

Discussion of the Net Plant Allocator

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What is the Net Plant Allocator

- It is the percent of Chugach total net plant in generation, transmission, distribution
 - Net plant equals gross plant less accumulated depreciation
 - Identifies the book value of plant currently in service on an unbundled (G&T, D) basis.
- There is no problem with the Net Plant Allocator itself

How is the Net Plant Allocator Used

- Allocate long-term interest expense between G&T and Distribution
- Based on the percentages calculated by the Net Plant Allocator, assign that amount of long term interest expense to G, T, D

Why Use the Net Plant Allocator

- In last rate case (Docket U-01-108), the Commission ordered its use to establish rates
- Chugach uses the net plant allocator for assigning long-term interest expense in the development of the unbundled financial statements.

Application of Net Plant Allocator

- When used to allocate long-term interest expense, the net plant allocator ignores equity levels
 - If the equity level of G&T and Distribution were identical, then the net plant allocator would be appropriate; but equity levels are different
 - Difference is attributed to ratemaking TIER and capital credit rotations
- Difference between two approaches
 - \$2.3 million increase in long-term interest expense assigned to G&T
 - There is a corresponding reduction to Distribution.
 - No impact to system margins

Hypothetical Example

- G&T 100% debt-financed
- Distribution 100% equity financed
- Distribution should not be assigned any interest expense but net plant allocator would

Balance Sheet Impact

- For consistency, long-term debt is allocated with net plant allocator
- Result is a significant amount due from the G&T to distribution
- Necessary to make balance sheet balance

Current Plans

- Continue to use the net plant allocator in determination of unbundled income statements
- Continue to calculate the due to/due from in balance sheet.
- In the next rate case, propose that the net plant allocator should be adjusted to reflect the level of equity in the G&T and Distribution functions.

Discussion