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August 21, 2026

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street S.E., Suite 100
P.O. Box 1088
Salem, OR 97308-1088

RE: AR 676 –Portland General Electric, Track 1 O&M Cost Category Pre-Read

Dear Filing Center:

Intro

Portland General Electric (PGE) appreciates the opportunity to provide this pre-read on the treatment of operations and maintenance (O&M) costs under a multi-year rate plan (MRP) framework. Staff's workplan asked the utilities to prepare this pre-read as an informative overview that also covers the following items related to O&M costs:

- Setting of going-in rates
- Relationship to utility planning dockets
- Limitations related indexing and other adjustments
- Use of deferrals and balancing accounts
- PIMs
- Rebasing
- Standardization and what a utility must file
- The regulatory pathway

Accordingly, PGE divided this Pre-Read into three sections:

1. Foundational overview.
2. O&M costs relationship to MRP elements.
3. Standardization and the regulatory pathway.

PGE has attempted to make this material accessible to all stakeholders and includes illustrative scenarios where possible. However, this Pre-Read does explore more complicated regulatory concepts in an attempt to address all of Staff's issues. Regardless, PGE's goal is for this Pre-Read to be informative while leaving space for stakeholders to form their own opinions on important MRP concepts. Finally, PGE views the organization and content of this Pre-Read as a trial run, so we look forward to suggested improvements for future Tack 1 Pre-Reads.

Part 1 – Foundational Information

O&M Overview

O&M costs are the ongoing expenses required to operate, maintain, and support the utility system. O&M costs generally keep the existing system running safely and reliably, but do not create long-lived assets. Capital costs are investments in infrastructure, equipment, and other long-term assets,

including the betterment or modification of existing fixed assets. In both cases PGE follows generally accepted accounting principles (GAAP), along with federal and regulatory reporting that has been specified by Federal Energy Regulatory Commission (FERC).

O&M costs can be grouped by FERC functional category and can be broken down into more specific account level details. The functional categories cover a wide range of activities, including labor and non-labor costs. Below is a list of just some O&M Functional Categories and a range of their associated FERC accounts. It is not comprehensive.

O&M Group by FERC Functional Category	FERC Accounts
Production O&M	5010010 Steam Operation Fuel Handling 5060001 Steam Operations Miscellaneous Expense 5140001 Steam Plant Maintenance Miscellaneous.
Power Operations O&M	5570001 Power Supply Expense-Power Operations 5570002 Operations Supervision & Engineering 5570003 Power Supply Miscellaneous Expense
Transmission O&M	5600013 Transmission Operations-General Supervision 5600014 Transmission Engineering & Design 5612001 Load Dispatch Monitoring & Operation 5613001 Load Dispatch-Transmission 5620001 Station Expense 5630001/5630002/5630003 Overhead Line Expense 5700001 Substation Equipment Maintenance 5710001/5710002/5710004 Overhead Line Maintenance
Distribution O&M	5800013 Distribution Ops-General Supervision 5800014 Distribution Ops-Engineering & Design 5810001 Load Dispatching 5820001 Substation Expense 5830001 Overhead Line Expense 5840001 Underground Line Expense 5860001 Meter Expenses 5880001 Misc Distribution Expense 5920001 Substation Equipment Maintenance 5930001 Overhead Lines Maintenance
Customer Accounts	9020001 Meter Reading Expense 9030001 Customer Records & Collections 9040001 Uncollectible Accounts Expense 9050001 Miscellaneous Customer Accounts Expense
Customer Service	9080001 Customer Assistance Expense 9090001 Informational Advertising Expense

These FERC O&M accounts would correspond to the O&M recovered in base rates. As an example, the table below provides the O&M amounts PGE is requesting in the most recent general rate case, UE 473, organized by functional category.

Category	Previously Approved (Millions)	UE 473 Amount (Millions)
Production O&M	$ 143	$ 167
Transmission O&M	$ 22	$ 30
Distribution O&M	$ 201	$ 195
Customer Service O&M	$ 99	$ 84
A&G O&M	$ 185	$ 268
Other Taxes / Francise Fees	$ 228	$ 253
Income Tax	$ 116	$ 137

Most O&M in base rates could be addressed under an indexed revenue cap when the costs are recurring, controllable, and reasonably represented by the approved formula.

Below is a listing of some of PGE's activities and programs that are currently funded outside of a general rate case via a deferral or other charge. The table below includes the schedule number and recent annual costs for each activity or programs.

Tariff	**2024**	**2025**	**2026 (Includes a forecast element)**
Schedule 103, Metro Supportive Housing Services Business Income Tax	$ 1,400,000	$ 1,049,000	$ 614,402
Schedule 106, Multnomah County Business Income Tax	$ 273,789	$ 1,175,000	$ 666,241
Schedule 115, Low Income Assistance	$ 12,110,514	$ 12,110,514	$ 21,850,713
Schedule 18 & 118, IQBD & Arrearage Forgiveness	$ 40,700,000	$ 60,300,000	$ 73,300,000
Schedule 135, Demand Response Cost Recovery Mechanism	$ 11,736,000	*- Two Year Budget -*	$ 15,963,000
Schedule 136, Oregon Community Solar Program Cost Recovery Mechanism	$ 1,940,817	$ 4,775,921	$ 6,736,977
Schedule 150, Transportation Electrification Cost Recovery Mechanism	$ 7,310,000	$ 8,444,000	$ 7,870,000
Schedule 153, Community Benefits and Impact Advisory Group Cost Recovery Mechanism	$ 287,454	$ 294,842	$ 290,000

We appreciate Staff calling out that activity and program costs may require a separate analysis because the variability of these costs can be outside the utility's control. Placing these schedules under the index involves tradeoffs Generally, the cost trajectories of these programs and activities

do not reliably track general inflation. In some cases, they can apply only to subset of customers, like the Multnomah County taxes.

Scenario

Schedules 18 & 118 are included "under" PGE's 5-year, revenue capped, formula index.

Participation in PGE's IQBD program has grown year-over-year, from 69,000 participants in Jan. 2024 to nearly 110,000 today. PGE also expanded the financial support provided in some of the IQBD tiers during that time. Consequently, annual costs have grown from ~$40 million in 2024 to over $70 Million in 2026. Putting the IQBD under the MRP index creates financial incentives for PGE to control costs. To strike a balance between IQBD growth and MRP cost-containment the Commission could: (a) create an IQBD PIM or performance metric encouraging PGE to grow IQBD but find funds for that growth elsewhere in PGE's budget; (b) normalize low-income support costs during the MRP's going-in process so it rises faster than inflation; (c) consider a balancing account for costs above the going-in levels; or, *others?*

Drivers of O&M Costs

On-going stable vs. variable (lumpy) costs: Drivers of O&M growth are not monolithic. Beyond economy-wide inflation things like maintenance cycles, labor rates, technology costs, and customer-program treatment, can drive O&M costs. Investments themselves can create or avoid O&M. For example, PGE added new battery storage to its system. Accordingly, PGE's current rate case requests an additional $5.7 Million in O&M.

Policy-Dependent Costs: Policy related changes can impact expenses beyond utility control. New laws or requirements can come from state, federal or NERC or other entities. Tax increases or cuts, like the Oregon Commercial Activities Tax (OCAT) or the Tax Cut & Jobs Act of 2017, immediately impact PGE's revenues. A mix of operational, climate-driven, and new policies require more Wildfire Mitigation activities, while increasing NERC requirements for system and cyber security impact IT costs.

Plant (Rate Base) Driven Costs: O&M costs reflect other activities. Take the property taxes PGE pays. (These are a subset of "Other Taxes" under FERC# 408.1) PGE's property taxes increased from $99.8 Million in 2025 to $137.6 Million in 2026. Here's a quote from UE 473 explaining this increase in that specific O&M Cost.

Q. What is driving the increase in property taxes from 2025 to the Test Year?

A. The increase in property taxes from $99.8 million in 2025 to $137.6 million in the Test Year is due primarily to an increase in forecasted net plant value that impacts PGE's Oregon property tax. Additionally, the assumption for estimating Clearwater property taxes in the Test Year compared to the amount in 2025 is driving an increase to Montana property taxes.

Scenario

PGE's Demand Response Program doubles in size and cost to $32 Million due to program activity and new technology driving higher enrollments and participation.

PGE wants to pursue as much cost-effective demand response as possible. The immediate benefit from demand response comes from avoided power costs. However, these saving sit outside the MRP Framework's index and revenue cap. Forcing Demand Response under the index creates an internal tension. PGE may seek to limit program growth, despite the potential financial benefit of even lower power costs. To address this bind, the Commission could: (a) allow for a deferral to track costs beyond the Program's annual budget and allow an annual true-up; (b) create an upside PIM or performance metric tied reducing a targeted % of peak or achieving the IRP forecast; (c) encourage moving Demand Response programs into the Power Costs dockets and out from the index all together; or, (d) *others?*

Part 2 – O&M and MRP Elements

The workings of the various MRP elements will have a material impact on the approach and treatment of O&M costs. In the section below, PGE discusses its perspective on how certain MRP elements may interact with O&M costs.

Exceptions/ Reopeners/ Off-ramps/ Z-Factor

A durable MRP framework will need mechanisms that distinguishes between (a) relatively foreseeable cost changes from (b) costs driven by unforeseen events, failed assumptions, or policy changes. Exceptions, Reopeners, Off-ramps, and the Z-Factor have been identified as tools to mitigate and balance certain types of cost risks under an MRP.

PGE proposes the following definitions for discussion:

- **Exception**: Relief from an MRP rule or filing requirement based on utility-specific circumstances and a showing of good cause.
- **Reopener**: A targeted review of an approved MRP component when a material assumptions underlying that component proves inaccurate or materially changes, while the remainder of the MRP remains workable. A reopener addresses a failed assumption or component when a targeted repair is feasible. An example would be that Oregon adopts an expensive, new cybersecurity requirement that must be implemented within a year.

- **Off-Ramp**: A mechanism allowing the Commission to terminate, suspend, or substantially reset an MRP when the plan is no longer producing reasonable outcomes or utility or ratepayer interests are at substantial risk. An off-ramp would function as a last-resort response when the MRP as a whole is no longer viable.
- **Z-Factor:** An adjustment triggered by a material exogenous event outside utility control that was not reasonably anticipated when rates were established. PGE's current extreme event deferral triggered by the Governor declaring an emergencies could serve as an example. Outside of Oregon, Hawaii's Z-Factor was triggered by the terrible Maui wildfires.

The rules or AR 676 orders should establish the definitions and procedures needed for these elements to be used. These definitions and procedures should address questions of materiality, evidence, scope of review, customer and utility impacts, and whether a narrower remedy is adequate. To this end, PGE appreciates Staff's inclusion of a Z-Factor as an index cannot reasonably be expected to account for the financial consequences of rare, severe, or extraordinary events. As an example, PGE's existing storm deferral framework provides a mechanism to defer costs related to major events that are designated through a Governor-declared state of emergency (e.g., the February 2021 and January 2024 storms events.)

Performance Incentive Mechanisms (PIMs)

PIMs address, and in some cases could drive, the outcomes of utility activities. While the revenue cap creates an incentive to manage O&M costs, PIMs provide a layer of accountability and transparency. PGE encourages the development of PIMs to ensure that cost-containment activities do not lead to negative impacts on reliability, safety, or customer service. PGE does have concerns about Staff's currently proposed outcome-based PIMs ultimately driving up total ratepayer costs. Targeted performance metrics may serve ratepayers better than outcome-based PIMs that could reward unnecessary spending.

Scenario

The outcome-based PIM for CBRE's provides PGE an additional 50 basis points on the upside of the company's earnings-sharing mechanism deadband if the total amount of executed CBRE Power Purchase Agreements (contracts) exceeds the IRP's identified CBRE goal by 2035.

This type of upside PIM may entice PGE to more aggressively pursue CBREs, however the total cost to ratepayers should raise concerns. CBRE's are unfortunately more expensive than utility-scale renewables, with fewer developers and – based on PGE's recent Request for Information (ROI) – fewer projects. CBRE contracts are executed under power cost filings, outside the MRP index, as PGE-ownership of these project seems counter to the community focus of the resource. This creates a reliance on outside parties to bring PGE projects.

Overall, PGE believes that with PIMs the relevant question is whether a measurable outcome is materially substantially within utility control and should avoid creating incentives tied to factors that utilities cannot reasonably influence. We look forward to exploring PIMs and such topics as detailed metrics, targets, and incentive/penalty values in Track 3.

Adjustment factors

The Commission adopted Staff's proposed adjustment factors of:

- Inflation (I-Factor)
- Productivity (X-Factor)
- Stretch (S-Factor)
- Growth (G-Factor)
- Extraordinary Events (Z-Factor)

PGE sees the I-, X-, and S- Factors primarily governing O&M cost "productivity," while the G- and Z- Factors provide mechanisms to recognize operating cost changes that arise from growth or extraordinary external events. The G-factor would be the component most directly intended to recognize those scaling O&M costs.

An X-factor effectively assumes that some portion of PGE's O&M costs should be delivered more efficiently over time than the national economy, reducing the revenue increase otherwise produced by inflation. From PGE's research establishing an X-Factor generally requires a Total Factor Productivity study benchmarking the utility sector's productivity relative to the state/regional economy.

Supplemental Capital Funding Mechanism (SCFM)

The SCFM should include associated incremental O&M when a qualifying capital investment creates material operating expense. Where the process of O&M cost normalization cannot appropriately reflect the timing and stepwise increase in the amount of O&M, the SCFM may be more appropriate for cost recovery.

Scenario

In the third year of the five-year MRP PGE completes a large transmission project and the OPUC allows the capital costs to go into the SCFM. This project generates a $9 Million increase in O&M and a $15 Million increase in property taxes – also an O&M cost – in years four and five of the MRP.

The process to set the going-in rate for PGE's MRP would have great difficulty in capturing future increases in O&M costs due to a large new capital project. While some increases in O&M can be absorbed under the index, large stepwise increases create risks and, if large enough, could even push utilities to consider delaying needed investments. Developing criteria that allows for some new O&M costs to go into the SCFM, until the next MRP filing, or to use a deferral may represent a balanced approach to address risks around new O&M costs and administrative burden.

Non-MRP: Deferrals & Balancing Accounts

Deferrals and balancing accounts are not rendered obsolete by an MRP, but PGE agrees they should become limited and targeted. These regulatory tools remain potentially appropriate when a cost is not reasonably represented by going-in rates or other drivers outside reasonable utility control drives their increase. Additionally, for long-duration MRPs the going-in rates can become less accurate as time passes. In specific instances these tools help ensure customers pay the right amount, for the right costs, at the right time and avoid distorted rate outcomes.

Scenario

PGE has experienced high-load growth for the first three years of the MRP. Year 4 begins with a cold winter and little wind. To safely serve this higher load, keep emissions low, and avoid a reliability backstop PIM that carries a large penalty, PGE greatly increases its charging and dispatching of its fleet of batteries, triggering the need for much more maintenance.

Generation resources have a long-term service agreements that cover Major Maintenance Accrual (MMA) at specific intervals. These agreements have contractual obligations for expensive maintenance and outage requirements tied to hours of operation. This can create large bumps in O&M costs for a single year. Postponing this work can create reliability risks. Also, these plants generally have only a single option for an OEM to do this work, creating limited negotiation power for the utility. Should the marginal increase in Year 4's large O&M costs be eligible for a deferral?

Going-In Rates

PGE supports establishing the initial O&M costs for the going-in rates through a traditional rate case process. A rate case type process provides the evidentiary record necessary to:

- evaluate historical and forecast information;
- review supporting workpapers;
- assess prudence;
- evaluate utility-specific circumstances; and
- consider normalization adjustments.

With regards to the methodology for going-in rates, PGE would stress that allowing for normalization process supports the MRP framework. As the purpose of going-in rates is to establish a representative starting point from which future MRP adjustment mechanism will operate, normalization can more fairly establish recurring and sustainable cost levels for the applicable rate year. For example, under a five-year MRP, going-in O&M should reflect a normalized level of spending based on representative historical experience, as is currently done for storm response and restoration activities for Level 3 storm costs.

Part 3 – Standardization and Regulatory Pathway

PGE supports standardization where it improves transparency, efficiency, and consistency. The approach to standardizing the MRP Framework should recognize that different decisions belong in different regulatory forums. A layered regulatory structure provides the appropriate

balance between consistency and flexibility. The table below posits PGE's position on how a layered regulatory structure would work for rules and orders around O&M Costs.

Regulatory level	Appropriate Role for O&M
Administrative rules	Definitions; minimum filing content; procedural transparency; broader circumstances of MRP element applicability.
AR 676 Commission orders	Decision principles; standardization criteria; development of methodologies; eligibility criteria for deferrals; PIM linkages.
Utility MRP filing and order	PGE-specific O&M amounts, normalization, proposed mechanisms, evidence, and Commission findings on category treatment.

Scenario

The OPUC and Stakeholders agree that going-in rates can allow for the reasonable normalization of costs.

PGE's would argue that the allowance for normalization could be in rules, but that the specific criteria and methodology for its use would be more appropriate in Commission orders. This regulatory approach would somewhat mirror the rulemaking for energy efficiency avoided costs, AR 621 which became OAR 860-030-0011. The OPUC established rules around avoided costs with definitions and broad parameters, but pointed to a Commission-approved reporting form for annual completion. The Commission then established docket UM 1893 to annually update and post that revised form.

With regards to the regulatory pathway for MRP elements, AR 676 should try to distinguish between what the OPUC wants the utility to accomplish, and the regulatory mechanism most appropriate for accomplishing it. The table below presents PGE's perspective on some O&M cost "situations" and the optimal regulatory pathway.

O&M situation	Primary regulatory pathway	Why
Recurring, predictable O&M	Going-in rates with the application of the index	Ordinary O&M should be embedded in the MRP and managed through normal cost discipline.
Recurring, but variable, O&M	Going-in rates using an agreed upon normalization process (i.e., averaging) that then has the MRP index applied	Somewhat variable O&M costs (e.g., Level 3 storms costs) should still be embedded under the MRP index, but the variability risks spread over time.
Inflation-driven changes	I-X-S+G formula	The MRP formula anticipates broad changes in the revenue requirement.
Planned future O&M from a new asset	SCFM-linked treatment, annual adjustment, or agreed upon step-wise increase once investment is in service	The cost is foreseeable and capital driven, not a Z-factor event.

O&M situation	Primary regulatory pathway	Why
Customer-program growth not represented by inflation	Balancing account for costs above forecast	Reconciles authorized and actual eligible amounts when participation is the driver.
Commission-directed program after MRP adoption	Deferral or balancing account	Allows actual eligible costs to be considered without speculative activities.
Material unforeseen exogenous event	Z-factor	Addresses a discrete event outside utility control without reopening the entire plan.

In short, PGE would assert that the proper treatment of individual O&M categories should be determined in utility-specific MRP proceedings based on the record developed in those proceedings.

Conclusion

PGE supports an MRP framework that recognizes O&M costs as a diverse set of cost categories with different drivers, planning considerations, and regulatory treatment. O&M growth is not monolithic, and many categories are influenced by factors beyond general inflation, including capital investment, maintenance cycles, technology deployment, public policy requirements, and customer-program participation.

PGE finds that a layered regulatory structure balances consistency with flexibility. Administrative rules should establish common definitions, filing requirements, procedural expectations, and safeguards against duplicate recovery. Commission orders should establish implementation principles and guidance, while utility-specific O&M treatment should be supported through individual MRP filings and determined through utility-specific MRP orders. This approach provides transparency and consistency where appropriate while preserving the flexibility necessary to address differing utility circumstances, evolving policy requirements, and changing operating conditions over the life of an MRP

Please direct questions to JP Batmale at jp.batmale@pgn.com and all formal correspondence and requests to pge.opuc.filings@pgn.com.

Sincerely,

\s\ Jason Salmi Klotz

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