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VIA ELECTRONIC FILING

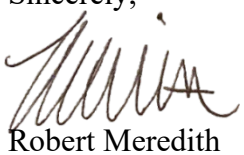
Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Salem, OR 97301-3398

Re: AR 676–PacifiCorp's Pre-Read: Track 1: Electric Distribution - Cost Information

PacifiCorp d/b/a Pacific Power (PacifiCorp) respectfully submits the following document in response to Staff's request for a pre-read related to Track 1 of Docket No. AR 676, Rulemaking to Establish Multi-Year Plan Framework.

If you have any questions about this filing, please contact Amira Thompson, State Regulatory Affairs Manager, at (503) 260-4420.

Sincerely,



Robert Meredith
Director, Regulation

Enclosures

DOCKET NO. AR 676

Rulemaking to Establish a Multi-Year Rate Plan Framework (HB 3179 & SB 688)

Track 1 Utility Pre-Read — Distribution Capital

Treatment of Cost Categories — Utility Perspectives and Major Considerations

1. Overview and Purpose

This pre-read presents PacifiCorp's perspective and the major considerations that should frame the Track 1 workshop discussion of how distribution capital could be treated within a multi-year rate plan (MYRP). It is organized around the six focus areas Staff identified: (i) going-in rates; (ii) current timelines and relevance to utility planning dockets; (iii) limitations related to indexed adjustments; (iv) use of deferrals and balancing accounts; (v) performance incentive mechanisms (PIMs); and (vi) rebasing.

PacifiCorp's central message for distribution capital is that it cannot be treated as a single, uniform block. A workable framework sorts distribution capital by its nature and routes each type to the tool best suited to recover it: predictable, recurring investment belongs within the index; policy-driven mitigation capital already has a dedicated mechanism outside the plan; recurring-but-variable costs can be normalized into the base and escalated by the index, with an exogenous-event backstop; and unique, extraordinary projects belong in a supplemental capital funding mechanism with used-and-useful review.

Three concrete examples — discussed in Section 4a below — illustrate the point: (1) wildfire mitigation capital recovered outside the MYRP; (2) major storm costs normalized into the index; and (3) a unique, extraordinary project such as the Willamette River Crossing.

Guiding principles for distribution capital

- Preserve a reasonable opportunity to recover prudently incurred plant and earn the authorized return (ORS 756.040; ORS 757.335).
- Match each type of distribution capital to the right tool — index, dedicated automatic adjustment clause (AAC), or supplemental capital mechanism — rather than forcing all capital through the formula.
- Recognize that major projects are not "formula-shaped" and will under-recover if smoothed into a CPI-based step.
- Avoid double recovery: capital recovered through a dedicated mechanism must be netted out of going-in rates and the index, and honored at rebasing.

2. Going-In Rates

"Going-in rates" are the base rates and revenue requirement — including rate base, accumulated depreciation, and the authorized return — in effect at the start of the MYRP term. Because distribution capital sets the rate-base foundation on which the return is earned, and because the index escalates from that base over a five-year term, establishing the opening plant balance accurately is essential to the integrity of the plan.

- **Set through a traditional, fully litigated proceeding.** Going-in rates should be established through a general rate case (or the initial year of the MYRP filing) using conventional cost-of-service methods, so the opening rate base rests on a complete, tested record before the formulaic adjustments begin.

- **Ensure revenue sufficiency at the outset.** If the going-in plant balance understates the utility's cost of service, the error compounds across the term because the index escalates from that base. Accurate going-in rates protect both customers and the utility's financial integrity.
- **Reflect known and measurable changes.** The going-in revenue requirement should incorporate the most current information available — new depreciation studies, updated interjurisdictional allocation methodologies, and major distribution additions expected to be in service.
- **Net out separately recovered capital.** Distribution capital already recovered through a dedicated mechanism (e.g., wildfire mitigation capital via the UM 2207 automatic adjustment clause) must be excluded from going-in rates so customers are not charged twice.

3. Current Timelines and Relevance to Utility Planning Dockets

Distribution capital does not enter rates in isolation. Its size and timing are driven by the utility's core planning and cost-recovery proceedings, and alignment across those dockets is necessary to avoid gaps in cost recovery and to keep going-in rates and index inputs current.

Relevant Milestone / Docket	Relevance to distribution capital
WMP / UM 2207 (wildfire)	Wildfire mitigation capital is excluded from the index and recovered through Oregon's dedicated annual mechanism; eligible projects are removed from the GRC.
UE 470 (2027 GRC)	Establishes the current distribution rate base including the Willamette River Crossing — that would feed the first going-in rates.
AR 677 (MYRP schedule)	Staff's proposal places PacifiCorp's first MYRP filing in 2028 (filing year, not necessarily rate-effective year), anchoring the first going-in and rebasing cycle.

4. Limitations Related to Indexed Adjustments

Under the Phase 1 framework, annual revenue is adjusted by the index formula I – X – S + G + Z (inflation, productivity offset, stretch factor, customer growth, and exogenous events), supplemented by a separate capital funding mechanism for large or extraordinary capital outside the index. Indexing works well for the predictable base of distribution costs, but it has real limitations for capital.

- **Major capital is not "formula-shaped."** Large distribution investments are lumpy and often policy or event-driven. They cannot be smoothed into an annual CPI-based step without either under-recovering prudent costs or creating liquidity strain.
- **A supplemental capital funding mechanism is essential.** PacifiCorp supports a structured mechanism for major capital additions above a materiality threshold (e.g., total investment exceeding $50 million), recovered on actual costs and actual in-service dates to capture major distribution plant the index cannot accommodate.
- **Preserve an exogenous-event (Z-factor) path.** Catastrophic, non-routine events (e.g., a major storm, earthquake, fire, tsunami) behave more like exogenous events than ordinary index inputs; the framework must retain a Z-factor or deferral release valve so the index can stay ministerial for normal conditions.

4a. Illustrative Treatment of Distribution Capital — Three Examples

The following three examples show why a single cost category should be routed to three different tools. Forcing all distribution capital through the index alone would systematically under-recover the lumpy, policy-driven investment that can be a significant part of the company's actual spend.

Example	Nature of the cost	Recovery tool under the MYRP
1. Wildfire mitigation capital	Policy-driven, non-routine mitigation (covered conductor, pole replacements, undergrounding).	Outside the MYRP — recovered through the dedicated wildfire AAC; removed from the GRC and netted out of the index.
2. Major storm costs	Recurring but variable restoration expense; frequency and severity rising.	Within the index — normalized into the going-in base and escalated by the formula; Z-factor/deferral backstop for catastrophic storms.
3. Willamette River Crossing	Unique, extraordinary, externally mandated capital (approximately $200 million; EPA Portland Harbor Superfund-related).	Supplemental capital mechanism — recovered on actual cost and in-service date above a materiality threshold, with used-and-useful review and true-up at rebasing.

Example 1 — Wildfire mitigation capital: handled outside the MYRP (out of rates).

Wildfire mitigation distribution capital is the clearest case of investment that should stay outside the indexed framework. Oregon already has a dedicated annual mechanism — the Wildfire Mitigation Plan automatic adjustment clause (AAC) — for recovering wildfire mitigation capital located in Oregon, so eligible projects are removed from the general rate case and recovered through that separate AAC. The practical implication for the MYRP is that going-in rates and the index must be built net of WMP-eligible capital, and rebasing must not double-count plant already recovered through the AAC.

Example 2 — Major storm costs: normalized into the base and moved by the index.

Major storm restoration is a recurring but inherently variable distribution cost that fits a normalization approach — averaged into the going-in level and then escalated through the index (I – X – S + G + Z), rather than given its own tracker. PacifiCorp already normalizes this exposure through general rate cases by including a level of capital additions associated with storm replacements based on historical experience. A genuinely catastrophic, non-routine storm is closer to an exogenous "Z-factor" event than an ordinary index input, so the framework should preserve a Z-factor or deferral path for extraordinary storms rather than assuming the averaged base and the X/S factors will absorb them.

Example 3 — Willamette River Crossing: unique, extraordinary capital for the supplemental mechanism.

The Willamette River Crossing is the textbook case of distribution capital that is not "formula-shaped." It was a roughly $200 million project that replaced the only distribution line connecting east and west Portland, installed via horizontal directional drilling approximately 200 feet beneath the contaminated riverbed, and mandated by the EPA as part of the Portland Harbor (River Mile 11) Superfund cleanup. A single project of this size — non-recurring, externally driven, and far above a materiality threshold like California's Post-Test Year Adjustment Mechanism's (PTAM) $50 million threshold — cannot be smoothed into an annual CPI-based index step without under-recovering prudent costs or straining liquidity.

PacifiCorp's proposed treatment tracks its PTAM model: recover the Oregon-allocated share on actual cost and actual in-service date, with used-and-useful review preserved. Under an MYRP, a project like this that arises mid-term is precisely what the supplemental capital mechanism (or a capital deferral) exists to capture, so it can proceed without waiting for rebasing at the next plan.

5. Use of Deferrals and Balancing Accounts

- Any additional deferrals, balancing accounts, or automatic adjustment clauses could be proposed for any extraordinary changes that might arise because of policy changes that occur mid-way through a MYRP. This could be something like a material federal tax law change.

6. Performance Incentive Mechanisms (PIMs)

PIMs can complement an MYRP but are difficult to design well. For distribution capital, the PIM area that touches capital most directly is asset utilization, which PacifiCorp would carefully guardrail.

- **Do not discourage needed investment.** An asset-utilization target must be within the utility's control and limited in size; a poorly-set metric could work against building the distribution and transmission capacity required for long-range growth and HB 2021 compliance.

7. Rebasing

Rebasing resets the revenue-requirement baseline — including distribution rate base and accumulated depreciation — at the start of each new MYRP term, so rates realign with the utility's actual, prudently incurred plant in service rather than the escalated forecast carried through the prior plan.

- **Rebase to a fresh, tested cost of service.** At each new plan, the baseline should be re-established through a full review so accumulated divergence between forecast and actuals is corrected.
- **Pair rebasing with a balanced true-up of provisional capital.** Where provisional or forecasted distribution capital is reflected in rates during the term (including supplemental-mechanism recovery of projects like the Willamette River Crossing), a balanced review should reconcile forecast to actual at rebasing.
- **Preserve continuity of cost recovery.** Rebasing should not disallow prudently incurred capital already recovered through deferrals or AACs (such as WMP-eligible plant) during the term; the mechanism should reset the base cleanly while honoring recovery determinations already made.
- **Keep the process administratively efficient.** The rebasing review should be scoped to the most significant contested capital matters.

8. Summary of PacifiCorp's Position

Distribution capital is one cost category with three distinct profiles, and a workable MYRP treats each accordingly: wildfire mitigation capital occurs through the automatic adjustment clause outside the plan; recurring storm costs are normalized into the base and move with the index, with a Z-factor or deferral backstop for catastrophic events; and unique, extraordinary projects like the Willamette River Crossing can be recovered through a supplemental capital funding mechanism with a used-and-useful review and an actual-cost true-up at rebasing. Throughout, the framework must preserve revenue sufficiency, reduce regulatory lag, avoid double recovery, and retain the flexibility to adapt to extraordinary circumstances.