Revenue Allocation Policy

Facilities Committee

October 4, 2017

Purpose

- Present proposed changes to the NCPA interim revenue allocation policy, as developed by the Utility Director subgroup
- Seek a recommendation from the Facilities Committee to the NCPA Commission to adopt these revisions, effective July 1, 2017, as described in the accompanying discussion paper.
- Seek support from the Facilities Committee on certain findings made throughout the policy development process.

Background: Interim Policy

- Commission adopted an Interim Revenue Allocation Policy (Interim Policy) in December 2016
  - Based on input from Review Group, Facilities Committee and Utility Directors
- Directs staff to allocate proceeds from the provision of Power Management & Administrative Services to third parties (e.g. Merced ID, Placer County Water Agency)
- All such revenues allocated to Members, only. Main provisions:
  - Ten percent allocated to all Members, in proportion to contributions to A&G
  - Ninety percent allocated using the existing cost allocation model

Background : UD Subgroup

- Members advanced the Interim Policy with two outstanding issues, as follows: Directors
  - (1) Determine whether Non-Member Participants of NCPA Project should be allocated a portion of revenues, and
  - (2) Determine whether a New Business Development category of costs and revenues should be established, in lieu of allocating 10% of total revenues in proportion to Members' contributions to A&G costs, as described in the Interim Policy.
- Utility Director sub-group was organized to review and develop a recommendation to address outstanding issues associated with the Interim Policy

Background : UD Subgroup

- UD Subgroup roster:

Member	Representative
Palo Alto	Ed Shikada, Dean Batchelor, Jon Abendschein, Monica Padilla
Port of Oakland	Nico Procos, Basil Wong
Redding	Barry Tippin
SVP	John Roukema, Kathleen Hughes

- 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 Participants to NCPA Project, 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)
- Further develop revenue allocation policy to reserve a greater proportion of revenues for Members' exclusive benefit when service proceeds exceed cost of service.

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 (1 of 2)

- NCPA staff recommends Facilities Committee approval and recommendation for Commission approval of NCPA's revenue allocation policy, as described in the accompanying discussion paper.
  1. Allocate 10% of revenues received, for the exclusive benefit of Members, in proportion to their contribution to A&G expenses using data from the most recent complete fiscal year (e.g. FY18 revenue allocated in proportion to final FY16 data)
  2. 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

Recommendation (2 of 2)

- Recommendations (continued)
  3. Apply policy revisions to the entirety of FY 18.
  4. Policy to be reviewed in the same frequency and timing for review of the cost allocation model, as defined in the Power Management and Administrative Services Agreement.
  5. Develop additional policy recommendations that will reserve a greater proportion of revenues for the exclusive benefit of Members in the event service contract proceeds exceed the cost of services provided

Findings (1 of 1)

- In addition, staff seeks the support of the Facilities Committee for the following findings made throughout this policy development process:
  - Apply this policy to allocate proceeds received from providing Power Management services (and associated Administrative Services) to third parties.
  - Use the cost allocation model to allocate a portion of revenues, as described above.
  - In general, reserve revenues applicable under this policy for the benefit of Members, with certain exceptions made for non-Member Participants of NCPA Projects.
  - Recommend against using revenues toward unfunded liabilities (i.e. OPEB).

Questions / Comments