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Via Electronic Filing

Public Utility Commission of Oregon
Attention: Filing Center
P.O. Box 1088
Salem, OR 97308-1088

Re: **AR 676 Rulemaking to Establish Multi-Year Plan Framework**

Dear Filing Center:

Portland General Electric Company (PGE) respectfully submits these comments in response to the Public Utility Commission of Oregon (OPUC or Commission) Staff's request for written comment following the January 27, 2026, Performance Based Regulation (PBR) Foundations workshop.

Comments

PGE appreciates the opportunity to provide our perspective on multi-year ratemaking (MRP) and performance-based regulation to parties, heretofore referred to as the "MRP framework." Level-setting context is a crucial starting point for the next phase of framework design if interested parties aim to properly calibrate goals, outcomes, and the mechanisms that support their realization. PGE looks forward to continued dialogue as the docket transitions from fundamentals and theory toward concrete opportunities to enhance the Oregon ratemaking framework. PGE requests that a procedural rhythm of workshops, Staff proposals, comment and reply periods be clearly defined and scheduled soon to allow for robust discussion ahead of the anticipated conclusion of Phase 2 at year end.

The primary purpose of these comments is to serve as an educational resource for the Commission, Staff, and stakeholders by illustrating the mechanics of multi-year ratemaking (MRP) and highlighting functional frameworks utilized in other jurisdictions. As the Commission explores the transition toward a MRP framework, PGE offers these insights to help level-set the technical context and establish a shared understanding of potential regulatory tools. Please note that the inclusion of various frameworks, archetypes, and metrics in these comments is intended for informative purposes and does not communicate a specific preference by PGE for one framework or metric over another at this nascent stage of the proceeding. PGE believes the most productive

path forward is to first ensure that the scope and complexity of these mechanics of multi-year ratemaking are thoroughly understood and established as the adopted MRP framework.

Proposed rules under AR 676 should be intentionally non-prescriptive, providing utilities the latitude to bring forward multi-year rate cases tailored to their specific operational needs. Under this approach, the Commission's review of initial filings focuses on the viability of the proposed mechanisms, ensuring that any deviations from expectations are treated as opportunities for refinement rather than regulatory failures or non-compliance.

In summary, PGE offers the following viewpoints:

- **MRP Framework Design Considerations:** PGE advocates for a non-prescriptive approach that allows utilities flexibility to propose tailored multi-year rate cases while emphasizing the need for phased implementation to establish data baselines before introducing financial consequences.
- **Administrative Efficiency and Transparency:** PGE emphasizes that regulatory efficiency doesn't necessitate reduced transparency, noting the extensive reporting already in place and suggesting the MRP transition provides an opportunity to streamline existing materials into a more logical and accessible framework.
- **A Balanced Transition:** PGE favors a clear process for how this rulemaking will proceed that carefully considers the operational complexities and the value of preserving proven mechanisms.
- **Response to Questions Posed**

Drawing from Hawaii and other jurisdictions, it is prudent to use a phased implementation to ensure regulatory stability and informed decision-making. A critical first step is establishing a robust data baseline to accurately calibrate targets and understand how PBR, and associated performance incentive mechanism (PIM) design, will impact utility operations and customer costs. Because of the transformation's magnitude, sequencing is essential; implementing multi-year ratemaking criteria first allows all stakeholders to fully understand new obligations and risks before introducing financial consequences. This approach is supported by the Puget Sound Energy 2024 General Rate Case OBJOBJ where the Washington Utilities and Transportation Commission (WUTC) Staff distinguished between 'report-only' measures and those tied to earnings. Utilizing an initial 'report-only' phase for PIMs provides the necessary window for all parties to verify that metrics work as intended before they are utilized for 'true performance' adjustments.

With respect to PIMs specifically, the Regulatory Assistance Project (RAP) presented the following best practices, drawing from almost twenty jurisdictions, at the PBR Workshop that bear consideration:

- **Stakeholder Collaboration**: Define goals before picking metrics
- **Shadow Reporting**: Track data for 1-3 years before putting "money on the line" to ensure the metric works as intended.
- **Symmetry:** Use both rewards for excellence and penalties for failure.
- **Simplicity:** Focus on targeted high-priority PIMs rather than dozens of small ones.

As evidenced in the multi-year performance-based regulation design principles defined in Washington, PIMs should complement, rather than duplicate or distort, other regulatory mechanisms like decoupling, cost trackers, or multiyear rate plans (MYRPs). Notably, the WUTC sought to integrate with the broader regulatory framework such that PIM financial impacts be considered outside of base rates and not included in the evaluation of the statutory earnings test, as doing so could counteract the intent of the incentive.

Flexibility and increased oversight and transparency can co-exist in the supporting regulatory structure we collectively seek to define. A flexible framework is necessary for it to be generalizable to both gas and electric utilities, to foster timely cost recovery and to differentiate between outcomes the utility may influence and those that are exogenous to utility operations and business decisions. Ideally, this MRP framework sets the goals and outcomes, and utilities are afforded the flexibility to realize those stated outcomes in a variety of mechanisms and/or actions as long as the outcome is demonstrated as a metric or report.

PGE appreciates the outcomes-based approach, and Staff's intent to prioritize and not exclude any designs at this stage in the proceeding. The potential design elements below are offered with that consideration in mind. The existing reporting provided is a sampling of compliance reporting and plans but is not comprehensive. The appropriateness of a mechanism or metric may depend on the MRP archetype–either a forecasted approach or indexed-based cap approach – as well as the problems we collectively seek to solve.

1. Example Goals-Outcomes-Mechanisms or Metrics

Goal(s)	Public Interest Outcomes	Potential Mechanisms and Metrics
Broad, widely accepted objectives	*Observable results that derive operations and business decisions*	*Representative potential tools and measurements, as seen in other jurisdictions. Determination of Oregon-specific mechanisms will require additional analysis and development.*
Customer Affordability	• Predictable and stable rates • Improved efficiency of utility operations to reduce costs to ratepayers • Clearly defined and allocated risk and benefits between utilities and customers • Enhanced services for low-income customers, including flexible payment plans and reduced disconnections	• Profit incentive for cost efficiencies • Build assumptions for cost efficiencies built into a forecasted MRP • *Existing Reporting:* Energy Burden Metric Reporting (RO 16); Energy Trust of Oregon Performance Measures, bill discount plus energy efficiency (UM 1158)
Utility Flexibility	• Timely recovery of unforeseeable costs outside the utility's control • Opportunities for utility innovation • Credible opportunity for the utility to recover prudent costs and earn its authorized rate of return	• Trackers or Z-factors for clearly defined, limited uncontrollable costs • Capital trackers or K-bar adjustment that allows for recovery of growing system investment need • Innovation frameworks that incentivize and fast-track pilots and new service offerings that go beyond traditional utility operations
High-Performing Utility Operations supporting State Policy Goals	• Improving reliability and resiliency • Developing distributed energy resources (DERs), which provide grid services and reliability including, demand response • Increasing energy efficiency • Reducing greenhouse gas emissions; reduce emissions of anthropogenic gases	• Performance Incentive Mechanisms (PIMs) aligning utility incentives with policy and customer outcomes • Meaningful performance incentives for exceptional performance and penalties for failure to meet baseline standards • *Existing Reporting:* Energy Trust of Oregon Performance Measures (UM 1158); Integrated Resource Planning and Reporting, Distribution System Plan Reporting; Annual Reliability Reporting (RE 113).

Efficient and Transparent Stakeholder Engagement and Regulatory Proceedings	• Filings consolidated into multi-year rate cases, where reasonable • Stakeholders are engaged meaningfully and efficiently, and have a shared understanding of parties' needs and risks • Reporting is streamlined, meaningful and useful, efficiently delivered and timely received	• Proactively identify which single-issue filings and/or deferrals are candidates for consolidation and/or inclusion in base rates to ease administrative burden • PGE sees an opportunity to consolidate the Flex Load Multi-Year Plan and the Transportation Electrification Plan into a multi-year rate case process, at a minimum

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

Designing a MRP framework involves managing inherent tensions between predictable, stable rates and the incentives needed to drive cost efficiencies. A balanced framework should align utility performance with customer needs and state policy goals, such as carbon compliance, through a design that emphasizes performance symmetry relative to established baseline standards. Collaboration is essential to navigate these competing outcomes and ensure the framework maximizes overall value in the public interest. Ultimately, the framework must provide a reasonable opportunity for the timely recovery of unforeseeable, exogenous costs while preserving room for innovation and continuous refinement based on real world experience.

Customer Affordability vs. Utility Flexibility vs. High-Performing Utility and State Policy Goals

Utilities are experiencing significant capital growth driven by decarbonization, grid modernization, aging asset replacement, and increasingly volatile weather events. Supporting this growth requires regulatory mechanisms, such as trackers, that enable utilities to operate resiliently while balancing cost containment with strategic investment in policy-mandated infrastructure. Rather than viewing affordability and clean energy as competing objectives, the regulatory framework should utilize an incentive design mindset that aligns both. This 'do both' strategy focuses on avoided costs and capital productivity; for instance, rewarding the deployment of non-wires alternatives to defer upgrades, increasing hosting capacity, or attracting flexible loads to improve asset utilization. By tying earnings to measurable reductions in peak demand, energy burden, or total system cost, clean energy investments become a core affordability strategy. Effective management of these tensions requires transparent, symmetrical incentives with clear metrics and multi-year horizons that internalize tradeoffs. When regulators value risk avoidance and equity alongside cost control, utilities are incentivized to deploy capital more efficiently.

An ideal MRP framework incentivizes cost efficiencies while enabling timely execution of delivering a multi-year portfolio of necessary investments and maintaining the utility operations. A potential balance may be found through coupling utility incentives for cost efficiencies with mechanisms to provide recovery for truly unforeseen and exogenous costs, with thresholds for materiality, clear guardrails, and outcome-based metrics so incremental recovery is tied to productivity, avoided costs, and customer benefit.

Administrative Efficiency vs. Transparency (Stakeholder Engagement and Regulatory Proceedings)

To truly reduce the administrative burdens, the MRP framework must account for the entire regulatory lifecycle, from pre-planning to post-filing reporting. Therefore, all parties must come together to ensure that mutually beneficial goals can be achieved. While stakeholders often fear that 'regulatory efficiency' necessitates reduced transparency, efficiency can be improved without losing oversight by optimizing existing delivery mechanisms. PGE already utilizes extensive planning and reporting tools across various OPUC docket designations (RO, RE, LC, and UE) that inform staff and stakeholders on key operational areas. These include annual filings for the Budget of Expenditures (RE 19), major projects (RE 18), and Results of Operations (RE 119), alongside Integrated Resource Plans (LC) that detail procurement and greenhouse gas intensity.

Beyond traditional financial and operational data required by OAR Division 22, recent mandates have expanded transparency regarding customer impacts. Under HB 3179 and Dockets UM 2211/AR 668, utilities now provide disaggregated data through the Energy Justice Standard Data Request and the quarterly Energy Burden Metrics Report (RO 16). This comprehensive reporting covers equity impacts, energy burden, zip-level arrearage data, and disconnection/reconnection metrics. Ultimately, a multi-year planning transition provides an opportunity to streamline these existing materials into a more logical and accessible order.

Looking elsewhere, different jurisdictions arrive at this balance in different ways. Jurisdictions that utilize formulaic index-based rates typically prioritize efficiency, as in Massachusetts [1] or Hawaii [2]. In these examples, a single test year may receive considerable scrutiny, but subsequent rate adjustments can be utilized as enduring guardrails that incentivize efficiency and performance in place of burdensome oversight of specific costs. In these jurisdictions, stakeholders acknowledge that utilities need flexibility when holding rates steady for extended periods of time, and place trust in the guardrails to ensure that utility performance meets expectations.

[1] MA Docket DPU 22-22 Final Order. Retrieved from: https://www.eversource.com/docs/default-source/investors/nstar-electric-dpu-22-22-final-order-11-30-22.pdf?sfvrsn=c5739f9e_1
[2] HI Docket 2019-0085 Final Order 37387. Retrieved from: https://hpuc.my.site.com/cdms/s/puc-case/a2G8z0000007fF1EAI/pc21184

In jurisdictions that utilize fully forecasted rates, there is evidence of a stronger desire for detailed transparency [3] . Initial filings allocate more time to prudency determination of specific investments with longer timelines, as opportunities for oversight in the coming years may be limited to achieve the goals of regulatory efficiency. Under either construct, periodic rate adjustments should be applied routinely and efficiently.

The reporting mechanism for transparency matters. A structure that communicates information that provides Staff and stakeholders with the ability to review, and which promotes confidence, is paramount. Otherwise, a discussion on transparency becomes rhetorical and may lead to mischaracterization. The transition to integrated multi-year planning will give opportunities to streamline development, submittal, and stakeholder review of these existing materials in a more logical order than what is possible today under single-year ratemaking.

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

Either a forecasted MRP or indexed-based cap MRP framework could be designed to achieve these goals. PGE is open to either framework, as long as the appropriate mechanisms are in place to balance risks and benefits fairly between the utility and customers. The following table provides a comparison of forecast versus index-based mechanisms as a complement to PGE's response to Question 1. This table is presented to inform how these archetypes may differ with respect to the mechanism employed. Regardless of archetype, PGE believes that the MRP framework should allow for continuous refinement based on emerging issues and learnings.

[3] NY Docket 22-E-0064/5. Retrieved from: https://documents.dps.ny.gov/public/MatterManagement/MatterFilingItem.aspx?FilingSeq=310213&MatterSeq=67366

Index-based Cap MRP	Forecasted MRP	Common or Hybrid Attributes
Adjusts revenue annually based on a formula of pre-defined factors	*Revenue cap based on a utility's bottom-up cost forecast*	*Mechanisms that could be used in either archetype*
Indexed Attrition Relief Mechanisms (IARM): ○ Inflation factor (I-Factor) ○ Productivity factor (X-Factor) ○ Stretch factor (S-Factor) ○ Capital adjustment factor (K-bar) • Program/project trackers (typically special cases only)	• Program/project trackers for specific unpredictable and external costs (reconciled or deferred)	• Exogenous events (Z-factor/Y-factor; major events and storms) • Revenue decoupling • Power cost adjustment • Performance Incentive Mechanisms • Earnings Sharing Mechanism (ESM)

If an index-based cap MRP is adopted, then rates would be set according to a traditional cost-based revenue requirement in the first year of the period and adjusted in each remaining year of the period according to a formula established in advance of the MRP period, sometimes referred to as an attrition relief mechanism. To prevent a conflating of terms this mechanism is referred to as an Indexed Attrition Relief Mechanism (IARM). An IARM, which typically includes both indexed and fixed variables, should be designed to allow for revenue growth needed to support required investments and costly events beyond the utility's control. By setting a cap on overall price or revenue growth, this regulatory structure also provides an incentive for cost efficiencies. The following mechanisms are typically included in an IARM:

- **Inflation factor (I-Factor)**: A common, relatively simple adjustment factor to include in an ARM, the I-Factor is used to provide a minimum annual adjustment to keep up with inflation, which is fully outside a utility's control. A variety of external indices could be used, such as broad macroeconomic inflation measures (e.g., Consumer Price Index or GDPPI) or proxies for labor inflation (e.g., Employee Cost Index). Some utilities use a weighted composite index accounting for labor and non-labor cost increases. Regional indices for the Northwest should be used, where applicable.
- **Productivity factor (X-Factor)**: A measure of industry productivity; the X-factor is typically set through a total factor productivity study, which uses empirical data to evaluate historical trends from a sample of electric utilities.
- **Stretch factor (S-Factor):** Sometimes called a consumer dividend, a stretch factor is an additional variable that can be employed in an ARM to promote additional productivity

gains and transfer to customers a portion of the utility's profits resulting from expected efficiency gains.

- **Capital adjustment factor (K-bar):** A capital adjustment factor, or "K-bar," is an indexing tool to designate a revenue amount for cost recovery of new capital expenditures, which is critical to account for large capital investment requirements that utilities face to replace aging infrastructure, increase capacity, and modernize the electric grid – all of which are needed to meet Oregon's energy goals. Utilities are amid a major transformation of the energy system, which has been driving and will continue to drive capital investment to support electrification, improve resilience, and enable a modern and dynamic grid that integrates DERs.
- **Exogenous factors:** Sometimes called a Z-factor for one-time costs or Y-factor for ongoing costs, provide revenue in the event of exogenous, unforeseen events that have a material impact on costs or revenue. Exogenous events can include natural events such as wildfires or major storms, economic changes such as the effects of a recession, and major public policy impacts, such as tax law changes. PGE offers the following for possible recovery under an exogenous cost factor:
    - Major storm costs;
    - Government policy changes or tax law changes;
    - Judicial, legislative, or administrative changes, orders, or directions;
    - Major environmental events (e.g., a major seismic event, flood, wildfire, pandemic);
    - Major labor disruption or supply chain event;
    - Acts of war, terrorism, or violence;
    - Changes in accounting treatment, standards, or policies; and
    - Changes in revenue requirements due to regulatory decision
- **Growth factor (G-factor):** Some index formulas include a growth factor (G-factor) to adjust changes in the number of customers. This is meant to recover costs that scale with additional customer accounts and can be included to reflect uncertainty at the time that going-in rates get set for the total system size to be served by the utility.
- **Special trackers:** In some cases, special trackers may be needed to account for variable or unpredictable costs, where indexed or formulaic factors cannot be easily or appropriately calibrated.

If a forecasted MRP is adopted, then revenue will be set based on detailed cost forecasts for projected operating expenses, capital investments, depreciation, and taxes for each year in the MRP period. Forecasted MRPs directly reflect expected utility costs, which is arguably more grounded to actual utility operations than setting revenues based on exogenous factors, especially given the large, lumpy capital investments necessary to continue to modernize the grid and expand capacity to support the energy transition. Given that cost forecasts are used to set revenue, fewer

adjustments and mechanisms are needed in this archetype. However, mechanisms are needed to account for exogenous costs and pressures beyond the utility's control, including the following:

- **Storm recovery mechanism**, which funds and maintains a storm reserve for anticipated storm recovery expenses and allows for reconciliation above a materiality threshold.
- **Program or project trackers for unpredictable costs**, such as the Renewable Resource Automatic Adjustment Clause
- **Reconciliation mechanisms for specific variable and externally imposed costs**, including pension and other post-employment benefits and uncollectible expenses. Reconciliation mechanisms could be designed to adjust costs within the term of the plan or be deferred for recovery in the next rate plan.

Regardless of the overarching archetype, whether an index-based cap or forecasted MRP, additional mechanisms can be used to provide risk insulation and incentivize performance, including:

- **Revenue Decoupling**, which removes the link between electricity consumption and utility revenue
- **Fuel cost adjustments**, which removes the link between market pricing and utility revenue
- **Performance incentive mechanisms (PIMs)**, metrics that align utilities' incentives with policy and customer outcomes, can be added with either archetype
- **Earnings Sharing Mechanism (ESM)**, in which a utility shares a portion of over- or under-earning outside the authorized ROE with customers

4. What specific aspects of Oregon's ratemaking frameworks are working well? What specific areas do you see as high impact opportunities to improve?

In PGE's recent rate case, UE-435, the Commission explicitly stated that, despite imposing discipline on operating expenses, a rate increase was necessary to cover prudent capital PGE invested to maintain system safety, reliability, and to reduce customer exposure to volatile power purchases. The Commission approved a tracker for battery projects, recognizing major investments that address capacity needs acknowledged in PGE's Integrated Resource Plan (IRP). Additionally, the existing major maintenance accrual (MMA) mechanism continues to "work well" by smoothing out "lumpy" maintenance expenses for generation plants, ensuring customers pay consistent rates rather than seeing material swings year-to-year. Oregon's use of Automatic Adjustment Clauses (AACs) and Renewable Resource Automatic Adjustment Clauses (RAACs) represents a well-designed component of the current framework that should be preserved. These mechanisms are highly effective at aligning incentives by reducing regulatory lag in critical, volatile areas such as wildfire mitigation and renewable energy investments. As the OPUC

transitions to an MRP, the potential for pronounced regulatory lag increases; therefore exploring how these existing tools can play a more pivotal role within a MRP framework is a high-impact opportunity.

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

A flexible framework is necessary to accommodate the different rate case stay-out tolerances and jurisdictional considerations for each utility. Each utility has unique needs and capital expenditures required to meet its obligations. Addressing those needs, more comprehensively, between now and the first multi-year filing, presents an opportunity to lay the groundwork for the future. Categorizing projects as routine or non-routine, compliance or innovation driven, may be helpful to establish the appropriate level of scrutiny applied to ensure recovery.

For example, the Alberta Utilities Commission utilizes a two-tier approach to define and fund capital expenditures during a performance-based regulation cycle. The two types of capital projects are defined as follows:

- Type 1 Capital: These are extraordinary investments that are outside of normal operations. To be approved under this category, a project must meet a materiality threshold of a 0.01% impact on the utility's Return on Equity (ROE). Additionally, the utility is required to consider operating expenditure alternatives for these projects rather than defaulting to a capital-intensive solution.
- Type 2 Capital: This refers to "other" capital, generally covering routine or "business as usual" investments that do not meet the extraordinary criteria of Type 1. These are funded via a K-bar mechanism based on a five-year historical average of capital spending, which is then adjusted for customer growth and a productivity factor to ensure cost containment

Within the project categorization process there is a need to promote innovation if utilities are to evaluate, measure, and verify the benefits of new technologies and fully realize customer benefits. In Hawaii an Innovation Pilot Framework (IPF) that incentivizes and fast-tracks pilots and new service offerings that go beyond traditional utility operations, provides dedicated cost recovery and regulatory attention for pilot projects subject to Commission oversight and an annual pilot spending cap. The IPF enables Hawaiian Electric to propose pilots that are collaborative, data-driven, and innovative, with an expectation of clear metrics and evaluation criteria.

Beyond categorization there is a need to prioritize projects in a manner that also promotes flexibility and addresses calls for transparency. A portfolio-based benefit-cost-informed decision-making approach, with clear criteria, and capital adjustment mechanisms (e.g., K-bar) is also necessary to advance toward a MRP framework. Without categorization and prioritization there

exists unclear risk balancing which does not support revenue nor rate stability. For example, the WUTC supports a portfolio approach to provisional plant review, emphasizing the value of allowing Puget Sound Energy to "adaptively manage" its investment plan while ensuring customers pay only for used-and-useful plant in the aggregate. An Investment Decision Optimization Tool (iDOT) is described as a portfolio-level screening and prioritization framework. The evaluation criteria, including quantitative and qualitative benefits, consistently fall into the following categories: Safety, Reliability & Resilience, Affordability / Customer Value, Decarbonization & Clean Energy Alignment, Equity & Distributional Impacts, Regulatory & Policy Compliance, Financial & Execution Risk and Strategic Optionality / Flexibility.

Conclusion

PGE appreciates the effort of Staff, Current Energy Group (CEG), Regulatory Assistance Project (RAP), Rocky Mountain Institute (RMI), and stakeholders to provide foundational knowledge of multi-year ratemaking and performance-based regulation to parties. We look forward to continued dialogue with all parties during this process.

Sincerely,

Jason Salmi Klotz

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