Recommendations for Revenue Allocation Policy

Facilities Committee Meeting
July 5, 2017
Purpose

- Present recommendations for a revised revenue allocation policy, prepared by the Utility Directors.
Contents

- Background
- Recommendations
- Compare FY18 Budget to Proposed Policy
- Timeline of approval & implementation
Background: Review of the Commission’s Interim Revenue Allocation Policy

- Interim revenue allocation policy (Interim Policy) adopted by the NCPA Commission in December 2016
  - Based on input from Review Group, Facilities Committee, and Utility Directors
- Utility Directors changed policy recommendations of the staff-level Review Group and Facilities Committee
- UD Subgroup met 4 times in 6 months to deliberate on outstanding issues
- Recommendations presented to balance of UDs on June 15 and were unanimously supported*
The UDs’ Recommendation:

1. Allocate 10% of revenues received, exclusively to Members, in proportion to their contributions to A&G expenses.

2. Allocate 90% of revenues received, to both Members and non-Member Participants of NCPA Projects, using the Nexant cost allocation model.

3. Apply these changes to the entirety of FY18:
   - Deferring to NCPA & Members to determine the best timing for implementation (e.g. monthly ARB, end of year true up).

Note: staff recommendations for clarifying points appear at the conclusion of the discussion portion of this section.
Comparison of Interim Policy & Propose Policy

1. Allocate 10% of revenues received, exclusively to Members, in proportion to their contributions to A&G expenses

2. Allocate 90% of revenues received, to both Members and non-Member Participants of NCPA Projects, using the Nexant cost allocation model

3. Apply these changes to the entirety of FY18
   - Deferring to NCPA & Members to determine the best timing for implementation (e.g. monthly ARB, end of year true up)

Note: text in red show changes from Interim Policy
## Comparison of Interim Policy and Proposed Policy

- Total expected revenues in FY18 is $595,000
- 90% is allocated via the Nexant model, or $535,000 (shown at right)
- No change to the 10% allocated in proportion to A&G costs (not shown)
- Total revenues allocated to non-Member Participants of NCPA Projects under the Proposed Policy is $33,927, or 5.7% of the total expected revenues

### FY18 Budget

<table>
<thead>
<tr>
<th>Member</th>
<th>FY18 Budget</th>
<th>Proposed Policy</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Clara</td>
<td>$222,864</td>
<td>$209,331</td>
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<td>Palo Alto</td>
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<tr>
<td>Azusa</td>
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</table>

### June 28, 2017
Rationale for Policy Recommendations

- Non-Member Participants to NCPA Projects have made strong financial commitments to NCPA via project agreements.
- LEC project agreements obligate LEC Participants to pay their pro-rata share of all “Project Costs”.
- Project Costs are defined to include direct plant expenses plus indirect administrative expenses (NCPA Administrative Costs).
- NCPA Administrative Costs applies to non-plant personnel and explicitly includes cost of retiree benefits.
- NCPA and Members have interpreted contract language to seek recover of debts, obligation, and liabilities up to the point of service termination.
Rationale for Policy Recommendations

- Therefore, the UD Subgroup concludes the non-Member Participants to LEC (and Geo) bear a wide range of risk and liabilities similarly to Members.

- Recommends revenues flow to non-Member Participants of NCPA Projects (i.e. LEC & Geo).
  - Applies to the portion of revenue allocated through the Nexant model.
The UD Recommends (revisited)

1. Allocate 10% of revenues received, for the exclusive benefit of Members, in proportion to their contributions to A&G expenses.
2. Allocate 90% of revenues received using the Nexant cost allocation model, for the benefit of Members and non-Member Participants of NCPA Projects.
3. Apply these changes to the entirety of FY18, deferring to NCPA & members to determine the best timing for implementation (e.g. monthly ARB, end of year true up).
4. Apply revenue allocation of Part 2 above to portions of PM&AS services not under a fixed-rate pricing structure (i.e. apply to portion served under a variable-rate pricing structure).
5. Allow for periodic review of revenue allocation policy. Tie frequency and timing to review of cost allocation, as defined in the Power Management & Administrative Services Agreement (every 5 years).
Timeline of approval and implementation

- Utility Directors recommend NCPA staff seek Commission approval in August 2017
- Staff’s preliminary recommendation is to implement the policy revision (if approved) at year-end budget settlement
  - Allocate revenues according to FY18 budget → budget variance
  - Revenues from July service month allocated to Members in September ARB (Adjustment 1, which applies to July)
    - Published in late August
Allocating Revenues Received in Proportion to Members’ contributions to A&G costs

- Staff used Members’ final contributions toward FY16 A&G costs as a revenue allocation driver
  - Applied to the 10% portion of expected revenues in FY18 budget
  - Lagged inputs mimic certain Nexant model inputs
  - FY16 was the most recent complete year of data
- Implication for new Members