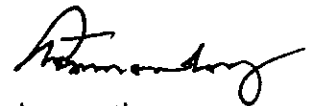
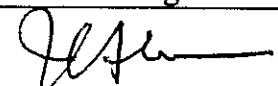


<p style="text-align: center;">GUAM POWER AUTHORITY Standard Operating Procedure</p>	No.: *SOP-133	Issued:
	Prepared By:  Controller/Plant Accounting	
Title: CAPITAL VS. EXPENSE TRANSACTIONS	Approved By:  JOAQUIN C. FLORES, P.E. General Manager	
Effective Date: 10/7/05 Supersedes No. Page 1 of 7		

1.0 PURPOSE

To establish the guidelines for the determination of CAPITAL EXPENDITURES vs. O&M EXPENSE transactions in order to properly allocate costs to utility plant expense accounts in conformity with Generally Accepted Accounting Principles (GAAP) and according to plant accounting procedures prescribed in the Uniform System of Accounts (USOA) of the Federal Regulatory Commission (FERC). The objective is to ensure adherence to consistent practices aimed at presenting a correct picture of the Authority's operations and financial condition.

2.0 APPLICABILITY

These guidelines apply to the preparation and submission of annual fiscal year CIP budget items and to the classification and allocation of actual expenditures to utility plant and O&M expense accounts. In the event of inconsistency between GAAP and FERC rules, generally accepted accounting principles will prevail.

3.0 REFERENCE

- 3.1 FA-01 List of Retirement Units. (See attached)
- 3.2 Uniform System of Accounts of the Federal Energy Regulatory Commission.
- 3.3 Notes to Financial Statements, Note 1- Accounting Policies.
- 3.4 Fixed Assets Register Program.
- 3.5 Property Retirement / Removal Procedures.
- 3.6 Disposal of Surplus Material Equipment.

4.0 RESPONSIBILITY

Responsibility for the implementation and coordination of this policy, including final determination of whether to capitalize or expense an item, is hereby delegated to the Chief Financial Officer. The respective Division / Section Managers are to make the initial determination of whether a transaction is capital or expense; and for those transactions deemed to be capital (other than the routine acquisition of general plant assets), concurrence by the Controller / Plant Accounting is necessary.

5.0 CONSIDERATIONS

Most transactions are distinctly of either a capital or expense nature and should be accounted for accordingly. Questionable cases should be decided on their individual merits and justifications, giving appropriate consideration to such things as the purpose of the expenditure, the benefit(s) to be derived, the magnitude of the cost and the estimated useful life of the item involved. If a decision is not readily ascertainable after analysis and review, a conservative policy of expensing rather than capitalizing such costs is to be followed.

6.0 DEFINITIONS

- 6.1 Capital Expenditures - those expenditures (both cash and allocations) which benefit future periods such as:
 - 6.1.1 All costs associated with the construction or acquisition of retirement property unit listed in FERC account # 301 to 399. An item qualifies as a separate retirement unit if it is relatively costly and is not an integral part of another asset.
 - 6.1.2 Replacements of existing Retirement Units of property.
 - 6.1.3 Betterments to existing property or equipment, i.e. substantial improvements that have the effect of increasing the capacity, efficiency, useful life or economy of existing fixed asset. The excess cost of replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.
 - 6.1.4 Rehabilitation of buildings, structures or equipment purchased or acquired in a rundown condition, with the intention of rehabilitation.
 - 6.1.5 All individual items of general plant equipment costing \$1,000 (increased from \$500) having a life expectancy /service of more than a year.

CODES # REVISED # ADDED

Expenditures for spare parts are not normally capital items unless these spare parts are plant specific and located at the plant. Spare parts specifically fabricated for a particular piece of equipment and stored in rather close proximity to the equipment would be indicative of capital items. Those spare parts that represent vendor catalogue or "shelf-stock" items are usually indicative of replacement parts that are accounted for not as capital items but as materials and supplies inventory until used.

Spare parts purchased in accordance with the working capital phase of a Capital Improvement Projects (CIPs) are to be initially charged to the appropriate construction work in progress (CWIP) accounts. Upon the completion of construction activity and the transfer from CWIP to Electric Plant in Service, any remaining spare parts are to be physically inventoried and transferred to the warehouse inventory under the responsible operating facility's control. The requisite accounting entry pricing the physical inventory of spare parts at the lower of cost or current market should be recorded to transfer the inventory from construction work in progress (credit to FERC account 107) to materials and supplies inventory (debit to FERC account 154).

6.2 Maintenance and Repairs - those expenditures necessary to keep property at a standard of operating condition; or the restoration of a unit of property or equipment to its full productive capacity after damage, accident, or prolonged use. Maintenance activities do not extend the useful life or increases the productive capacity of the property unit or increase the value of asset accounts. These are cost incurred specifically for the purpose of preventing failures and restoring serviceability. However, lack of proper maintenance and repairs probably will shorten the useful life or decrease the operating capacity of the property or equipment. According to the Uniform System of Accounts of the Federal Energy Regulatory Commission the cost of maintenance includes, labor, materials, with respect to the following items:

- 6.2.1 Direct field supervision of maintenance.
- 6.2.2 Inspecting, testing and reporting on condition of plant specifically to determine the need for repairs, replacements, rearrangements and changes and inspecting and testing the adequacy of repairs which have been made.
- 6.2.3 Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of the plant.
- 6.2.4 Rearranging and changing the location of plant not retired.
- 6.2.5 Repairing for reuse materials recovered from plant.
- 6.2.6 Testing for locating and clearing trouble.
- 6.2.7 Repainting.

6.2.8 Net cost of installing maintaining and removing temporary facilities to prevent interruptions in service.

6.2.9 Replacing or adding minor items of plant which do not constitute a retirement unit.

6.3 Units of Property - comprised of Retirement Units and Minor Items of Property. Retirement Units represent the smallest units of property that are accounted for as a unit of electric plant and which when retired, with or without replacement, require the removal of the installed cost thereof from the electric plant account in which included.

Minor Items of Property represent the component or associated parts of Retirement Units.

6.4 Retirement .the removal of a property item from service following the end of its productive life, sale or other disposal. The installed cost thereof from the electric plant account in which included and the appropriate adjustment of the depreciation "reserve" accounts.

The basic test for retirement is:

6.4.1 Has the unit of property ceased to function with respect to its regular operation, and

6.4.2 Is it highly improbable that the unit of property will be used in its present form in the future.

7.0 DETERMINATION

7.1 Determination of capital, maintenance and retirement activities should be made within the framework of units of property.

7.2 Accounting for Units of Property

<u>TRANSACTION</u>	<u>RETIREMENT UNIT</u>	<u>MINOR ITEM</u>
Add New Item	Capitalize to 101300/399	Capitalize to 101300/399
Retire Only	Retirement from 101300/399 to 108300 Accumulated Depreciation	Retire from 101300/399 to 108300 Accumulated Depreciation
Replacement	Retire old unit at original cost Capitalize replacement cost	Charge cost of new item to maintenance

CODES # REVISED # ADDED

- 7.3 Refer to Accounting Procedure FA - 01 for List of Retirement Units.
- 7.4 Other guidelines for application of capital/maintenance accounting determinations:
- 7.4.1 If service life of item (either retirement unit or minor item) is less than one year, regardless of cost, charge cost to appropriate operations or maintenance account.
- 7.4.2 If service life of general plant item is greater than one year and cost is less than \$1,000.00 charge cost to appropriate operations or maintenance account.
- 7.4.3 If service life of item is greater than five years and cost exceeds \$10,000.00 charge cost to appropriate Construction Work in Progress/ Electric Plant in service account. (\$1,000 for General Plant)
- 7.4.4 Note - Regardless of whether an item of property is charged to capital or expense accounts in accordance with the aforementioned accounting determinations, proper accounting, control, and safeguarding of such assets shall be established.

8.0 COMPONENTS OF COST

It is a regulatory requirement that all plant be recorded at cost. To determine easily as to what costs can be capitalized, the FERC defines the Components of Construction Cost as described in the following excerpts. For major utilities, the cost of construction properly includible in plant account shall include where applicable, the direct and overhead cost as listed below:

- Contract work
- Labor
- Materials and Supplies
- Transportation
- Special Machine Service
- Shop Service
- Protection
- Privileges and Permits
- Engineering and Supervision
- General Administration Capitalized
- Engineering Services
- Insurance
- Legal expenditures

- Allowance for Funds used during Construction
- Earnings and Expenses during Construction
- Training Costs
- Studies
- Overhead Construction Costs
- Contributions in the form of money or its equivalent toward the construction of plant shall be credited to the account charged (CWIP) with cost of Construction

All of the above costs are charged or debited to CWIP. When the project is completed and inspected, a memo from Engineering/Generations/T&D for (CIP projects) or copies of the completed work order documents must be forwarded to Plant Accounting as their basis of closing the work orders or job orders. Charges to CWIP will be transferred to appropriate Utility Plant in Service accounts based on the relative percentage of estimated cost initially computed by Engineering.

9.0 FUNDING

The projected revenues essentially determine the funding source at the start of every fiscal year as budgeted but not the proper accounting treatment, which is dictated by GAAP and FERC Rules. Proper treatment of expenditures as capital or expense items may also impact the rates that are charged to customers. Expenditures related to utility operations that are expensed generally are recovered from ratepayers in the current revenue requirement. Those expenditures that are capitalized as assets are recovered through its rates as the assets are depreciated.

9.1 Capital Expenditures

- 9.1.1 Revenue Funds
- 9.1.2 Construction Bond Funds
- 9.1.3 Disbursements Operating Fund
- 9.1.4 Surplus Fund

9.2 Maintenance Expenditures (a/c 500 series)

- 9.2.1 Disbursement Operating Fund
- 9.2.2 Revenue Funds
- 9.2.3 FEMA Funds (catastrophic situations)

9.3 Activities Related to Retirements Assets

- 9.3.1 Disbursement Operating Fund
- 9.3.2 Revenue Funds

10.0 BUDGETING

- 10.1 Capital Expenditures - Refer to Capital Improvement Projects and General Plant requirement Planning & Budgeting System Procedures.
- 10.2 Maintenance and other Expenditures - Refer to Budget Policies and Procedures. Those charge to 500 account series.