

1. Policy Summary

Title	Project Accounting and Control Policy
Version / Date	April 9, 2019
Audience	All Employees
Risks Addressed	To ensure authorized, accurate and consistent processes exist for the accounting for capital project transactions, such as additions, removals, retirements and transfers.
Procedure Location	N/A

2. Purpose

This Policy is effective for periods after August 1, 2019 to establish the requirements for accounting for capital project transactions, such as additions, removals, retirements, and transfers.

3. Scope

In Scope:	Capital projects
Out of Scope:	Non-capital projects

4. Mandatory Requirements

GENERAL:

- This document is designed to outline processes associated with appropriate Project Accounting and Controls, unitization of capital projects and the retirement of assets.
- This document outlines the processes to ensure the integrity, consistency, and accuracy of the accounting for capital and operating and maintenance (O&M) projects.
- All costs associated with a project should be reflected in the financial statements and within the proper FERC account.

PROJECT LIFE CYCLE:

- Project Life Cycle - Each stage of the Project Life Cycle has various activities, process owners, and financial systems that will ensure consistency and accuracy with the accounting for a project.
- Communication between the various project owners is a key to ensuring the consistency and accuracy of the accounting to capital or expense.
- See chart below:

FERC		1070		1060		1010
Process Cycle	Project Design	Project Created, Construction Commences.	Project Construction Cost Review	Project In use and useful	Project 100% complete. Acct can confirm charges	Close project - Unitize and Record Retirements
Process Owner	Engineer	PM or Ops notifies Accounting (Acct)	PM or Operations (Ops)	PM or Ops notifies Acct	PM or Ops notifies Acct	Acct
System	Excel	IRR, DocLink, E4SE, Epicor	E4SE	E4SE	E4SE, FAS, Excel, DocLink	E4SE, FAS, Excel, DocLink

1070

- Project initiated
- Accepts charges
- Accrues AFUDC (as appropriate)

1060

- Plant in use and useful (placed into service).
- Continues to accept charges
- AFUDC stops
- Depreciation begins

1010

- 100% Complete (no more charges)
- Asset is unitized
- Depreciation continues
- Retirements recorded (as appropriate)

GENERAL PROJECT ACCOUNTING AND CONTROL RULES AND DEFINITIONS:

- **Code of Federal Regulation (CFR)** – The Code of Federal Regulations (CFR) is a set of rules published in the Federal Register by the executive departments and agencies of the U.S. government. The Federal Energy Regulatory Commission (FERC) CFR defines specific accounting and utility accounts required for utility companies in quarterly reporting through the standard FERC forms. The accounts defined within the FERC CFR are commonly referred to as FERC utility accounts.
 - **Property Group** – Property Groups are high-level categories of assets that simplify the process of locating the correct FERC or Utility Account and Property Unit for an asset. PUC Example – Transmission/Distribution Plant – Cathodic Protection Equipment – FERC Account 3670 or 3760.
 - **Plant/Utility Account** – The Plant/Utility Account is used to allocate costs to the appropriate General Ledger account(s). The Utility Accounts are categorized by function. Example – Production, Transmission, Distribution, General Plant.
- **Capital Costs** – Costs directly related to acquisition and construction of an asset including expenditures incurred to place the assets in service. Activities that are recorded as Property, Plant, and Equipment include the installation, removal, replacement, or salvaging of a property unit.
- **Expense** – Costs/expenditures related to the generation of current period revenues that do not provide benefits to future periods, as well as allocations of cost to the current period, such as depreciation, are classified as expense. The cost of labor, material and costs related to operations and maintenance of a utility plant are also examples of expenses.
 - **Operations & Maintenance** – A category of expense. Work that prevents failure or restores serviceability and maintains operability of existing assets is recorded as O&M expense.
- **Property, Plant & Equipment** – Tangible assets that (1) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and (2) are expected to provide economic benefit to the entity for more than one year.
 - **Property Unit Catalog (PUC)** – Provides accounting guidelines for consistent and appropriate capital versus expense treatment related to the recording of plant, property, and equipment additions, replacements, removal and repairs. The PUC is Chesapeake’s list of capital property units and includes the minimum unit of measure and FERC utility account for each capital unit.
 - **Property Units** – Specifically identified assets included in the Property Unit Catalog (PUC) are identified as a property unit. The costs directly related to the acquisition and construction of a property unit, including expenditures incurred to place the property unit in service, may be capitalized. If an asset is

not identified in the PUC as an identified and trackable property unit, the asset is considered a Minor Item of Property. The property units that are identified and trackable should include the asset description, cost, location and quantity.

- **Minor Item of Property** Minor Items of property are any part or element of plant which is not designated as a retirement unit.
- **In-Service** – A project status that when attained, stops AFUDC and starts Depreciation. A project should be placed in-service when it is capable of performing its intended function. For electric projects, this when the project is “electrically complete, and the transformers and feeders can be energized. For gas projects, this is when the project is “gassed out”, and the mains are pressurized and customers may be connected.
- **Late Project Charges** – Once a project is placed in-service and prior to being 100% completed and closed, any charges that are incurred should be accrued for if the cost is not recognized on the books. Once a project goes into service, additional charges may be incurred for 6 months. If operations are aware of these charges, they should notify accounting. If Operations expects certain charges for the project to extend beyond the 6-month window (for example restoration costs), Operations must request, and Accounting must approve an extension to the project timeline. **Refer to Expense and Capital Expenditure Accruals policy for guidance.**
- **Asset Transfers** – moving a fixed asset from one business unit or department to another business unit or department:
 - All transfers must be identified by Operations/project managers/project analysts and communicated to accounting timely.
 - All transfer requests must be approved.
 - All transfers must contain detailed information about the asset being transferred, such as asset description, cost, vintage year, and existing and future location.
 - All transfers must be recorded by accounting in the plant records and general ledger within 30 days of accounting being notified.
 - All transfers within unregulated units shall be recorded at book value unless otherwise approved by the Controller. All gains / losses on an intercompany transfer of assets will need to be eliminated for financial reporting purposes
 - All transfers between regulated and unregulated entities shall be evaluated by regulatory affairs and accounting for the proper basis and treatment in accordance with the appropriate jurisdictional requirements.
- **Closing Projects** – For all projects there is a two-step process. For step one, when a portion of a project is in use and useful and goes into service, the accumulated costs are transferred from Construction Work in Progress plant account 1070 to account 1060 Completed Construction not Classified. Step two is when all work performed is 100% complete and all invoices for the project have been received or paid. Unitization and asset retirements can occur at this step, and the costs are moved to Plant in Service account 1010.

- **Unitization** – Unitization is the direct assignment or allocation of capital costs to units of property as defined within a given project.
- **Retirement** – Retirement is the process of removing an asset (property unit) that has been taken out of service off of the ledger. Any cost of removal and gross salvage should be recorded to the reserve account. Costs of the retiring property unit, removal and salvage should be recorded within one month of the retirement date and may be estimated with corrective adjustment entries made when the transactions are finalized. (For FPU refer to the Florida Public Commission Rules 25-7.0461 for Gas Plant and 25-6.0142 for Electric Plant).
 - All retirements must be identified by Operations/project managers/project analysts and communicated to accounting timely.
 - All retirements must be associated with a capital project and the capital project number assigned includes an “R” at the end of the project number.
 - All retirements must be approved in accordance with the spending authorities.
 - All retirements must contain detailed information about the asset being retired, such as unit of measurement, asset description, vintage and cost.
 - All retirements must be recorded by accounting in the plant records and general ledger within 30 days of accounting being notified.
 - Any replacement project’s retirement IRR must be processed at the same time as the new construction IRR.
- **Cancelled Project** – For all cancelled projects, any budget costs assigned should be adjusted to the non-chargeable blanket project and any charges that may have hit the project while open should be charged to expense. After this process close this project.
- **Preliminary Survey and Engineering (Acct 1830)**
 - Account 1830 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. If construction results, this account shall be credited and the appropriate capital project charged. If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or to the appropriate operating expense account. Pre-approved per the spending authority policy.
 - Account 1830 shall also include costs of studies and analyses mandated by regulatory bodies related to plant in service. If construction results from such studies, this account shall be credited and the appropriate capital project charged with an equitable portion of such study costs directly attributable to new construction. The portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to account 182.2, Unrecovered Plant and Regulatory Costs, or the appropriate operating expense account. The costs of such studies relative to plant under construction shall be included directly in account 1070, Construction Work in Progress. Pre-approved per the spending authority policy.

- The records supporting the entries to this account shall be kept so that the utility can furnish complete information to the regulatory bodies upon request. Pre-approved per the spending authority policy.
- **Refer to Capital Approval policy for guidance.**
- Costs waiting for approval, if they are for Utility Plant construction should be assigned to a suspense or clearing account - FERC Account 1840. As soon as these costs are authorized, they should be transferred to FERC Account 1070.

5. Policy Governance & Compliance

Any individual found in violation of this Policy could be subject to discipline, up to and including termination. Any exceptions to this Policy must be approved, in writing, by the VP, Controller or Chief Financial Officer.

6. Definitions & Applicability

- Property Unit Catalog (PUC) – lists Chesapeake’s fixed asset property units and describes what can be capitalized. In addition, the PUC provides guidance for the accounting for additions, replacements, removal, and repair of fixed assets.
- Property Unit – specific fixed asset, such as valve, mains, etc. and is factored into the determination of whether to capitalize or expense a fixed asset transaction.
- Fixed asset transaction – addition, retirement or removal of a fixed asset or property unit for Chesapeake’s accounting records.
- Capitalized – fixed asset transaction is reflected on Chesapeake’s balance sheet as an asset rather than expensing the transaction on Chesapeake’s income statement.
- Expense – fixed asset transaction is reflected on Chesapeake’s income statement as an expense rather than capitalizing the transaction on Chesapeake’s balance sheet as an asset.
- FERC – Federal Energy Regulatory Commission which regulates the transmission and wholesale sale of energy in interstate commerce.

7. Supporting Materials

Materials	Where located
<ul style="list-style-type: none"> ▪ Property Unit Catalog Policy ▪ Property Unit Catalog ▪ Capitalization Policy ▪ Internal Capitalization of Labor for General Plant Policy ▪ Project Accounting and Control Policy ▪ Allowance for Funds Used Under Construction (AFUDC) Policy ▪ Spending Authority Policy 	SharePoint - TBD or available upon request



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8. Applicable Accounting Standards

None

9. Regulatory Implications

Federal Energy Regulatory Commission (FERC) as detailed in the Code of Federal Regulations – 18 (CFR 18).

10. Contacts

P. Rossillo	Senior Director, Assistant Controller Tel: 1-302-736-6718 Email: prossillo@chpk.com
M. Petito	Senior Director, Shared Services Tel: 1-302-213-7335 Email: mapetito@chpk.com
C. Martin	VP, Regulatory & Rate Affairs Tel: 1-904-530-7051 Email: cheryl_martin@chpk.com



11. Approval and Signoff		
Name / Title	Signature	Date
Matthew Petito / Senior Director, Shared Services	<i>Matthew Petito</i>	04-10-2019
Paige Rossillo / Senior Director, Assistant Controller	<i>Paige E. Rossillo</i>	04-09-2019
Joe Steinmetz / Vice President, Controller	<i>Joseph Steinmetz</i>	04-12-2019
Cheryl Martin / Vice President, Regulatory & Rate Affairs	<i>Cheryl Martin</i>	04-09-2019
Beth Cooper / Executive Vice President, CFO	<i>Beth W Cooper</i>	04-09-2019

