

	<b>FINANCE POLICY FA-016</b>	<b>DEPARTMENT:</b>		<b>INQUIRIES TO:</b>		<b>TOPIC:</b>	
		All		Chief Financial Officer		Planning Cost Accounting Policy	
		<b>ISSUED:</b>		<b>REVIEW DATE:</b>		<b>APPROVED BY:</b>	
		March 2012		February 2015		_____ Chief Financial Officer	

**1.0 Purpose**

- 1.1 The purpose of this policy is to define the accounting policy for costs incurred in relation to planning activities.
- 1.2 Planning activities can include, but are not limited to, the following:
  - New Generation Supply planning;
  - Pre-feasibility and feasibility;
  - Environmental;
  - Water management;
  - Fisheries;
  - Reconnaissance;
  - Survey and investigation; and
  - Water license renewal studies

**2.0 Policy**

- 2.1 The following planning and study costs will be recorded as an expense of the period in which they are incurred:
  - a. Planning and study costs which are pure research in nature. It should be noted that costs of this type, if any, are not expected to be significant.
  - b. Planning and study costs related to ongoing operations, unless it can be demonstrated that these costs provide long-term or multi-year benefits to the system.
- 2.2 When the expected outcome of planning and study costs is to enhance the service potential or extend the useful life of an existing asset or to add new assets to the system, the related costs shall be capitalized to, and amortized on the same basis as, the related asset.
- 2.3 Planning cost project categories:
  - a. **New generation supply** – New supply projects, whether being built for energy or capacity or both, must include an economic analysis that demonstrates a net benefit to rate payers. For energy projects, this analysis will typically compare a project life cycle costs to a thermal option<sup>1</sup>; although other criteria may be warranted depending on the circumstances. Because of the large dollars and complex nature of these project, the Corporation employs a stage gate process<sup>2</sup> to financing. At each stage, the project team has to justify the economics of the project prior to receiving funding for

<sup>1</sup> Lowest cap-ex, highest op-ex supply solution.  
<sup>2</sup> See Attachment A attached for a description of this process.

the next stage. In this way, the Corporation minimizes the risk of spending capital dollars on unsupportable projects.; or

- b. **Regulatory** - Where a project is driven by regulatory requirement (e.g. water licence renewal), the legal background will be documented on the project approval. Note the cost of regulatory proceedings initiated as part of project assessment (as defined in a) will form part of the cost of constructed asset as described in 2.2 above.
- c. **System Improvements** – Relates to studies on existing infrastructure. The focus of the study is generally on a) end of life components; or b) system equipment failing to perform or performing inappropriately due to a change in operating circumstances. The objective of the study is to assess options for replacement. The assessment will look at the cost of upgrade versus the benefit achieved (e.g. improved reliability, increase functionality or flexibility, etc.).

2.4 Where a determination is made that a project is, or continues to be, economically viable, all project expenditures will be held in WIP until the project is completed.

2.5 If the project does not proceed, the capitalized development costs shall be amortized on a straight-line basis as follows, commencing with the next rate application period following the decision not to proceed with the project.

- a. Where accumulated planning and studies costs are less than \$1 million – the planning and studies costs will be amortized over five years.
- b. Where accumulated planning and studies costs have exceeded \$1 million – the planning and studies costs will be amortized over ten years.

2.6 Planning and study costs related to water license renewals shall be deferred and amortized over the term of the renewed license.

### 3.0 Application

3.1 Management should use its best judgment in determining which of the above categories each specific study applies to.

### 4.0 Rate Impact

4.1 For clarity, this policy only addresses the accounting treatment of costs. In keeping with standard regulatory process, the utility is required to file with the YUB to adjust rates for changes in corporate revenue requirement. In summary, YEC will close and begin amortization of studies as prescribed by this policy. Any rate changes created by these costs will be subject to a prudence review by the YUB prior to the rate change.