

Anne F Lyons

From: David Hummel
Sent: Thursday, August 15, 2013 10:49 AM
To: Rick Reinaker
Cc: John R Huneck; Thomas E Mitchell; Hugh E McCoy; David A Davis; Janet E Swanger; Debbi Doyle; Anne F Lyons
Subject: Accounting for HCP and NEPA Studies

It is my understanding that there are 31 counties in Oklahoma, 2 counties in Texas and 5 counties in Arkansas which are suitable habitat for the American Burying Beetle (ABB). Because the ABB is a protected species, the US Fish and Wildlife Service (USFWS) requires that prior to beginning construction in these counties a company must first determine if the ABB lives in the area that will be impacted by the construction. If the ABB is found in the area, a Habitat Conservation Plan (HCP) and a National Environmental Policy Act (NEPA) study must be prepared and submitted to the USFWS prior to receiving approval to commence with construction. The HCP and NEPA can take from 12 – 24 months to prepare and receive USFWS approval, which would result in a considerable delay in the planned construction.

AEP is considering preparing the HCP and NEPA now for the counties that are suitable habitat for the ABB. The thinking is, this will avoid delays in future planned construction projects if the ABB is found to live in an area that will be impacted by the construction projects. AEP estimates that the HCP and NEPA will provide coverage for a period of 20 – 30 years. The cost of preparing the HCP and NEPA is estimated to cost between \$650,000 – \$800,000.

Typically environmental impact/permitting activities would be capitalized as part of the cost of a construction project. However, in this case there is no specific construction project benefitted, just a potential future benefit to PSO T&D projects, Oklahoma Transco projects and SWEPCo T&D projects. Because of this, you asked if the cost of preparing the HCP and NEPA can be capitalized, and if so, how would the cost be classified.

I met with a group from the accounting organization to discuss the options. Since there is no associated construction project the HCP and NEPA cannot be capitalized as part of a construction project. Treating the HCP and NEPA as an overhead cost would not be appropriate because there would be no definite relation to current construction projects which would not benefit from the studies. Capitalizing the cost as a franchise or consent would not be appropriate because the amount paid is to consultants for performing the studies not to a governmental agency for a franchise, license or permit.

The only account that would be applicable is Account 303, Miscellaneous Intangible Plant. The FERC USofA provides that, "This account shall include the cost of patent rights, licenses, privileges, and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account." Normally environmental impact/permitting activities would not be classified as an intangible asset. Since this is an unusual situation, benefitting future projects over an extended period of time, we believe Account 303 can be used for capitalizing the cost of the HCP and NEPA. This guidance is applicable for this situation only and is not intend to establish a precedent. Any other one-off situations of this type would have to be evaluated on an individual basis.

Before funding can be approved for the HCP and NEPA a determination needs to be made as to which BU's (PSO-T, PSO-D, Oklahoma Transco, SWEPCO-T, or SWEPCo-D) will benefit from the studies and to what extent. Some methodology for allocating the costs between the benefitting BU's will have to be established. In addition, the period benefitted (20 years, 30 years, or another period) will have to be determined so the study costs in Account 303 can be amortized over the appropriate time period. Please keep the individuals copied on this email informed of the decisions made on these items.