**Portland General Electric Company**
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April 11, 2022

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street, S.E.
P.O. Box 1088
Salem, OR 97308-1088

**RE: UM 1953, Schedule 55 Large Nonresidential Green Energy Affinity Rider (GEAR) Administration Fee Justification**

Dear Filing Center:

Portland General Electric Company (PGE) submits this filing pursuant to Public Utility Commission of Oregon (OPUC) Order No. 21-091, which instructs a more thorough review of the underlying methodology considered and justified for PGE's administrative fee supporting the GEAR.

After conferring with Staff and Oregon Department of Justice, PGE hereby submits this compliance filing to provide additional justification on how the administrative fee was calculated in Phase I – and how that calculation methodology evolved over time in response to stakeholder feedback in Docket UM 1953. PGE also includes a discussion of how the administrative fee would be applied for Phase II of the GEAR program.

**Administrative fee design and history within UM 1953**

PGE's administrative fee was first proposed in PGE's Petition to Amend Order No. 16-251 and Reopen Docket UM 1690 (later opened as Docket UM 1953). PGE's testimony made clear that in accordance with Condition 8,[1] all administrative costs would be directly allocated to subscribing customers.[2] PGE's administrative fee is designed to capture the direct and indirect costs associated with the GEAR that are not already captured in the resource price and assign those costs to participating customers. This includes both start-up costs – expenses incurred only in establishing the program – and ongoing costs that occur through continued operation of the program. The direct costs of the program are tracked and reflected in the cost of implementing and operating the GEAR program. The indirect costs are captured using an overhead allocation.

[1] All direct and indirect costs and risks are borne by the subscribing customers, shareholders of the utility, or third-party 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.
[2] PGE/200, Sims-Tinker 21-22.

In its Compliance filings for Phase 1 for both the PGE Supply Option (PSO) and the Customer Supply Option (CSO), PGE submitted confidential work papers detailing the administrative fee to be charged, which included direct costs for the following items:

- System integration, Information Technology (IT), billing, etc.
- Resource procurement
- Marketing
- Communications
- Project Management

All of the above direct costs were applied labor loadings and an overhead allocation to incorporate the indirect costs of the program.

The direct labor costs to support the GEAR were developed using a forecasting method that is consistent with and informed by PGE's successful administration of its existing voluntary portfolio renewable product options, dating back to 2003. The voluntary portfolio programs were also designed to separate costs, so subscribers paid the associated costs and there was no cost shift to non-subscribing customers.

The indirect costs are, by definition, more difficult to forecast so loadings and allocations were applied to each dollar of forecasted direct labor costs over the life of the GEAR program. Loadings and allocations are standard business practices across industries for capturing indirect costs. Labor loadings were applied to reflect labor-related costs such as employee benefits and payroll taxes, and a corporate governance allocation was applied to capture the indirect support costs.

This represents a fair and reasonable approach to capture the indirect costs because, although the structure of the corporate governance allocation does not include certain costs such as legal and regulatory departments, it includes many other PGE administrative activities which will not be supporting the GEAR. Consequently, it adequately serves as a reasonable and conservative proxy for the two departments. In addition, the indirect support costs are primarily incurred during the setup and implementation of a specific phase. The corporate governance allocation, however, is applied to all direct labor costs over the entire life of the program. This, in effect, levelizes those front-loaded costs while ensuring subscribing customers pay all of the costs of the program.

While PGE maintains industry-standard accounting practices, those standard practices include the use of loadings and allocations to capture indirect costs, and appropriate forecasting methods to address direct costs. Note, for instance, that PGE's entire Commission-approved price structure is based on a forward test year – a forecast of expected costs. This approach is efficient, effective, and avoids a perpetual, time-consuming and costly game of "catch up" or "true up" that would be required on an ongoing basis if we attempted to precisely reconcile every cost to each affected program.

**Summary of administrative fee structure proposal for Phase II**

PGE proposes that the methodology used in Phase I of UM 1953 (and detailed below) be approved for Phase II. PGE's proposed structure includes both direct and indirect costs and is designed to appropriately insulate non-subscribing cost-of-service customers from administrative costs associated with launching (i.e. development) and running (i.e. operations) the GEAR program for subscribers. The operational cost over the term of the program would assume inflation. The methodology would fix the rate (on a per kWh basis) at the start of the contract term for all subscribers. PGE's proposed structure is as follows:

1) Direct Costs: These are all the costs that directly scale with the size of the program and can be tracked as such. These would include per hour, per unit, or flat fees. Examples include labor, resource system integration, product development, etc.

   Specifically, all labor costs would have standard labor loadings applied to account for all costs associated with an individual. These loadings include costs for items such as payroll taxes, medical benefits, incentives, retirement, and other benefits. These loadings are standard across the company. In the case of a part-time resource, their labor and related labor loadings are applied based on the forecasted hours to be spent on the program.

2) Indirect Costs: These are costs that do not directly apply to the project. They are characterized by the fact that if the activity/project did not exist, these costs would still be incurred by the rest of the business. These are areas of the business that the project activity could reasonably be expected to add some additional burden during its lifetime. For example, an electric vehicle (EV) project would likely impact human resources (HR), accounting and other corporate administrative functions but would not be expected to impact specific generation facilities, or transmission and distribution activities.

   Overhead allocations would include:
   - Corporate Governance – This represents general administrative support for activities such as HR, accounting, payroll, financial planning and forecasting, and other corporate functions. HR recruiting or service fees are included in the labor loadings.
   - Facilities – This is dependent on the location of project labor. In the case of the World Trade Center (WTC), this is charged at a rate which is proportional to all of the WTC costs shared among the PGE employees who are based at this location.
   - IT – Provides IT support services for operating and maintaining corporate infrastructure, employee computers, and shared software. This is currently calculated as the cost of IT support without allocations divided by the total employee base.

In the case of the GEAR program, the administrative fee and other protections built into the program provide a reasonable structure to ensure participating customers pay the direct and indirect costs of the program without significant cost shifting to non-participating customers.

PGE appreciates Staff's consideration of PGE's methodology and fee structure. PGE requests that the Commission approve the continued use of the administrative fee structure proposed and discussed in this compliance. Optimally, PGE requests that the Company's Administration Fee Justification be considered by the Commission at the June 28, 2022 Public Meeting. We look forward to working with Staff and stakeholders on any questions that arise.

Please direct any questions regarding this filing to Korissa Mehdikhan at (503) 702-1689. Please direct all formal correspondence and requests to the following email address pge.opuc.filings@pgn.com.

Sincerely,

\s\ Robert Macfarlane

Robert Macfarlane
Manager, Pricing and Tariffs

Enclosures
cc: UM 1953 Service List