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February 20, 2026

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
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Salem, Oregon 97308

Re: AR 676 - Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688 Implementation)

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), hereby files a joint response on behalf of NW Natural, Avista Utilities, and Cascade Natural Gas Company regarding the February 6, 2026 Written Comment Opportunity released by the Oregon Public Utility Commission Staff.

Please address any correspondence on this matter to me, with a copy to the following:

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Sincerely,

NW Natural

/s/ Maddie Pulliam

Maddie Pulliam
Rates & Regulatory Analyst

Enclosure

Response of Gas Utilities to February 6, 2026, AR 676 Written Comment Request

Northwest Natural Gas, Avista Utilities, and Cascade Natural Gas Company (collectively referred to herein as the "Gas Utilities") appreciate the opportunity to provide these written comments in response to the Written Comment Opportunity released by the Oregon Public Utility Commission ("PUC" or the "Commission") Staff on February 6, 2026, under Docket AR 676.

We welcome the ongoing opportunities to engage with the Commission, Commission Staff, and stakeholders during this rulemaking process. The Gas Utilities support the development and implementation of Multi-year Rate Plans ("MRPs") because, when thoughtfully designed, MRPs can deliver meaningful and positive outcomes for Oregon customers and improve regulatory certainty for all stakeholders. To achieve these positive outcomes, the Gas Utilities continue to advocate for a process that aligns with foundational principles for an MRP framework. In our December 9, 2025 survey response, we identified four foundational principles (summarized in the table below), which are highly consistent with the guiding principles used by other jurisdictions that have adopted MRPs, as detailed in the January 27, 2026, meeting pre-read materials.[1]

Table 1: MRP Foundational Ratemaking Principle
1. **Balancing Customer and Utility Interests –** Customer-focused outcomes should be balanced with supporting the utility's ability to fulfill its basic service obligations to ensure safe and reliable service to customers, while upholding the regulatory compact.
2. **The Ratemaking Framework Should be Able to Evolve Over Time** – There should be flexibility to allow utilities to bring forward MRP proposals in individual rate cases and to revisit the MRP design over time to evaluate its success and opportunities for improvement.
3. **There is No "One Size Fits All" Approach to Ratemaking** – Different ratemaking approaches may be more beneficial for customers of different utilities and industry segments (e.g., gas versus electric).
4. **Importance of Consistency and Predictability** – Consistency and predictability in ratemaking contribute to stability in both customer bills and the utility's financials. It is important to maintain a constructive regulatory environment so that the utility can attract capital at a reasonable cost.

At this early stage in the rulemaking process, the Gas Utilities encourage the Commission to focus on the core principles and elements of MRPs and set guidelines around what will and will not be considered in this rulemaking process. Establishing a reasonable foundation in this first iteration of MRPs that can evolve and be built upon in future iterations is consistent with the approaches taken in other jurisdictions that have adopted MRPs and reduces the risk of unintended

[1] Following the review of the pre-read materials for the January 27th workshop, we identified that the jurisdictions of Alberta, British Columbia, Hawaii, North Carolina and Ontario align with our foundational principles. Please also note, Connecticut has been cited as an example from which Oregon can draw in this rulemaking; however, MRP/PBR rules have not yet been finalized in Connecticut.

consequences. Along those lines, the Gas Utilities highlight what an MRP framework should or should not accomplish below:

- The MRP is a framework by which the utility's base revenues and corresponding base rates are established on an annual basis. Due to their structure, stay-out period, and revenue targets, MRPs also contain important incentives for cost containment and operational performance.
- As Commissioner Perkins acknowledged at the December 17, 2025, workshop, an MRP <u>is not</u> a panacea to address all of the opportunities and challenges associated with Oregon's energy system. We should not broaden the scope of MRPs where other regulatory vehicles already exist.
- To establish the core elements of the MRP (such as initial rates, the multi-year term, and annual revenue adjustment mechanisms) in a reasonable and balanced manner, the Gas Utilities urge the Commission to clearly define the scope of the MRP process versus issues better addressed in other proceedings or existing frameworks. Establishing these boundaries would not diminish the importance of those issues, but rather acknowledge that they require separate and deliberate consideration. Clear boundaries would also promote progress in this rulemaking and foster more effective stakeholder collaboration by focusing attention on the issues best suited for resolution through an MRP.

As noted by the Gas Utilities previously in this rulemaking process, Senate Bill 688 directs the PUC to "investigate, develop and adopt a framework for carrying out performance-based regulation *of electric utilities*." The goals of any MRP established for the Gas Utilities in this rulemaking should be separate and distinct from the requirements for electric utilities in Senate Bill 688. The MRP established for Gas Utilities should strictly follow the requirements provided in House Bill 3179.

Additionally, almost all of Oregon's utilities operate in Washington, and we believe that an exploration of the progress associated with the MRPs first implemented in Washington beginning in 2023 is beneficial. There are key elements of Washington's MRP that align with the priority goals that the Gas Utilities have discussed and that Current Energy Group has identified as part of its materials submitted in this case. There could be a level of ratemaking efficiencies if the two jurisdictions had similar MRPs and subsequent reporting structures. The Gas Utilities welcome the opportunity at a future workshop to provide a presentation on the Washington experience.

Q1. Please identify goals that best align with your vision for Oregon's regulated utility energy system. For each goal, please identify 1-3 outcomes that you think are most important to prioritize in an updated ratemaking framework. Staff notes that this is a prioritization exercise and not an indication that any particular goal or outcome will be excluded.

The Gas Utilities offer the following perspectives informed by our experience with cost-of-service regulation, our experience with Washington's MRPs and our engagement in discussions around

MRPs with a third-party consultant, Concentric Energy Advisors.[2] The goals and outcomes identified below reflect where the Gas Utilities believe an updated ratemaking framework can deliver the greatest value, recognizing that not all goals carry equal relevance or applicability to gas utility operations and that clear boundaries are necessary to ensure MRPs remain focused on establishing just and reasonable rates.

MRP Priority Goals and Outcomes for Gas Utilities

The Gas Utilities have included a discussion below for two priority goals and associated outcomes as it relates to the development and design of an MRP framework, as follows: (1) Predictable and Efficient Regulatory System and (2) High Performing Utility Business.[3] In addition, as discussed below, other goals and outcomes are embedded within and will be an outcome of a Predictable and Efficient Regulatory System with High Performing Utility Businesses. The Gas Utilities also discuss below how the other goals in the January 27, 2026 meeting pre-read materials (namely Affordable, High-Quality Service and Clean Energy Development) should be considered in the context of the MRP framework.[4]

Priority Goal 1: Predictable and Efficient Regulatory System

A well-constructed MRP supports greater regulatory efficiency by reducing the frequency and complexity of full rate cases, allowing stakeholders to focus on the drivers of cost and system needs rather than repeated general rate case litigation. Within an MRP term, utilities have an incentive to reduce costs. From a customer perspective, MRPs may help produce smoother, more incremental, and more predictable rate changes over time. An MRP supports smaller and more gradual changes in rates while helping to avoid substantial increases that could accompany a general rate case filing due to the lag between rate cases. That said, there must be alignment of forward-looking capital requirements of the utility system with the revenue support provided during an MRP. Without addressing forward-looking capital, there will be no path for utilities to seek anything longer than 3-year rate plans given the substantial regulatory lag that will occur. Addressing this critical issue will promote longer periods between rate cases while ensuring that utilities can continue to meet system needs responsibly.

- **Listed Outcomes for Priority Goal 1: Predictable and Efficient Regulatory System**
  - ✓ Longer periods between rate cases by adequately and reasonably supporting the capital requirements for utilities (e.g., through addressing and allowing forward-looking investment needs).

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[2] Concentric Energy Advisors has participated in the development and design of MRP and PBR rulemaking processes and rate proceedings in various jurisdictions throughout North America.

[3] These two overarching goals are aligned with the list provided by Current Energy Group during the January 27, 2026, PBR Foundations Workshop presentation.

[4] "Balanced risk between utilities and customers" is an outcome listed in the January 27, 2026, meeting pre-read materials as an "Other" goal. The Gas Utilities advocate that "Balancing Customer and Utility *Interests*" is a core foundational principle that should be adhered to in the MRP design. Balancing *interests* recognizes that risk may not be shared equally.

- ✓ The establishment of just and reasonable rates that provide stability and predictability for customers over time.
- ✓ Efficiency, cost control, transparency, and reduced administrative burden in the achievement of the lowest reasonable cost energy service.

Priority Goal 2: High-Performing Utility Business

MRPs also advance the goal of a High-Performing Utility Business. By providing a more stable and predictable ratemaking framework, MRPs help utilities continue to invest in essential infrastructure to maintain safe, reliable, and resilient service. A well-designed plan supports the financial integrity of the utility, ensuring it can access capital at reasonable cost for the benefit of customers. In alignment with House Bill 3179, MRPs can incorporate mechanisms that promote efficient utility operations and responsible cost management through their design. Importantly, an MRP structure must ensure regulatory fairness and consistency across the electric and gas sectors, while maintaining focus on customer impacts.

- ➢ **Listed Outcomes for Goal 2 – High-Performing Utility Business**
  - ✓ Support for continued investment in utility systems to provide safe and reliable service to customers while adequately maintaining the utility's financial health and integrity.
  - ✓ Providing incentives for efficient utility operations, as allowed in House Bill 3179.
  - ✓ Ensuring fairness across utility sectors (e.g., electric versus gas) and maintaining a focus on customers.

Discussion on Affordable, High-Quality Service as a goal of an MRP

The goals of a Predictable and Efficient Regulatory System and a High-Performing Utility Business overlap with the Affordable, High-Quality Service category identified by Current Energy Group.[5] For example, cost control (an outcome of both regulatory efficiency and strong utility performance) also supports affordability. While all of the outcomes within the Affordable, High-Quality Service category are critically important, the Gas Utilities suggest that it is appropriate to review the existing customer programs the Gas Utilities have in place to support affordable rates and how they may or may not address the listed outcomes. Many of the customer programs in existence today are expressly designed for the benefit of customers encouraging equitable and affordable service for the most vulnerable populations. Gas Utilities also provide transparency through the reporting of energy burden metrics and have completed energy burden assessments that are conducted on a regular cadence. Additionally, Oregon is recognized as having a robust and long-standing history for Integrated Resource Planning ("IRP") that requires least-cost utility planning and results in a portfolio that represents the best combination of cost and risk for the

[5] The outcomes identified in the "Affordable, High-Quality Service" category include affordability, reduced disconnections, customer service/trust, reduced energy burden, support for vulnerable and low-income customers, plain language/translated/regular communications, and cost containment.

utility and its customers.[6] For this reason, the Gas Utilities encourage the Commission to leverage existing reporting and processes where relevant and practical in recognition that there is a trade-off between increased transparency and reduced administrative burden in the development of the MRP and associated requirements.

Discussion on Clean Energy Development as a goal of an MRP

While the overarching goal of Clean Energy Development is critically important for Oregon and aligns with broad state policy objectives, it is not generally a goal that falls within the scope of MRPs. Gas Utilities are subject to the Climate Protection Program, which became effective January 1, 2025. The CPP establishes a program to limit GHG emissions from covered entities, including natural gas utilities, by 50% by 2035 and 90% by 2050 from a 2017-2019 baseline, which includes penalties for non-compliance. This program is administered by the Department of Environmental Quality. As such, MRPs are not the appropriate place to attempt to drive outcomes, when those outcomes are already set forth in the CPP. Moreover, several of the specific initiatives and outcomes referenced by Current Energy Group, such as distributed energy resource ("DER") expansion, electrification efforts, and the development of community solar projects or microgrids, are not activities that Oregon's Gas Utilities can directly implement, influence, or control. These initiatives are generally tied to electric utility planning and may be specifically applicable to electric utilities under Senate Bill 688.

Q2. What trade-offs and/or risks should be considered in developing an MRP and/or PBR framework for Oregon?

An underlying assumption of transitioning to an MRP framework is that the benefits of the new framework will exceed the costs or risks associated with the change. With the transition, there is a risk that there will be unintended consequences. The Gas Utilities focus on two potential unintended consequences below: (1) that the framework will diverge from legal ratemaking requirements; and (2) the underlying costs and investments needs of the utilities will not be meaningfully considered in this process.

Discussion on House Bill 3179

House Bill 3179, which is applicable to both electric and gas utilities, provides guidance on rate case procedures, frequency of rate increases, requirements for any alternative form of regulation (including MRPs) and transparency requirements to balance both utility and customer interests. The legislation focuses on conducting comprehensive rate impact analyses for customers, establishing protections against rate shocks, and a requirement to modernize the ratemaking process through the development of an MRP process, with an expressed focus on the frequency, schedule and transparency surrounding those rate changes, as well as, the ability for the

[6] Since 2007, the Gas Utilities have filed IRPs for review every two years covering a 20-year planning period.

Commission to approve deferral accounting treatment associated with rate mitigation.[7] PUC Staff indicated in the January 27th workshop that it will provide further clarification and guidance as it relates to the differences between electric and gas utilities in this MRP rulemaking process. The Gas Utilities are seeking a clear delineation from the PUC Staff and the Commission between the requirements of House Bill 3179 and the requirements of Senate Bill 688, the latter of which is not applicable to the Gas Utilities. Additionally, when considering differences between gas and electric utilities, it is also important to consider that gas customers actively choose how and whether to use gas considering other fuels in their decision-making process, whereas electric customers cannot easily substitute their electric services. Comparatively, gas utilities face higher demand risk associated with these competitive market forces.

Current Rate Case Process and the MRP

The Gas Utilities maintain that an MRP process does not obviate the need to continue the base distribution rate review process that is followed today, but rather, if designed appropriately, will reduce the frequency of rate cases and extend the timeframe between these resource intensive cases, while promoting rate stability. The appropriate avenue to establish the starting point for any MRP is the general rate case process[8], which is an extensive and collaborative process that validates the utility's costs to serve customers, whether those costs were prudently incurred, and establishes a reasonable rate of return. The starting point, or "initial, going-in rates," must fully fund current operations so that the revenue allowance provided by the annual MRP adjustments are appropriately recovering the system investments required during the term. An MRP structure will support longer periods between rate cases when both the going in rates determined in a rate case are set to recover the utility's cost to serve customers with a reasonable return **and** the revenue support during the MRP term is set at a level that is adequate to support the capital system needs throughout the plan.

Q3. Which MRP and other PBR mechanisms do you think could be valuable tools for helping achieve the outcomes that are important to you?

The discussion below outlines key considerations for MRP design, customer and utility interest balancing tools, and the potential role of performance metrics as Oregon continues to explore an updated ratemaking framework.

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7 Throughout the initial workshops, Staff has pointed to Senate Bill 688 as one of the governing documents for the establishment of PBR plans during this rulemaking process for MRPs. The Gas Utilities have highlighted that Senate Bill 688 by statute is applicable only to Oregon's electric utilities and focuses on specific outcomes for electric companies through the implementation of PBR plans, such as, reducing greenhouse gas emissions, improving energy efficiency, enhancing reliability/resiliency, expanding DERs, improving services for low-income customers, and cutting operational costs for ratepayers.

8 *See also,* Current Energy Group, Multi-Year Rate Plans: Purpose and Design Considerations, December 2025, at 17.

Recommendation for MRP Design

The Gas Utilities reiterate that parties and stakeholders are in the early stages of understanding specific types of MRP and PBR mechanisms and their impacts. We appreciate the consultant presentations at each workshop that have more broadly discussed MRP and PBR elements across other jurisdictions. At this time, the Gas Utilities do not have a recommended design structure for an MRP and are evaluating each type of MRP that has been discussed, for instance, whether an index-based, a hybrid form or formula-rate MRP structure is appropriate and how a transitional phase may compare to the operational phase of the MRP. Moreover, as highlighted above, many of Oregon's utilities operate in Washington and would like to explore in a future workshop the progress associated with the MRPs first implemented in Washington beginning in 2023.

Tools for Balancing Customer and Utility Interests

The Gas Utilities anticipate an MRP structure that will balance both customer and utility interests. Customer protections are important to ensure that the MRP adopted is not inappropriately tilted in favor of the utilities and, likewise, utilities require reasonable assurance that they will have adequate funding and access to capital to invest in the systems on behalf of customers. The type of MRP will inform the appropriate customer protections that should be in place. Conversely, well-designed MRPs have appropriate off-ramps to allow for unforeseen circumstances that could cause misalignment between the revenue support provided by the MRP versus the operating environment for the utilities. Exogenous provisions, such as Z-factors in an index-based plan, or other cost recovery mechanisms are valuable tools in this respect to allow for unanticipated events to be addressed outside of the MRP while allowing the MRP to continue uninterrupted. A balanced MRP can include off-ramps for factors such as the following:

- Falling above or below an established earnings threshold (typically a wide deadband beyond traditional earnings sharing mechanism limits);
- Changes in state or federal law, including corporate tax rate changes; and,
- Demonstration of circumstances beyond the control of the utility that significantly affects its financial health.

Performance Metrics

The Gas Utilities acknowledge that utility performance is a key consideration for stakeholders, and that a degradation in performance caused by a change in ratemaking frameworks would be untenable, whether or not tracked through metrics. The Gas Utilities understand that there is a trade-off between the length and cost containment incentives of MRPs, on the one hand, and transparency on the other hand, and that reporting is a way to alleviate the risks related to that trade-off. The transition to an MRP from a more traditional cost of service model if properly designed may provide benefits to customers, utilities, and stakeholders, and ultimately the selection of the MRP design should be prioritized because the MRP will establish the framework

for utility performance. Developing performance metrics should be sequenced after MRPs are established.

As noted by the Regulatory Assistance Project ("RAP") in its January 27, 2026, presentation, performance incentive mechanisms ("PIMS") do not have to be the end-goal of an MRP. If, however, performance metrics are determined to be necessary for transparency in the Oregon MRP process, it will be important to understand the goals of the MRP prior to any establishment of performance metrics. RAP also discussed the importance of starting simple when it comes to PIMs, and relying on data that exists today. It highlighted the concept of "shadow reporting" for at least one to three years before implementing financial incentives or penalties associated with PIMs to ensure the metric works as intended. Furthermore, RAP's identified additional best practices of symmetry (i.e., use both rewards for excellence and penalties for failure), simplicity (i.e., focus on 6-12 high-priority PIMs rather than dozens of small ones), and stakeholder collaboration (i.e., defining goals before picking metrics) are reasonable guardrails for the design of an effective MRP and/or PBR framework for Oregon.

Q4. Based on what you've learned about MRP/PBR and your desired outcomes from the ratemaking process and energy system, what specific aspects of Oregon's ratemaking frameworks are working well? Further, what specific areas do you see as high impact opportunities to improve? Please feel free to be as specific about process and ratemaking practices as you want.

As Oregon evaluates the potential evolution of its ratemaking framework using MRPs, it is important to assess which elements of the current system are functioning effectively and where targeted improvements could yield the greatest benefits. The discussion below highlights strengths of Oregon's existing ratemaking practices, particularly stakeholder collaboration and regulatory processes, while identifying opportunities to improve alignment between cost recovery, regulatory efficiency, and long-term system and customer outcomes as part of an MRP framework.

Stakeholder Collaboration in the Oregon Rate Case Process

Based on our experience in recent Oregon gas utility rate cases, several elements of the current ratemaking framework are working well, including the structured and collaborative stakeholder process. The existing adjudicatory and settlement processes create strong incentives for parties to engage early, test assumptions transparently, and work toward negotiated outcomes that balance customer, utility, and public interest objectives. This has enabled complex cases to narrow issues efficiently and reach durable settlements that reflect broad consensus and are ultimately approved by the Commission, providing regulatory certainty and timely implementation.

The Gas Utilities are willing to present to stakeholders regarding the current state of the gas system, operational needs and considerations, and existing customer programs and offerings to provide additional context and transparency on what the utilities are currently doing to achieve some of the goals/outcomes that have been highlighted throughout the recent workshops.

The Role of Alternative Ratemaking and Cost Recovery Mechanisms

To date, the Commission has used alternative cost recovery mechanisms and should continue to do so, as the availability of such mechanisms will work collaboratively with an MRP. The Gas Utilities maintain that they should continue to operate alongside an MRP.[9]

Area of Improvement for Consideration in Determining MRP Design

An area for improvement in this process is the perception that there are not already strong incentives for utilities to control costs. Even under the traditional cost of service ratemaking model that has been employed historically in Oregon, utilities and customer interests are aligned around cost containment. For example, if a utility can reduce its costs, the utility will have higher returns and customers benefit from the downward rate pressure, all things being equal. The opposite is true when costs in base rates rise, which negatively impacts both customers and utilities. The Gas Utilities also note that many of utilities' cost drivers are not within the direct control of the utilities, which are subject to the same economic forces that occur in the general economy. For instance, gas supply costs are a significant portion of winter bills, which are driven by weather and commodity markets outside utilities' control. Other examples include the establishment of the CPP, low income rate assistance, and energy efficiency funding required by the Energy Trust of Oregon that result in substantial costs recovered through customer bills. Many of these cost drivers will not be resolved through an MRP design.

Throughout the workshops there has also been discussion of the purported capital bias of utilities and less of a focus on how utilities are actually deploying capital for the benefit of customers. Likewise, there has not been a discussion around the cost of that capital for these investments. The investor-owned utility model requires utilities to provide safe and reliable service to customers, while attracting necessary investment from the private sector to pay for those services. Utilities are subject to strict oversight and regulation and required to demonstrate prudency of investments and decisions through rate case reviews that are inclusive of many stakeholders. Capital projects that are excessive, premature, or poorly justified are disallowed and not allowed to be recovered from customers. Despite Commission-approved cost of equity through these reviews, gas utilities in Oregon have consistently earned below their allowed ROE. Chronic under-earning has several negative consequences:

- It can divert utility resources toward preparing frequent rate cases instead of focusing on operational efficiencies, innovation, and customer service.
- It increases regulatory lag, undermining the financial stability that MRPs are intended to provide.
- It can adversely affect credit metrics and increase financing costs, which ultimately flow through to customers over the long term.

[9] Alternative cost recovery and ratemaking mechanisms, including deferrals and trackers, are generally used in North American utility regulation to track and recover costs that: (1) are volatile and/or difficult to project; (2) are potentially significant; or (3) are generally outside of the utility's control.

An improved ratemaking framework should place emphasis on ensuring that utilities have a realistic opportunity to earn their authorized returns when they operate efficiently and prudently. The Gas Utilities would support a longer-term MRP under such conditions. However, we also recognize that as Oregon transitions toward alternative regulatory models, a shorter-term MRP may be more appropriate initially. Shorter MRPs would allow the Commission, stakeholders, and utilities to incorporate lessons learned, refine mechanisms, and adjust performance metrics before committing to longer-term structures.

Q5. What additional considerations do you think are important as Oregon works to develop its MRP framework?

The MRP implementation should contain two phases: a "transitional phase," in which Oregon utilities transition to MRPs and an "operational phase," in which the MRPs are in operation. During the "transitional phase," the Gas Utilities note that each utility may require a unique "bridge" solution to maintain its financial health as the state transitions into an MRP process, which may occur prior to each utility's next rate case. This could include a combination of traditional general rate cases and interim rate relief through alternative rate mechanisms, deferrals, trackers, exceptions, and other potential avenues to ease the administrative burden of this transition period. The Gas Utilities expect that during the "operational phase", the MRP could be continually evaluated at the end of each MRP term as part of the utility's specific rate case filings.

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