UTILITY COST MANAGEMENT SERVICES

Is Your Utility Capitalizing All the Costs You're Entitled To?

MCR's Industry Experts Offer Solutions for Utilities

IS YOUR UTILITY **CAPITALIZING ALL THE COSTS** YOU'RE ENTITLED TO?

Reducing O&M costs is one of the highest priorities for utility executives today. Often overlooked, however, are project expenditures. A utility incorporates countless interdependent pieces of equipment and components, and it can be difficult to identify whether items constitute discrete units of property (UoP), major components or something else. As a result, utilities may not be capitalizing all the costs they are entitled to and, thus, may be expensing more costs than required. This directly impacts the utility's financial performance.

Capitalization Policy and the Units of Property Catalog

Project engineers and asset accountants consult the company's UoP catalog when deciding what expenditures to capitalize. The catalog provides guidelines defining UoP and major components that are used to determine whether to capitalize or expense costs for maintenance, replacement or improvements to systems in the field.

The challenge most utilities face is the lack of a standard, "off-the-shelf" UoP catalog. Most utilities create their own catalogs, which can vary based on the company's capitalization policy, their understanding of systems and components, and the age and maintenance of the catalog itself.
As a result, the capitalization process and UoP catalog are often:

- Cumbersome and a perennial source of disagreement in project capital or expense decisions
- Contentious, causing organizational disputes between project engineering and accounting
- Inconsistent in how expenditures are capitalized across multiple plants, systems, or other assets

> "The new Units of Property catalogs are used daily by our accountants and engineers. The catalogs are **better organized, more user friendly** and are written in a language that field personnel can understand. **MCR took out the confusion** and created a logical, well-thought-out system."
>
> *—Director of Accounting for MCR Client*

Corporate mergers can create an even more difficult problem as the newly combined entity finds itself with multiple legacy catalogs and misaligned capitalization practices.

MCR Units of Property Catalog and Best Practices Database

The MCR UoP catalog and best practices database solve the capitalization decision problem. Detailed equipment and component listings for capitalizing expenditures are:

- ✓ Based on best practices from utility industry peers
- ✓ Benchmarked to capitalization policies and capitalization thresholds at peer utilities
- ✓ Customized to a generating plant's vintage and design
- ✓ Designed to meet the requirements of company auditors and regulators

MCR's utility experts implement the MCR UoP catalog, including benchmarking capitalization policies to best practices and assessing the financial impact of potential shifts of costs between capital and O&M.

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Benefits

Your utility operations can realize two key benefits from a capitalization analysis and UoP catalog review:

1) Improved capitalization decision process. The new catalog clarifies guidance for implementing organizations and reduces accounting resources and time required to analyze capital funding requests.

2) Improved financial accuracy. The new catalog provides sufficient detail, aligned with industry peers, required to make capitalization decisions about replacement equipment and components.

MCR has performed numerous capitalization policy analyses and UoP catalog reviews for clients to address situations like:

- A nuclear generation fleet using separate, inconsistent UoP catalogs for each site
- A nuclear generation fleet using outdated property unit definitions that were misaligned with industry peers
- Two recently merged companies needing to integrate their capitalization policies and UoP catalogs

MCR CAN HELP WITH YOUR
UNIT OF PROPERTY NEEDS

If you are in any of these situations or would like to clarify your capitalization policies and UoP definitions, contact MCR to find out how we can help.

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