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September 18, 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 Company Comments on MRP Adjustment Mechanisms

Dear Filing Center:

PGE provides the following comments on the G and Z factors as well as the reopener and offramp discussions we had at our September 14th AR 676 workshop. Staff invited comment from the utilities as Staff was seeking to know what criteria parties might assign to the various MRP factors.

PGE suggest that to address the question posed by Staff a common design framework would be helpful. PGE suggest that each mechanism should answer the same core questions:

1. What risk is the mechanism addressing?
2. Is the risk reasonably forecastable when the plan is approved?
3. Is the risk within the utilities control?
4. Is the financial impact material?
5. New MRP mechanisms should not unintentionally limit or eliminate existing statutory recovery rights unless expressly addressed by the Commission.
6. Should the adjustment be automatic or require Commission review?
7. Should it operate upward, downward, or symmetrically?
8. What customer protection or affordability constraint applies?
9. Could the issue be handled through an existing tracker instead?
10. Does the mechanism preserve, or undermine, the MYRP's cost-control incentive?
11. What reporting and verification are required?

PGE comments here are attempting to balance administrative effort, utility financial stability, rate volatility, regulatory lag, utility flexibility, and customer protection. In PGE's research we see that several of the jurisdictions operating with multi-year rate plans show that annual reporting, caps, deadbands, earnings tests, and reconciliation rules are commonly used as guardrails.

Relationship Among Adjustment Mechanisms

PGE believes an effective MRP framework should establish clear distinctions among adjustment mechanisms to avoid overlap, duplicate recovery, and unnecessary complexity and administrative burden. Each mechanism should address a different category of risk and should be applied only when more targeted mechanisms are insufficient.

In general, adjustment mechanisms should operate according to the following hierarchy:

Mechanism	Primary Purpose	Appropriate Use
SCFM	Recovery of eligible capital investments that are difficult to forecast at the time rates are established	Customer-driven, policy-driven, or other capital investments that are material, uncertain in timing, and not reasonably reflected in the approved forecast. This SCFM should include the RAAC and be expanded for long lead time projects such as transmission.
G-Factor	Recovery of recurring growth in costs or workloads	Forecastable and recurring cost growth driven by identifiable factors such as customer growth, workload increases, or other measurable drivers
Z-Factor	Recovery of extraordinary and exogenous events	Material events outside the utility's reasonable control that could not reasonably have been reflected in forecasted rates
Reopener	Targeted modification of the MRP framework	Material circumstances demonstrating that a specific mechanism or assumption is not functioning as intended
Offramp	Transition away from the approved MRP framework	Fundamental failure of the framework or circumstances where the MRP can no longer reasonably achieve its intended objectives

PGE recommends that adjustment mechanisms be considered sequentially. Risks that can be addressed through a narrower and more targeted mechanism should not automatically trigger use of a broader mechanism.

For example:

- **Forecastable recurring growth** should be addressed through a G-factor rather than a Z-factor.
- **Extraordinary and non-recurring events** should be addressed through a Z-factor rather than a G-factor.
- **Customer-driven or policy-driven capital investments that are uncertain in timing or magnitude** should be considered through the SCFM rather than broad growth adjustments.
- **Material issues affecting specific MRP components** should be addressed through a reopener before consideration of an offramp.
- **Offramps** should be reserved for circumstances where targeted corrective actions cannot reasonably restore the framework.

This hierarchy is intended to preserve appropriate cost-control incentives, maintain regulatory certainty, reduce duplicative recovery mechanisms, and ensure that risks are assigned to the mechanism best suited to address them.

G-Factor

Proposed Purpose

A G-factor should address predictable, recurring cost growth that is not adequately reflected in the base forecast or the I-factor, without requiring annual cost-of-service review. When customer growth is used as a G-factor driver, the framework should recognize both cost and revenue implications to avoid systematic over- or under-recovery.

A G-factor is appropriate where:

- growth is recurring,
- measurable,
- and reasonably predictable.

An SCFM is appropriate where:

- investment is customer-driven,

- timing is uncertain,
- volume is uncertain,
- and expenditure levels may be highly lumpy.

Suggested G-factor eligibility criteria

A cost category should qualify only if:

- The cost is expected to grow systematically during the MRP.
- Growth has an identifiable and supportable driver.
- The driver is not already reflected in the test-year forecast, I-factor, or another adjustment mechanism.
- The cost is recurring rather than event-specific.
- The cost is sufficiently broad or material to justify formula treatment.
- The utility retains some ability to manage the cost, so that the mechanism does not simply become a dollar-for-dollar pass-through.
- The adjustment can be calculated using a transparent and repeatable methodology.
- The mechanism produces a more predictable and affordable rate path than annual reconciliation.

Structural choices

PGE suggests that the G-factor has roughly six elements:

- **Eligible cost categories:** specifically enumerated rather than generally applicable.
- **Growth driver:** fixed percentage, observable index, customer growth, workload measure, or another variable clearly tied to growth.
- **Baseline:** the amount embedded in the approved revenue requirement.
- **Direction:** generally upward-only if it is a predetermined allowance, although a symmetric formula may be appropriate if the underlying driver can decline.
- **Cap:** a maximum annual adjustment or cumulative MYRP adjustment.
- **Interaction rule:** no recovery where the same growth is captured through another mechanism.

Key distinctions among factors

- **G-factor:** compensates for an identified source of cost or workload growth not fully explained by inflation.
- **I-factor:** compensates for changes in the general price level.
- **Tracker:** reconciles an identified cost to actual expenditures.
- **Z-factor:** addresses an extraordinary event that was not reasonably reflected in the plan.

Recommended G-factor standard

A G-factor should be limited to recurring and reasonably measurable cost growth that is not otherwise reflected in the approved forecast, inflation adjustment, or separate recovery mechanism. The adjustment should use a predetermined methodology, be subject to an annual and cumulative cap, and preserve a meaningful incentive for the utility to manage costs below the allowance.

Z-Factor

Across jurisdictions, Z-factors generally address extraordinary events outside utility control, including storms, natural disasters, regulatory mandates, and major system failures.

Proposed Purpose

A Z-factor should protect customers and the utility from material, exogenous events that could not reasonably have been reflected in the approved MYRP. Significant legislative, regulatory, or governmental actions that create material and unanticipated costs may also be appropriate candidates for consideration under a Z-factor, subject to Commission review and materiality thresholds.

PGE notes that Oregon already has experience with a Z-factor-type mechanism through the Major Event Cost Recovery Mechanism. The existing storm deferral framework has provided a practical means of addressing extraordinary and unforecastable government declared state of emergency events while maintaining Commission oversight and customer protections. As Staff considers the development of a broader Z-factor, PGE believes the existing Major Event Cost Recovery Mechanism should inform the design of any Z-factor construct. However, PGE does not believe the creation of a Z-factor necessarily requires replacement of the Major Event Cost Recovery Mechanism, particularly where the existing framework has demonstrated its effectiveness in addressing major event risk.

Suggested eligibility criteria

An event should satisfy all or substantially all of the following:

Exogenous

- The event is outside of the utilities' reasonable control.
- The event is not the result of management decisions, execution problems, or failure to follow an approved plan.

Unforeseeable or unforecastable

- The event was not known and measurable when the MYRP was established.
- The event could not reasonably have been incorporated into base rates, the G-factor, or an existing tracker.

Extraordinary

- The event is outside the ordinary course of utility operations.
- The event is not a recurring cost that should be considered in the forecast.

Material

- The incremental revenue requirement exceeds a defined dollar or percentage threshold.
- Related costs and benefits are aggregated to prevent selective recovery of only unfavorable effects.

Incremental

- Costs are incremental to amounts already included in rates.
- Insurance proceeds, grants, tax benefits, avoided costs, and other offsets are netted against the request.

Prudently incurred

- The utility must demonstrate that its response to the event was reasonable.
- Eligibility of the event can be distinguished from prudence of the response and amount of recovery.

Some jurisdictions such as Hawaii use case-by-case ex-post review for events outside utility control that have a severe impact. California applies a $10 million deductible and requires a subsequent application. Eversource applies specific materiality thresholds to certain exogenous costs.

Structural choices

- **Trigger:** objective event and materiality criteria.
- **Deductible:** Utility absorbs costs below a specified level.
- **Netting:** include both cost increases and cost reductions where the same event can produce either.
- **Review:** notice and deferral first, followed by prudence review and recovery authorization.
- **Timing:** recovery during the MYRP or at the next annual update.
- **Offsets:** mandatory netting of associated savings, insurance, grants, or revenues.
- **Cap or earnings test:** optional additional customer protection.
- **Exclusivity:** an event cannot receive recovery under both the Z-factor and another tracker.

Recommended Z-factor standard

A Z-factor should apply only to extraordinary and material events outside PGE's reasonable control that were not known and measurable when the MYRP was approved. Recovery should be limited to prudently incurred incremental costs, net of associated benefits and offsets, and should be subject to a materiality threshold and Commission review.

Reopener Criteria

Hawaii provides some insight as its framework permits the Commission to examine and modify the plan when a credit-rating downgrade occurs or actual ROE moves outside established earnings-sharing thresholds. Both the utility and Commission can initiate an investigation, and the framework supports mid-plan modifications rather than automatically terminating the MYRP.

MRP frameworks should be designed as iterative regulatory constructs rather than static ratemaking mechanisms. As utilities, customers, and regulators gain experience operating under an MRP, there should be opportunities to evaluate whether the framework is achieving

its intended objectives and to refine individual components when warranted. Reopeners and offramps provide structured tools to support this continuous improvement process while preserving regulatory certainty and avoiding unnecessary rate case proceedings. Both reopeners and offramps increase in importance the longer the duration of an MRP.

Proposed Purpose

A reopener should allow targeted correction of a material problem, or refinement of a specific MRP component, without abandoning the entire MYRP.

Suggested trigger criteria

A reopener could be available when:

- Actual or projected earnings fall outside a defined range for a specified period.
- A credit-rating event threatens access to capital or financial integrity.
- A major legal or regulatory change materially alters plan assumptions.
- A sustained load, customer, inflation, or capital-spending variance demonstrates that the approved framework is no longer operating as intended.
- An approved adjustment mechanism produces unintended or materially inequitable outcomes.
- Reporting demonstrates a persistent failure of a material forecast assumption.
- The Commission determines that a mechanism is not functioning consistently with the MYRP's objectives.
- Experience operating the MRP demonstrates that a mechanism could be improved to better achieve the framework's policy, affordability, reliability, or administrative objectives.
- Performance outcomes demonstrate the framework is consistently producing customer affordability, reliability, or service-quality outcomes that differ materially from expected outcomes.

Structural protections

The reopener should be:

- **Targeted:** limited to the triggering issue.
- **Evidence-based:** supported by specified financial or operational information.

- **Material:** ordinary forecast variance should not reopen the plan.
- **Neutral:** available to PGE, Commission Staff, or the Commission under equivalent standards.
- **Corrective rather than punitive:** the objective is to restore balance.
- **Prospective:** changes generally apply going forward.
- **Time-limited:** the Commission should define the scope and duration of review.

Recommended reopener standard

A reopener should be available when a defined financial, legal, operational, or affordability trigger demonstrates that a material assumption or mechanism underlying the MYRP is no longer functioning as intended. Any review should be limited to the affected issue unless the evidence demonstrates that the plan as a whole is no longer viable.

Offramp Criteria

Experience from other jurisdictions suggests that MRP frameworks are most successful when they can adapt to changing circumstances. Hawaii's framework allows for ongoing review and modification, and several jurisdictions have revised plan terms or structures over time. PGE recommends incorporating reopeners and offramps into Oregon's MRP framework to provide a defined process for addressing material changes in assumptions, risks, or outcomes without requiring abandonment of the broader framework.

An offramp should not be viewed as a failure of the framework. Instead, an offramp establishes a structured process for transitioning away from an existing MRP when fundamental assumptions have changed, when the framework is no longer achieving its intended objectives, or when experience demonstrates that a different ratemaking construct would better serve customers and the utility.

Suggested offramp criteria

An offramp should be considered only when:

- Multiple core plan assumptions have materially failed.
- A targeted reopener cannot reasonably restore the plan.
- The MYRP consistently fails to provide reasonable recovery of prudent costs.
- The plan creates persistent or unacceptable customer rate impacts.

- Required reporting or accounting information is unavailable or materially unreliable.
- The plan produces sustained earnings outside approved bounds despite application of other mechanisms.
- A legal change makes continued operation of the plan unlawful or impracticable.
- Sustained inability to achieve a reasonable opportunity to earn its authorized return despite operation of approved adjustment mechanisms and earnings-sharing provisions.
- Extraordinary system conditions fundamentally change the utility's investment or operating requirements.
- The Commission finds that continuing the plan would no longer produce just and reasonable rates.

Structural choices

- **Who can trigger it:** Utility or the Commission.
- **Mandatory consultation:** an initial process to determine whether a narrower reopener is sufficient.
- **Transition period:** avoid abrupt rate or revenue changes.
- **Interim rate treatment:** specify what rates remain effective pending rebasing.
- **Rebasing requirement:** establish the process for returning to a cost-of-service baseline or filing a replacement MYRP.
- **Preservation of balances:** define treatment of deferrals, trackers, reconciliations, and customer credits.
- **Burden of proof:** the party seeking termination demonstrates that lesser corrective measures are inadequate.

Recommended offramp standard

An offramp should be used only when the MRP's fundamental assumptions or structure have materially failed and targeted correction through existing mechanisms or a reopener would not reasonably restore just and reasonable rates. The offramp should include an orderly transition, treatment of outstanding balances, and a defined process for rebasing or replacing the plan.

Recommended Hierarchy

Periodic evaluation should occur throughout the MRP term regardless of whether a reopener or offramp is triggered. Reopeners and offramps should operate as backstop mechanisms when routine evaluation identifies material issues that cannot be addressed through normal administration of the plan.

The four mechanisms should operate in a deliberate sequence:

1. **G-factor:** planned, recurring growth.
2. **Z-factor:** unplanned, extraordinary event.
3. **Reopener:** material problem requiring targeted modification.
4. **Offramp:** fundamental failure requiring termination or replacement.

That hierarchy helps prevent overlap and limits the risk that the MRP accumulates so many adjustment mechanisms that it effectively becomes annual cost-of-service regulation.

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Across all four, the strongest common criteria are materiality, controllability, forecastability, incrementality, symmetry, affordability, non-duplication, transparent calculations, and clear review procedures.

Conclusion

PGE appreciates Staff's continued work to develop Oregon's MRP framework. Clear criteria for G-factors, Z-factors, reopeners, and offramps will help preserve the benefits of multi-year ratemaking while maintaining appropriate cost-control incentives, customer protections, affordability constraints, and regulatory certainty. PGE looks forward to continued collaboration with Staff and stakeholders as AR 676 progresses.

Sincerely,

\s\ Jason Salmi Klotz
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