

Revenue Allocation Policy

Facilities Committee

August 2, 2017

Purpose

- Present recommendations to revise the Commission adopted Revenue Allocation Policy, as developed by the Utility Director sub-group

Background / Review Group

- Commission adopted an Interim Revenue Allocation Policy (Interim Policy) in December 2016
 - Based on input from Review Group, Facilities Committee and Utility Directors
- Utility Director sub-group was organized to review and develop a recommendation to address outstanding issues associated with the Interim Policy
- Utility Director sub-group has meet four (4) times and has developed a recommendation for Commission consideration
 - Recommendations presented to balance of Utility Directors on June 15, 2017, and were unanimously supported **

UD Sub-Group Recommendations

- Allocate 10% of revenues received, exclusively to Members, in proportion to their contributions to A&G expenses
- Allocate 90% of revenues received, to both Members and non-Member NCPA Project Participants, using the Nexant cost allocation model
- Apply these changes to the entirety of FY18
 - Deferring to NCPA and Members to determine the best timing for implementation (e.g., monthly ARB, end of fiscal year true-up settlements)

Changes to Policy

- Key Changes to Current Policy
 - Allocate 90% of revenues received, **to both Members and non-Member NCPA Project Participants**, using the Nexant cost allocation model
 - Apply these changes to the entirety of FY18

Rationale for Recommended Changes

- 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 Recommended Changes

- Therefore, the Utility Director sub-group 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

Policy Clarifications

- In addition to the recommendations offered by the Utility Director sub-group, staff provide the additional clarifications
 1. Apply revenue allocation for 90% of revenues received to portions of PMASA services not under a fixed-rate pricing structure (i.e. apply to portion served under a variable-rate pricing structure)
 2. 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)

Future Policy Development

- Members express strong interest in developing additional policy elements that would apply if service revenues exceed the cost to provide services to third parties.
- Members directed staff to document this interest but ultimately defer efforts to develop and refine the revenue allocation policy to a future date.
- A description of this matter will be captured in the Staff Report and/or Resolution.

Recommendation

- NCPA staff recommends Facilities Committee approval and recommendation for Commission approval of the following:
 - Update Commission Revenue Allocation Policy
 - Allocate 10% of revenues received, for the exclusive benefit of Members, in proportion to their contribution to A&G expenses
 - ◆ A&G contributions measured using most recent fiscal year data (actual) to allocate revenues in current budget cycle (e.g. FY18 revenue allocated via FY16 actuals)
 - Allocate 90% of revenues received, to both Members and non-Member NCPA Project Participants, using the cost allocation model
 - ◆ Apply revenue allocation to portions of PMASA services not provided under a fixed-rate pricing structure
 - Implementation/Timing of Revised Policy
 - Apply Revenue Allocation Policy revisions to the entirety of FY 18
 - Policy to be reviewed coincident with frequency and timing for review of the cost allocation model, as defined in the Power Management and Administrative Services Agreement

Questions / Comments