

SUMMARY OF THE PITA ACCORD

The PITA Accord Method, previously known as Step 2, can be defined in terms of its differences from the traditional Rolled-In approach. The Rolled-In method uses allocation factors that provide a system-wide allocation for all production, transmission, and other appropriate costs. This is, in general, similar to the allocation methods of the two pre-merger allocation systems. The Rolled-In method uses 12 CP 75% capacity and 25% energy as an allocator for "system plant" types of costs.

The first non-Rolled-In part of the PITA Accord Method is the divisional assignment of pre-merger plant. All plant put into service before January 1, 1989 in both divisions is separated into two "pots" based on which pre-merger company made the investment and assigned to the respective division of origin for allocation to the jurisdictions within that division. The related depreciation expense, accumulated depreciation, deferred taxes, accumulated deferred taxes, and other pre-merger plant-related tax items are included in the divisional assignment. Post-merger (after January 1, 1989) additions are allocated on a system-wide basis. Of all elements considered, this adjustment produces the largest single revenue requirement difference from rolled-in. This adjustment will phase out over time as the pre-merger plant depreciates and more post-merger plant is put into service.

The second non-Rolled-In part of the PITA Accord Method is the treatment given hydro resources and firm wheeling revenues. The PITA Accord Method includes a "hydro endowment" which is created by removing the expected capacity (kW) and energy (kWh) provided by the Company-owned hydro system from the calculation of the related System Capacity (SC) and System Energy (SE) factors. These adjusted factors are then weighted at 75% capacity and 25% energy to create the adjusted System Generation (SG) factor. This calculation is done for both the Pacific and Utah Division owned hydro resources.

The PITA Accord Method also adds a "transmission endowment" which is created by assigning pre and post-merger firm transmission wheeling revenues to the division of origin. Pre-merger firm wheeling revenue is wheeling under contracts existing at the time of the merger, and extensions and revisions of such contracts. Post-merger firm wheeling revenue is defined as Remain Existing Capacity (REC) wheeling.

For documentary purpose the following is a summary of allocation assumptions that were included in the Consensus Method but are no longer used in the PITA Accord Method:

- Pre-merger firm power sales and purchases (including \$48 million of the Post-Merger BPA capacity purchase) were divisionally assigned and then allocated. In the PITA Accord Method these sales and purchases are allocated system-wide.

SUMMARY OF THE PITA ACCORD

- State Income Taxes and the Washington Business Tax were assigned to the Jurisdiction that levied the tax. In the PITA Accord Method these taxes are allocated system-wide.
- Divisional Net Plant Factors were calculated by functional group and used to allocate directly related divisional costs. In the PITA Accord Method, System Net Plant Factors are calculated by function and are used to allocate directly related total company costs.

A summary of the major allocation assumptions/differences of the Consensus, Rolled-In and PITA Accord allocation methods is provided as Table 1.

**TABLE 1
MAJOR ALLOCATION ASSUMPTIONS**

	CONSENSUS	PITA ACCORD (Step 2)	ROLLED-IN
FACTORS			
Adjust SC and SE Factors for Pre-Merger Off-System Firm Sales	Yes	No	No
REVENUES			
Retail Revenue	Situs (S)	Situs (S)	Situs (S)
Pre-Merger Firm Off-System Sales	Divisional (DG)	System (SG)	System (SG)
Post-Merger Firm Sales	System (SG)	System (SG)	System (SG)
Non-Firm Sales	System (SE)	System (SE)	System (SE)
EXPENSES			
Non-Fuel Operating and Maintenance	Functional Divisional (DNP)	Functional System (SNP)	Functional System (SNP)
Administrative and General	System (SO)	System (SO)	System (SO)
Fuel Expense	System (SE)	System (SE)	System (SE)
Pre-Merger Firm Purchase Power	Divisional (DG)	System (SG)	System (SG)
Post-Merger Firm Purchase Power	System (SG) ¹	System (SG)	System (SG)
Pre-Merger Firm Wheeling	Divisional (DG)	System (SG)	System (SG)
State Income Taxes	Situs (S)	System (IBT)	System (IBT)
Property Taxes	Functional Divisional (DNP)	Functional System (SNP)	Functional System (SNP)
PLANT			
Pre-Merger Net Plant	Divisional (DG)	Divisional (DG)	System (SG)
Post-Merger Net Plant	System (SG)	System (SG)	System (SG)
Conservation	Situs (S)	Situs (S)	Situs (S)
Plant Held for Future Use	Functional Divisional (DNP)	Functional System (SNP)	Functional System (SNP)
ENDOWMENTS			
Post-Merger Hydro Plant	Divisional (DG)	Divisional (DG)	System (SG)
Hydro Expense	Divisional (DG)	Divisional (DG)	System (SG)
Capacity and Energy Reserved for Division Where Dam is Located	Reserved	Reserved	Not Reserved
Firm Transmission Revenue	Divisional (DG)	Divisional (DG)	System (Sg)

¹ \$48 million post-merger BPA capacity purchase is assigned to the Pacific Division