

**Policy Name:** Accounting for Tangible Capital Assets / Property, Plant & Equipment

**Policy Number:** F-5

**Policy Monitor:** Chief Financial Officer

**Policy Approver:** Senior Management

**Approval Date:** March 31, 2021

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## **Purpose**

The objectives of this policy are:

1. Document which tangible capital asset (TCA) accounting choices NTPC has made where Public Sector Accounting Standards (PSAS) allows for such choices.
2. Clarify PSAS TCA accounting practices adopted by NTPC to simplify its accounting.
3. Clarify interpretations of PSAS where PSAS is silent on TCA related matters.

Should a contradiction exist between this policy and PSAS, PSAS will prevail.

## **Policy Statement**

The NTPC accounts for its TCA in accordance with PSAS PS3150.

## **Guidelines**

### **1. Determination of Expenditures as Capital or Maintenance in Nature**

#### **a. First Costs**

i. Qualifying capital expenditures are defined under PS3150. Capital costs include the following costs:

1. Outright purchase of capital assets, such as land, a building, a vehicle, machinery, standby equipment, office furniture, etc.;
2. The immediate cost of repairing, renovating, or upgrading of used assets newly purchased to the extent that the expenditure is necessary to place the asset into use, but such expenditure must meet the criteria of a Betterment under PS3150;
3. The entire cost of constructing new additions to physical assets, such as generating station, a transmission line, a town distribution system, substation, including carrying costs directly

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attributable to the construction and development activity until the tangible capital asset is ready for use in producing goods or services etc.;

4. All start-up and commissioning costs until the tangible capital asset is ready for productive use in producing goods or services; and
5. All software purchases exceeding \$1,000, including software upgrades.

- ii. The Corporation capitalizes meters, regardless of the cost of each meter.
- iii. The Corporation capitalizes streetlights, regardless of the cost of each streetlight.
- iv. The Corporation capitalizes all other cost expenditures, except the following:
  1. Office furniture and general office items (excluding computer equipment) with a value of \$1,000 or less per item or per set. Such items include desks, chairs, equipment, shelving, etc.
  2. Computer equipment with a value of \$1,000 or less per item.
  3. Household furniture and appliances with a value of \$1,000 or less per item. Such items include fridges, stoves, microwaves, tables, chairs, couches, etc.
  4. Operating items with a value of \$1,000 or less per unit, per kit or per set. Such items include hand tools, chains, shop items, etc. where such items form part of a construction project, however, they are to be recorded in the relevant work order for that project, which, on completion, is charged to capital.

b. Addition, Replacement, or Removal of Major Parts

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i. Units of Property

1. If the expenditure is related to the replacement or addition of one or more Units of Property, the expenditure will be capitalized, regardless of the size of the expenditure.

ii. Components of Units

1. Replacement of component parts will be expensed when:
  - a. A substantial betterment is not effected; or
  - b. The cost of the replacement is less than the materiality limits listed below.
2. Replacement of component parts will be **capitalized** when:
  - a. Component parts are replaced in conjunction with the replacement of the Unit of Property with which it is associated (the new component parts need not be physically similar to those replaced as long as it performs the same function as the replaced part.); or
  - b. A substantial number of component parts are replaced and the cost of the replacements meets the following minimum materiality limits.

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Hydro Generation	\$25,000
Transmission Lines	\$20,000
Distribution	\$10,000
Diesel Generation	\$15,000
Substations	\$15,000
Gas Turbines	\$50,000
Telecontrol	\$20,000
Buildings & Land Improvements	\$10,000
General Property	\$ 1,000
Vehicles	\$ 5,000

c. Betterments to Existing Assets

i. Betterments must meet one of the following criteria to be capitalized:

1. Increase the service life of the existing asset by at least 25% of the original estimated useful life;
2. Result in quality or reliability improvements above original design standards; or
3. Reduce operating costs of the existing asset by a substantial and quantifiable amount over a period of at least three years; or
4. Increase the previously assessed physical output or service capacity.

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d. Renovated/Refurbished Assets – Buildings and Structures

- i. When a building or structure is renovated or refurbished to ensure that the asset will attain its expected useful life, these costs will be expensed as these expenditures are incurred to maintain the originally expected useful life or original service potential are more in the nature of maintenance.

e. Cost of Removal of Assets

- i. The cost of removing assets or component parts that were capitalized is charged against the Future Removal and Site Restoration provision under regulatory accounting. Under PSAS, these costs would be included in the gain or loss on disposal (assuming they are not asset retirement costs).

## 2. Capital Job Close Outs and In-Service Dates

- a. The Corporation exercises control over its capital expenditures through the projects sub ledger. Project Managers are responsible for operational and cost control of a capital job. A Project Manager shall inform the Finance Division when a project should be closed from capital work in progress to TCA.
- b. A capital job can involve the acquisition and/or creation of one or more capital assets. Assets of the project must be closed when they are substantially completed. Substantial completion occurs when all of the following conditions are met:
  - i. The asset or assets of the capital job are ready for productive use and is normally defined considering factors such as productive capacity and efficiency and/or the passage of time.
  - ii. The asset or assets of the capital job can be used for the purpose intended as described in the project brief or related scoping document.

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- iii. Any remaining work on relative to the asset(s) being closed is relatively minor.
- iv. Use of the project assets does not restrict the use or jeopardize the health or safety of others.
- c. If a capital job is being partially closed (i.e., one or more of the assets within a capital job is completed before the entire capital job is completed) the cost of the asset (s) closed out should be fully burdened with all appropriate direct costs (i.e., labour, materials, contractor costs, freight, estimated portion of demobilization costs etc.), overhead and IDC.
- d. The in-service date of the asset(s) created should not be before the beginning of the current fiscal year unless an obvious error was made. IDC and overhead allocated to the project will be adjusted appropriately in the year the error is discovered.
- e. Before a close out transaction is processed with an in-service date prior to the beginning of the current fiscal year, the Chief Financial Officer (CFO) must be in agreement with the in-service date and approve the close out form.

### **3. Applying IDC to Capital Jobs**

- a. IDC is calculated and added semi-annually to each capital job. IDC is based on the mid-year balance of cumulative costs of a project (opening costs + closing costs divided by two (2)). In the initial year of a capital job, the opening balance is nil. In the year the project is closed, the closing balance of the project is nil.
- b. For the purpose of calculating IDC, cost is net of government funding and does not include holdbacks or accruals as these are not costs financed by the Corporation.
- c. For the purposes of calculating IDC, cost includes overhead, as this is a cost financed by the Corporation.

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d. Capitalization of IDC ceases when an asset(s) is ready for productive use.

#### **4. Applying Overhead to Capital Jobs**

- a. Overhead is calculated and added annually to each capital job based on the cost incurred in the current year, including holdbacks and accruals. The overhead rate is determined annually in accordance with *Policy F-19 Capitalization of Overheads*.
- b. Overheads will apply to all projects that require the provision of project management services from within NTPC. For those items that are direct purchases, such as vehicles or tools, a lower rate of capital overheads will be applied.

#### **5. Accounting for Physical Stores Inventory**

- a. Directors and Managers may approve additions to inventory up to their signing authority limits as set out or delegated consistent with *Policy F-1 Signing Authority*. Additions to inventory in excess of a Manager or Director's signing authority require the approval of the CFO.

#### **Roles and Responsibilities**

- **Project Managers** are responsible for management of Capital Job accounts during work-in-progress. Once the job is complete, the Project Manager is responsible for initiating the project close out process, ensuring projects are closed out with accurate costs and on a timely basis.
- The **Chief Projects and Engineering Officer (CPO)** is responsible for the relevancy of the cost of assets capitalized. The CPO is responsible for the monitoring and management of the overall Corporate capital expenditures and capital budget.
- The **Finance Division** is responsible for processing close out transactions on a timely basis so that the financial statements can be prepared in accordance with PSAS.

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- The **CFO** is responsible for monitoring compliance with this Policy. Non-compliance will be reported to the President & CEO and appropriate member(s) of the Senior Management Group.

#### **Related Documents, Policies and Procedures**

- E-2 Capital Planning Policy
- F-8 Disposal of Capital Assets
- F-14 Accounting for Recoverable Capital Work Order & Time & Material Work
- F-15 Amortization
- F-19 Capitalization of Overheads

#### **Definitions**

- **Betterment:** The cost incurred to enhance the service potential of a tangible capital asset. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, associated operating costs are lowered, the life or useful life is extended, or the quality of output is improved.
- **PSAS:** Canadian Public Sector Accounting Standards as found in the Canadian Public Sector Accounting Standards Handbook as amended from time to time.
- **Components of Units:** Represent the associated parts or items making up units of property. Components must be in service to be considered for capitalization. Examples include transformer bushing, voltage regulator bushing, fuel pump, cross arm, guy, or insulator.
- **Expense:** a costs that are considered to be annual operating and/or maintenance costs with no long term benefit derived from the work being completed. This cost is reflected as a drawdown against revenues in deriving the Corporation's net income.

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- **Interest During Construction (IDC):** Charge to capital jobs based on the cost of borrowing in the associated period the costs are incurred as approved by the Public Utilities Board for the most recent General Rate Application test year.
- **Overhead:** Capital costs that are directly attributable to capital construction and development activities of the Corporation and therefore have long term benefit to the Corporation but for various reasons cannot be assigned to any specific capital job (i.e., capital planning activities, time spent on completing capital job close-outs, etc.). See Policy F-19 for further clarification.
- **Tangible Capital Asset:** The precise definition of TCA can be found in PSAS PS3150. TCA are assets of a permanent or lasting nature whose useful service life is expected to extend over several years. Examples include land, buildings, equipment and furniture. In this policy, the terms TCA, capital assets, tangible capital assets, and assets are used interchangeably.
- **Units of Property:** Represent the main units of equipment or properties contained within each asset and are established to complement and assist in defining the accounting control boundaries relative to procurement, operating, transfer and retirement of property, plant, and equipment. A unit of property is defined as that which is independently operational, readily separable from the asset and useful in its own right. Examples include dam, turbine, wood pole structure, conductor, transformer, regulator, circuit breaker, diesel engine, and generator.

### Policy History

Date	Revision #	Description of Change
TBA, 2021	6	Update Chief Technical Officer, Asset Management and Engineering to Chief Projects and Engineering Officer.
April 7, 2017	5	Minor changes

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March 3, 2015	4	Updated for NTPC's transition to Public Sector Accounting Standards.
November, 2013	3	Reformatted to new policy template and general revisions for clarity.
September 18, 2012	2	Amendment to reflect change in policy name, format and accounting standards and clarification on how NTPC accounts for AFUDC and Overhead.
December 31, 1999	1	Amendment
February 21, 1990	-	Original Policy