

CAPITALIZATION POLICY

1.0 PURPOSE

This evidence describes how OPG classifies expenditures and determines eligibility for capitalization. The description below also forms the basis for capitalization of expenditures for the DNNP facilities.

2.0 CLASSIFICATION OF EXPENDITURES

Expenditures on investments or projects are classified in accordance with US GAAP as capital, OM&A costs, or charges against a previously established liability. Previously established liabilities include the liability for nuclear waste management and decommissioning discussed in Ex. C2-1-1. The classification of expenditures, including capitalization of costs discussed below, is substantially unchanged from EB-2020-0290.

Expenditures that are classified as capital are recorded as either property, plant & equipment or intangible assets. Specifically, the following types of such expenditures are capitalized:

- Acquisition and construction of new assets: expenditures related to the purchase, design, development, site preparation, implementation, construction, or commissioning of a new asset that will provide benefits beyond the current year and meet or exceed the defined materiality threshold.
- Rehabilitation/improvement/maintenance of existing assets, where related expenditures must meet all of the following criteria to be capitalized:
 - The benefits must extend beyond the current year.
 - The level of expenditure must meet or exceed the defined materiality threshold.
 - The expenditure must either extend the life or increase the output of the asset.
- For replacements, expenditures to replace a complete asset or a significant component of an asset are capitalized when the expenditures are expected to provide benefits beyond the current year and exceed the materiality threshold.

Overhead costs that are only directly attributable to the acquisition or construction of a capital asset are capitalized.

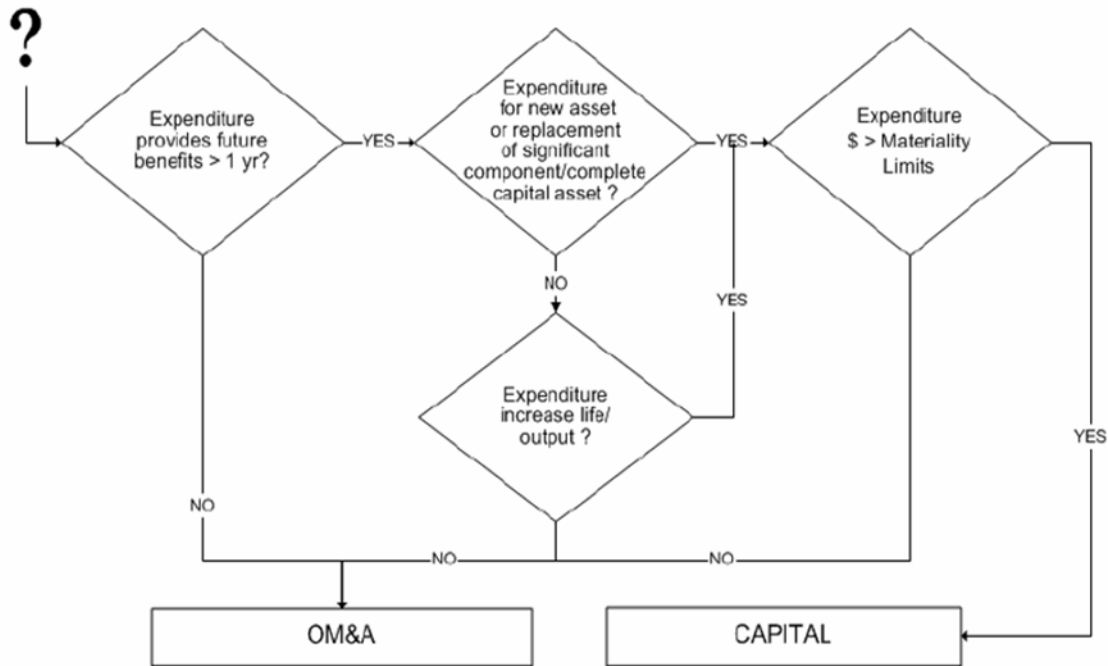
1 Expenditures that relate to a previously established liability are applied against the liability as
2 incurred. Removal costs for existing assets are charged to OM&A costs as incurred.

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4 With respect to accounting for expenditures related to cloud computing software
5 arrangements, where there is contractual right to take possession of the software at any time
6 without significant penalty or there is control over the cloud platform solution that hosts the
7 software, the associated implementation and license costs are capitalizable as intangible
8 assets. For cloud computing software arrangements that do not meet the above criteria, the
9 implementation and license costs are treated as OM&A costs.

10
11 OM&A costs include general maintenance, repairs (up to and including major
12 disassembly/overhaul), operating costs, and other expenditures that do not meet the criteria
13 for capitalization and do not relate to previously established liabilities. In addition, project
14 development costs incurred prior to the date that an alternative is selected for implementation
15 are charged to OM&A costs. Subject to the capitalization criteria above, project development
16 or implementation costs are capitalized once the preferred alternative for a new capital asset
17 or capital improvement to an existing asset is selected, provided that there is sufficient
18 confidence that the construction or implementation execution will be completed.

19
20 The application of the capitalization eligibility criteria is illustrated in Figure 1 below.

Figure 1 – Capitalization Decision Tree



The following thresholds continue to apply for the materiality assessment:

- Generating Asset Classes \$200,000 per generating unit
- Administrative/Service Buildings \$25,000 per building
- Telecom Equipment \$25,000 per item
- Minor Fixed Assets \$25,000 per item
- Intangible Assets \$200,000 per application

Minor fixed assets include portable assets used in administrative, construction, transport, or maintenance/service activities unless they are used directly for the generation of energy or form integral components of a building.

Materiality thresholds are applied to individual items rather than on an aggregated basis.

Projects and/or work orders cannot be aggregated to qualify for capitalization. The exception

- 1 to this principle applies to multiple identical items purchased that are part of a capital project
- 2 where the project as a whole is evaluated against the materiality threshold.