to Office Furniture and Equipment, Stores Equipment, Tools, Shop and Garage, Laboratory Equipment, and Communication Equipment Accounts. The account distribution is outlined as follows:

- Tools, shop and garage equipment ≥ $1,000 each item
- Stores Equipment ≥ $1,000 each item
- Laboratory Equipment ≥ $1,000 each item
- Communication Equipment, non fiber optic accounts – refer to the PRUC catalog for fiber optic property units.
- Office furniture and equipment, including miscellaneous power plant office furniture equipment, computer equipment and other miscellaneous equipment are generally capitalized. These items are charged to expense if they meet one of the following criteria:
    - are of small value (less than $1,000), or

- have a short life (less than one year), or
- can not be easily controlled/identified

The initial purchase of a complete office furniture set (including, but not limited to book case, desk, cabinet, chair, sofa, table, etc.) is considered the retirement unit. Replacement of or subsequent purchases of individual items of office furniture are to be expensed to the appropriate operations or maintenance account. Retirement units are identified in the PRUC Catalogs. In addition, computer equipment that can be bundled along with the labor costs needed to program, image and deliver the computer equipment may be capitalized.

The cost of small portable tools and safety equipment that are used directly in construction work, but do not meet the definition of a retirement unit shall be allocated to the work that directly benefits from the purchase of these items. This will result in the cost of these tools and equipment being allocated to both capital and O&M, dependent upon the nature of the work performed. The cost of such tools and equipment shall be capitalized to the plant accounts directly benefited as part of the construction.

4. Construction Work in Progress , AFUDC and CIAC

Definition of a Construction Project

A **Project** is defined as an identifiable unit of capital work including all associated labor, material, and other expenses which result in additions to and/or retirements from utility plant in service. Projects with different plant in-service dates **must** be recorded separately on unique work orders/internal orders. The scope of a work order/internal order **must** include all related retirement units required to make the project ready for service.

In certain instances and on an exception basis, some smaller jobs may be grouped together into a single ER if those jobs were projected with a high level of confidence to be completed within the same month.

If such additions and/or retirements, when completed, only become functional or useful when related or additional units of work are complete, then the group of related activities is considered a project. A project may include and involve the installation of numerous retirement units.

Preliminary Project Costs

GL Account 183, Preliminary Survey and Investigation Charges, is used for the recording of preliminary feasibility studies. CFR 18 Pt. 101 states "This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc. made for the purpose of determining the feasibility of utility projects under contemplation." Generally, this account is used for the larger projects under consideration that are anticipated to be capitalized and after they are approved all costs are transferred to the construction work order. If it is considered probable that the project will not be completed then costs are transferred to O&M. The costs should be transferred to O&M in the month the decision is made that the project will not be completed.

If a project qualifies as capital and construction is certain, Phase I Engineering costs (conceptual and design engineering studies) may be charged directly to capital work orders.

Land and Right-Of-Way Purchases

If land or right-of-way is purchased and construction on the land or right-of-way will commence within 1 year of the completion of the purchase, then the land or right-of-way work order shall remain in Account

107, Construction Work in Progress, until the construction is completed. Only when the construction of the facility is completed and being used for its intended purpose will both the land and construction work orders be placed in-service. If the construction will commence more than one year from the completion of the land purchase, the land work order should be put in-service to Account 105, Plant Held for Future Use. Land purchases requiring more than 1 year for construction should be reviewed with Property Accounting.

When a land or right-of-way work order is opened, information on the related construction (current or future, budget activity of construction, etc.) is needed in order to determine the accounting treatment for the work order. In addition, land work orders must be properly segmented by its related construction. Land for a transmission line project that consists of more than one work order (where portions of the line will go in-service at different times) must be segmented into different work orders by the portions of land that relate to each line segment work order. Land for the segmented project should not be recorded in only one work order as this will violate regulatory rules.

When a transmission line, substation site prep or substation construction work order is opened, information regarding the related land is needed so that the land can be properly linked to the specific construction activity for accounting purposes and reporting to the regulatory commissions. This is especially important when the land is purchased more than 1 year before the construction commences and is placed in Account 105 for future use.

Site Preparation Costs of Substations

If the construction of a facility consists of more than one work order, i.e. work order #1 is for the clearing and erection of the fence on a substation site and work order #2 is for the structural and electrical portion of the substation, and the construction of work order #2 will commence within 1 year of the completion of work order #1 then both work orders shall remain in Account 107, Construction Work in Progress, until the substation is energized. If the construction of work order #2 will commence more than 1 year from the completion of work order #1 then work order #1 shall be put in-service to Account 105, Plant Held for Future Use.

The construction of a substation should not be split into 2 work orders until it is definitely known that the structural and electrical portion will not commence within 1 year of the site preparation activities. A single construction work order should be created instead. If due to changes in planning, the structural portion becomes delayed so that it will not commence within 1 year of the site preparation, the work order can be re-estimated and closed to Account 105, Plant Held for Future Use.

When a substation is placed in-service and the costs in the construction work order are moved out of account 107, information on the related site preparation work order (if any) and the related land work order is needed in order to move the costs accumulated in these work orders to in-service status at the same time the substation is placed in-service.

Contaminated Soil

Unless the below criteria are met, the removing and disposing of contaminated soil related to environmental regulations would be charged to O&M.

- Removal of Contaminated Soil directly caused to be removed as part of the construction of a new facility shall be capitalized as part of the cost of the new facility.
- Contaminated Soil removed as part of the removal of a retirement unit shall be charged to Account 108.3, Removal Cost, on the work order retiring the retirement unit.

- Contaminated soil removed as part of the dismantlement of a generating facility shall be charged to the Dismantlement Reserve, Account 108.132.

Any questions related to how to account for contaminated soil should be directed to Property Accounting.

In-Service Date Of Projects

The Company defines a project as all the costs of the activities necessary to install or replace a system or a segment thereof, or to bring the condition of a specific asset to its intended use. A project can include one work order but in most cases it includes many work orders. A project is deemed in service when it is ready for its intended use. The FERC requirements use the term "ready for service".

Land purchased for a substation site is technically ready for service when FPL closes on the property, but if construction of the substation is not complete, then in the context of a project, the land is not ready for service until the substation is completed. Another example would be the construction of a new power plant. The completion of the water treatment and the waste water facilities are not ready for service until the unit which they serve is complete and producing electricity.

Substation and Transmission Line and New Power Plant In-Service Determination: A facility shall be determined ready for service when it is functioning as an integrated facility to serve customers of FPL. A substation or transmission line is not ready for service **until energized** for the purpose of supplying electricity to customers of FPL.

Transmission line projects that consist of more than one line segment (where portions of the line will go in-service at different times) must be separated into different work orders by line segment. A work order with one or more line segments cannot be proportionally placed in-service and placing incomplete portions of a line in-service before it is completed and energized violates regulatory rules.

Construction of a new power plant and its related switchyard and interconnections: The switchyard and interconnections would not be built if the plant was not constructed and the plant cannot properly function without the switchyard and the interconnections. Therefore the total project must include the plant and its related switchyard and interconnections which should be placed in service at the same time.

Allowance For Funds Used During Construction – AFUDC

Allowance for Funds Used During Construction is recorded monthly in the retail power plant ledger according to FPSC rule 25-6.0141 which states that CWIP or Nuclear Fuel in Process not under lease agreement that is not included in rate base may accrue AFUDC under the following conditions:

Eligibility test:

1. A work order or project becomes eligible once it receives charges if it meets the following requirements: a) estimated additions exceed 0.5 percent of the sum of the total balance in general ledger accounts 101.000 and 106.100 as of the prior month (See step 2 below) and b) the construction period is greater than a year. Note: Projects originally estimated to be completed in less than one year but are suspended for six months or more, or are not ready for service after one year become eligible for AFUDC on a prospective basis only.

2. Each month, Property Accounting will supply the business units with the current project threshold in order to qualify for AFUDC. Work orders that meet the criteria have the AFUDC button flagged within the fixed asset system, PowerPlant, so that the amount of AFUDC can be systematically calculated and applied.

For FERC purposes, AFUDC is accrued on all capital work orders/projects that are expected to be under construction for more than one year.

An AFUDC rate is calculated annually as per FPSC rule and the FERC regulations including the monthly discounted AFUDC rate, the debt/equity split for the income statement and the debt/equity split to be used in calculating deferred income taxes. The Debt component is credited to AFUDC-Interest Sources and the Equity Component is reflected as a credit to Other Sources of Income. **Any questions regarding the currently approved AFUDC rate should be directed to Regulatory Accounting.**

Time Test:
The construction period must exceed 12 months to be eligible for AFUDC under rule #25-6.0141.

- The AFUDC time test is performed the month the work order has its first eligible charge (cash voucher, payroll or engineering – includes applied engineering).

- If the calculation of the estimated construction period in months equals or exceeds thirteen (13) months the work order would qualify for the AFUDC time period criteria.

Application of AFUDC on Land and Site Preparation:
AFUDC is not applied on land work orders which are to be transferred to Account 105, Plant Held for Future Use. AFUDC is applied to land work orders when the related on-going construction is eligible for AFUDC. AFUDC is applied to site preparation work orders that are either eligible for AFUDC on their own or eligible under the project concept. If the work order is subsequently transferred to Account 105, Plant Held for Future Use, no AFUDC is reversed. AFUDC is applied on all related land, site preparation and construction work orders when the first work order becomes eligible for AFUDC either on its own or through the project concept.

The AFUDC application is to be suspended prospectively when:

- Construction activity will cease for a period greater than six months due to circumstances within FPL's control. Construction activity is defined to include all preconstruction engineering, legal fees, licensing requirements, etc.

- A work order/project has not received charges for cash voucher, payroll or engineering for a period of six months. Suspension will be automatic on the seventh month.

Note that the FPSC Rule 25-6.0141 requires Commission notification when a capital project is expected to be suspended.

The AFUDC application is not suspended when:

- The construction delay is caused by circumstances beyond FPL's control. (i.e. government action, vendors, acts of God. etc.)

- The work order is part of a larger project and all activities for that project have not ceased.

Accounting Standards Codification 835-20, Capitalization of Interest:
In applying AFUDC, FPL considers the guidance provided in ASC 835-20, *Capitalization of Interest*. Under ASC 835-20-25-5, the capitalization period shall end when the asset is substantially complete and ready for its intended use. Some assets are completed in parts, and each part is capable of being used

independently while work is continuing on other parts. An example is the RCB coatings. As the painting or coating of each fuel storage container is completed, that asset can be placed in service. For such assets, interest capitalization shall stop on each part when it is substantially complete and ready for use. 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 asset, interest capitalization shall continue until the entire asset is substantially complete and ready for use. Some assets cannot be used effectively until a separate facility has been completed. An example is a switchyard and a power plant. One asset can not function without the other; therefore, both assets must be placed in service at the same time. For such assets, interest capitalization shall continue until the separate facility is substantially complete and ready for use. Assets equal to or greater than $10 million receive AFUDC until the day preceding the in service day. Property Accounting should be notified when an asset(s) of this magnitude exists.

FERC Requirements:
In 1968, the office of the Chief Accountant of FERC issued Accounting Release Number 5 addressing the proper period for capitalization of AFUDC. AR-5 states the following:

> "Capitalization of AFUDC stops when the facilities have been tested and are placed in, or ready for, service. This would include those portions of construction projects completed and put into service although the project is not fully completed."

Contribution in Aid of Construction (CIAC):
Requests for new facilities, upgrades of existing facilities or relocations of electric plant resulting in a cost that is incremental to the normal cost of such service will necessitate a cash contribution from the customer known as a contribution in aid of construction ("CIAC"). (Note: The FPSC prescribes the minimum standards of service that FPL must adhere to when providing electric service to a customer.) CIAC is most often required when installing or relocating electrical lines underground or for upgraded highway street lighting and related facilities for government/municipal entities. These requests are made through the distribution, transmission and engineering departments who develop the estimate for the requested scope of work. The engineer designs the job within the respective Work Management System, which develops an estimate that is interfaced to PowerPlant. The PowerPlant system has a reimbursable billing module that utilizes the estimate to develop a bill for the customer, which includes overheads and the related tax, if applicable. The business unit initiating the work is responsible for the CIAC contract and the subsequent billing and collection. All proceeds are due prior to work commencing and are recorded as a customer deposit (government agencies such as FDOT do not have to pay in advance and are billed at the end of the project). Upon completion of the work and closure of the work order, the proceeds are cleared to the appropriate capital or expense accounts to offset the cost of work performed.

5. Additions, Betterments, Replacements and Retirements
(After Acquisition or Construction)

Addition – represents cost of additions to units of utility property added to existing plant, whether or not as replacements. Additions are capitalized if the addition meets the definition of a retirement unit and results in the affected property being either more useful, more efficient, of greater durability (increased service life) or of greater capacity.

Betterment – an enlargement or improvement of existing structures, facilities, or equipment by the replacement or improvement of parts without replacement of a complete unit. When a betterment consists of the substitution of a superior part for an inferior part of the same kind, the amount of the betterment is the excess cost of the new part over the cost of the part removed, less net salvage. This

betterment amount is only capitalized if the addition results in the affected property being either more useful, more efficient, of greater durability (increased service life) or of greater capacity.

Replacement – the substitution of a new component for existing components that are worn out, damaged beyond repair, or have become inadequate in service. The substitution has substantially no greater capacity or benefit than the component for which it replaced. When it becomes necessary to replace some part of a unit and if the replacement does not result in substantial change of identity, or physical character of the item, the replacement is considered a repair and charged to operating expense. Replacement is applicable unless the component is defined as a retirement unit, at which point it would be treated as an addition and the replaced item would be retired.

Retirement – the removal of property from service, whether or not in the course of replacement. As an accounting transaction, a retirement may or may not coincide with either the removal from service or the physical removal of the plant affected. The system of accounts requires that the book cost of property permanently removed or not used or useful in service, whether or not replaced, be credited to the electric utility plant account and charged to the Accumulated Provision for Depreciation or Amortization of Electric Utility Plant. Retirement Units are prescribed by FERC although a lower level of detail may be maintained if practice is consistent. (Changes to or additions of retirement units must be filed annually with the FPSC). Any related costs to remove the utility plant from service should be charged to the Accumulated Provision for Depreciation and any proceeds received from the sale of the utility plant should be credited to the Accumulated Provision for Depreciation.

Buildings and Land retired or sold

If a building or land is retired, the net book value (NBV) is credited to the building or land account. If the building or land is sold, the difference between NBV and the sales price (less commissions and other expenses) is recorded as a Gain/Loss from disposition of Utility Plant. The Gain/Loss from the disposition of the property shall be deferred as a regulatory asset or liability and amortized as a gain or loss over a five year period in accordance with FPSC policy. Losses shall be accounted for as regulatory assets in Account 182.3 and amortized to Account 407.3 (Regulatory Debits). Gains will be recorded as regulatory liabilities in Account 254 and amortized to Account 407.4 (Regulatory Credits). The gain or loss from the sale of non-utility property is recorded to 421.1 or 421.2, if the property had never been included in future use or plant in service. Gains and losses associated with transactions where the building or land is currently or was previously recorded in Utility Plant In-Service or Future Use (Rate Base) are required by FPSC policy to be amortized over a 5 year period.

When any property recorded as intangible, such as franchises, intangibles, or other items of limited-term interest in land which are included in land and/or land rights are sold, relinquished or otherwise retired, Account 111 (Accumulated Provision for Amortization of Electric Utility Plant) shall be charged with the amount previously credited as related to such property. The book cost of the property retired, less the amount charged to Account 111 and the net proceeds realized, shall be deferred as a regulatory asset or liability and amortized as a gain or loss over a five year period in accordance with FPSC policy. Losses shall be accounted for as regulatory assets in Account 182.3 and amortized to Account 407.3 (Regulatory Debits). Gains will be recorded as regulatory liabilities in Account 254 and amortized to Account 407.4 (Regulatory Credits).

Unusual or significant utility plant sales

In accordance with FPSC historical practice, gains and losses arising from unusual or significant utility plant sales shall be deferred as regulatory assets or liabilities and amortized as gains or losses over a five year period. Losses shall be accounted for as regulatory assets in Account 182.3 and amortized to Account 407.3 (Regulatory Debits). Gains will be recorded as regulatory liabilities in Account 254 and amortized to Account 407.4 (Regulatory Credits).

Additions and retirements of minor items of property

In accordance with FPSC rules, a minor item is any part or element of plant which is not designated as a retirement unit, but is a component part of the retirement unit. The addition of a minor item that did not previously exist that results in a substantial addition or betterment should be accounted for in the same manner as for the addition of a retirement unit. If the addition of the minor item does not result in a substantial addition or betterment, the costs would be charged to the appropriate operations and maintenance expense account.

When a minor item of property is retired and not replaced, no entry is recorded to the plant account as the item is being accounted for by its inclusion in the retirement unit of which it is a part.

When a minor item is replaced independently of the retirement unit, the cost of replacement shall be charged to the maintenance account, except that if the replacement results in a substantial betterment the excess of the cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate utility plant account.

6. Specific Items

The following outlines the accounting policy for specific issues that have arisen over time related to items within the PPE account. The information below reflects excerpts from previous memos (modified where necessary to reflect changes in GAAP or other changes in company policy) written to address the accounting in certain situations and is not comprehensive. Questions regarding the appropriate accounting for specific issues should be directed to the FPL Property Accounting group.

A. Engineering and Construction Overheads (Applied Engineering/EO's)

All engineering and associated costs that can be assignable to a specific capital work order are charged directly. The exceptions are the Distribution, Transmission, Power Generation and Information Management Business Units which allocate engineering costs and executive overhead costs to eligible capital projects based on a standard rate determined through a forecast of projected costs. The costs are charged to an overhead pool which is allocated to open projects using the standard rate. The overhead pool is monitored on a monthly basis and cleared on an annual basis.

B. Capitalized Spare Parts

Refer to Policy #1.6, Capital Spare Parts

Appendix A

MATRIX OF EXPENDITURE EXAMPLES

Expenditure Type	Not probable or undetermined project	Probable Capital Project with accounting approval*	Construction***	Commercial Operations
Salaries, benefits & bonuses (Except as noted below)	*Expense*	*Expense*	*Expense*	*Expense*
Construction and Project Development Departments				
➢ Salaries, benefits & bonuses	*Expense*	*Capitalize*	*Capitalize*	*Expense*
Legal (Commercial)				
➢ Negotiations of project specific engineer, procurement, construction (EPC) and supply agreements, to the extent the contracts are not based on a pre-negotiated master form.	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Due diligence of construction and procurement related issues.	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Assistance during construction process with disputes, change orders, contract interpretation.	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Assistance with project financing.	*Expense*	*Expense*	*Expense*	*Expense*
➢ Assistance with general construction and procurement contract and project management.	*Expense*	*Capitalize*	*Capitalize*	*N/A*
Legal (Real Estate)				
➢ Order and review Title Reports or Commitments for drafted Agreements for Projects that have a high likelihood of getting built	*Expense*	*Capitalize*	*N/A*	*N/A*
➢ Order and review Preliminary Surveys for Projects that have a high likelihood of getting built	*Expense*	*Capitalize*	*N/A*	*N/A*
➢ Cure all Title Defects affecting the Projects (e.g. obtaining Subordination Non-Disturbance Agreements from landowner lenders, obtaining Title Affidavits, drafting Amendments based on new information received)	*Expense*	*Capitalize*	*Capitalize*	*N/A*
ISC Costs - during procurement of the EPC process				
➢ ISC works with Engineering to get the specifications on Capital job requirements.	*Expense*	*Capitalize***	*Capitalize***	*Expense*
➢ ISC bids the work and negotiates with the suppliers to mitigate construction and contract risks	*Expense*	*Capitalize***	*Capitalize***	*Expense*
➢ ISC processes change order to the construction jobs	*Expense*	*Capitalize***	*Capitalize***	*Expense*
➢ ISC helps with dispute resolution on construction jobs in relation to contract issues	*Expense*	*Capitalize***	*Capitalize***	*Expense*
➢ ISC moves the material to the jobs or oversees delivery to the construction site	*Expense*	*Capitalize***	*Capitalize***	*Expense*
Transmission Service Group				
➢ Engineering support for project construction & development processes (various engineering-related inputs into individual project construction and development processes)	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Required reactive studies on new generation projects to determine project is in compliance with regulatory requirements	*Expense*	*Capitalize*	*Capitalize*	*N/A*
Property Accounting				
➢ PowerPlan Master Data Set Up	*N/A*	*N/A*	*Capitalize*	*N/A*
➢ Internal order life cycle activities (including review	*N/A*	*N/A*	*Capitalize*	*N/A*

and approval, in-service activities, unitization & close processes)				
➢ Business Unit Capital Support (including capitalization requests and analytics)	*N/A*	*N/A*	*Capitalize*	*N/A*
➢ Other Capital Support Activities (including providing accounting guidance & oversight related to proper recording of prepays & accelerated purchases)	*N/A*	*N/A*	*Capitalize*	*N/A*
Environmental				
➢ Preconstruction Surveys (avian, bat monitoring, habitat assessments) can span 2-3 years, but typically >1 year	*Expense*	*Capitalize**^*	*Capitalize**^*	*N/A*
➢ Completion of pre-construction avian/bat/wildlife surveys/raptor nest surveys	*Expense*	*Capitalize**^*	*Capitalize**^*	*N/A*
➢ Micrositing support with E&C (wetlands, cultural, biological surveys, etc. during construction)	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Agency Consultation (during final permitting)	*Expense*	*Capitalize*	*Capitalize*	*N/A*
➢ Litigation Support	*Expense*	*Capitalize*	*Capitalize*	*Expense*
➢ financing support	*Expense*	*Expense*	*Expense*	*Expense*
➢ Compliance assurance	*Expense*	*Capitalize*	*Capitalize*	*Expense*

**Refers to project costs that are deferred in FERC Account 183, Preliminary Survey and Investigation Charges*
***Must be related to a specific project. Not just general procurement of items for projects in the future.*
**** Includes activities that qualify for capital treatment once the assets are in construction phase.*
^if required by law/permit to get the asset ready for use