



Property Accounting Policy/Procedure

Policy/Procedure Title	Capitalization Policy	Date	Oct 17, 2012, Rev. 3
Owner:	Property Accounting	Status: (Draft, Under Review, Approved)	Approved
Purpose			
<p>The purpose of this corporate procedure is to formalize guidelines for classifying expenditures as capital for AEP's utility subsidiaries.</p> <p>Certain AEP investment/non-regulated companies such as MEMCO have their own capitalization policy.</p>			
Procedure			
General			
<p>AEP's utility companies follow Federal Energy Regulatory (FERC) guidelines to determine when expenditures should be classified as capital and considered additions or retirements of electric plant. FERC guidelines state that all property shall be considered as consisting of retirement units and minor items of property.</p> <p>FERC guidelines also dictate that each utility shall use a list of retirement units and provide some discretion in permitting each utility to define the units.</p> <p>The assistant controller must approve all deviations from this policy.</p>			
Retirement Units			
<p>Retirement Units are items of plant that are capitalized when added to electric plant and retired when removed from electric plant. Retirement units are generally costly and long-lived. In addition, when new retirement units are established, they should not be an integral part of an existing retirement unit.</p> <p>With the exception of transmission and distribution equipment retirement units, AEP does not permit capitalization of a retirement unit that has a per unit material value of less than \$1,000. Transmission and distribution equipment does not have a dollar limit for capitalization but instead uses the retirement unit designation to determine when to capitalize property additions.</p> <p>Capital Software projects must have a value of at least \$1,000 to qualify for capitalization. Where major capital software project costs are spread to individual AEP subsidiaries, any company receiving less than \$1,000 of the allocated cost should charge their share of the cost to expense.</p>			



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® Additions to AEP's retirement unit listing may be made by written request to Property Accounting that includes a description of the proposed new unit, its estimated useful life and the approximate cost of the item. Business unit representatives, Property Accounting and Accounting Policy and Research will review the requested additions to determine if it is appropriate to make the revision to AEP's retirement unit listing.

Minor Items of Property

Minor items of property are all items that are not defined as retirement units. They are generally less than \$1,000 and may be a part of a related retirement unit. In many cases, they are subject to frequent replacement and may therefore have shorter lives than a related retirement unit.

It is generally AEP's policy that unless a minor item of property is being added or removed along with a related retirement unit, the cost to add or remove a minor item of property should be charged to the appropriate maintenance account.

Betterment

Betterment represents an improvement or enlargement of existing depreciable electric plant property by the replacement of minor items of property independent of the retirement units of which they are a part.

Betterment should only be considered as a reason for capitalization when there is no retirement unit being installed by the applicable project.

Betterment permits capitalization of the difference between the current material costs of the betterment parts over the current material costs of the replaced parts. No labor or other type costs can be capitalized using these criteria.

Betterment will only be considered as a reason for capitalization when a substantial addition such as \$500,000 or greater, results.

In addition, betterment should only be used as a reason for capitalization when there is an improvement or enlargement of existing depreciable electric plant where the improvement has the effect of **significantly** extending the original life or increasing the capacity or lowering the operating cost of the retirement unit affected.

Any capitalization of betterment costs requires written approval from Property Accounting and Accounting Policy and Research.



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Reviewers		
Name	Initials	Date
James Henderson	JEH	4/19/04
Thomas Mitchell	TEM	4/19/04
Julie Williams	JW	4/20/04
Michael Sullivan	MJS	4/21/04
Sandra Bennett	SSB	6/14/04
Thomas M. Myers	TMM	5/24/04
Susan Higginson	SEH	6/17/04
Nancy Roby	NNR	5/27/2011

Approved By

Approver Name: Approved by J. M. Buonaiuto on 7/13/04 – signature on file in Property Accounting

Edit History

Edited on 12/23/04 – for Jason Stegall to add “The assistant controller must approve all deviations from this policy.”
 Edited on 1/18/06 – under Purpose to indicate that certain AEP subsidiaries such as MEMCO follow their own capitalization Policy.
 Edited on 10/17/12 – by Dave Hummel to add the language “It is generally” at the beginning of the second paragraph under the Minor Items of Property section.