

## Cost Allocation

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Agreement among Department of the Interior, Department of the Army and Federal Power Commission.

Costs of a multiple-purpose project shall be allocated among the purposes served in such a manner that each purpose will share equitably in the savings resulting from combining the purposes in a multiple-purpose development.

Acceptable Methods (See attachment for brief descriptions)

- (1) Separable Costs-Remaining Benefits Method.  
This method is considered preferable for general application.
- (2) Alternative Justifiable Expenditure Method.  
This method differs from (1) only in employing specific costs of the various functions rather than their separable costs. It is acceptable where the necessary basic data to determine separable costs are not available and the time and expense required to obtain the data are not warranted.
- (3) Use of Facilities Method.  
This method is acceptable where the use of facilities is clearly determinable on a comparable basis and where use of this method would be consistent with the basis of project formulation and authorization.

### Minimum Allocation

Each purpose shall be allocated, in every case, at least its separable cost (the cost traceable to its inclusion in a multiple-purpose project). Limitations of basis data may occasionally require the use of specific cost (the cost of features identified solely with a single purpose) and other available data as constituting the best available basis for approximating separable costs.

### Legislative History

The legislative history of authorized projects shall be considered in the allocation of cost. The authorizing act, committee reports, project justification documents, and similar sources disclose the nature of the proposal submitted to the Congress and of congressional action thereupon.

### Brief Description of Methods of Cost Allocation

The Separable Costs-Remaining Benefits Method has the following steps:

- (1) The benefits of each purpose are estimated.
- (2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.
- (3) The separable cost of each purpose is estimated.
- (4) The separable cost of each purpose in the multiple-purpose project is deducted from the lesser of each purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.
- (5) From total cost of project deduct all separable costs to determine residual costs.
- (6) Residual costs, designated as joint costs in this method, are distributed in direct proportion to the remainders found in step 4.
- (7) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes foregone which was used in computing power costs under steps 2 and 3 above.

The Alternative Justifiable Expenditure Method has the following steps:

- (1) The benefits of each purpose are estimated.
- (2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.
- (3) The specific cost of each purpose is determined.
- (4) The specific cost of each purpose in the multiple-purpose project is deducted from the lesser of that purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.
- (5) From total cost of project deduct all specific costs to determine joint costs.
- (6) Joint costs of the multiple-purpose project are distributed among purposes in direct proportion to the remainders found in step 4.
- (7) Allocation of project cost is determined in the same manner as under the separable costs-remaining benefits method.

The Use of Facilities Method has the following steps:

- (1) The use which is made by each purpose of joint project facilities is estimated on some basis which is comparable for the purposes concerned, using such measures of use as those of flow, reservoir capacity, energy consumption, and others as may be applicable.