Jennifer Brooks Hutchinson
Senior Counsel
PPL Services Corporation
JHutchinson@pplweb.com

280 Melrose Street
Providence, RI 02907
Phone 401-784-7288

Rhode Island Energy™
a PPL company

March 6, 2023

VIA ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket No. 22-49-EL-The Narragansett Electric Company d/b/a Rhode Island Energy Advanced Metering Functionality Business Case
Responses to PUC Data Requests – PUC Set 4

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a Rhode Island Energy ("Rhode Island Energy" or the "Company"), attached is the electronic version of Rhode Island Energy's responses to the Public Utilities Commission's Fourth Set of Data Requests in the above-referenced matter.[1]

Thank you for your time and attention to this matter. If you have any questions, please contact Jennifer Brooks Hutchinson at 401-316-7429.

Very truly yours,

Jennifer Brooks Hutchinson

Enclosures

cc: Docket No. 22-49-EL Service List
John Bell, Division
Leo Wold, Esq.

[1] Per communication from Commission counsel on October 4, 2021, the Company is submitting an electronic version of this filing followed by hard copies filed with the Clerk within 24 hours of the electronic filing.

CERTIFICATE OF SERVICE

I certify that a copy of the within documents was forwarded by e-mail to the Service List in the above docket on the 6th day of March, 2023.

Adam M. Ramos, Esq.

The Narragansett Electric Company d/b/a Rhode Island Energy
Docket No. 22-49-EL Advanced Meter Functionality (AMF)
Service list updated 2/27/2023

Name/Address	E-mail Distribution List	Phone
The Narragansett Electric Company d/b/a Rhode Island Energy Jennifer Hutchinson, Esq. 280 Melrose Street Providence, RI 02907	JHutchinson@pplweb.com;	401-784-7288
	JScanlon@pplweb.com;	
	COBrien@pplweb.com;	
	CAGill@RIEnergy.com;	
	JOliveira@pplweb.com;	
	BLJohnson@pplweb.com;	
	SBriggs@pplweb.com;	
	KGrant@RIEnergy.com;	
	wanda.reder@gridxpartners.com;	
	PJWalnock@pplweb.com;	
Hinckley Allen Adam Ramos, Esq. 100 Westminster Street, Suite 1500 Providence, RI 02903-2319	aramos@hinckleyallen.com;	401-457-5164
	cdieter@hinckleyallen.com;	
	cwhaley@hinckleyallen.com;	
	ssuh@hinckleyallen.com;	
Division of Public Utilities (Division) Leo Wold, Esq. Christy Hetherington, Esq. Division of Public Utilities and Carriers 89 Jefferson Blvd. Warwick, RI 02888	Leo.Wold@dpuc.ri.gov;	401-780-2177
	Christy.Hetherington@dpuc.ri.gov;	
	Margaret.L.Hogan@dpuc.ri.gov;	
	John.bell@dpuc.ri.gov;	
	Al.contente@dpuc.ri.gov;	
	Joel.munoz@dpuc.ri.gov;	
	Linda.George@dpuc.ri.gov;	
	Ellen.golde@dpuc.ri.gov;	
	Machaela.Seaton@dpuc.ri.gov;	
	Al.mancini@dpuc.ri.gov;	
	Paul.Roberti@dpuc.ri.gov;	
	Thomas.kogut@dpuc.ri.gov;	

	John.spirito@dpuc.ri.gov;	
Mike Brennan	mikebrennan099@gmail.com;	
Robin Blanton	rblanton@utilityengineering.com;	
William Watson	wfwatson924@gmail.com;	
David Littell	dlittell@bernsteinshur.com;	
Gregory L. Booth, PLLC 14460 Falls of Neuse Rd. Suite 149-110 Raleigh, NC 27614	gboothpe@gmail.com;	
Linda Kushner L. Kushner Consulting, LLC 514 Daniels St. #254 Raleigh, NC 27605	lkushner33@gmail.com;	
Office of Attorney General Nick Vaz, Esq. 150 South Main St. Providence, RI 02903	nvaz@riag.ri.gov; egolde@riag.ri.gov;	401-274-4400 x 2297
Office of Energy Resources (OER) Albert Vitali, Esq. Dept. of Administration Division of Legal Services One Capitol Hill, 4th Floor Providence, RI 02908 Chris Kearns, OER	Albert.Vitali@doa.ri.gov; nancy.russolino@doa.ri.gov; Christopher.Kearns@energy.ri.gov; Shauna.Beland@energy.ri.gov; Matthew.Moretta.CTR@energy.ri.gov; Anika.Kreckel@energy.ri.gov; Steven.Chybowski@energy.ri.gov; Nathan.Cleveland@energy.ri.gov; William.Owen@energy.ri.gov;	401-222-8880
Acadia Center Hank Webster, Esq. Acadia Center 31 Milk St., Suite 501 Boston MA 02109-5128	HWebster@acadiacenter.org;	401-276-0600 x 402
Mission:data Coalition James G. Rhodes, Esq. Rhode Consulting LL 160 Woonsocket Hill Rd. North Smithfield, RI 20896	james@jrhodeslegal.com;	401-225-3441

George Wiley Center Jennifer L. Wood, Executive Director R.I. Center for Justice 1 Empire Plaza, Suite 410 Providence, RI 02903	jwood@centerforjustice.org; georgewileycenterri@gmail.com; camiloviveiros@gmail.com;	
NRG Retail Companies Craig Waksler, Esq. Eckert Seamans Cherin & Mellott, LLC Two International Place, 16th Floor Boston, MA 02110	CWaksler@eckertseamans.com; Kmoury@eckertseamans.com; sstoner@eckertseamans.com;	617-342-6890 717-237-6000
Conservation Law Foundation (CLF) James Crowley, Esq. Conservation Law Foundation 235 Promenade Street Suite 560, Mailbox 28 Providence, RI 02908	jcrowley@clf.org; mcurran@clf.org;	401-228-1905
Original & 9 copies file w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov; Cynthia.WilsonFrias@puc.ri.gov; Alan.nault@puc.ri.gov; Todd.bianco@puc.ri.gov; Emma.Rodvien@puc.ri.gov; Christopher.Caramello@puc.ri.gov;	401-780-2107
Interested Parties:		
Victoria Scott (GOV)	Victoria.Scott@governor.ri.gov;	
Seth Handy, Esq.	seth@handylawllc.com;	
Stephan Wollenburg	swollenburg@seadvantage.com;	
Mary McMahon	mmcmahon@seadvantage.com;	
Jim Kennerly	jgifford@seadvantage.com;	
Amy Moses	amoses@utilidata.com;	
Amy Boyd, RI Director, Acadia Center	aboyd@acadiacenter.org;	401-276-0600
Oliver Tully, Acadia Center	otully@acadiacenter.org;	

PUC 4-1

Utility Plant Accounting and Standard for Rate Base Treatment

Request:

Are there any internal or external accounting guidelines or similar documents within the PPL corporate family which instructs, directs, or advises accounting and/or project management personnel on the criteria used to determine when costs associated with a particular capital project should be included as plant additions in the Company's plant accounting records. If so, please provide copies, including any related documents which are relevant to making the determination.

Response:

Due to the numerous amounts of internal plant accounting documents that may provide guidance around the Company's general plant accounting records, this response is focused on the relevant guidance for the Company's Pennsylvania affiliate, PPL Electric Utilities Corporation ("PPL Pennsylvania"), with which the Rhode Island Energy advanced metering functionality ("AMF") capital investments will be closely aligned.

PPL Corporation's regulated entities, namely Rhode Island Energy and PPL Pennsylvania follow the FERC Uniform System of Accounts as the general overarching policy for capitalizing regulated property, plant and equipment on the Company's books, specifically the Code of Federal Regulations, Title 18, Chapter I, Subchapter C, Part 101, focusing on "Electric Plant Instructions," as well as guidance for Balance Sheet Accounts 101, 106, 107; also Electric Plant Chart of Accounts guidance for account 370 – Meters.

In addition to this external guidance, please see Attachment PUC 4-1 for the following PPL Pennsylvania internal accounting policies applicable to general plant guidelines, as well as meter and software guidelines, to which the majority of the AMF costs will be related:

- Pages 1-10 - ACCT-EU-602 "Accounting guidelines for Capitalizing Costs for the Acquisition or Construction of Property, Plant and Equipment" – This is an overarching policy applicable to unregulated and regulated property, plant and equipment; provided, however, with respect to regulated property, plant and equipment, this policy applies only to the extent that FERC or other specific PPL accounting policies do not address the particular types of equipment or situations.

- Pages 11-13 - ACCT-EU-608 "Customer meters & line transformers" – Addresses the accounting for this equipment, including the capitalization (in-service) at purchase.

Prepared by or under the supervision of: Stephanie A. Briggs, John Schwartz, and Philip Walnock

- Pages 14-17 - ACCT -EU-618 "Expenditure Requisition Guidance and Requirements" – Addresses definition and some accounting for capital project type (Expenditure Requisition, "ER"). Applicable to meters, as PPL Pennsylvania purchases meters on ER "blankets," which are created in an "in-service" status. ACCT-EU-620 provides more details about status.

- Pages 18-24 - ACCT-EU-620 "Managing Status of Expenditure Requisition" – Policy addressing capital project ER status accounting, including in-service.

- Pages 25-27 - ACCT-EU-623 "Retirement Unit Listing" – Documents the retirement unit definitions and listing for PPL Pennsylvania, including meters.

- Pages 28-40 - ACCT-EU-615 "Accounting for Computer Software" – Computer software policy.

Please note that the policies or procedures provided in this response are used by PPL Pennsylvania and may include guidance not currently or historically used by Rhode Island Energy. In addition, Rhode Island Energy continues to follow some existing National Grid policies during the transition period under the Transition Services Agreement between Rhode Island Energy and National Grid USA Service Company, Inc. The internal documents also include references to any external accounting guidance as applicable.

Prepared by or under the supervision of: Stephanie A. Briggs, John Schwartz, and Philip Walnock

PPL Corporation
Financial Department
<u>Accounting Policies and Procedures</u>

Section: Property Accounting

Last Update/Reviewed: 12/17/2021

Subject: Accounting Guidelines for Capitalizing Costs for the Acquisition or Construction of Property, Plant and Equipment

Contact: Ryan Anderson

Number: 602

I. Purpose

The policy is to provide guidance for determining the accounting treatment for the capitalization of costs related to the acquisition or construction of Property, Plant and Equipment (PP&E) for unregulated entities. Regulated entities follow the FERC Uniform System of Accounts.

Applicability

This policy is applicable to PPL Corporation unregulated entities.

III. Definitions

Capitalizable Costs - costs that are directly identifiable with specific PP&E. This includes incremental costs related to the acquisition, construction, or improvement of capital assets. These costs singly or in combination with other assets will provide a future economic benefit that will contribute directly or indirectly to future net cash inflows (see Section IV No. 3 for further guidance on capital costs).

Direct Costs - costs which can be identified and directly attributed to a specific capital project for the acquisition or construction of PP&E. These costs can be readily identified and are itemized by name and amount. Examples are direct labor, direct material, and direct equipment costs.

Direct Labor Cost - labor cost which can be identified and directly attributed to a specific capital project for the acquisition or construction of PP&E. The cost components are basic wage/salary rate, shift premiums, fringe benefits, and overtime premiums.

Direct Material Cost - material cost which can be identified and directly attributed to a specific capital project for the acquisition or construction of PP&E. These costs include inventory loading cost, freight, transportation, and applicable taxes associated with the material.

Incremental Cost - costs and benefits that would only occur if a particular course of action is taken, compared to those that would have occurred if that course of action had not been undertaken.

Probable - the future event or events are likely to occur. A capital project for the acquisition or construction of PP&E is probable when: 1) proper management with delegation of authority approval is obtained in writing, 2) financial resources are available to fund the project, and 3) any regulatory requirements can likely be met.

Indirect/Overhead Costs - operating costs which generally are not directly attributable to a specific capital project for the acquisition or construction of PP&E.

Preliminary Stage - the period during which the acquisition or construction of specific PP&E is not deemed probable.

Preacquisition stage - the acquisition or construction of specific PP&E is deemed probable at this time, so appropriate costs can be capitalized. Proper delegation of authority has been authorized via management approval.

Acquisition or Construction stage - the acquisition or construction activities occur that are necessary to get the PP&E ready for its intended use. This is the stage when the business entity acquires ownership of the assets or rights to the assets. It continues until the asset is acquired or until completion of all major construction and installation activities. If the asset is constructed in phases, it can be divided into multiple projects if the phases can be operated independently from the projects that are incomplete.

In-Service stage - PP&E is substantially complete and ready for its intended use. Capitalized interest ceases and depreciation commences at this stage.

IV. Accounting Practice

1. Background

The American Institute of Certified Public Accountants (AICPA) recognizes that some entities capitalize acquisition and construction costs whereas others expense some of these costs as they are incurred. These diverse practices exist within and across industries. In 2001, the Accounting Standards Executive Committee (AcSEC) of the AICPA issued an exposure draft of a proposed Statement of Position, “Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment.” The Exposure Draft proposed a timeline method and the types of activities that occur in each stage of acquiring or constructing an asset. <u>Although it is non-authoritative guidance</u>, this guidance is consistent with ASC 340, which addresses internal-use software. Both the

Exposure Draft and ASC 340 emphasize the stage of the project and the allowable expenditures that can be capitalized within the stage. PPL has historically applied these standards, as well as the standards of the FERC and other regulators, in their accounting practices when making capital versus expense determinations.

2. Accounting

PP&E-related costs incurred during the preliminary stage should be expensed unless the cost is for an option to acquire PP&E, in which case it should be capitalized. PP&E-related costs incurred during the pre-acquisition and construction stages should be expensed unless the costs are directly identifiable with a specific capital project. PP&E-related costs incurred during the in-service stage are to be expensed unless they are incurred for 1) the acquisition of additional PP&E or components of PP&E or 2) the replacement of existing PP&E or components of PP&E. More specific guidance is noted under Section 5.

General and administrative and overhead costs incurred by third parties, as well as by internal PPL support functions that are directly identifiable and chargeable to a specific capital project, are capitalizable. No allocated overhead can be capitalized for non-regulated entities. Examples of internal/external support functions that may incur costs that are expensed, unless they are directly identifiable and chargeable to a specific capital project, are listed below:

- Office facilities
- Executive management
- Corporate accounting
- Acquisitions
- Corporate legal
- Office management and administration
- Marketing
- Human resources
- Information systems

The Exposure Draft restricts the types of PP&E costs that can be capitalized to those that are directly related to a specific capital project. An example of capitalizable overhead are costs that are included in the amount an independent third-party sets for the price it charges for work directly related to the project.

The distinction between direct and indirect costs is predominantly one of functions. For example, positions that perform functions that are essential and beneficial to all capital projects are indirect. Positions that perform functions that are specific to one or more capital projects are direct.

3. Financial Department Manuals and Policies

(https://intranet.sp.ppl.com/sites/financial/Lists/Links/AllItems.aspx)

The Classification of Accounts defines PPL's guidelines for capitalizing additions and replacements to PP&E. It provides general instructions in determining if PP&E expenditures qualify as capital or expense. In addition, it indicates the FERC account and retirement unit to which a specific cost directly related to a project should be classified for financial statement presentation and depreciation purposes.

The Controller Department Accounting Policies and Procedures provide detailed instructions for unique accounting within PP&E. For, example, "Accounting for Computer Software" describes the types of expenditures that can be capitalized, as well as the capitalization threshold for computer software projects.

"Accounting for Capital Office Furniture, Tools, and Equipment" specifies various capital thresholds for General Plant. This further exemplifies some PPL designated criteria in conjunction with the general capitalization guidelines set forth in the Classification of Accounts.

PPL advises its employees to be cognizant of resources available to make capital determinations consistent with the guidelines that are set forth within this policy and other supporting policies.

Property Accounting Policies and Procedures:

The following link is where all Property Accounting policies are maintained (Asset Management folder.) Please also see AP 404 – Accounting and Reporting Requirements for Leases and AP 407 – Asset Retirement Obligations (Critical Accounting Policies folder) for additional Property Accounting policies.

https://intranet.sp.ppl.com/sites/financial/ControllerDeptAccountingPoliciesProcedures/Forms/AllItems.aspx

V. PROCEDURES

PPL identifies four stages in order to limit the diversity in accounting for expenditures related to PP&E:

Preliminary stage

Feasibility studies often occur during this stage. PPL has defined this stage as not yet approved by management. All costs are expensed as incurred during this stage. The only capitalizable costs are payments to obtain an option to purchase PP&E.

Preacquisition stage

Only those costs that are directly identifiable to the asset are capitalized. Activities often include zoning, surveying, and engineering studies.

Directly identifiable costs include:

- incremental direct costs incurred in transactions with a third party often include an element of the third party's administrative overhead. That element is considered an incremental direct cost and should be capitalized.
- employee payroll and payroll benefit-related costs related to time spent on specified activities performed by the entity during this stage.
- depreciation of machinery and equipment used directly in the construction or installation of PP&E and incremental costs directly associated with the utilization of that machinery and equipment during this stage.
- inventory (including spare parts) used directly in the construction or installation of PP&E.
- payment to obtain an option to acquire PP&E.

NOTE: Costs that are capitalized during the preliminary and pre-acquisition stages will be added to the basis of the asset acquired or constructed. If the likelihood no longer exists that the asset will be acquired or constructed, capitalized costs should be reduced to the lower of cost or fair value less cost to sell.

Acquisition or Construction stage

Costs directly identifiable related to the asset during this stage can be capitalized. Examples are listed below:

- employee payroll and payroll benefit-related costs related to time spent on specified activities performed by the entity during this stage.
- depreciation of machinery and equipment (primarily vehicles) used directly in the construction or installation of PP&E and incremental costs directly associated with the utilization of that machinery and equipment during this stage.
- inventory (including spare parts) used directly in the construction or installation of PP&E.
- payments to obtain an option to acquire PP&E.
- incremental direct costs incurred in transactions with a third party often include an element of the third party's administrative overhead. That element is considered an incremental direct cost and should be capitalized.
- for real estate, costs incurred for property taxes, insurance and ground rentals are capitalizable during the time that activities are necessary to get the asset ready for its intended use are in progress. The cost of demolition that occurs with the acquisition of real estate is capitalized during a reasonable period thereafter.

In-Service stage

Costs that are incurred during this stage can be as follows:

- repair and maintenance - expensed as incurred.
- replacement of existing components of PP&E - capitalized under the guidelines of the classification of accounts.
- additional components to PP&E- follow the capitalization criteria set forth in the first three stages within this policy.

NOTE: Major Maintenance Activities may include costs related to replacements of PP&E and should be capitalized (when incurred, not accrued) according to the Classification of Accounts. Additions to PP&E should follow the capitalization criteria set forth in the first three stages within this policy. All other maintenance costs should be expensed as incurred.

Summary of Accounting

Type of Work	Capital	Expense	Deferred Charges	Comments
Preliminary Stage (pre-probable)				
Internal/external costs of developers working to facilitate project negotiation and start up		X		
Internal/external legal fees to draft letters of intent and purchase agreements		X		
Travel expenses of internal/external developers and other company personnel to conduct negotiations with other parties and review project		X		
Internal salaries/consultant fees to review or develop models of projected cash flows/operations		X		
Payments to obtain an option to acquire PP&E	X			
Preacquisition Stage (Project is deemed probable) & Construction Stage				
Payments to acquire a site permit and license when directly identifiable to the property	X			**A**
Internal/external legal fees for Operational/Commercial contracts	X			**B**
Internal/external legal fees for litigation proceedings related to PP&E	X			**B**
Internal/external legal fees for condemnations proceedings, including court and counsel costs for land and land rights	X			
Internal/external legal fees for environmental activities directly related to PP&E	X			**C**
Internal/external fees for incorporation related to a regulated entity	X			
Internal salaries of developers, legal counsel and other company personnel working to facilitate obtaining a site permit and license when directly identifiable to the activity	X			**D**
Internal salaries to negotiate and secure specific project financing		X		
Payments to obtain an option to acquire PP&E	X			
External fees to negotiate and secure project financing			X	

Incremental direct costs with independent third parties for specific PP&E	X			
External consulting fees such as architectural and engineering studies	X			
Real estate legal and title fees	X			
Real estate surveying fees, appraisal, negotiation fees, site preparation, and damage payments (e.g. crops)	X			**E**
Directly related employee salary and benefit costs (see above under Section V for this stage)	X			
Environmental compliance and due diligence in areas directly related to PP&E	X			**F**
Building demolition costs	X			**G**
Internal direct costs of constructing the asset, including labor	X			
Depreciation and incremental costs of directly related equipment (see above under Section V for this stage)	X			
Internal costs to develop software at site (subject to Accounting Policy for Computer Software 615.	X			
Costs of materials to build the plant, including acquisition of inventory and contract labor	X			
Costs reduced for liquidating damages	X			**H**
Inventory (including spare parts) used directly in acquisition or construction of PP&E	X			
Incremental costs associated with field office maintained during construction	X			
Costs to identify and hire operating and administrative personnel on-site		X		
Internal/external costs to conduct training, including training on internally developed or acquired software		X		
Interest expense incurred on debt incurred to finance acquisition (subject to limitations)	X			
Property taxes and insurance	X			**I**
Post Construction/Pre-operation				
Costs to test PP&E	X			**J**
Synchronization of PP&E to grid	X			**K**
O&M contractor costs		X		
Administrative costs such as rent, utilities, etc.		X		

Comments:

A. Capitalize only if all conditions are met: costs are directly identifiable to the specific property, costs would be capitalized if the property were acquired, and acquisition of the property is probable.
B. Capitalize only if directly identifiable to a capital project.
C. Examples of activities include licensing, air and water permitting, site acquisitions, and all other studies required by regulatory and environmental agencies as a pre-condition to permit issuance.
D. Limited to time spent on a specific permit/license. Not time exploring several possible sites; costs should not be significant.
E. Costs include professional fees of engineers, attorneys, appraisers, and financial advisors, etc.
F. Areas include hazardous material & waste management, pollution prevention, environmental permitting & impact analysis, and regulated licensing/renewals
G. Capitalize if the demolition is probable upon purchase and occurs within approximately one year after and classify as land.
H. Liquidating damages an entity receives because a third party did not deliver or complete construction by a contractual specified date.
I. Costs incurred for property taxes associated with real estate and insurance shall be capitalized as property cost only during periods in which activities necessary to get the property ready for its intended use are in progress.
J. Credit test power revenues against capital cost. Need to distinguish true testing from start up activities. Start up losses should be expensed.
K. Extensive connection delays or rework expenditures must be expensed. Need to distinguish from start up activities. Start up losses should be expensed.

NOTE: Examples above are not an exhaustive list of all expenditures that may be capitalized. Contact Property Accounting with any questions.

VI. Responsibility

A. PPL unregulated business lines are responsible for following accounting guidelines for capitalizing costs related to the acquisition or construction of PP&E.

B. Internal Reporting is responsible for providing accounting guidance updates on the capitalization rules set forth within this policy based upon EU Property Accounting guidance.

VII. Accounting Guidance

- ASC 340 – Other Assets and Deferred Costs
- ASC 350-40 – Intangibles-Goodwill and Other / Internal-Use Software
- ASC 470-10 – Debt / Overall
- ASC 720-15 – Other Expenses / Start-Up Costs
- ASC 970 – Real Estate-General

PPL Electric Utilities Corporation
Financial Department
Accounting Policies and Procedures

Section: Property Accounting **Last Update/Reviewed**: 12/31/2022

Subject: Customer meters & line transformers **Contact Name**: Lori Correll

Number: 608

I. Purpose

This Policy outlines the specific accounting procedures to be followed by the Company for the cost of initial testing, installing, removing, replacing, resetting and final removal of customer meters and line transformers (with protective equipment), including those used for street lighting, as provided by Commission regulation.

II. Applicability

Applicable to PPL Electric Utilities Corporation.

III. Definitions

Customer Meters - Meters of all types used for billing customers (including Company use meters), together with instrument transformers, meter mountings and associated materials.

Line transformers (overhead, submersible and pad mounted types) - Transformers normally used in transforming electricity to the voltage at which it is to be used by the customer.

IV. Accounting Practices

1. Background

The nature and function of customer meters and line transformers (including those used for street lighting) create patterns of use different from those of other types of retirement units. Some of these differences are:

- Periodic replacement for testing, repairing or change in service requirements.
- Large number of each, similarity of types and frequent relocation.
- Sizable quantities consistently held in reserve, many of which were previously installed.

2. Accounting

If general rules of accounting for utility plant were applicable to customer meters and line transformers, burdensome accounting procedures would result from the numerous installations, removals, replacements, and relocations. Recognizing the difficulty and record keeping burden in tracking installation costs for this type of property, regulatory commissions have provided that initial testing and installation costs capitalized are to follow the meter or transformer until it is ultimately retired.

The policy permitting capitalization of meters upon purchase assumes installation of those meters in a reasonably short period of time, as well as a pattern of purchase equaling usage over an extended period of time. If facts and circumstance reveal a significant balance of meters has been accumulated that will not be installed in a reasonably short period of time (typically 3 months and not more than a year), then Accounting may make an adjustment to move the excess meters into inventory. Meters identified as emergency stock will normally be excluded from the calculation.

Line Transformers - For purposes of this chapter and the special accounting instructions herein, line transformers have these characteristics:

KVA	**Primary Voltage**	**Secondary Voltage**	**Phase**
2,500 and under	23,000 or less	Any	single and three phase

Line transformers used for street lighting include transformers of all capacities, but do not include individual lamp type street lighting transformers which are considered part of the street lighting fixture or lamp post.

Lightning arresters and cutouts associated with overhead line transformers are part of the overhead line transformer retirement unit and are therefore included in the property covered by this chapter.

V. Procedures

A project ID established should have the appropriate three-digit subproject code which will utilize the operating or maintenance accounts listed below (except charges to code 005 - related expenses to be billed).

***Field* Accounting**
Charge the cost of labor, material and other expenses incurred in the initial testing, installing, removing, replacing, changing taps or resetting of customer meters and line transformers (including lightning arresters and cutouts) covered by this chapter as follows:

<u>*Customer Meters*</u>

- When routine: 58610 - Meter Expenses - Installing, Testing, Removing and Resetting

- When incidental for repair: 59700 - Maintenance of Meters

<u>*Line Transformers*</u> - Use appropriate street lighting account for line transformers used for street lighting 58540, otherwise use 58320 or 58440.

When routine:

58320 - Overhead Line Expenses - Line Transformers and Voltage Regulators - Installing, Testing, Relocating, Removing and Changing Taps

58440 - Underground Line Expenses - Other - Transformers and Voltage Regulators - Installing, Testing, Removing and Changing Taps

58540 - Street Lighting and Signal System Expenses - Street Light Transformers – Installing, Testing, Relocating, Removing and Changing Taps

When incidental for repair:

59500 - Maintenance of Line Transformers

Charge all costs incurred in replacing line transformer lightning arresters or cutouts, independent of replacing the transformer, as follows:

59500 - Maintenance of Line Transformers

Sale of Facilities/Equipment - Contact Denis Pancoast, Senior Engineer: Distribution Design & Standards

VI. Responsibilities

A. Property Accounting is responsible for ensuring that customer meters and line transformers installation, testing, removing, and resetting costs are charged to the proper capital account.
B. PPL Electric Utilities Corporation is responsible for charging the correct operating expense account for customer meters and line transformers installation, testing, removing and resetting.

Prepared By: Lori Correll 11/08/2022

Reviewed By: Beverly Siegfried 01/02/2023

PPL Electric Utilities Corporation
Financial Department
<u>Accounting Policies and Procedures</u>

Section: Asset Accounting **Last Update/Reviewed:** 12/31/2022

Subject: Expenditure Requisition
Guidance & Requirements **Contact:** Julie Zemyan Dapkewicz

Number: 618

I. Purpose

This policy provides guidance and requirements related to the preparation of Expenditure Requisition (ER) Authorization forms required by Asset Accounting as part of their review for the proper accounting classification of expenditures as capital and for initial project set up in PowerPlan.

II. Applicability

Applicable to all PPL Electric Utilities Corporation domestic business lines that utilize PowerPlan Project Cost Management to account for capital expenditures.

III. Definitions

Classification of Accounts: Controller's Department formal guidance related to accounting and classification of expenditures.

Expenditure Requisition: Electric Utilities' official authorization for capital spend and the primary project type for tracking costs for capital projects and applying those costs to the correct FERC accounts.

Retirement Unit: The lowest component of plant for which an expenditure can be considered capital (See Code of Federal Regulations 18 – "Electric Plant Instructions").

Minor Item: An associated part or small component of a retirement unit.

IV. Accounting Practices

A capital ER is required if there is an installation or removal of a retirement unit. If any portion of the capital costs are to be billed to a third party, an ERBIL is required.

With the implementation of Infor, there are several changes to the creation of capital ERs.

<u>Distribution</u>

- The Capital ER Request Form is no longer utilized by the Distribution business line. Rather, the Super Project Request Form is used to create and approve Super Projects in PowerPlan. The Super Project is then sent to Infor.
- A work order is created in Infor and is sent back to PowerPlan as a Specific or Blanket ER in a chargeable status (Open or In-Service).
- Authorizations occur at the Super Project level.

<u>Transmission</u>

- The Transmission business line will continue to use the Capital ER Request Form to authorize capital projects and to request certain project types that do not require a work order in Infor.
- Super Projects are created in PowerPlan and automatically opened. The Super Project is then sent to Infor.
- A work order is created in Infor and is sent back to PowerPlan as an ER in the Initiated status.
- Users will complete the Capital ER Request Form to indicate the project authorized amount and the approver, who is someone with proper Delegation of Authority for capital projects to authorize the expenditure. Refer to Corporate Policy GP-712, “Delegation of Authority”.
- The ER is routed for approval in PowerPlan.
- Once approved, the ER status will change to Open and become chargeable.
- Authorizations occur at the ER level.

<u>IT</u>

- The Capital ER Request Form is used by IT to create capital projects and designate an approver with sufficient Delegation of Authority. The capital ER is routed for approval in PowerPlan.

<u>Vehicles and Facilities</u>

- The Capital ER Request Form is used by Vehicles and Facilities to create capital projects; however, authorization is done at the Super Project level.

Please refer to the table below for a summary of all process changes.

	SP Authorization Required	ER Authorization Required	Automated ER Creation	Manual ER Creation	Automated ER Creation w/ Manual Authorization
Distribution	X		X		
Transmission		X			X
IT		X		X	
Vehicles	X			X	
Facilities	X			X	

Capital ER request forms provide Asset Accounting with the information required to determine if an expenditure is capital. The form is also used to ensure that the capital projects are properly set up in PowerPlan. The following information is required as part of the ER document, found at the link below:

Capital ER Request Form

V. Procedures

- An ER, or other comparable document, is completed by PPL Electric Utilities personnel and submitted to Asset Accounting.

- Asset Accounting will review the documentation and ensure that project classification, accounting, and project set up are correct based on the information contained in the documentation.

- Asset Accounting will then file the ER Authorization document in a work folder assigned with the corresponding project number or attach it to the project details panel in PowerPlan. These documents are then maintained according to guidelines in the PPL Records Retention Schedule.

VI. Responsibilities

PPL Electric Utilities employees are responsible for properly completing the ER form and/or other supporting documentation.

Asset Accounting is responsible for reviewing the documentation to ensure that the expenditure classification, accounting, and project set up information is correct.

Asset Accounting is responsible for maintaining ER related documents according to PPL Record Retention guidelines.

Prepared By: Julie Zemyan 1/31/2023

Reviewed By: Beverly Siegfried 2/1/2023

PPL Electric Utilities Corporation
Financial Department
Accounting Policies and Procedures

Section: Asset Accounting

Last Update/Reviewed: 12/31/2022

Subject: Managing Status of Expenditure Requisition

Contact Name: Julie Zemyan Dapkewicz

Number: 620

I. Purpose

This Policy outlines the specific accounting procedures to be followed by the Company for managing the status of Expenditure Requisitions.

II. Applicability

Applicable to PPL Electric Utilities.

III. Definitions

Expenditure Requisition (ER) is the official authorization, accounting document and capital project number. The ER describes the scope of work and contains an estimate of the project cost. It also establishes the accounts to which the various project costs are to be charged including related operating and maintenance work.

PowerPlan Project Cost Management (PCM) manages the lifecycle of capital and expense accounting projects.

Allowance for Funds Used During Construction (AFUDC) is the cost of funds expended for each regulated capital project during its period of construction.

Continuing Property Records (CPR) are the company plant records for retirement units and mass property.

Retirement Unit is a relatively costly item of electric plant equipment or property or an assembly of relatively costly items that is readily identifiable and separable from a larger unit or system, whose costs are accounted for as capital when added to or removed from utility service.

IV. Accounting Practices

1. Background

There are six status types applied to ERs in PowerPlan depending on the current progress of the project's lifecycle.

- ***Initiated*** is the status given to an ER that has been established but not authorized. The ER cannot be charged in this status.
- ***Suspended*** is the status given to an ER that has been authorized, but Asset Accounting requires additional information to determine if the project meets the criteria for capital accounting. With the implementation of PCM, it is also the status used for an ER that has been authorized for spend, but construction has been temporarily deferred or the project will not be actively worked for 6 months or more (previously referred to as temporarily closed).
- ***Open*** is the status given to an ER when an authorized project is under development and construction but prior to being placed in-service. Construction costs are classified as Construction Work In-Progress (CWIP).
- ***In-Service*** is the status given to an ER at the time the asset is considered used and useful.
- ***Closed*** is the status given to an ER at the time the project is complete, and all eligible costs have been incurred against the project.
- ***Canceled*** is the status given to an ER for a project where no assets have been or will be constructed.

V. Procedures

Initiated ERs
ERs in the Initiated status have not been authorized for spend and cannot be charged. Typically, ERs are established and placed in the initiated status if the business line needs an ER for planning and budgeting purposes for a project that has not yet been authorized through the business line's governance process.

Suspended ERs
Suspended status is used by Asset Accounting to prevent spending on ERs that have not met all the criteria for capital accounting. Any projects placed in the Suspended status will be communicated to the business line prior to the status change. This status will be applied to ERs at Asset Accounting's discretion for the following reasons:

- ERs that have been reviewed by Asset Accounting and determined to have incorrect accounting.

    - ERs set up under the wrong business unit (for example, distribution assets constructed under a transmission ER)
    - ERs set up with the wrong plant function (for example, substation assets constructed under a line ER)
    - ERs set up for maintenance activities

- ERs that have been reviewed by Asset Accounting and determined to have inadequate support for capital accounting determination; particularly inadequate work scope description to determine:
    - If retirement units are being installed and/or removed
    - If retirement units being constructed are line or substation assets
    - The correct asset location on the CPR

ERs that have been authorized, but temporarily deferred are placed in the Suspended status and cannot be charged. AFUDC is not applied to projects in the Suspended status. ERs for projects that will not be actively under construction for 6 months or more should be placed in Suspended status to prevent AFUDC from accruing.

Open ERs
ERs that have been authorized are placed in the Open status and are available for charging. ERs are placed in the Open status during the construction phase of the project and costs incurred are recorded to a Construction Work In-Progress (CWIP) account. AFUDC is applied to projects in the Open status when applicable.

In-Service ERs
ERs are placed In-Service when the assets constructed are used and useful. Assets are typically considered used and useful when the assets have been energized and are providing a benefit to the ratepayer. ERs are still available for charging in the In-Service status. Any questions related to projects where in-service eligibility is uncertain should be directed to Asset Accounting prior to placing the ER in-service.

- For distribution and transmission line and substation projects, in-service means that construction/test work on the ER is substantially complete and the project is energized. Other work, such as restoration, landscaping, installation of communication equipment and removal of assets, can be completed while the ER is in the In-Service status.
    - For equipment that ordinarily is not energized, such as laterals, the assets are considered “used and useful” and should be placed in-service when the equipment is capable of being energized.

- Purchase ERs for distribution power transformers are placed in-service when the final unit has been received. The new transformer does not need to be in its permanent location or energized to be placed in-service.

- Purchase ERs for large transmission power transformers are placed in-service when the unit has been received and all testing has been successfully completed. The ER is placed in-service after testing and acceptance by PPL. The new transformer does not need to be in its permanent location or energized to be placed in-service.

- Purchase ERs for transmission or distribution circuit breakers are placed in-service when the final unit has been received. The new circuit breaker does not need to be in its permanent location or energized to be placed in-service.

- Reference the appropriate procedure for placing land and right-of-way ERs in-service.

Closed ERs
ERs are placed in the Closed status after construction is complete and all eligible costs incurred have been charged to the project. ERs cannot be charged in the Closed status.

- As a general rule, ERs should be closed within 6 months of being placed in-service. Capital projects that cannot meet this requirement due to special circumstances should be reviewed with Asset Accounting.

    - All follow-up work to be completed after assets have been energized and placed in-service, such as restoration and landscaping, should be completed within 6 months of the ER in-service date. However, restoration work for ERs placed in-service during fall/winter may require 9 months before closing.

        - Asset Accounting should be notified of projects that expect to have significant remediation activities past the 6-month period.

    - Projects with contract retention should remain in the in-service status until the retention has been settled.

        - Asset Accounting should be notified of projects that expect to have contract retention settlement past the 6-month period. For example, it is not unusual for contract retention on large projects to take up to 12-18 months after in-service for settlement.

    - All work orders associated with the ER must be closed prior to the ER being closed.

    - All invoices for work must be processed and approved prior to the ER being closed.

- Closed ERs may be re-opened at the discretion of Asset Accounting.

    - Typically, ERs will not be re-opened for processing invoices after 60 days from their close date.

        - However, significant late charges incurred past the 60-day period should be reviewed by Asset Accounting to determine if it is appropriate to re-open the closed ER.

            - Individual invoices greater than $2,500 for valid capital costs as defined in the work scope of the project are considered significant late charges.

            - ERs re-opened to allow late charge invoice processing will be re-closed by Asset Accounting within 1 month of re-opening.

            - ERs re-opened to release contractor retention should remain open until the retention has been fully released prior to re-closing the ER.

        - PennDot billing ERs are an exception as these projects typically have extended construction and billing schedules dictated by PennDot requirements.

    - ERs that have been unitized ordinarily will not be re-opened. Exceptions to this rule should be unusual and at the discretion of Asset Accounting.

Canceled ERs
ERs are placed in the Canceled status if the project has been canceled and no capital assets have been or will be constructed. ERs cannot be charged in the Canceled status. A project’s capital charges must be zero before an ER can be canceled in PowerPlan.

Asset Accounting will transfer any costs remaining in the ER to expense account 42657, unless otherwise directed by the business line. AFUDC charges will be reversed by Asset Accounting.

A canceled ER where the work scope will be completed under a different ER will have the costs transferred to the appropriate ER providing there is sufficient documentation to support the entry. AFUDC will be transferred to the appropriate ER along with the construction costs.

VI. Responsibilities

Asset Accounting is responsible for:

- Reviewing ER set-up is correct and verifying valid capital accounting based on project work scope description.
- Notifying the business line of ERs that do not comply with this policy.
- Ensuring changes to ER status requested by the business lines comply with this policy.

PPL Electric Utilities is responsible for:

- Ensuring that capital ERs are only initiated for projects that include installation or removal of retirement units.
- Providing Asset Accounting with the required information to support capital accounting determination.
- For transmission and distribution plant ERs, this information includes an adequate work scope description including the official line or substation name and a list of the primary retirement units to be installed and/or removed under the ER, including voltages. For example, install 69kV transformer or 69kV circuit breaker.
- Providing Asset Accounting with required information that supports ER Authorization by someone with appropriate delegation of authority.
  - ER Authorization must comply with PPL Corporation's Delegation of Authority Policy GP 712.
- Responding to information requests related to ER set-up and work scope descriptions in a timely manner in order to prevent ERs from being placed in a Suspended status.
- Notifying Asset Accounting in a timely manner to Suspend ERs that will not be actively worked for 6 months or more.
  - Regional ERs can be Suspended by Tech Clerks in the field.

- Notifying Asset Accounting in a timely manner to place Suspended ERs into the Open status when construction has resumed.
  - Regional ERs that have been Suspended can be placed in the Open status by Tech Clerks in the field.
- Ensuring that ERs are placed in-service when the assets constructed are "used and useful" in accordance with this policy.
- Ensuring that ERs are closed in a timely manner in accordance with this policy.
- Notifying Asset Accounting to cancel ERs for projects where no assets have been or will be constructed and provide direction on disposition of any remaining costs.

Prepared By: Julie Zemyan 1/30/23

Reviewed By: Beverly Siegfried 1/31/23

PPL Electric Utilities Corporation
Financial Department
Accounting Policies and Procedures

Section: Property Accounting **Last Update/Reviewed:** 12/31/2021

Subject: Retirement Unit Listing

Contact: John Schwartz

Number: ACCT-EU-623

I. Purpose

This policy discusses the accounting for retirement units and minor items (also discussed in ACCT-EU-606) and attached to the policy is the full retirement unit listing.

II. Applicability

Applicable to all PPL Electric Utilities Corporation (PPL EU) business lines that utilize PowerPlan projects to account for capital expenditures.

III. Definitions

The definitions and usage for retirement units and minor items of property are from the Uniform System of Accounts issued by the Federal Energy Regulatory Commission and adopted by the Pennsylvania Public Utility Commission.

Retirement Units and Minor Items of Property

In determining whether costs shall be capitalized or expensed, it is first necessary to understand the meaning of the terms:

- Retirement Units
- Minor Items of Property

For the purpose of accounting for additions to, retirements from, and replacements of plant, all property shall be considered as consisting of (1) retirement units; and (2) minor items of property. The costs of minor items included in a retirement unit are included in the cost of the retirement unit in the Continuing Property Records (CPR) and are not separately itemized.

The Company's list of retirement units for Distribution Plant is included in the Plant Section of the Classification of Accounts.

Retirement Units - The lowest level of detail recorded in the CPR for individual items of utility plant. Costs associated with additions, retirements, or replacements of retirement units are accounted for as capital. When a retirement unit is added to plant, the cost must be added to the CPR. Conversely, when a retirement unit is retired from plant, with or without replacement, the original cost must be removed from the CPR and the cost of removal and salvage must be accounted for under capital accounting.

Minor Items of Property - The associated parts or components which form a retirement unit. Costs associated with additions, retirements or replacements of minor items of property independent of the complete retirement unit are generally accounted for by charging expense. Exceptions to this general rule occur when the addition of a minor item, which did not previously exist, constitutes a substantial addition to the retirement unit. When a minor item is retired and not replaced, the book cost will be retired when the retirement unit, of which it is a part, is removed or replaced.

PowerPlan – PPL EU's current fixed asset system.

Compatible units (CU) – Fields (objects) within a work management system which designate some model of work, including estimated labor and materials to be installed, removed or transferred. Typically, the compatible units assist in creating a bill of materials and enables a list of retirement units to be sent to the fixed asset system.

IV. Procedures

Each business line is responsible for ensuring capital projects involving replacement of existing assets is consistent with this policy (the project is only capital if at least one or more retirement units is being replaced).

CUs in work management systems can either be configured with the retirement unit information as part of the CU or mapping can be created between the work management system and PowerPlan to derive the retirement unit information. Either way, CU-designed projects typically rely on the CU configuration or mapping to send the retirement unit information to PowerPlan.

For non-CU designed projects, an alternative process to obtaining the retirement unit information must be developed in order to permit capitalization of the project(s).

If a proposed project does not involve replacement of retirement units, such as addition(s) of a minor item that constitutes a substantial betterment, the project must be reviewed and approved by Property Accounting and ordinarily requires a file memo to document the exception.

V. Responsibilities

A. PPL EU business lines are responsible for following accounting requirements for retirement units when initiating a capital project.
B. Property Accounting is responsible for reviewing and classifying capital additions and ensuring retirements are recorded accurately from the CPR.

VI. Attachment A

Attached is the full retirement unit listing for PPL EU, as well as associated minor items, by FERC Plant account.

Retirement Unit Listing - Policy 12-31

Prepared by: John Schwartz 12/20/2021

Reviewed by: Sharon Leskowsky 12/20/21

PPL Electric Utilities Corporation
Financial Department
<u>Accounting Policies and Procedures</u>

Section: Asset Accounting | **Last Update/Reviewed:** 12/31/2022

Subject: Accounting for Computer Software | **Contact:** Annie Minor

Number: 615

I. Purpose

The policy is to provide guidelines for determining the accounting treatment for computer software costs purchased and/or developed for Company internal use.

Applicability

Applicable to all PPL EU domestic business lines and Service Groups that utilize BMI projects to account for capital and expense expenditures.

II. Definitions

See **Appendix A** for specific references from accounting guidance. FERC has adopted the GAAP guidance for accounting for internal-use computer software.

Accounting Practice

<u>Purchased Software:</u>

All software purchased separately from hardware and having a useful life consistent with the depreciable life established in the most recently approved depreciation study and a cost in excess of $5,000 shall be capitalized in accordance with ASC 350-40. Software will be recorded in FERC Account 303, Miscellaneous Intangible Plant, and amortized by charging FERC Account 404, Amortization of Limited-Term Plant, and crediting FERC Account 111, Accumulated Provision for Amortization of Utility Plant. Retirements of software will be recognized according to instructions for FERC Account 303 and ASC 350-40.

<u>Internally Developed Software:</u>

All software developed internally and having a useful life consistent with the depreciable life established in the most recently approved depreciation study and a cost in excess of $50,000 shall be capitalized in accordance with the guidelines set forth in ASC 350-40 and recorded per the rules stated above for purchased software.

Note: Internally developed software generally consists mainly of labor. However, it is not limited to internal IT labor only but rather may also include external/contract labor and insignificant purchased software costs. The use of contractors or minor purchases of software on a project do not prevent the proper classification of internally developed software (i.e., the project is still subject to the $50,000 threshold for internally developed software).

<u>Hosted Software Agreements/Software as a Service (SaaS)</u>:

In connection with the licensing of software products, cloud/hosted software agreements are arrangements in which the Company does not take possession of the software. Instead, the software application resides on the vendor's or a third party's hardware, and the Company accesses and uses the software on an as-needed basis over the internet or via a dedicated line. Fees associated with hosted arrangements will be expensed as incurred, unless all of the following criteria are met:

a. The license fees cover a multi-year term and are prepaid in full.
b. The Company has the contractual right to take possession of the software at any time during the hosting period without significant penalty(defined below).
c. It is feasible for the Company to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

The term "without significant penalty" contains two distinct concepts:

a. The ability to take delivery of the software without incurring significant costs (i.e. costs greater than $100,000 or 10% of the license cost).
b. The ability to use the software separately without significant diminution in utility or value.

   If the above criteria is met for capitalization, the fees for the product must be split into license fees(capital), hosting fees(O&M) and maintenance and support(O&M).

   Hosting arrangements that do not meet the criteria above are service contracts and do not constitute a purchase of or convey a license to software and thus all fees should be expensed. Other costs associated with the software project will either be expensed or capitalized as described below in the <u>Accounting for Related Costs</u> section—provided that there is a commitment that long-term benefits are to be gained from the capitalized costs. Long term benefits must be evidenced by a hosted arrangement contractual agreement with a term consistent with the depreciable software life established in the most recently approved depreciation study. Projects involving hosting arrangements should be discussed in advance with Asset Accounting. See **Appendix B** for a guide on determining if costs associated with a SaaS arrangement should be capital or expense.

For hosting arrangements where PPL has determined that the Company has the contractual right and ability to take delivery of software without incurring significant penalty, Asset Accounting will inquire on a quarterly basis as to whether there have been significant changes to circumstances which would impact such assertions. For technologies which undergo a significant change in circumstances regarding right or ability to take delivery without significant penalty, accounting judgments related to such technologies will be applied on a prospective basis for any new software implementation/enhancement/upgrade efforts undertaken.

Implementation Costs of Hosting Arrangements: In August 2018, the FASB issued ASU 2018-15, which provided definitive guidance on how implementation costs of a computing arrangement (i.e., hosting arrangement), which is a service contract should be recorded and reported. Under the new guidance, the implementation costs of a hosting arrangement that is considered a service contract will be capitalized as a prepayment and those costs will be amortized over the term of the underlying hosting arrangement. This amortization will be recorded as "Other operating and maintenance" expense. This guidance was effective as of 1/1/2020.

While ASU 2018-15 will impact the treatment of implementation costs of a hosting arrangement, which is considered a service contract for SEC purposes, there has been no change to the treatment of these costs for FERC reporting purposes. For FERC reporting, PPL Electric will continue to capitalize these costs as property, plant and equipment and record depreciation expense over the useful life for software assets, as defined in the most recent service life study. As such, PPL Electric will have a FERC to GAAP difference. Adjustments to reflect new SEC presentation requirements are recorded quarterly beginning in 2020. See link at the end of policy to a full version of the Whitepaper document on the implementation of the new cloud accounting guidance.

An entity (customer) shall determine the term of the hosting arrangement that is a service contract as the fixed noncancellable term of the hosting arrangement plus all of the following: (ASC 350-40-35-14)

a. Periods covered by an option to extend the hosting arrangement if the entity (customer) is reasonably certain to exercise that option
b. Periods covered by an option to terminate the hosting arrangement if the entity (customer) is reasonably certain not to exercise that option
c. Periods covered by an option to extend (or not to terminate) the hosting arrangement in which exercise of the option is controlled by the vendor.

<u>Upgrades/Enhancements to Software:</u>

Upgrades and enhancements made when software is originally purchased will be capitalized as part of the software cost in accordance with ASC 350-40. Upgrades and enhancements made after the initial purchase or development will be capitalized in accordance with ASC 350-40 if they represent modifications to the original asset to enable the software to perform tasks that it was previously incapable of performing.

<u>Accounting for related costs:</u>

Guidance on capitalization of costs incurred for computer **hardware/software** is provided below:

1. Costs incurred during the **preliminary stages** of a hardware/software project should be expensed as incurred include the following:
    a. initial development of scope
    b. documenting high-level business requirements and performance/system requirements (used in the evaluation of alternatives)
    c. conceptual formulation of alternatives
    d. evaluation of alternatives
    e. determination of existence of needed technology
    f. final selection of alternatives/vendors
    g. initial development of cost estimates

2. Costs incurred during the **application stage** to develop software should be capitalized. Capitalization of costs shall begin when a.) the preliminary project stage is completed and b.) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third

party to develop the software. Application stage costs include the following:

a. design activities including documentation of process changes required (to-be process documentation), detailed application requirements, analysis of system functionality and identification of required changes/customizations (gap-analysis), functional design documents, visualization or prototyping of solution, business rules, configuration requirements/rules, data requirements and reporting requirements
b. build activities including documentation of technical requirements, development, coding, software configuration, interfaces, and installation to hardware
c. testing including the development of user stories, use cases, testing scenarios and test scripts, and defect management
d. implementation activities

Costs shall include the actual cost of purchased hardware and software, consultant fees, travel expenses and payroll costs of the Information Technology Department. User (i.e., line of business) department costs may be charged to a project, but are limited to charges incurred by persons actively working on the project. Examples of employee activities include, but are not limited to design, coding and testing during the application development stage. Charges of persons serving on steering or advisory committees are excluded from capital costs.

3. Costs to develop or obtain software to access or **convert old data** using new systems should be capitalized. However, the actual cost of data conversion (purging or cleansing existing data, reconciling or balancing old data versus the data in the new system) should be expensed as incurred.

4. **Perpetual license fees** can be capitalized along with the costs to purchase software.

5. All **training** costs should be expensed as incurred.

6. Documentation of as-is business processes should be expensed as incurred.

7. Business process reengineering (not specific to the implementation of specific technology solution) should be expensed as incurred.

Meals related to Company business and incurred as part of the capitalized activities described above may be charged to the capital project. Meals related to Company business and incurred as part of the expensed activities described above must be expensed. Meals, golf outings, room rentals, food for celebrations and other expenses incurred as employee recognition for participation on a capital project shall be charged to a below-the-line expense account.

8. In some cases, software contract fees may include **multiple-arrangements**, such as training for the software, maintenance fees for routine maintenance work to be performed by the third party, data conversion costs, reengineering costs, and rights to future upgrades and enhancements. Costs should be allocated among all individual elements.

9. Capitalization shall cease no later than the point at which a computer software project is substantially complete and ready for its intended use. Substantially complete is generally defined as when all substantial testing is completed and automated systems are operational. The post go-live period for software projects is 60 days, after which capitalization should cease. During the 60-day post go-live period, costs that may be capitalized are those that are fixing or addressing issues with the product that went live and should not include completely new work efforts (such as a new module), change management costs or training costs. While the project may be held open to ensure invoices are paid, the invoices should not include services or costs incurred after the 60-day post go-live period. New efforts on the software should be captured with a new project number. In addition, costs incurred to operate and maintain software shall be expensed.

10. **Maintenance** costs, including the first year of maintenance, should be expensed as incurred.

11. **Upgrades and enhancements** to existing software (modifications that result in the software being able to perform tasks that it was previously incapable of performing) should be expensed or capitalized in accordance with the rules listed above. Upgrades without additional functionality should be expensed. Costs that cannot be separated on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should be expensed (i.e. security patches or bug fixes). The threshold for software upgrades/modifications to be capitalized is $5,000. Note: PPL does capitalize enhancements made to software after the initial software in-service in order to fix issues immediately after the go-live date or to modify the software to make it functional for our particular needs. After post go-live issues have been addressed, work performed to correct issues and perform routine maintenance is expensed.

12. When a software project will not be completed, no further costs may be capitalized and the project should be canceled and a 1219 entry prepared to reclassify the costs to expense.

V. Procedures

Procedure To Be Followed In Capitalizing Software:

Refer to IT Chapter 4001 procedure for specific procedures.

Classification/Amortization of Capitalized Software:

After a software project is completed and placed in service, the costs of the project are recorded as intangible plant in Account 10607 - Complete Construction Not Classified - General and Intangible. When unitized, the costs are transferred from 10607 into 10107 - General and Intangible - Plant In Service.

The accumulated amortization is credited to Account 11117 - Accumulated Provision for Amortization of Electric Utility Plant-General. When a software project is completely amortized, Plant Accounting retires the project by crediting the original cost of the project to Account 10107 and charging Account 11117.

VI. Responsibility

PPL Electric Utilities is responsible for following guidelines as defined in the policy, which includes filling out the “Capital Computer Software Project Authorization”.

Asset Accounting is responsible for reviewing project set up and ensuring capital additions and retirements are recorded accurately to/from the Continuing Property Records.

VII. Related Publication

- FASB ASC 350-40, Internal Use Software (Intangibles – Goodwill and Other) (formerly SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use)
- FASB Accounting Standards Update No. 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement

Links

Reference the *Cloud Accounting White Paper* on the Finance SharePoint site: https://pplcorp.sharepoint.com/:w:/r/sites/PropertyAcctg/Capital/Accounting%20Guidance/File%20Memos/Implementation%20of%20ASU%202018-15%20(Cloud%20Computing)%20White%20Paper%20-%20Final.docx?d=wbcbc534cc68e46ebb287f2907227fd5c&csf=1&web=1&e=mxVKFt

Prepared By: Annie Minor 12/28/2022

Reviewed By: Robert Phillips 2/8/2023

Appendix A

Appendix A provides specific references and exact language from Financial Accounting Standards Board ASC 350-40, Internal Use Software (Intangibles – Goodwill and Other) (formerly SOP 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use). Appendix A is included here in support of the guidance provided above in Policy 615 and for easy reference.

Preliminary Project Stage

Internal and external costs incurred during the preliminary project stage shall be expensed as they are incurred. (ASC 350-40-25-1)

Activities include (ASC 350-40-55-3):

1. Conceptual formulation of alternatives
2. Evaluation of alternatives
3. Determination of existence of needed technology
4. Final selection of alternatives.

Application Development Stage

Internal and external costs incurred to develop internal-use computer software during the application development stage shall be capitalized. (ASC 350-40-25-2)

Activities include (ASC 350-40-55-3):

1. Design of chosen path, including software configuration and software interfaces
2. Coding
3. Installation to hardware
4. Testing, including parallel processing phase.

Costs include (ASC 350-40-30-1):

a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software:
   1. Fees paid to third parties for services provided to develop the software during the application development stage
   2. Costs incurred to obtain computer software from third parties
   3. Travel expenses incurred by employees in their duties directly associated with developing software.

b. Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.

Timing (ASC 350-40-25-12):

Capitalization of costs shall begin when both of the following occur:

a. Preliminary project stage is completed.

b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party.

Capitalization shall cease no later than the point at which a computer software project is substantially complete and ready for its intended use, that is, after all substantial testing is completed. (ASC 350-40-25-14)

The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage. (ASC 350-40-05-8)

Costs to develop or obtain software that allows for access to or conversion of old data by new systems shall also be capitalized. (ASC 350-40-25-3)

Actual data conversion costs, except as noted in paragraph 350-40-25-3, shall be expensed as incurred. (ASC 350-40-25-5)

Training costs are not internal-use software development costs and, if incurred during this stage, shall be expensed as incurred. (ASC 350-40-25-4)

Post implementation-Operation Stage

Internal and external training costs and maintenance costs during the post implementation-operation stage shall be expensed as incurred. (ASC 350-40-25-6)

Activities include (ASC 350-40-55-3):

1. Training
2. Application maintenance.

Impairment

When it is no longer probable that the computer software project will be completed and placed in service, no further costs shall be capitalized, and guidance in paragraphs 350-40-35-1 through 35-3 on impairment shall be applied to existing balances. (ASC 350-40-25-13)

Hosting Arrangements

Hosting Arrangement - In connection with the licensing of software products, an arrangement in which an end user of the software does not take possession of the software; rather, the software application resides on the vendor's or a third party's hardware, and the customer (i.e., PPL) accesses and uses the software on an as-needed basis over the Internet or via a dedicated line. (ASC 350-40 Master Glossary)

The guidance in this Subtopic applies only to internal-use software that a customer (i.e. our Company) obtains access to in a hosting arrangement if **both** of the following criteria are met (ASC 350-40-15-4):

1. The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty. The term without significant penalty contains two distinct concepts:
    a. The ability to take delivery of the software without incurring significant costs.
    b. The ability to use the software separately without significant diminution in utility or value.

2. It is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software.

Hosting arrangements that do not meet both criteria are service contracts and do not constitute a purchase of, or convey a license to, software. (ASC 350-40-15-4)

Upgrades and Enhancements

Upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. (ASC 350-40-05-9)

> In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs 350-40-25-8 through 25-10 *(see immediately below)*, it must be probable that those expenditures will result in additional functionality. (ASC 350-40-25-7)
> Internal costs incurred for upgrades and enhancements shall be expensed or capitalized in accordance with paragraphs 350-40-25-1 through 25-6 *(see preliminary project and application development stages above)*. (ASC 350-40-25-8)

Internal costs incurred for maintenance shall be expensed as incurred. (ASC 350-40-25-9)

Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements shall expense such costs as incurred. (ASC 350-40-25-10)

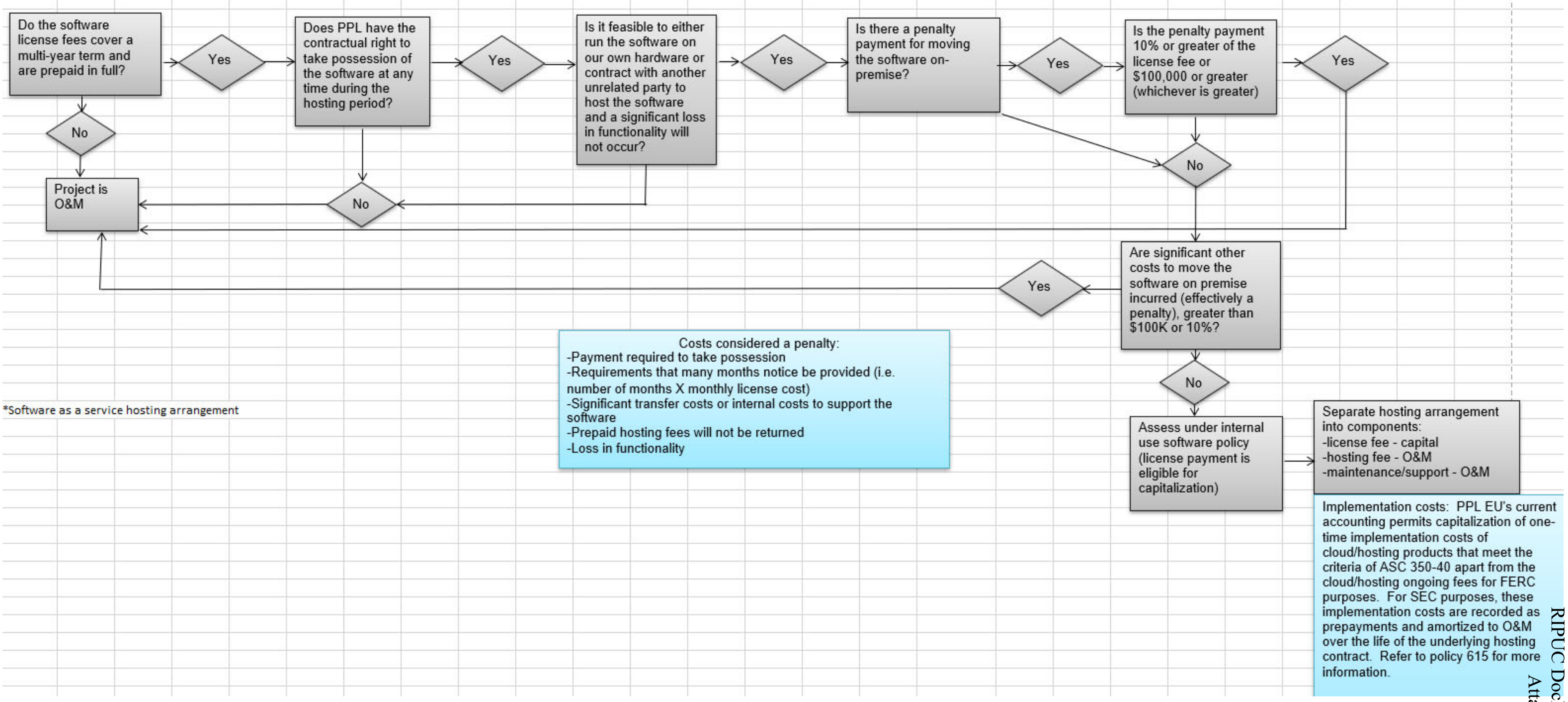
External costs incurred under agreements related to specified upgrades and enhancements shall be expensed or capitalized in accordance with paragraphs 350-40-25-1 through 25-6 *(see preliminary project and application development stages above*). If maintenance is combined with specified upgrades and enhancements in a single contract, the cost shall be allocated between the elements as discussed in paragraph 350-40-30-4 *(see immediately below)* and the maintenance costs shall be expensed over the contract period. However, external costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements shall be recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received. (ASC 350-40-25-11)

Multiple-Element Arrangements Included in Purchase Price

Entities may purchase internal-use computer software from a third party. In some cases, the purchase price includes multiple elements, such as training for the software, maintenance fees for routine maintenance work to be performed by the third party, data conversion costs, reengineering costs, and rights to future upgrades and enhancements. Entities shall allocate the cost among all individual elements. The allocation shall be based on objective evidence of fair value of the elements in the contract, not necessarily separate prices stated within the contract for each element. Those elements included in the scope of this Subtopic shall be accounted for in accordance with the provisions of this Subtopic. (ASC 350-40-30-4)

Appendix B:

Steps to Capitalize a SaaS*/Cloud Asset



*Software as a service hosting arrangement

PUC 4-2

Utility Plant Accounting and Standard for Rate Base Treatment

Request:

Referring to the response to PUC 1-9 and the standard used by the Company to determine whether a capital investment is considered to be "placed in service," the Company states that it is "considered placed in service when the costs have been incurred and the investment is ready for its intended use."

(a) Is this the same standard that the Company is proposing to use to determine whether a capital investment is used and useful for purposes of meeting the ratemaking requirement of including the asset in rate base, whether or not it relates to Grid Modernization? If not please explain.

(b) If yes, please provide some common examples of investments in the past where the Company considered capex investments to be placed in service and, therefore, eligible for rate base, when the investment was "ready for its intended use" but was not yet being used for service to customers. Please distinguish between (i) utility plant inventory (such as advanced meter purchases, transformers, etc.) that are placed into inventory for later use from (ii) utility plant that would serve an operational function, is ready to serve the function, but has not actually begun serving the operational function at the time it is included as a plant addition in the Company's plant accounting records. This response is inquiring regarding the second category (ii).

Response:

(a) Yes, this is the same standard that the Company is proposing to use to determine whether a capital investment is used and useful for purposes of meeting the ratemaking requirement of including the asset in rate base, whether or not it relates to Grid Modernization. The language "investment is ready for its intended use" has the same meaning as "used and useful" to the Company for determining when to place an investment into service and applies to advanced metering functionality ("AMF"), Grid Modernization and/or other capital investments. This is the same standard and process that the Company has used historically for capital investments and proposes to use for AMF capital investments. The Company did not intend to imply that the timing and process of placing capital assets into service would be changing for the AMF capital investments.

(b) As described in the response to part (a), the Company considers ready for its intended use to have the same meaning as used and useful and is not proposing to change the current process of placing capital assets into service. As such, for utility plant that would serve an operational function as described in the question above, the Company would not place capital investments into service if they are not yet being used for service to customers.

PUC 4-3

Utility Plant Accounting and Standard for Rate Base Treatment

Request:

Refer to the response to PUC 1-9 which states: "Once the Company has completed a software system and incurred the costs for that work, the Company will evaluate whether (1) the system is ready to function for its intended use independent of other software or network costs and should be considered as placed in service in the plant accounting records, or (2) the system is not ready to function for its intended purpose because it depends on another system or network to be completed before it can be placed in service." Please also refer to Attachment PUC 1-11, page 1 of 3, and the first line labeled "PPL Labor" which shows capex of $731,567 for which a revenue requirement is being generated in Schedule SAB/BLJ-1, page 13.

(a) Is the line "PPL Labor" reflecting a forecast of $731,567 in capital costs reflecting utility plant that would be considered as placed in service?

(b) If yes, is the Company forecasting a capex-related revenue requirement for recovery in Year 1 relating to this PPL Labor cost?

(c) If yes to (a), please explain and identify the intangible software, if any, to which the PPL Labor and the $731,567 pertains and describe why the intangible software will be considered "ready to function for its intended use" for purposes of being recorded as an addition to the Company's plant accounting records in Year 1.

Response:

(a) Yes, the line "PPL Labor" reflects the forecast of the capitalizable portion of incremental internal labor or consultant labor for Project Management Oversight for AMF-related IT capital investments, that the Company will place into service.

(b) and (c) The Company submitted the revenue requirement in Schedule SAB/BLJ-1 for illustrative purposes, which includes recovery of the capitalized "PPL Labor" in the year of spend. As such, the illustrative Year 1 revenue requirement includes the revenue requirement associated with the $731,567 of capitalized "PPL Labor" that is forecasted to be spent in Year 1. When actual costs for the capitalized "PPL Labor" are incurred, the costs will be allocated to the various intangible software investments that are being supported and the allocated amounts will be included in the individual software investment capital costs and placed into service when the software investment is ready to function for its intended use and booked to the plant accounting records, at which time those costs would be included in the revenue requirement for cost recovery through the Company's proposed cost recovery mechanism.

PUC 4-4

Utility Plant Accounting and Standard for Rate Base Treatment

Request:

In response to PUC 1-9, the Company states, "Capital investments in the Company's AMF Business Case and cost-recovery proposal are considered placed in service when the costs have been incurred and the investment is ready for its intended use."

(a) Is this treatment of AMF investments, including when system components are considered to be "in service" and when cost recovery in rates commences, consistent with the ratemaking treatment given to the deployment of AMF assets in other jurisdictions in which PPL operates AMF systems?

(b) If not, please explain the ratemaking treatment utilized for AMF investments in those jurisdictions.

(c) Please provide documentation (orders, etc.) approving any ratemaking treatment identified in (b).

Response:

(a) through (c)

Yes, this treatment of when AMF investments are placed into service and when cost recovery in rates commences, is consistent with the accounting and ratemaking treatment given to the deployment of AMF capital assets for PPL Electric Utilities Corporation in Pennsylvania.

Prepared by or under the supervision of: Stephanie A. Briggs, John Schwartz, and Philip Walnock

PUC 4-5

Accounting for Vendor/External Labor Network Costs

Request:

Referring to Attachment PUC 1-12 page 1 of 3, p. 1 of 3, please explain the assumptions for forecasting "Vendor/External Labor costs" incurred in years 1 and 2 resulting in $900,000 of plant in service over those two years. Please include a description of the network asset which is considered to be in service as a result of those expenditures.

Response:

On Attachment PUC 1-12, Page 1 of 3, the forecast of "Vendor/External Labor costs" represents incremental costs for supporting the AMF program and was forecasted based on the actual experience and approach that was used in AMI deployment in Pennsylvania and the cost was determined based on estimated hourly rates.

The Company submitted the revenue requirement on Schedule SAB/BLJ-1 for illustrative purposes, which includes recovery of the capitalized "Vendor/External Labor costs" in the year of spend. As such, the illustrative Year 1 and 2 revenue requirements include the revenue requirement associated with the $900,000 of capitalized "Vendor/External Labor" that is forecasted to be spent in Years 1 and 2. When actual costs for the capitalized "Vendor/External Labor" are incurred, the costs will be allocated to the various network capital investments that are being supported and the allocated amounts will be included in the individual network investment capital costs and placed into service when the specific network investment(s) is/are ready to function for its intended use and booked to the plant accounting records, at which time those costs would be included in the revenue requirement for cost recovery through the Company's proposed cost recovery mechanism.

Prepared by or under the supervision of: Stephanie A. Briggs and Philip Walnock

---

PUC 4-6

Accounting for "Software as a Service"

Request:

Referring to Attachment PUC 1-11, page 1 of 3 and Attachment 1-14, page 1 of 3, and the references to "Software as a Service" (SaaS),

(a) Please explain why there are both capitalized costs for SaaS as well as O&M costs for SaaS licensing. Why are all the costs associated with SaaS not categorized as O&M?

(b) What Company-owned asset, if any, is being capitalized and in service by year 4 that relates to the SaaS referenced in Attachment PUC 1-11.

Response:

(a) SaaS implementation costs are capitalized for regulatory treatment, and certain costs, such as hosting, maintenance, and support, are treated as O&M costs in the period in which the costs are incurred. License fees may be capitalized (if certain criteria are met) or treated as O&M.

(b) As shown in Attachment PUC 1-11, there are capitalized SaaS implementation costs for Headend, WiSun, and the meter data management system ("MDMS"). The SaaS costs for Headend and WiSun are related to the Headend capital investment, while the MDMS SaaS costs are related to the MDMS capital investment.

Prepared by or under the supervision of: Stephanie A. Briggs, John Schwartz, and Philip Walnock

---

PUC 4-7

Forecast of AMF Capital Spending

Request:

Referring to the response to PUC 1-19, which indicates that the Company's schedules showing capex expenditures reflect the date the Company expects the investment to be considered "in service," please provide a schedule showing annual spending for each of the capex categories of Meters, Network, and Software, based on the year spending is being forecasted to occur (as opposed to the year the plant is considered to be placed in service). Please format the schedule as follows: Column (a) – Year; Column (b) – Total Capex Spending for the Year; Column (c) – Meters; Column (d) – Network; Column (e) – Software.

Response:

Please see Attachment PUC 4-7 for the schedule of forecasted annual spending for each capex category in the requested format.

The Narragansett Electric Company
AMF Plan
Capex Spending by Year

Year	Total Capex Spending for the Year	Meters Capex Spend	Network Capex Spend	Software Capex Spend
(a)	(b)	(c)	(d)	(e)
Recovery Year Ended September 2023	$ 14,206,909	$ 1,388,661	$ 3,441,528	$ 9,376,720
Recovery Year Ended September 2024	54,971,132	34,993,565	5,824,151	14,153,417
Recovery Year Ended September 2025	68,180,437	53,233,838	4,090,931	10,855,668
Recovery Year Ended September 2026	17,104,071	13,907,871	843,980	2,352,220
Recovery Year Ended September 2027	919,773	128,027	-	791,745
Recovery Year Ended September 2028	1,905,323	171,023	-	1,734,299
Recovery Year Ended September 2029	745,724	234,512	21,083	490,128
Recovery Year Ended September 2030	867,852	287,492	28,164	552,196
Recovery Year Ended September 2031	1,389,608	329,963	28,234	1,031,410
Recovery Year Ended September 2032	651,658	340,904	28,305	282,448
Recovery Year Ended September 2033	832,407	341,336	491,071	-
Recovery Year Ended September 2034	987,143	341,769	645,374	-
Recovery Year Ended September 2035	1,620,357	342,203	659,466	618,688
Recovery Year Ended September 2036	736,362	342,638	187,495	206,229
Recovery Year Ended September 2037	1,342,947	343,075	28,661	971,212
Recovery Year Ended September 2038	695,981	343,512	28,732	323,737
Recovery Year Ended September 2039	372,754	343,950	28,804	-
Recovery Year Ended September 2040	1,066,451	344,390	28,876	693,186
Recovery Year Ended September 2041	604,840	344,830	28,948	231,062
Recovery Year Ended September 2042	93,477	86,235	7,242	-
	$ 169,295,205	$ 108,189,796	$ 16,441,044	$ 44,664,365

PUC 4-8

Revenue Requirement

Request:

Referencing the Company's response to PUC 1-8 in this matter, National Grid's Response to PUC 1-7 and RI Energy's Response to Record Request 3 in Docket No. 5209, and the Company's listing of these items as "Current Grid Modernization Activities," in Book 2, Bates page 32-34, filed in Docket No. 22-56-EL, please explain why the $1,234,459 of "Other Grid Mod" funding is being proposed as a credit to the AMF Revenue Requirement instead of the Grid Modernization investment spending in the Electric ISR Plan.

Response:

In the Amended Settlement Agreement ("ASA"), under Article II., Section C. 14c., the "Other Grid Modernization Investments" costs approved to commence the foundational Information Systems-related work was intended to be common to both the advanced metering functionality ("AMF") business case and the Grid Modernization Plan. The Company proposal's is to credit the AMF Revenue Requirement for the AMF-related portion of these investments included in base distribution rates (as shown in the response to PUC 1-8), which is consistent with National Grid's proposal in Docket No. 5113.

Prepared by or under the supervision of: Stephanie A. Briggs