

BEFORE THE WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

DOCKET NO. UG-99 \_\_\_\_\_

Exhibit No. 31

Witness: Don M. Falkner, Avista Corp.

WUTC

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EXHIBIT # 231

ADMIT

W/D

REJECT

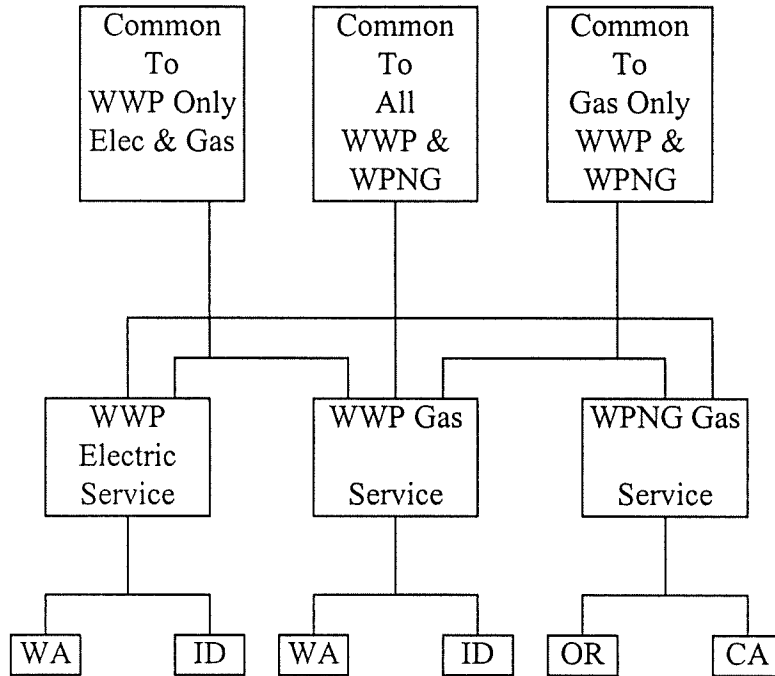
1 **THE AVISTA CORPORATION**

2 **ALLOCATION ANALYSIS**

3 Services Provided by the Company

4 The Company provides electric service in two retail jurisdictions and natural gas  
5 service in four retail jurisdictions. Please see the diagram below.

6  
7 **UTILITY OPERATING COSTS  
8 COMMON CATEGORIES**



18 Electric service is provided to retail customers in eastern Washington, northern  
19 Idaho and western Montana. Retails sales in Montana are small and consist of sales to  
20 WWP employees working at the Company's Noxon Hydro Plant and several commercial  
21 customers. Montana operations are included in Idaho operations for jurisdictional  
22 reporting.

23 Avista Utilities provides gas service in eastern Washington and northern Idaho  
24 under the Washington Water Power (WWP) divisional name. A separate Avista Utilities

1 operating division called WPNG, provides gas service in central and southwest Oregon and  
2 South Lake Tahoe, California.

### 3 **Segregation Between Utility Services**

#### 4 Revenues

5 Revenues for each of the services are recorded directly from customer billings.  
6 Within each of the services, revenues are recorded by class of customer.

#### 7 Expenses

8 Where possible, expenses are directly assigned to specific service and jurisdictions.  
9 Six utility codes are used to assign costs to the following groupings, where WWP and  
10 WPNG serve as the divisional groupings of Avista Utilities:

- 11 • WWP Electric services in Washington and Idaho
- 12 • WWP Gas services in Washington and Idaho
- 13 • WPNG Gas services in Oregon and California
- 14 • Common to WWP Electric and WWP Gas
- 15 • Common to WWP Gas and WPNG Gas
- 16 • Common to WWP Electric, WWP Gas and WPNG Gas

17 Production, transmission and distribution expenses are directly assigned to the  
18 appropriate service, utilizing the respective classification of accounts.

19 Common costs included in the Customer Accounting category are allocated based  
20 on customers. Common costs included in Customer Service and Information and Sales  
21 Expense categories are also allocated based on customers. There is a customer allocation  
22 factor for each of the three classifications of common costs. The common utility code  
23 would determine which customer allocation factor to use.

24 Common costs included in the Administrative and General Expense category are

1 allocated based on a 4-factor allocation percentage. The use of the 4-factor is the main  
2 change from the last time the Company's last fully litigated general gas case. The 4-factor  
3 allocation percentages are based on an equal 25% weighting of direct O&M expense  
4 excluding labor and resource costs, direct labor, number of customers and net direct plant.  
5 There is a 4-factor allocation for each of the three common classifications.

6 Depreciation expense is computed on the property of each separate service, except  
7 for common plant. Utility plant is classified by the same six utility categories noted above  
8 for operating costs. Common utility plant, as well as the associated depreciation expense, is  
9 then allocated based upon the appropriate 4-factor.

10 Taxes, except for federal income tax, are charged to the services directly. Federal  
11 income taxes are segregated between services based on total operating revenues less  
12 operating and maintenance expenses, tax depreciation, taxes other than income, state  
13 income taxes and interest charges that have been apportioned to each service based on net  
14 plant.

15 Rate Base

16 Production, transmission and distribution plant are directly assigned to the  
17 appropriate service utilizing the respective classification of accounts.

18 Utility plant is classified by the same six utility categories noted above for operating  
19 costs. Common utility plant is then allocated based upon the appropriate 4-factor.

20  
21 Jurisdictional Allocation - Gas

22 Revenues

23 Revenues for each of the services are recorded directly from customer billings.

24 Within each of the services, revenues are recorded by class of customer.

1 Revenues from releases of capacity in the Jackson Prairie underground storage  
2 facility are allocated between states, based on the coincidental five-day firm peak occurring  
3 in each state on a three-year average.

4  
5 Expenses

6 Purchased gas costs are allocated as follows:

7 Demand charges and credits are allocated between states based on the coincidental  
8 five-day firm peak occurring in each state on a three-year average. Commodity costs are  
9 allocated based on therms delivered in each state. Other production expenses are allocated  
10 on the ratio of gas customers in each state.

11 Underground storage operating and maintenance expenses are allocated based on the  
12 coincidental five-day firm peak.

13 Distribution expenses are primarily charged directly on a situs (location) basis.  
14 Minor exceptions are allocated on the ratio of the direct distribution expense charges in  
15 each jurisdiction to total system.

16 Customer Accounting expenses Customer Service and Information expenses and  
17 Sales expenses of a divisional nature are directly assigned. Expenses incurred by general  
18 office departments, such as centralized billing services and postage, are allocated on a ratio  
19 of average gas customers in each jurisdiction to average gas customers in the total system.

20 Gas Administrative and General expenses of a divisional nature are directly  
21 assigned. Charges arising from general departments are allocated to jurisdictions through a  
22 jurisdictional 4-factor, similar to that discussed under system common costs.

23 Depreciation expense is allocated between jurisdictions on a basis consistent with  
24 plant in service for each function either directly assigned on a situs basis or allocated in a

1 manner similar to rate base.

2 Taxes, except federal income tax, are directly charged or allocated according to type  
3 of tax. For example, real and personal property taxes functionalized as underground storage  
4 plant are allocated to jurisdictions by the same formula used in allocating other  
5 underground storage expense and rate base.

6 Federal income tax is allocated between jurisdictions on the basis of taxable  
7 operating income. Taxable operating income is calculated by deducting the following items  
8 from operating revenues: operating and maintenance expenses, tax depreciation, other taxes  
9 and interest charges. The deduction for tax depreciation is allocated on the same basis as  
10 book depreciation. The deduction for interest charges is allocated based on net plant.

11 Deferred federal income taxes are allocated in a manner consistent with the  
12 transaction giving rise to the deferral. For example, modified ACRS deferred tax expense is  
13 allocated based on net plant.

14 Rate Base

15 Gas underground storage net plant (plant in service less accumulated depreciation) is  
16 allocated on the same basis as explained on page 3 of this exhibit in the second paragraph  
17 under the heading Revenues.

18 Distribution plant is, for the most part, assigned on a situs basis. An exception is the  
19 Pacific Gas Transmission lateral which is allocated between jurisdictions based on therms  
20 purchased.

21 Gas general plant properties directly identifiable by state are assigned on a situs  
22 basis. Gas general plant not directly identifiable by state are allocated between jurisdictions  
23 based on the Jurisdictional 4-factor.

24