

# Capitalization Policy

## PEDERNALES ELECTRIC COOPERATIVE, INC.

### 1. Purpose:

- 1.1. ~~The purpose of t~~This Capitalization Policy ("Policy") is to addresses the criteria for determining ~~if whether~~ costs are capital in nature. Capital costs result in one of the following:
  - The creation of new ~~long-lived~~long-lived Assets either by acquisition or construction;
  - The replacement of existing Assets; or
  - The modification of existing Assets that is a substantial addition or betterment resulting in extension of useful life.
- 1.2. This Policy ~~establishes conveys~~ the guidelines regarding capitalized costs for property, plant, and equipment for Pedernales Electric Cooperative, Inc.'s ("PEC" or "Cooperative") ~~guidelines regarding capitalized costs for property, plant, and equipment~~. It also provides guidelines for consistent and accurate recording of Assets as required for reporting purposes and in accordance with ~~for internal, external~~ Generally Accepted Accounting Principles ("GAAP"), ~~federal, debt compliance, and regulatory reporting~~.

### 2. Scope:

- 2.1. This Policy applies to all PEC costs that fit the Cooperative's guidelines for capitalization. ~~In general, the ongoing activities at the Cooperative are accounted for as Operations and Maintenance expenses and expensed in the period incurred. However, if a cost adds to the productive capacity, improves the efficiency, increases the useful life of an existing Asset, or if the cost creates a new Asset, then it may be capitalized.~~

### 3. Definitions:

- 3.1. Asset – Any resources owned by ~~PEC the Cooperative~~ and which have future economic value that may be measured and expressed in dollars.
- 3.2. Continuing Property Record ("CPR")–Units ("CPR Units") – A unit of property which can be readily identified and accounted for by itself. There are two types of CPR Units:
  - 3.2.1. Specifically identifiable units such as land, buildings, and equipment, etc., for which ~~PECone~~ maintains a record showing the location and original cost of each item.
  - 3.2.2. Group units such as poles, transformers, meters, etc. that are recorded in total quantities and at a total grouped asset value. Group ~~units~~assets are referred to at an average cost per unit. Group unit property records are a control record and should be supplemented by subsidiary continuing property records subdivided by sizes and recorded in detail from the work orders completed during the year. The total quantities, total cost, and average cost per unit should be recorded as part of the ~~continuing property records~~CPR Units at the end of each year.
- 3.3. Distribution Plant – Assets with physical substance, including such items as land, buildings, structures, machinery, drawings, and equipment related to electric

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supply at distribution voltages. This includes FERC Accounts 360-374.

- 3.4. Federal Energy Regulatory Commission (“FERC”) Account – PEC~~The Cooperative~~’s system of accounts is based on the Code of Federal Regulations, Title 7, Chapter XVII, Rural Utilities Service, Department of Agriculture, Part 1767, Subpart B –

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Uniform System of Accounts, and is generally referred to as the FERC system of accounts.

- 3.5. General Plant – Assets with physical substance, including such items as land, buildings, structures, machinery, and equipment, owned and used by ~~PEC~~the Cooperative but not directly related to the purpose of supplying electricity. This includes FERC Accounts 389-399.
- 3.6. Generally Accepted Accounting Principles (“GAAP”) – A framework of accounting standards, rules, and procedures defined by the professional accounting industry.
- 3.7. Intangible Plant – Assets lacking in physical substance, including such items as trademarks, patents, or copyrights. This includes FERC Accounts 301-303.
- 3.8. Transmission Plant – Assets with physical substance, including such items as land, buildings, structures, machinery, drawings, easements, and equipment related to electric supply at transmission voltages. This includes FERC Accounts 350-359.

#### 4. Policy Statement and Implementation:

~~Capital costs must meet the guidelines stated below.~~

##### 4.1. Determining When to Capitalize Costs

4.1.1. If a cost adds to the productive capacity, improves the efficiency, or increases the useful life of an existing Asset, or if the cost creates a new Asset, then the cost is capitalized unless an exception is applied by the Chief Financial Officer; otherwise, ongoing activities at PEC are accounted for as Operations and Maintenance expenses and expensed in the period incurred.

##### 4.2. Capitalization Guidelines by Plant Type

4.1.1. Transmission and Distribution Utility Plant. Costs for the following activities ~~shall be~~ capitalized:

##### 4.1.2.

4.1.1.1 — Installation or construction of a new Asset; ~~or~~

##### 4.1.1.1

4.1.1.2 — Upgrades or modifications to existing Assets that adds to the capacity, improves the efficiency, or increases the useful life; ~~or~~

##### 4.1.1.2

4.1.1.3 Replacement of existing Assets will be recorded as a capital installation with a corresponding retirement for such Asset.

4.1.2.4.1.3. General and Intangible Plant. Costs for the following activities ~~shall be~~ capitalized:

4.1.1.4 Single purchase of a single Asset with a value of \$7,500 or greater and an expected useful life of two years or greater; ~~or~~

4.1.1.5 Multiple component purchases that create a single Asset with a total value of \$7,500 or greater and with an expected useful life of two years or greater; ~~or~~

4.1.1.6 Substantial addition or betterment of existing Asset to increase the value or extend the useful life where the value of the Asset is increased by \$7,500 or more; ~~or~~

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4.1.1.7 All transportation equipment licensed for road use, regardless of value.

### ~~3.9. Procedure Responsibilities:~~

#### ~~4.3.~~

~~4.3.1~~ PEC's Chief Financial Officer ~~("CFO")~~ has overall responsibility for this Policy.

~~4.3.2~~ -Under the direction of the Chief Financial Officer, PEC's Finance Department is responsible for enforcing this Policy, establishing operational procedures, reporting mechanisms, and training to ensure work results conform to this Policy.

~~4.3.14.3.3~~ PEC employees and any applicable contract personnel are responsible for following this Policy.

### ~~4.5. Enforcement:~~

~~4.1.5.1.~~ The PEC Board of Directors, Chief Executive Officer, and Chief Financial Officer will enforce this Policy. Violations of this Policy may result in disciplinary action, up to and including, termination.

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**~~5. Superseding Effect:~~**

~~5.1. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.~~

**6. References and Related Documents:**

- 6.1. Generally Accepted Accounting Principles
- 6.2. Rural Utilities Services Uniform System of Accounts
- 6.3. Federal Energy Regulatory Commission Uniform System of Accounts
- 6.4. PEC Budget Policy
- 6.5. PEC Assembly Unit List
- 6.6. PEC Capitalization Handbook

Policy Title:	Capitalization Policy
Review Frequency:	Every <del>5</del> 2 years
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Approver:	Board of Directors
Applies to:	All PEC employees and <u>applicable</u> contract personnel
Administrator:	<del>Chief Financial Officer</del> Finance
Superseding Effect:	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.