

Construction Projects

Generally, all directly attributable costs incurred in the construction of an asset or facilities are considered capital expenditures which will be capitalized when the asset/facility is placed in service. Certain exceptions exist with respect to the various phases of an individual construction project. These exceptions typically exist in Information Technology (IT) projects, however they may apply to other construction projects as well if those projects have components of research and development activities.

Phases of Construction Projects

Phase	Activities	Comments
<i>Pre-Inception (Elements of planning)</i>	<i>The idea for the project is stated. Initial analysis and business case are developed. Future benefits are not assured.</i>	<i>Because of the high level of uncertainty that the project will proceed, <u>costs incurred during this phase should be expensed.</u></i>
<i>Inception (Elements of planning)</i>	<i>The business case is stated. Conclusions are made regarding the project's worth and if it is even possible. Future benefits are still not assured.</i>	<i>Uncertainty still remains whether or not the project will proceed. <u>Costs incurred during this phase should be expensed.</u></i>
Elaboration	After the conclusion is made that the project is worthwhile and approved, the project team determines the most appropriate architecture and required resources. Budget and scheduling plans are created for the construction phase. Future benefits are reasonably assured.	Costs directly attributable to the project should be capitalized.
Construction	Construction is undertaken and completed. Testing is conducted to ensure that the project has met its goal. The project is placed in service when the asset is capable of operating in the location and manner intended by management. Future benefits are assured.	Costs directly attributable to the project should be capitalized.
Transition	Fine tuning is performed at this stage. The project is transitioned to the end users (i.e. Operations).	Costs incurred during this phase should be expensed because they are not necessary to place the project in service.

The following examples of expenditures are appropriate for capitalization in the Elaboration and Construction phases of a project because they are directly attributable to the completion of the project:

(i) Elaboration Phase

Activities during this phase typically include the planning, conceptual design, preliminary and detailed design, and development of a new facility. Typical costs include:

- Direct labour costs (described below) including benefits;
- Materials and supplies – actual or an allocation
- Consulting and contracted services;
- Interest;
- An allocation of directly attributable administration costs.

Directly attributable administration costs include:

- Administrative labour costs including benefits;
- Travel;
- Sustenance;
- Office costs.

Note that training costs in any phase are not eligible for capitalization unless they are costs incurred to “train the trainer”.

(ii) Construction Phase

Activities during this phase typically include the acquisition of land and land rights, site preparation, the physical construction of the facility, the purchase of equipment, testing and post construction clean up. Typical costs include:

- Purchase of land and land rights (easements) including survey fees and land registration fees;
- Direct labour costs (described below), including benefits;
- Materials and supplies, including spare parts and tools, inspection costs, transportation, freight and applicable taxes;
- Purchase of equipment including costs to install, inspect and test it;
- Consulting and contracted services;
- Mitigation payments to reimburse land owners and rural municipalities for damage to crops, land and roads during construction;
- Integrity and other tests and inspections to ensure the facility will operate as intended;
- Cathodic protection for pipeline assets (usually installed after the completion of the pipeline);
- Post construction cleanup costs;
- Interest;
- Allocations of reasonable amounts to account for the use of Corporate owned vehicles and equipment. (This allocation is automatically processed within the Job Cost System of OneWorld utilizing rates developed and approved by the Manager, Financial Accounting and Controller).
- Any other cost directly attributable and necessary to get the facility working in the location and in the manner intended by management.

Direct labour costs may be in the form of hourly charge-out rates meant to approximate an average labour cost across a range of labour rates. The up-charge of directly attributable administration costs is added to these charge-out rates to create a loaded labour charge-out rate. The application of this rate creates a charge to the project and a credit to a business unit.

The average labour rates and the up-charge of directly attributable administration costs are reviewed on a regular basis by Financial Accounting and adjusted when necessary.

Projects may include labour costs from the following departments or areas, depending on the project's specific requirements:

- Transmission and Distribution engineering and technology;
- Transmission and Distribution operations;
- Distribution Gas Construction;
- Information Services;
- Land Services; and
- Environment & Sustainability