

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-14 \_\_\_\_\_

DOCKET NO. UG-14 \_\_\_\_\_

EXHIBIT NO. \_\_\_\_ (EMA-7)

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REPRESENTING AVISTA CORPORATION



# ALLOCATION PROCESSES AND METHODOLOGIES

Washington  
December 2, 2013

# Introduction

- The Company directly assigns revenues and costs, when appropriate. Costs not specifically identifiable to a specific Service and Jurisdiction must be allocated using a reasonable method.
- The Company's methodology of using 4-factor allocation factors to allocate non-direct costs is consistently used in all 3 states.
- The Company updates the allocation factors each year, using actual direct costs. Updating factors with current costs and customers is appropriate so growth in each jurisdiction is factored into the allocation. By updating the factors, if any Service or Jurisdiction has disproportionate growth of customers or costs, the 4-factor will reflect the shift in costs.



## Introduction (con't)

When the Company designed the allocation methodology that is being used today, the specific objectives identified were as follows:

- The method must be acceptable to all regulators to prevent any stranded costs or investment,
- The number of cost allocation methods should be minimized,
- The method needs to be simple,
- The method needs to have a sound, rational basis,
- Allocations under the method should be automated, and
- The method needs to produce reasonable results.

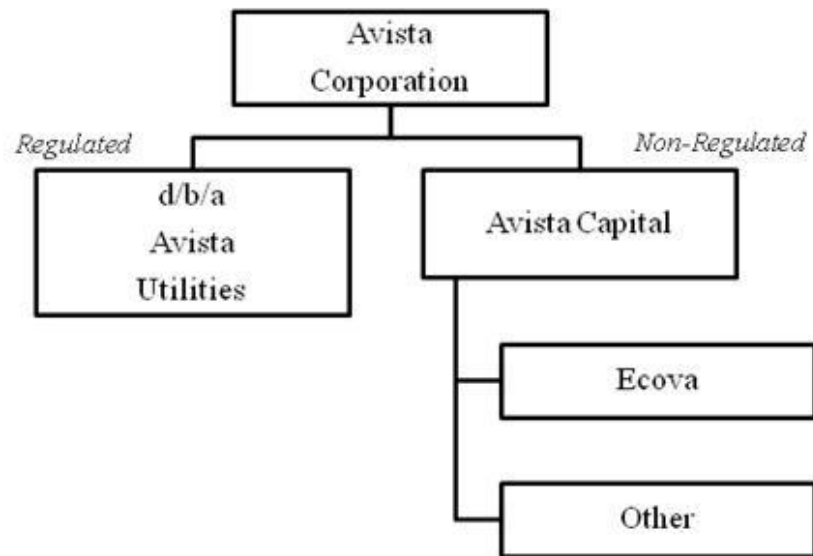


# Agenda

- I. Direct Assignment of Non-Utility Costs
- II. Why are Costs Allocated?
- III. How are Costs Allocated?
- IV. How are Allocation Factors Derived?

# I. Direct Assignment of Non-Utility Costs

# Avista Organization Chart



## Direct Assignment of Non-Utility Costs Example

Detail of Directors' Fees For Twelve Months Ended June 30, 2013 (\$000's)		
Total Directors' Fees		\$ 1,531
Less: Subsidiary Directors' Fees Charged to FERC 417/186		<u>44</u>
Avista Corp. Directors' Fees		1,488
Less: 10% Charged to Non-utility (FERC 417)		<u>148</u>
Utility Directors' Fees - System		<u>\$ 1,340</u>
Allocation of Utility Directors' Fees to Operating Division Using Factor 7:		
Electric	72.346%	\$ 969
Natural Gas North	19.401%	260
Natural Gas South (Oregon)	8.253%	111
Total	<u>100.000%</u>	<u>\$ 1,340</u>
Allocation of ELECTRIC Utility Directors' Fees to Jurisdiction Using Factor 4:		
Washington Electric	67.000%	\$ 649
Idaho Electric	33.000%	320
Total	<u>100.000%</u>	<u>\$ 969</u>
Allocation of NATURAL GAS NORTH Utility Directors' Fees to Jurisdiction Using Factor 4:		
Washington Natural Gas	70.603%	\$ 184
Idaho Natural Gas	29.397%	76
Total	<u>100.000%</u>	<u>\$ 260</u>





## II. Why are Costs Allocated?

# Why are Costs Allocated?

The Company operates 3 operating divisions:

- Electric (provides service in WA and ID)
- Gas North (provides service in WA and ID)
- Gas South (provides service in OR)

Revenues, Costs and Rate Base not specifically identifiable to a specific Service and Jurisdiction must be allocated using a reasonable method.

For example, Avista's main headquarters in Spokane provides service to all services and jurisdictions, therefore the operating costs, depreciation expense and net book value of the building is allocated to all operating units using allocation factors.



## Cost Assignment and Allocation

- Revenues, Operating Costs and Rate Base are **DIRECTLY ASSIGNED** to Service (electric/natural gas) and Jurisdiction (WA/ID/OR), whenever possible.
- For revenues, operating costs and rate base that are not directly assigned ("common"), the Company allocates based on the Service and Jurisdiction related to those common costs using the Service Codes and Jurisdiction Codes assigned to those common costs.
- The Company uses allocation factors derived from the directly assigned costs to allocate the “common” costs.

# III. How are Costs Allocated?

# Financial System Codes

## Service Codes

- ED – Electric
- GD – Gas
- CD – Common
- ZZ – No Service

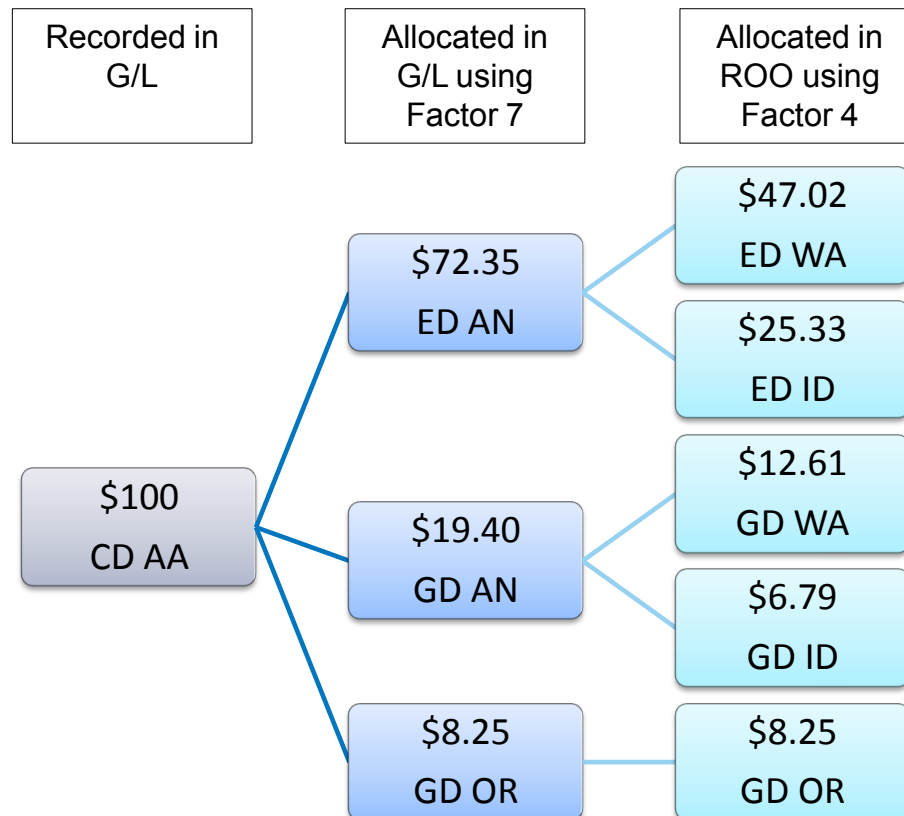
## Jurisdiction Codes

- AA – Allocated All
- AN – Allocated North
- ID – Idaho
- MT – Montana
- OR – Oregon
- WA – Washington
- ZZ – No Jurisdiction

# Possible Combinations of Service and Jurisdiction Codes

Service	CD	ED	GD	ZZ
Jurisdiction	AA AN ID WA	AN ID MT WA	AA AN ID OR WA	ZZ

# How does \$100 of Common costs get allocated?



# IV. How are Allocation Factors Derived?



## Cost Assignment and Allocation – How the Factors are Computed

- As in the past, the Company computes 3 factors annually using the previous year's direct costs, including:
  - Factor 7 Allocate CD AA (Common costs for all services and jurisdictions)
  - Factor 8 Allocate GD AA (Common GAS costs for all 3 jurisdictions)
  - Factor 9 Allocate CD AN, ID, and WA (Common costs for both services for the North division)
- These factors are entered into the GL and the allocations of costs are recorded in the GL automatically

## Allocation Factors 7, 8 and 9 (“4-Factor”)

- Based on equal weightings (i.e. 25% to each factor) of the following 4 factors:
  - Direct O&M and A&G costs (excluding labor)
  - Direct labor costs
  - Number of customers
  - Net direct plant

## 2013 Factor 7 (Used to Allocate CD AA Costs and Rate Base)

	Total	Electric	Gas North	Oregon
<b>Direct Non-Labor</b>				
O&M (Accts 500-894)	\$68,965,506	\$60,243,237	\$5,651,108	\$3,071,161
A&G - ED & GD (Accts 901-935)	41,147,627	29,854,933	8,129,433	3,163,261
A&G - CD (Accts 901-935)	4,465,312	3,053,607	1,411,705	-
<b>Adjustments</b>				
<b>Adjustments</b>				
Total	\$114,578,445	\$93,151,777	\$15,192,246	\$6,234,422
Percentage	100.000%	81.300%	13.259%	5.441%
<b>Direct Labor</b>				
O&M (Accts 500-894)	\$65,772,800	\$51,029,386	\$10,468,202	\$4,275,212
A&G - ED & GD (Accts 901-935)	5,175,642	3,333,358	497,385	1,344,899
A&G - CD (Accts 901-935)	10,669,036	7,158,435	3,510,601	-
Total	\$81,617,478	\$61,521,179	\$14,476,188	\$5,620,111
Percentage	100.000%	75.377%	17.737%	6.886%
<b>Year End Customers at 12/31/12</b>				
Washington	387,837	237,724	150,113	
Idaho	200,844	124,738	76,106	
Oregon	96,651			96,651
Total	685,332	362,462	226,219	96,651
Percentage	100.000%	52.888%	33.009%	14.103%
<b>Net Direct Plant (Ending Balance at 12/31/12)</b>				
Amount	\$2,540,576,273	\$2,027,886,265	\$345,513,055	\$167,176,953
Percentage	100.000%	79.820%	13.600%	6.580%
<b>Four Factor</b>				
Total	400.000%	289.385%	77.605%	33.010%
Average	100.000%	72.346%	19.401%	8.253%

Examples of Common (CD AA) Costs:

- Customer Service Reps
- Main Office Building
- Office Supplies

The factor for 2013 was computed using actual 2012 costs

## 2013 Factor 8 (Used to Allocate GD AA Costs and Rate Base)

	Total	Electric	Gas North	Oregon
<b>Direct Non-Labor</b>				
O&M (Accts 500-894)	\$8,210,713		\$5,319,674	\$2,891,039
A&G - ED & GD (Accts 901-935)	10,885,298		7,836,155	3,049,143
A&G - CD (Accts 901-935)	1,411,705		1,411,705	-
Total	\$20,507,716	\$0	\$14,567,534	\$5,940,182
Percentage	100.000%	0.000%	71.034%	28.966%
<b>Direct Labor</b>				
O&M (Accts 500-894)	\$11,244,329		\$7,983,762	\$3,260,567
A&G - ED & GD (Accts 901-935)	1,531,702		413,533	1,118,169
A&G - CD (Accts 901-935)	3,510,601		3,510,601	-
Total	\$16,286,632	\$0	\$11,907,896	\$4,378,736
Percentage	100.000%	0.000%	73.115%	26.885%
<b>Year End Customers at 12/31/12</b>				
#REF!	322,870		226,219	96,651
Percentage	100.000%	0.000%	70.065%	29.935%
<b>Net Direct Plant (Ending Balance at 12/31/12)</b>				
Amount	\$504,945,491		\$338,644,009	\$166,301,482
Percentage	100.000%	0.000%	67.065%	32.935%
<b>Four Factor</b>				
Total	400.000%	0.000%	281.279%	118.721%
Average	100.000%	0.000%	70.320%	29.680%

Examples of Common (GD AA) Costs:  
•Gas Operations Costs

The factor for 2013 was computed using actual 2012 costs

## 2013 Factor 9 (Used to Allocate CD AN Costs and Rate Base)

	Total	Electric	Gas North	Oregon
Direct Non-Labor				
O&M (Accts 500-894)	\$65,927,810	\$60,243,237	\$5,684,573	
A&G - ED & GD (Accts 901-935)	37,981,681	29,854,933	8,126,748	
#REF!				
#REF!				
Total	\$103,909,491	\$90,098,170	\$13,811,321	\$0
Percentage	100.000%	86.708%	13.292%	0.000%
Direct Labor				
O&M (Accts 500-894)	\$61,509,081	\$51,029,386	\$10,479,695	\$0
A&G - ED & GD (Accts 901-935)	3,968,432	3,333,358	635,074	0
Total	\$65,477,513	\$54,362,744	\$11,114,769	\$0
Percentage	100.000%	83.025%	16.975%	0.000%
Year End Customers at 12/31/12				
#REF!	588,681	362,462	226,219	0
Percentage	100.000%	61.572%	38.428%	0.000%
Net Direct Plant (Ending Balance at 12/31/12)				
Amount	\$2,348,249,795	\$2,009,605,786	\$338,644,009	\$0
Percentage	100.000%	85.579%	14.421%	0.000%
Four Factor				
Total	400.000%	316.884%	83.116%	0.000%
Average	100.000%	79.221%	20.779%	0.000%

Examples of Common (CD AN) Costs:  
•WA/ID Elec & Gas Operations Costs

The factor for 2013 was computed using actual 2012 costs

## 2013 Factor 4 - Electric

	Total	Washington	Idaho
	Electric		
Direct Non-Labor			
O&M (Accts 500-894)	\$20,221,960	\$13,135,421	\$7,086,539
A&G - ED & GD (Accts 901-935)	26,282,209	18,761,880	7,520,329
A&G - CD (Accts 901-935)	1,498,274	996,329	501,945
Net	\$48,002,443	\$32,893,630	\$15,108,813
Percentage	100.000%	68.525%	31.475%
Direct Labor			
O&M (Accts 500-894)	\$13,459,589	\$8,757,716	\$4,701,873
A&G - ED & GD (Accts 901-935)	1,032,578	774,818	257,760
A&G - CD (Accts 901-935)	5,247,949	4,207,756	1,040,193
Net	\$19,740,116	\$13,740,290	\$5,999,826
Percentage	100.000%	69.606%	30.394%
Year End Customers at 12/31/12			
Amount	362,462	237,724	124,738
Percentage	100.000%	65.586%	34.414%
Net Direct Plant (Ending Balance at 12/31/12)			
Amount	\$865,560,849	\$556,413,691	\$309,147,158
Total	\$865,560,849	\$556,413,691	\$309,147,158
Percentage	100.000%	64.284%	35.716%
Four Factor			
Total	400.000%	268.001%	131.999%
Average	100.000%	67.000%	33.000%

The factor for 2013 was computed using actual 2012 costs



## 2013 Factor 4 – Natural Gas

	Total	Washington	Idaho
	Gas North		
Direct Non-Labor			
O&M (Accts 500-894)	\$3,867,623	\$2,782,690	\$1,084,933
A&G - ED & GD (Accts 901-935)	7,858,839	6,631,389	1,227,450
A&G - CD (Accts 901-935)	705,421	500,481	204,940
Net	\$12,431,883	\$9,914,560	\$2,517,323
Percentage	100.000%	79.751%	20.249%
Direct Labor			
O&M (Accts 500-894)	\$6,378,039	\$4,276,726	\$2,101,313
A&G - ED & GD (Accts 901-935)	413,533	334,731	78,802
A&G - CD (Accts 901-935)	2,765,812	2,226,841	538,971
Net	\$9,557,384	\$6,838,298	\$2,719,086
Percentage	100.000%	71.550%	28.450%
Year End Customers at 12/31/12	226,219	150,113	76,106
Percentage	100.000%	66.357%	33.643%
Net Direct Plant (Ending Balance at 12/31/12)	\$315,235,804	\$204,120,984	\$111,114,820
Net Direct Plant After Adjustments	\$315,235,804	\$204,120,984	\$111,114,820
Percentage	100.000%	64.752%	35.248%
Four Factor			
Total	400.000%	282.410%	117.590%
Average	100.000%	70.603%	29.397%

The factor for 2013 was computed using actual 2012 costs



## 2013 Electric – Production/Transmission Factor (P/T Ratio)

	Washington	Idaho	Total
<b>Actual Jurisdictional Allocation (12/31/12)</b>			
Energy Retail Sales (MWH)	5,522,783	3,364,864	8,887,647
Energy Retail Sales Percentage	62.14%	37.86%	100.00%
MW's Peak (Retail + Adjustments)	12,085	6,199	18,284
MW's Peak Percentage	66.10%	33.90%	100.00%
Final Grand Summary - Allocation of Load by Jurisdiction (Based on 50/50 Weighing)			
	64.12%	35.88%	100.00%
Adjusted Jurisdictional Allocation			
Energy Retail Sales (MWH)	5,522,783	3,364,864	8,887,647
Less: Adjustments to Idaho Load (Note 2)		(421,680)	(421,680)
Energy Retail Sales (MWH)	5,522,783	2,943,184	8,465,967
Energy Retail Sales Percentage	65.24%	34.76%	100.00%
MW's Peak (Retail + Adjustments)	12,085	6,199	18,284
Less: Adjustments to Washington Load (Note 1)	(1,765)		(1,765)
Less: Adjustments to Idaho Load (Note 2)		(588)	(588)
MW's Peak (Retail + Adjustments)	10,320	5,611	15,931
MW's Peak Percentage	64.78%	35.22%	100.00%
Adjusted Production Transmission Jurisdiction (Based on 50/50 Weighing)			
	65.01%	34.99%	100.00%
Note 1	Pend Oreille PUD/Kaiser Adjustment		
Note 2	Clearwater Paper Adjustment for purchased generation that is directly assigned to Idaho		

The factor for 2013 was computed using actual 2012 costs





# Cost Assignment and Allocation – How the Costs are Allocated

- The 3 factors (7, 8 and 9) are entered into the GL and the allocations of costs are recorded in the GL automatically.
- For “O&M Costs” and “A&G Costs”:
  - FERC Accounts 901 through 917 (Customer Accounts and Customers Service Costs), the number of customers is used as the allocation factor.
  - FERC Accounts 920 through 935 (A&G), the 4-factor allocator is used as the allocation factor.
- For “Revenues”, “Other Costs” and “Rate Base” not directly assigned, the 4-factor is used as the allocation factor.

## Direct vs. Allocated Costs for WA

Operating Costs For the Twelve Months Ended June 30, 2013 (\$000's)						
	WA Electric			WA Natural Gas		
	Direct	Allocated	Total	Direct	Allocated	Total
Power Supply/Generation & Transmission/Underground Storage	\$ 11,347	\$ 395,045	\$ 406,392	\$ 136,095	\$ 2,045	\$ 138,140
O&M Distribution	15,401	5,734	21,135	7,898	2,758	10,656
Depreciation and Amortization	23,092	12,007	35,099	7,649	3,228	10,877
Administrative and General	20,336	50,347	70,683	8,588	16,265	24,853
Taxes other than Income Taxes	39,617	-	39,617	12,532	-	12,532
Total Other Costs	98,446	68,088	166,534	36,667	22,251	58,918
<b>Total</b>	<b>\$ 109,793</b>	<b>\$ 463,133</b>	<b>\$ 572,926</b>	<b>\$ 172,762</b>	<b>\$ 24,296</b>	<b>\$ 197,058</b>
Percent of Direct - Excluding Power Supply/Generation & Transmission/Underground Storage	59%			62%		

Approximately 59% of non-generation, transmission and power supply costs are directly assigned for electric service in Washington.

Approximately 62% of non-power supply costs are directly assigned for natural gas service in Washington.



## Direct vs. Allocated Plant for WA

Plant Costs						
Average of Monthly Averages at June 30, 2013						
(\$000's)						
	WA Electric			WA Natural Gas		
	Direct	Allocated	Total	Direct	Allocated	Total
Generation & Transmission/Underground Storage	\$ -	\$ 1,108,341	\$ 1,108,341	\$ -	\$ 24,503	\$ 24,503
Distribution	768,726	-	768,726	300,048	1,792	301,840
Intangible	2,762	52,535	55,296	965	7,282	8,247
General Plant	46,573	118,765	165,338	13,945	24,818	38,764
Total Other	818,061	171,300	989,360	314,958	33,892	348,851
<b>Total</b>	<b>\$ 818,061</b>	<b>\$ 1,279,641</b>	<b>\$ 2,097,701</b>	<b>\$ 314,958</b>	<b>\$ 58,395</b>	<b>\$ 373,354</b>
Percent of Direct - Excluding Generation & Transmission/Underground Storage	83%			90%		

Approximately 83% of non-generation and transmission plant costs are directly assigned for electric service in Washington.

Approximately 90% of non-underground storage plant are directly assigned for natural gas service in Washington.

## Summary

- The Company obtained approval from all 3 state utility commissions (WA, ID and OR) to utilize the current allocation methodology.
- The Company updates the allocation factors each year, using actual direct costs.
- Updating factors with current costs, customers and net plant is appropriate so growth in each jurisdiction is factored into the allocation of common costs.





# Questions?