ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: June 28, 2022

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____ **N/A** _____

DATE: June 21, 2022

TO: Public Utility Commission

FROM: Madison Bolton

THROUGH: Bryan Conway, Caroline Moore, and Scott Gibbens **SIGNED**

SUBJECT: PORTLAND GENERAL ELECTRIC:
(Docket No. UM 1953)
Green Energy Affinity Rider Administration Fee Justification.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Portland General Electric Company's (PGE or Company) administration fee structure for the Green Energy Affinity Rider (GEAR) program as described in the Company's April 11, 2022, filing, while requiring an annual filing containing the actual administration costs associated with the GEAR program.

DISCUSSION:

Issue

Whether the Commission should find that PGE's compliance filing has sufficiently justified the methodology for calculating the administration fee proposed for the GEAR program.

Applicable Law

Staff reviews a compliance filing to find whether it is consistent with the requirements of the Commission's order[1] prior to the tariffs or topics associated with the filing going into effect. If a compliance filing fails to adhere with an order and is rejected, the Commission can order utilities to submit new compliance filings.

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[1] *See* e.g. In re PacifiCorp, OPUC Docket No. UM 1452, Order No. 10-260 (June 30, 2010).

Analysis

On April 11, 2022, PGE submitted a filing outlining the components of the administration fee and the justification of how it is calculated. This compliance filing was required by Commission Order No. 21-091, which requested further review and vetting of the proposed administration fee on the record.

Background
Prior to Order No. 21-091, the administration fee had been discussed in past data requests and PGE's opening brief in UM 1953, but had not been separately vetted through a filing. The fee had been described as representative of all the direct administration costs associated with the GEAR program to comply with VRET Condition 8.[2] The Company's compliance filing in question and additional work papers contain forecasted categories of costs and the structure of the fee calculation.

For Phase I of the PGE Supply Option (PSO) and the Customer Supply Option (CSO), the Company explains that direct costs such as labor, project management, marketing, and resource procurement are types of expenses not captured in the resource price and must be assigned to participating customers. PGE applies labor loading and overhead allocations to these expenses to account for indirect costs as well. While PGE can forecast direct costs with a methodology based on the Company's other voluntary renewable product programs, indirect costs like employee benefits or payroll taxes are more difficult to forecast. Indirect costs are categories that would still be present even if the GEAR program did not exist but are likely to add greater impact to certain administrative areas of the Company in the presence of the GEAR.

PGE explains that using a forecast for direct costs is consistent with their Commission-approved price structure based on a forward test year. PGE also notes that this methodology is more efficient than attempting to "true-up" every cost for every program.[3]

For Phase II of the GEAR program, PGE proposes the same methodology and structure for the administration fee that was used for Phase I. The Company states that the fee captures the costs of both developing and operating the program, with the operational portion of the costs including inflation. PGE uses a forecast for years **[BEGIN**

[2] "All direct and indirect costs and risks are borne by the subscribing customers, shareholders of the utility, or thirdparty developers and suppliers with provisions allowing independent review and verification by the Commission Staff of all utility costs. Costs include but are not limited to ancillary services and stranded costs of the existing cost of service rate-based system," Order No. 21-091 at 13.
[3] UM 1953 PGE Compliance Filing, page 2, April 11, 2022.

CONFIDENTIAL] [redacted] **[END CONFIDENTIAL]**, and the methodology includes a fixed, per kilowatt-hour (kWh) charge for all participants.

Staff Analysis

Staff examined the Company's methodology with the primary goal of concluding whether the administration fee ensures all direct and indirect costs are borne by the subscribing customers and are not shifted to non-participants. While direct costs are relatively straightforward to track and calculate, the indirect labor loadings and overhead allocations capture an important portion of the cost that is difficult to estimate or directly attribute to the GEAR.

Labor loadings include all costs associated with an employee such as benefits, retirement, payroll taxes, and incentives.[4] Loadings are calculated in a ratio by adding all the costs of an employee compared to the total hours that individual is forecasted to work. Overhead allocations apply costs over the life of the program that would be incurred in certain administrative areas of the Company, primarily during the initial start-up of a phase. Support work for human resources, payroll, IT, and facilities are all examples the Company provides that are included in overhead allocations. Staff believes that capturing these types of costs across all impacted administrative departments and individuals within the Company is a reasonable safeguard to prevent cost shifting to non-participants.

While indirect costs included in the overhead allocation are primarily at the start of a phase, collecting them through the allocation creates a levelized indirect cost over the entire life of the program. Staff agrees with this approach because it provides price certainty for participants, consistent with the fixed-price structure for other charges in the GEAR.

Staff notes that the forecast methodology and application of labor loadings for this fee is based on PGE's previously approved voluntary renewable product programs, which were also designed to prevent cost shifting. Additionally, the use of labor loadings and allocations is a common accounting practice and PGE explains that this forecasting method is consistent with the Company's entire forward-looking price structure.

Staff also verified the Company's calculation in its work papers for inclusion of direct costs as well as loadings and overhead allocations. **[BEGIN CONFIDENTIAL]** [redacted]

[4] UM 1953 PGE Compliance Filing, page 3, April 11, 2022.

[redacted] **[END CONFIDENTIAL]**.

Staff believes PGE sufficiently justifies the components of the administration fee in accordance with Order No. 21-091. The Company's method for calculating the administrative fee includes sufficient categories of charges to capture all the costs of developing and operating the program, thus preventing unnecessary cost shifting to non-participating customers. At this time, Staff believes the forecasting methodology for direct costs is sufficient as it is based on standard industry practices. However, Staff recommends that the Company be required to track and report the direct costs in an annual filing to ensure the forecasting is within an acceptable level of accuracy compared to the actual administrative costs of the program.

<u>Conclusion</u>

Staff recommends the Commission approve PGE's administration fee structure for the Green Energy Affinity Rider (GEAR) program and require annual tracking and reporting of actual administrative costs to compare to the Company's forecast.

PROPOSED COMMISSION MOTION:

Approve PGE's Phase I administration fee structure for use in Phase II of the GEAR program and require an annual filing containing the actual administrative costs associated with the GEAR.