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, <u>to both Members and non-Member Participants of NCPA Projects</u>, using the Nexant cost allocation model
3. <u>Apply these changes to the entirety of FY18</u>
   - Deferring to NCPA & Members to determine the best timing for implementation (e.g. monthly ARB, end of year true up)

Note: text in <u>red</u> 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

Member	FY18 Budget	Proposed Policy	Difference
Santa Clara	$222,864	$209,331	$ (13,533)
Palo Alto	$73,066	$68,288	$ (4,778)
Lodi	$49,825	$46,685	$ (3,140)
Alameda	$42,533	$39,812	$ (2,721)
Roseville	$33,510	$31,339	$ (2,171)
BART	$34,303	$31,752	$ (2,551)
Ukiah	$19,917	$18,662	$ (1,256)
Port of Oakland	$16,124	$15,140	$ (984)
Plumas Sierra	$14,411	$13,465	$ (945)
Lompoc	$13,314	$12,480	$ (834)
Healdsburg	$8,041	$7,533	$ (508)
Gridley	$4,651	$4,328	$ (322)
Biggs	$2,941	$2,758	$ (183)
TID	$0	$8,648	$ 8,648
CDWR	$0	$17,050	$ 17,050
MID	$0	$5,453	$ 5,453
PWRPA	$0	$1,358	$ 1,358
Azusa	$0	$1,418	$ 1,418

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)

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4. Apply revenue allocation <u>of Part 2 above</u> 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

DISCUSSION