

Clarifications and Interpretations of Accounting Bulletin #2

NOTE: These clarifications and interpretations are made as a result of an Audit Services review of Forestry Classifications. Future reviews may bring further change. – C.V. Talley 10-01-2006

Accounting for Costs of Clearing Land and Rights-of-Way

I. PURPOSE

These instructions are primarily intended to define costs of clearing land and rights-of-way and pruning trees properly chargeable to construction or maintenance

II. GENERAL RULE

Costs of initial or original clearing of land and rights-of-way and pruning trees are to be charged to appropriate electric plant capital accounts. All subsequent costs are to be charged to maintenance.

“INITIAL OR ORIGINAL” CLEARING

Includes:

- a. Initial Applications of Herbicide
 - i. Delayed initial herbicide applications where the applicable construction work order has been closed
 - ii. Planned two herbicide application method (with approximate intervals of from one to three years between first and second applications) designed to control stump sprouting species with the first application and root suckering species with the second. Effective control of both types of growth by this method requires different materials which are not miscible and some regrowth of root suckers before the second application. Where root suckering is not a problem, the second application will occur after the normal maintenance interval (approximately four to six years) and is to be charged to appropriate maintenance accounts.
 - iii. Initial application of Tree Growth Regulator (TGR) and associated costs.

NOTE: subsequent applications of herbicides and TGR are to be charged to the appropriate maintenance accounts

III. OTHER CAPITALIZABLE COSTS

- a. Costs of clearing portions of existing rights-of-way not previously cleared.
 - i. Costs of removing trees greater than (or equal to) 18” diameter from previously cleared rights-of-way after the line is in operation
 - ii. Costs to include:
 - a. Felling and disposal

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- b. Stump grinding
- c. Herbicide treatment of the stump

Discussion:

Classifying, as capital, certain tree removals after initial clearing has been completed is based on the premise that had those trees been removed during initial clearing, the costs would have been capitalized. Specifying a diameter for use in determining Capital or Expense is a method to distinguish between “original” trees and those that have grown since a power line was constructed. An 18” diameter measure will encompass many trees that are 22 yrs or older.

* based on sample using silver maple, white pine, black cherry, black locust, tulip poplar, white oak, and red maple

- b. Costs of clearing newly acquired easements broadening existing rights-of-way (widening)
 - i. Distances of 1 span or more, or removal of individual trees greater than (or equal to) 18” diameter.
 - ii. Costs to include:
 - 1. Removal of trees and brush
 - 2. Herbicide application as described in sections (II a i, ii, iii)
- c. Initial costs of trimming trees bordering broadened rights-of-way.
 - i. Removal of overhanging limbs protruding through or into the newly widened rights-of-way

NOTE: Only widening which results in an increase in the cleared distance measured from edge to edge on the ground may be capitalized. Removal of overhanging limbs without removal of trees is to be charged to maintenance.

- d. Trimming trees at heights not previously trimmed
 - i. Trimming trees at heights not previously trimmed is considered a maintenance operation unless it is part of a widening operation that results in an increase in cleared distance measured from edge to edge (see note above – III c).

IV. MAINTENANCE COSTS

- a. Costs of pruning trees and clearing brush and other refuse from previously cleared rights-of-way after the line is in operation is chargeable to applicable FERC accounts 571, Maintenance of Overhead Lines (Transmission) or 593, Maintenance of Overhead Lines (Distribution)

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- b. Costs of again clearing or pruning an originally cleared portion done in conjunction with the clearing or pruning of:

- i. An originally uncleared portion of an existing right-of-way
- ii. An easement addition for broadening existing rights-of-way

NOTE: Clearing of the originally uncleared portion or new addition is to be charged to construction per (III c) preceding

- iii. Scattered clearing and pruning of portions of rights-or-way not previously cleared (e.g. danger trees)
 - a. Costs of removing trees greater than 4” diameter from outside the previously cleared rights-of-way after the line is in operation (danger trees)

NOTE: costs associated with removing trees greater than (or equal to) 18” may be classified as capital (see section III b i)

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Illustrations

Classification depends on type of work performed



- Trimming is an O&M expenditure
- Removal is a Capital expenditure (if tree is larger than 18" dia. or is part of initial clearing or widening)

Note – to our knowledge, this tree is not on the AEP system

“Trimming to Heights not Previously Trimmed”

Capital? Or O&M?

- Accounting Bulletin #2 classifies as Capital

BUT

- Once the limb is removed, can it be determined if it has been trimmed before?

Decision –

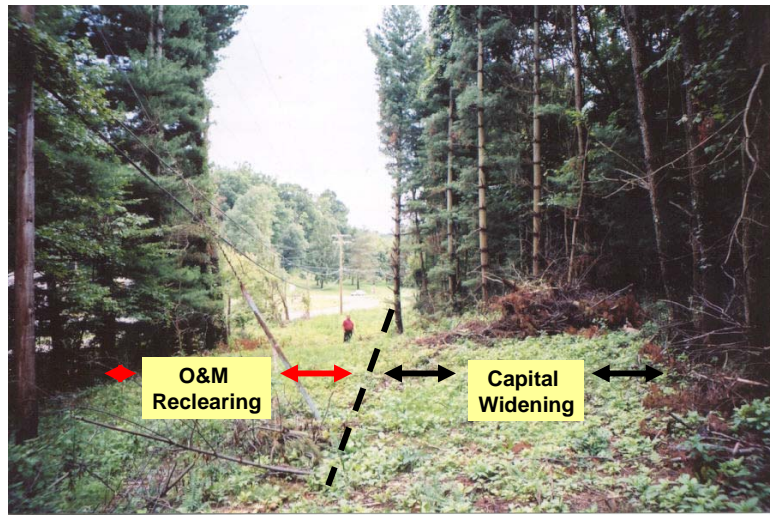
- Trimming, only, will be O&M;
- Tree Removal will be Capital (based on location and size)



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Capital Widening and O&M Reclearing



Capital Tree Removal – In the ROW



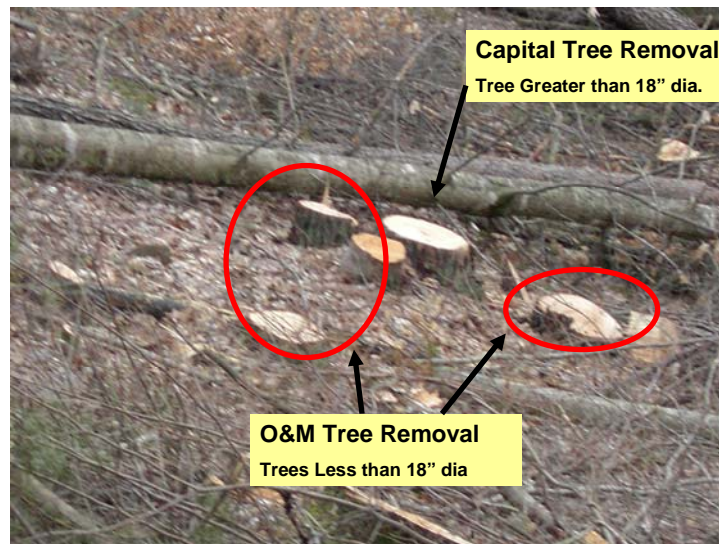
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Capital Tree Removal – In the ROW



Capital & O&M Tree Removal In the ROW



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O&M Tree Removal – In the ROW



Capital & O&M Tree Removal In & Out of the ROW

