

General & Administrative Expense Allocation In The Unbundled Financial Statements

- Two types of system costs on the Income Statement:
 - o Direct costs: Costs that pertain to a particular functional area
 - Examples include Power Production Expense, Distribution Operations and Maintenance Expense, Transmission Expense, Customer.
 - Assignment is based on account major.
 - Direct costs constitute approximately 80 percent of the costs included on the Income Statement.
 - o Allocated costs: Costs that may benefit more than one functional area.
 - Examples include General & Administrative (G&A) and general plant depreciation expense.
 - Allocated costs are assigned to functional areas using either direct assignments or functional allocators.
 - Direct assignments are made wherever possible on the basis of account numbers that are specific to a functional area of the company.
 - Allocated costs constitute about 20 percent of the costs included on the Income Statement.
 - Primary types of functional allocators used:
 - The “Direct Labor Allocator” is used to functionalize (assign) the majority of assignable G&A costs to the functional areas.
 - Some costs, depending on type, may be assigned using other allocators such as the “Net Plant” allocator.
 - Allocators specific to certain activities are also used, including general counsel, microwave, and scada.
 - Allocation methodology is utilized in Chugach’s Allocated Cost of Service used to develop rates.
- General and Administrative Expense Allocation (YTD September, 2004: \$15.4 million)
 - o Approximately 17 percent (\$2.6 million) is directly assigned to functions by the use of specific accounts.
 - o About 83 percent (\$12.8 million) is assigned to functions by allocation.
Of this total:
 - 63 percent is functionalized through use of the labor allocator

- 2 percent is functionalized through use of the net plant allocator
 - 19 percent is functionalized through use of other specific allocators
- Example: Allocation of \$100,000 of labor expense associated with senior executive level activity.
 - Labor activity is corporate in nature and not specific to any functional area of the Association.
 - The labor cost would be assigned (functionalized) to each customer class on the basis of the Direct Labor allocator, which is currently 37% to Production, 10% to Transmission, 30% to Distribution, and 23% to Customer.
 - For the \$100,000 example, the G&T function would be assigned \$47,000, and the Distribution/Customer function \$53,000.
 - Retail would pay about \$76,000
 - Wholesale would pay about \$24,000
 - This approximates the total amount of revenue generated by retail and wholesale (excluding fuel and purchased power expense)
 - In this manner, the level of corporate support is spread between the functional areas on the basis of the labor efforts for each function of the Association.
 - This approach is standard in the electric utility industry, and is in conformance with FERC and NARUC cost allocation guidelines.