

NCPA Power Management and Administrative Cost Allocation Review Group – Issue 7: Revenue Allocation

**NCPA Facilities Committee
November 16, 2016**

Purpose

- Respond to the Facilities Committee's questions from the November 2, 2016 meeting, regarding the Review Group's recommendations
 - Selecting revenue determinate
 - Estimated allocation of revenue through A&G
 - Transition issues for new Members (no update)
- Debrief the Facilities Committee regarding discussion at the utility director meeting on November 10, 2016
- Seek a recommendation from the Facilities Committee on outstanding policy issues regarding allocation of revenues

Content

- Selecting a Revenue Determinate
- Review estimated allocation of revenue through A&G
- Debrief from the UD meeting
- Summary and Conclusion

The Review Group does not unanimously agree on the revenue determinate

- All 3 rely on the use of the Nexant model to drive revenues, to varying degrees
- Options 1 & 2 would allocate revenues based on Members' contribution toward Power Management and Administrative Services costs (i.e. revenues allocated in direct proportion to costs)
- Option 3 would allocate revenues by embedding the specific services to third parties into the Nexant model directly, allowing it to allocate revenues using the same methods and activity-based drivers

Options 1 & 2 allocate revenues based on different outputs of the Nexant Model

- The Nexant Model produces 4 sub-totals for each Member. This can be found on the “Members Total” worksheet.

- General Power Management (Option 1)

- Direct Assignments

- Pool Allocation

- System Integration (Option 2)

- Option 1 would allocate cost on one of these sub-totals, “General Power Management”
- Option 2 would allocate costs on the grand total, or the sum of all 4 sub-totals.

There is overlap between budget areas and Nexant Model sub-totals

Budget Areas	Gen. Pwr. Mgt.	Direct Allocation	Pool Allocation	System Integration
SCALD	X			
Forecasting	X		X	
Resource Planning, Optimization	X		X	
Pre-Scheduling		X	X	
Power Pool Admin, Pool Committee			X	
System Integration				X

Key attributes to each option

Attribute	Option 1	Option 2	Option 3
Simple, easy to implement	Yes	Yes	More difficult
Revenue allocated in proportion to costs	Yes, for about 75% of the total budget	Yes, for 100% of the total budget	Yes, for the specific service areas that are marketed
Revenue allocated to specific services that are producing revenue	No	No	Yes
Objective, auditable	Yes	Yes	Yes

The Membership supports using the Nexant model, but is split in choosing an option

- Review Group
 - Option 1: Plumas
 - Option 3: Alameda, Palo Alto, Roseville, SVP
- Utility Directors
 - Option 1: Five votes
 - Option 3: Seven votes

Content

- Selecting a Revenue Determinate
- Review estimated allocation of revenue through A&G

Review Group supports using revenues for Agency A&G if the policy is applied broadly

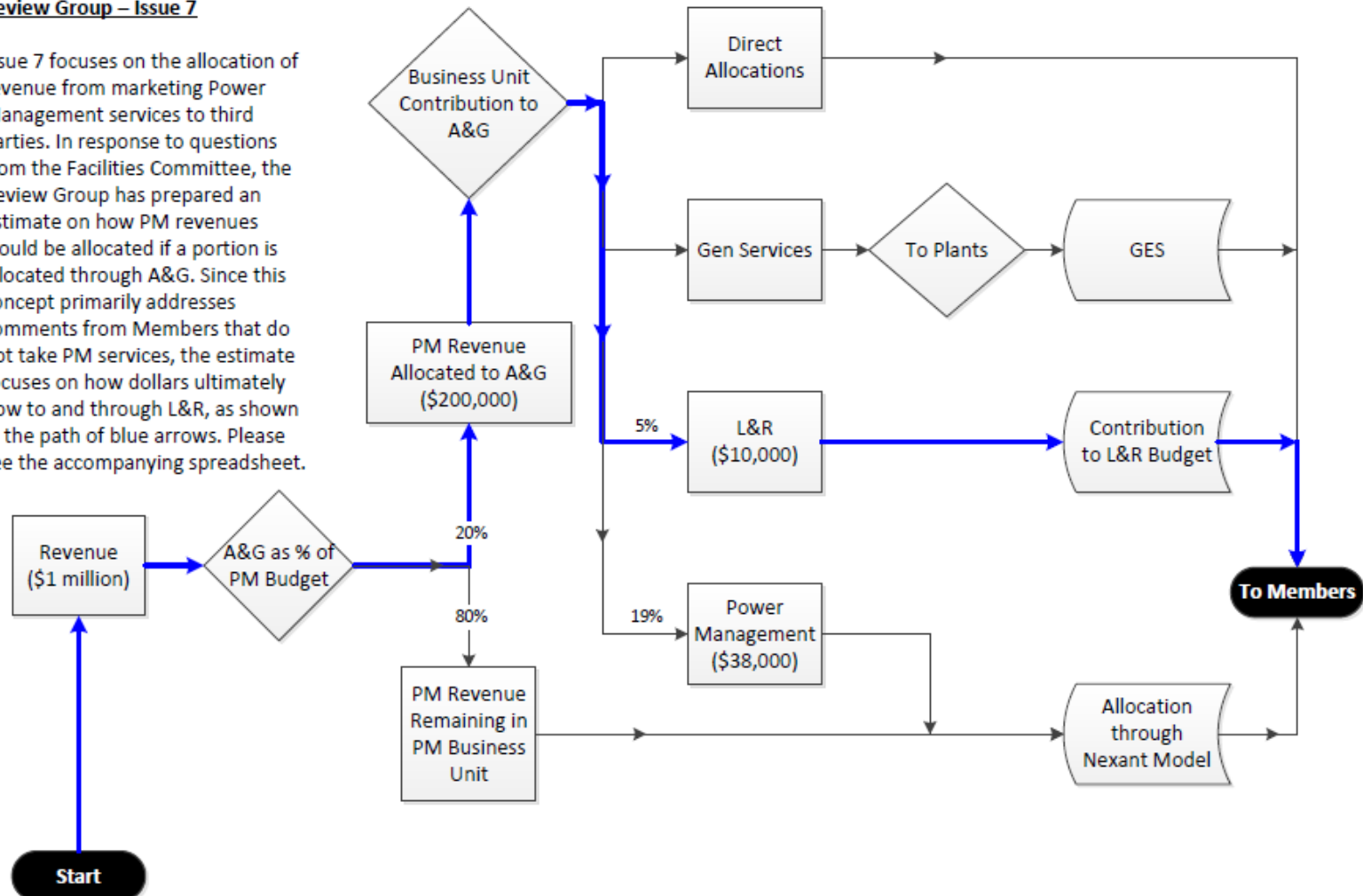
- Concept: allocate a portion of new revenue to Agency Administrative & General expenses
- Review Group supports this concept if both:
 - The policy is applied consistently to any new revenues produced by NCPA programs (*comparable treatment*)
 - The proportion that is allocated toward Agency A&G is representative of the time and duration that effort is expended by the A&G functions in producing the new revenue (*causation*)

(This slide is from the 11/2/2016 FC presentation)

The Facilities Committee asked NCPA to prepare a numerical estimate

Review Group – Issue 7

Issue 7 focuses on the allocation of revenue from marketing Power Management services to third parties. In response to questions from the Facilities Committee, the Review Group has prepared an estimate on how PM revenues would be allocated if a portion is allocated through A&G. Since this concept primarily addresses comments from Members that do not take PM services, the estimate focuses on how dollars ultimately flow to and through L&R, as shown in the path of blue arrows. Please see the accompanying spreadsheet.



Key assumptions (subject to change)

- \$1 million in PM revenue
- 20% allocated to A&G
 - (Based on proportion of PM budget that is for Administrative Services)
- Revenues allocated to A&G would be allocated to NCPA Business Units based on same methods costs are distributed
 - 19% to Power Management
 - 5% to L&R
 - Majority to Generation Services
- Allocation through L&R based on Members' contribution to L&R budget

A small proportion of revenues would flow through the L&R Program

- Please refer to the accompanying spreadsheet
- Under this method, \$10,000 would be allocated to L&R, through A&G
- Additional allocations would need to be performed to show net impact for all Business Units.

Member	Contribution toward L&R Budget (FY17)	Allocated share of PM Revenue
Alameda	5.88%	\$ 587.64
BART	0.00%	\$ -
Biggs	3.66%	\$ 366.45
Gridley	3.79%	\$ 379.47
Healdsburg	4.07%	\$ 407.14
Lodi	6.44%	\$ 644.03
Lompoc	4.45%	\$ 444.99
Palo Alto	9.65%	\$ 965.36
Plumas Sierra	4.58%	\$ 458.16
Port of Oakland	4.07%	\$ 406.75
Redding	8.54%	\$ 854.18
Roseville	11.34%	\$ 1,134.46
Santa Clara	24.76%	\$ 2,475.67
Truckee	4.46%	\$ 446.06
Ukiah	4.30%	\$ 429.63

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- Debrief from the UD meeting

The Utility Directors support implementing a short term policy

- Recognize need to implement a policy for FY18 budget cycle.
- Interim policy. Do not support implementing a full and permanent policy at this time.
- Recommendation:
 - General support for using the Nexant Model
 - One year term, or review as needed
 - Allocate revenues to NCPA Projects represented by Members to allow additional review and discussion
 - Use Option 3 (7 to 5 vote)

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- **Summary and Conclusion**

Summary and Conclusion

- Option 3 has the most support from the RG and UDs
 - Full run of the Nexant model for all third-party PM service contracts
- The RG continues to support allocating revenue to A&G if the policy is applied broadly
 - Estimate shown here is subject to change
- The UDs support an interim policy, which includes one change to the RG & FC recommendation
 - Specifically, allocating revenues to the portion of NCPA projects represented by Members

DISCUSSION