

BEFORE THE WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

DOCKET NO. UE-99 \_\_\_\_

Exhibit No. 27

Witness: Don M. Falkner, Avista Corp.

WUTC

DOCKET NO. UE-991606

EXHIBIT # 227

ADMIT

W/D

REJECT

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 determines 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 filed a general case. The 4-factor allocation  
3 percentages are based on an equal 25% weighting of direct O&M expense excluding labor  
4 and resource costs, direct labor, number of customers and net direct plant. There is a 4-  
5 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 - Electric

#### 22 Revenues

23 General business revenues for each jurisdiction are recorded directly from customer  
24 billings. One exception is where a portion of the revenues derived under an electric service

1 agreement with the Potlatch Corporation, is allocated between jurisdictions based upon the  
2 Production/Transmission formula. Within each jurisdiction revenues are recorded by class  
3 of customer. Revenues from sales for resale are allocated between jurisdictions on a  
4 formula which gives equal weight to kilowatt-hours used and kilowatts of demand at the  
5 time of the 12 monthly coincident peaks for the Company's system in each jurisdiction  
6 (Production/Transmission formula). The revenues allocated with this formula are those  
7 arising from certain sales to other utilities, rent from electric property and other electric  
8 revenues. The Production/Transmission allocation formula has been used by the Company  
9 since 1977. The formula is revised annually by using 12 months of data.

#### 11 Expenses

12 Electric production and transmission expenses are allocated between jurisdictions on  
13 the Production/Transmission formula.

14 Distribution expenses are, for the most part, charged directly on a situs (location)  
15 basis. Divisional distribution expenses are allocated based upon direct distribution  
16 operating expenses.

17 Customer accounting, customer service and information expenses, and sales  
18 expenses are generally charged directly. Centralized customer accounting, billing, customer  
19 service and information expenses, and sales expenses, are allocated on the ratio of the  
20 average electric customers in each jurisdiction to average total system. Amortization of  
21 Weatherization Grants and Demand Side Management are allocated by the  
22 Production/Transmission formula. The underlying rationale for conservation programs is  
23 that all electric customers benefit since conservation reduces the need for new resources,  
24 i.e., new generation plants. Had such new resources been acquired, they would have been

1 allocated by the Production/Transmission formula.

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

5 Depreciation expenses and amortization of limited-term plant are allocated between  
6 jurisdictions on a basis consistent with plant in service for each function either directly  
7 assigned on a situs basis or allocated in a manner similar to rate base.

8 Taxes, except federal income tax, are directly charged or allocated according to type  
9 of tax. For example, real and personal property taxes levied against the property making up  
10 the production and transmission system are allocated to jurisdictions by the same formula  
11 used in allocating other production and transmission expenses and rate base.

12 Federal income tax is allocated between jurisdictions on the basis of taxable  
13 operating income. Taxable operating income is calculated by deducting the following items  
14 from operating revenues: operating and maintenance expenses, tax depreciation,  
15 amortization of limited-term plant, other taxes and interest charges. The deduction for tax  
16 depreciation is allocated on the same basis as book depreciation. The deduction for interest  
17 charges is allocated based on net plant.

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

21 Rate Base

22 Electric production and transmission net plant (plant in service less accumulated  
23 depreciation) is allocated on the Production/Transmission formula explained on page 3 of  
24 this exhibit under the heading Revenues.

1 Non-software Intangible plant is also allocated on the Production/Transmission  
2 formula while the software is allocated based on the Jurisdictional 4-factor. Distribution  
3 plant is assigned on a situs basis.

4 Electric general plant properties directly identifiable by state are assigned on a situs  
5 basis. Electric general plant not directly identifiable by state are allocated between  
6 jurisdictions based on the Jurisdictional 4-factor. The weatherization investment included  
7 in the Company rate base is allocated using the Production/Transmission formula. The  
8 rationale being the same as for the associated amortization discussed previously under the  
9 Expenses section.

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