

I. PURPOSE OF ALLOCATIONS & BURDENS

Allocations are a pool of dollars that cannot be directly assigned/charged to a specific work order. During the month end process, these costs are allocated to a group of work orders based on eligibility requirements for each specific allocation pool. Examples of these are Administrative and General (A&G) expenses, Engineering and Supervision (E&S) costs, Transportation, etc. It should be noted that allocation projects and tasks should only be charged when it is unreasonable to charge specific projects and tasks. This method of distributing costs, although clearing all costs consistently on a regular basis, provides less control with the fluctuation of monthly activity.

Burdens are rates assigned to various types of costs, which will spread indirect costs associated with direct costs, such as Paid Absences to Labor costs or Stores Clearing to Materials. This method of distributing costs provides for more control of allocated charges during periods with large swings – effectively smoothing out the monthly charges.

A. Types of Allocations

1. Transportation/Vehicle Allocations will allocate costs related to maintaining and operating the fleet of vehicles owned by the company such as labor, outside services, maintenance, licenses and depreciation.
 - a. TEP Allocation Basis: At the beginning of the year, the Fleet O&M budget is used as an estimate to allocate monthly costs to eligible capital tasks to regular classified labor charged through payroll; labor eligible to receive Transportation allocation is limited to 6 cost centers that historically have been the ones to use vehicles the most.
 - On a quarterly basis, this estimate is reviewed by Financial Accounting and necessary adjustments are made. This allocation has a Fixed Amount as a source, and a Specific Project/Task as an offset.
 - b. UES Allocation Basis: Eligible projects/tasks are allocated a portion of transportation costs based on regular classified labor charged through payroll.
 - c. Expenditure type = Transportation Usage
 - d. TEP
2. Fleet Labor includes costs related to acquiring new vehicles and equipment. These costs are allocated to general plant projects for fleet acquisition.
 - a. Expenditure type = Miscellaneous
 - b. (TEP) Fleet Procurement Labor
3. Small Tools Allocations include costs of items located in the Tool Supply room that are used across numerous projects, meaning they cannot be determined to benefit to any specific project/task. Examples include: lineman gloves, hardhats, and batteries
 - a. Allocation Basis: allocations follow classified staff assigned to receive a small tools allocation. When these individuals work on a task and charge payroll, the costs in the small tools project/task are allocated to them.
 - b. Expenditure type = Small Tools Expense
 - c. (TEP) Small Tools
 - d. SGS Small Tools
4. Property Tax Allocations will allocate portions of property taxes to CWIP balances based on the tax district of the assets.
 - a. Allocation Basis: The Tax Department estimates the portion of the property taxes to be allocated to capital projects/tasks based on the CWIP balances in the prior two years. A PA journal is posted by the Tax Department for the amount that will be allocated each month. These costs are allocated to any capital task with purchased and/or issued materials during the month.

Plant Accounting Procedure – Allocations & Burdens

- b. Expenditure type = Property Tax
- c. TEP Property Tax Allocation
- 5. Administrative and General (A&G) Allocations will allocate administration and general costs incurred in support of construction work such as invoice processing, payroll processing, etc.
 - a. Allocation Basis: The pool of A&G costs to be allocated comes from a monthly PA Journal (PA509), prepared by Budgeting, Planning and Analysis (BP&A). On a monthly basis, an estimate of A&G costs (those charged to FERC 920 and 921) are transferred to the A&G allocation tasks for the current period's allocation. This estimate is based on rates obtained during a Budgeting Department survey.

This survey is performed on an annual basis of all cost centers which have charged more than \$50,000 to FERC 920 and 921 in the previous year. Pursuant to the survey, each department is asked to estimate a percentage of time spent on capital projects. Cost centers below the study limit, as well as the officers, are allocated at the aggregate rate derived from the surveyed cost centers as the amount of their payroll dollars charged to A&G is deemed immaterial and does not justify a separate study for those departments.

In addition to the current period's estimate, the PA509 journal also includes a true up for the prior month. This true up is the variance between the prior months estimated charges allocated compared to the actual charges.

The total dollars transferred to the A&G allocation tasks, based on the estimate and the prior month true up – included in PA509, are allocated to current capital tasks utilized during the month based on labor and contractor related charges.
 - b. Expenditure type = Allocated A&G
 - c. TEP A&G Allocation – allocation task is CPTEPAG
- 6. Allocated Engineering and Supervision (E&S) costs are costs incurred in support of construction work such as labor, pension and benefits, and payroll taxes.
 - a. Allocation basis: each of the designated E&S projects/tasks accumulate costs directly through payroll, with the total dollars then allocated to current capital tasks utilized during the month in the same project hierarchy.
 - b. Expenditure type = E&S Allocation (with appropriate description for company and allocation type, such as "Distr Reinforcement", "Renewables", "Trans Communication", etc.)
 - c. TEP E&S Allocation (10 different types)

II. **BURDENS**

- A. Stores Clearing and Labor-Related costs (such as Pension and Benefits (P&B), Paid Absences, taxes, etc.) are a few burden examples.
- B. Similar to Allocations, there are rules set up that govern which costs (expenditure types) will have which burden rates applied. For example, labor-related costs will have rates that are applied when labor is charged to a specific project/task. However, unlike Allocations, which are distributed at month end, burdens are charged to the project/task at the time the direct charge that it is associated with processes.
- C. Most burden rates are calculated within various groups of the organization and submitted to Plant Accounting for update in Oracle Projects prior to processing transactions for the month the new rates will be effective. Payroll taxes and Worker's Compensation are the only two burden rates that are processed through the PeopleSoft system, rather than Oracle Projects.
- D. Types of Burdens

Plant Accounting Procedure – Allocations & Burdens

1. Stores Clearing – This allocates overhead costs associated with the operation of the warehouse to capital tasks receiving materials and supplies from the warehouse. Typical costs include purchasing, storage, handling and distribution of materials. The calculation of the Stores Clearing rate is done by Plant Accounting on a quarterly basis. As materials and supplies are ordered from the warehouse, an overhead rate is applied to the capital task based on the Material Issued and/or Stores Issued expenditure types. Some non-inventory items that are handled through purchase orders are also eligible for an overhead rate, such as contractor services.
2. Labor Related Costs – These allocate costs associated with payroll to the project/tasks receiving labor charges through PeopleSoft. The calculation for Pension & Benefits (P&B) is done by Budget, Planning & Analysis (BP&A) and the calculation for Paid Absences is done by Financial Accounting.