PACIFIC POWER
A DIVISION OF PACIFICORP

825 NE Multnomah Street, Suite 2000
Portland, Oregon 97232

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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 Responses to Track 2 MRP Methodologies and Approaches Survey

PacifiCorp d/b/a Pacific Power respectfully responds to Public Utility Commission of Oregon (Commission) Staff's (Staff) survey on AR 676 Rulemaking General Rate Revisions HB 3179 Phase 2, Track 2 MRP Methodologies and Approaches Survey with the following responses below:

1. *What do you see as the goal of the "I" factor? For example, is it to escalate the utility's costs in a way that mirrors their actual cost pressures? Is it to keep customer bills stable while accounting for inflation? Is it a combination of these goals? Please explain why your proposed inflation adjustment, if you have one, would achieve your stated goal.*

The "I" factor should be used as a balancing tool to provide a reasonable mechanism for reflecting the inflationary cost pressures that utilities face between rate cases while maintaining predictability for customers. The primary purpose of the "I" factor is to escalate revenues in a manner that generally tracks changes in the utility's underlying costs, particularly operating and maintenance expenses and routine, smaller capital expenditures. It should help align revenues with inflation-driven cost increases and reduce the erosion of cost recovery between rate cases, while avoiding over- or under-recovery and maintaining rate stability for customers.

Because inflation affects different categories of costs differently, it may be appropriate to distinguish between labor and non-labor O&M costs and apply inflation measures that best reflect the actual cost pressures experienced in each category. A well-designed inflation adjustment can support both objectives by tracking cost pressures and providing predictable outcomes for customers and utilities alike. However, an inflation factor alone cannot address all utility cost pressures. Major capital investments and other significant expenditures are generally not well represented through indexing and may require separate treatment or recovery mechanisms.

An effective inflation adjustment should be based on transparent, objective, and widely recognized indices. Inflation forecasts developed by sources such as S&P Global Insights, which are commonly used in rate proceedings, can provide a reasonable basis for estimating future cost increases. Similarly, broad measures such as CPI offer an understandable benchmark that is familiar to stakeholders.

2. What is your vision for the X-factor? In your answer please discuss:
1. Who would undertake the productivity analysis,
2. How often it would be updated,
3. Any bounds on what the X-factor could be, and
4. In what docket the updates would occur.

We have no opinion at this time about how X-factor is determined. However, our vision for the X-factor is to be a straightforward productivity adjustment—a stated percentage applied as an offset to the inflation factor—that reflects the expectation that the utility will achieve ongoing efficiency gains over the term of the plan. To function as intended, the X-factor should be simple, transparent, and known in advance so that both the utility and stakeholders can plan around it. For these reasons, PacifiCorp supports a pre-determined value rather than one that is recalculated through contested analysis each year, and we believe an adjustment of 0.5 percent is reasonable. This value would match what is used by PacifiCorp for its Post-Test Year Adjustment Mechanism Attrition filings in California, which is an analogous mechanism.

3. What is your vision for the Z-factor? In your answer please discuss:
1. What costs should be eligible for Z-factor recovery,
2. What materiality threshold should be considered – if any,
3. How frequent Z-factor adjustments should be able to be filed,
4. When the rate update should occur,
5. Whether Z-factor can be used for only one event or whether multiple events could be accumulated into a Z-factor filing, and
6. What the burden of proof should be in a company's Z-factor filing.

PacifiCorp sees the Z-factor as a narrow off-ramp for extraordinary, unpredictable events whose costs fall well outside what the inflation and productivity factors are designed to capture. Without it, a single catastrophic event could significantly undermine the utility's financial integrity for the rest of the plan. It would also push parties toward reopening the entire plan, which defeats the purpose of a multi-year framework. The Z-factor should work with a deferral-style mechanism, not replace one.

A Z-factor should set future rates to recover costs from an event that has already happened. To avoid retroactive ratemaking concerns, those costs need to be tracked from the time the event occurs. A deferral for catastrophic events, such as California's Catastrophic Event Memorandum Account (CEMA), offers a useful model. These accounts let utilities begin recording costs as soon as a qualifying event is declared, and recovery is decided later.

1. **Costs eligible for Z-factor recovery.** Eligible costs should come from extraordinary events that are outside the utility's control and could not reasonably have been foreseen when the plan was set. Examples include:

    - Major storms or catastrophic events like earthquakes and tsunamis

- Catastrophic wildfires that damage a significant portion of the utility's assets
- Significant policy or legal changes, such as changes in tax law or major changes affecting labor costs
- Unexpected counterparty events, such as the bankruptcy of a major contractor or supplier

These events are unpredictable and severe enough that they cannot reasonably be absorbed within indexed revenues.

2. **Materiality threshold.** A materiality threshold is appropriate so that the Z-factor is used only for truly extraordinary events. Base rates should continue to include an average level of emergency and storm costs, and the Z-factor would apply only to costs above that level. Two criteria could establish eligibility:

   - A qualifying event could be tied to a formal government emergency declaration, such as one by the governor or president.
   - The financial threshold could be tied to the revenue requirement equivalent of 100 basis points of return on equity. This scales the threshold to the size of each utility, so a single fixed dollar amount doesn't treat utilities of different sizes differently.

3. **Frequency of Z-factor filings.** The utility should be able to request Z-factor treatment as needed. Qualifying events can't be predicted, and there's no way to know in advance whether one, several, or none will occur in a given multi-year rate plan term. There should also be a way for the Commission to recognize a qualifying event as it is happening, similar to an emergency deferral application. That way costs can be tracked from the start of the event, and eligibility and recovery can be decided later.

4. **Timing of the rate update.** The utility can seek recognition of an event at any time, but the resulting rate change should be included in the annual filing that updates the plan's other factors. It should not take effect in the middle of the year. A single annual filing for all factors keeps rates predictable for customers, limits the number of separate rate changes, and lets the Commission and stakeholders see all adjustments together.

5. **Single versus multiple events.** A Z-factor filing should be able to include as many qualifying events as occurred during the period. Each event should still meet the eligibility criteria and be supported on its own. Limiting a filing to one event would add administrative work without any clear benefit to customers.

6. **Burden of proof.** The burden of proof should be the same as for any other prudence determination. The utility would need to show that the event qualifies, that the costs were caused by the event and are incremental to amounts already in rates, and that the costs were prudently incurred. The Z-factor shouldn't impose a higher or different standard than the one the Commission already uses to review cost recovery.

4. What principles should be considered when determining the S-factor? Are there particular data sources or approaches you believe should guide the S-factor?

The S-factor, or stretch factor, should be a separate adjustment from the X-factor. Because the two serve different purposes, they should be set and justified separately. The S-factor is meant to push a particular utility to become more efficient than that baseline. Adding a stretch factor on top of a productivity offset only makes sense where there is evidence that the utility has room to improve compared with its peers.

Principles. PacifiCorp believes the following principles should guide the S-factor:

- **Distinct purpose.** The S-factor should target efficiency improvements beyond industry-wide productivity. It should not duplicate the X-factor.
- **Relative performance.** The S-factor should reflect how the utility performs compared with its peers. For example, a utility whose rates are already below national or regional averages has shown that it operates efficiently. In that case, the S-factor should not apply, or should be set at zero, because there is less room for further gains and a stretch requirement would penalize past efficiency.
- **Bounded application.** The S-factor should have a cap that prevents the combination of the I-factor, X-factor, and S-factor adjustments from being below a specific threshold. The combined inflation, productivity and stretch factors (I - X - S) should not be below a certain level. For example, if there is a threshold of 1.5 percent and the I-factor is 2.0 percent, the X-factor is 0.5 percent, and the S-factor is 0.5 percent, the revenue escalation for these three factors would stay at the floor of 1.5 percent. Including such a floor would keep the stretch factor from wiping out an inflation adjustment in low-inflation years and would protect against systematic under-recovery of costs.
- **Transparency and predictability.** The S-factor should be set at the start of the plan using objective, publicly available data. It should stay fixed for the plan term so it is not relitigated each year.

Data sources and approaches. Average electric utility rates from the U.S. Energy Information Administration (EIA) could provide a metric for evaluating whether an S-factor is appropriate

for a utility. EIA publishes average retail electricity price data that is consistent, public, and comparable across utilities and states. Using EIA data would give the Commission and stakeholders an objective benchmark for judging whether a utility's rates are above or below national or regional average prices.

5. What materiality threshold should apply to the G-factor? How should customer forecast accuracy and any potential loss in earnings be weighed?

The G-factor should account for the costs of serving new customers during the plan term. When customers are added and load growth occurs, the utility has to invest in additional equipment and facilities to provide service, such as substations, transformers, meters, and related distribution infrastructure. Since the multi-year rate plan framework is a revenue cap and not a price cap, it is necessary to adjust revenues for growth in customer energy sales. PacifiCorp recommends that the G-factor adjust revenue by multiplying energy growth by non-Net Power Cost average price. This should be done on a class level.

Materiality threshold. No materiality threshold should apply to the G-factor. Customer growth is an ordinary, ongoing part of utility operations. A threshold would leave the utility to absorb the costs of serving new customers whenever growth falls below an arbitrary level. Those unrecovered costs could add up over the plan term. Applying the G-factor to any load growth is appropriate.

Forecast accuracy and potential loss in earnings. The G-factor should be kept simple and should use the utility's latest load forecast. Any type of earnings sharing mechanism should be dealt with separately from this adjustment factor.

6. What is your vision for the Supplemental Capital Funding Mechanism (SCFM)? In your answer please discuss:

1. What types of capital projects should be eligible for SCFM treatment,
2. What materiality or size thresholds should apply,
3. How often SCFM updates should occur and how they should be documented,
4. What safeguards should ensure SCFM use does not overlap with other mechanisms or circumvent prudence review.

The Supplemental Capital Funding Mechanism (SCFM) should give the utility a way to recover major capital investments made during the plan term that indexed revenues won't cover. An inflation index isn't designed to capture significant capital spending, and recovery of that spending has to happen outside of indexing. The SCFM should fill that gap while staying clearly separate from the Renewable Adjustment Clause (RAC). It should apply only to major capital projects that aren't eligible for recovery through the RAC or another existing mechanism. The RAC is a specific mechanism that is required by statute and has specific requirements and protections.

1. **Eligible capital projects.** SCFM treatment should be available for major capital projects that are needed to provide safe and reliable service but can't be recovered through the RAC or any other cost recovery mechanism. By design, the SCFM would not duplicate the RAC's scope. It would cover significant non-RAC eligible investments that indexed revenues can't reasonably absorb.

2. **Materiality or size thresholds.** A project should qualify for SCFM treatment only if its revenue requirement is at least 100 basis points of return on equity, measured on a total-company basis. Like the Z-factor threshold, this approach scales to the size of the utility. It also limits the SCFM to investments large enough that absorbing them without supplemental recovery would materially harm the utility's ability to earn its authorized return.

3. **Frequency and documentation of updates.** SCFM updates should be made at the same time as the annual adjustment for the plan's other factors. Consolidating everything into one annual filing keeps rates predictable, limits the number of separate rate changes, and lets the Commission and stakeholders review all adjustments together. Each SCFM filing should identify the qualifying projects, their costs and in-service dates, and the resulting revenue requirement.

4. **Safeguards against overlap and circumvention of prudence review.** The company is still considering which safeguards would work best and welcomes further discussion with Staff and stakeholders. At a minimum, the SCFM should be defined as distinct from the RAC, so that no project's costs can be recovered through both mechanisms. SCFM treatment should also not replace prudence review. Costs recovered through the SCFM should remain subject to the Commission's standard prudence determination. The company has not yet reached a position on specific safeguards and looks forward to further discussion with Staff and stakeholders.

7. What is your vision for decoupling? In your answer please discuss:
1. What level of decoupling should be included (full, partial, etc.),
2. Which classes should be subject to decoupling,
3. Whether a decoupling mechanism should include deadbands and whether they should be symmetric, and
4. Whether the load forecast should be updated both when setting rates and when calculating the decoupling mechanism each year.

The company's vision for decoupling is a mechanism that is simple and not punitive. Its purpose should be to separate the utility's recovery of its authorized revenues from differences in actual energy sales and forecast energy sales. Forecast energy sales would come from the G-factor adjustments calculation.

1. **Level of decoupling.** Given that a G-factor adjustment will already be applied, PacifiCorp's view is that decoupling should be an optional mechanism that is allowed for individual utilities on a case-by-case basis. That being said, the company acknowledges that this issue has already been settled by the Commission in phase I of this rulemaking and decoupling will be required. PacifiCorp proposes that only partial decoupling be adopted to limit the impact of this mechanism. The company proposes that only fixed generation (Schedule 200) revenues be decoupled.

2. **Classes subject to decoupling.** Decoupling should apply to all customer classes except Schedule 48. Large customers' usage depends mainly on their business cycles and operating decisions and leaving them out keeps that variability from shifting to other customers.

3. **Deadbands and symmetry.** The mechanism should include a symmetric deadband of plus or minus 5 percent. Differences within that range would not be trued up, and differences outside it would be.

4. **Load forecast updates.** The load forecast should be updated with going in rates and with each G-factor update.

8. If an Efficiency Carryover Mechanism is established, what do you see as its primary goal? Are there any considerations you think should be balanced when developing an ECM? Given this, do you think an ECM should be established?

The company has not taken a position yet on whether an Efficiency Carryover Mechanism (ECM) should be established. If the Commission does establish an ECM, the company believes it should be simple. It will reserve its position on whether an ECM should be established until the design and its interaction with other plan components, such as the X-factor, S-factor, and earnings sharing mechanism, become clearer. The company looks forward to further discussion with Staff and stakeholders.

9. What considerations should be made when determining the deadbands for the Earnings Sharing Mechanism? Should the deadbands be symmetric or asymmetric?

The Earnings Sharing Mechanism (ESM) deadbands should be symmetric and set at a reasonable level. The deadband's size should give the utility a real incentive to manage costs efficiently through the plan term. It should also protect customers from sustained over-earning and protect the utility from sustained under-earning.

10. Please discuss your vision for re-openers and off-ramps. In your answer please discuss:

1. Under what condition a case can be reopened,
2. Under what conditions a new case can be filed ahead of schedule,

3. Whether these cases should be based on firm thresholds or principles to be evaluated by the Commission.

Ideally, the multi-year plan's other components will work well enough that re-openers and off-ramps are never needed. The I-factor, Z-factor, SCFM, and earnings sharing mechanism should be designed to handle most cost pressures and risks during the plan term. Still, no one can predict the future with certainty over a five-year period. Recent years have brought unexpected inflation, new policies, and other economic uncertainty. For example, twenty years ago, few would have predicted how much wildfire mitigation would come to shape utility costs and operations. Because of this, the framework needs to stay flexible and include re-openers and off-ramps as tools in case circumstances change in ways the plan's other mechanisms were not designed to handle.

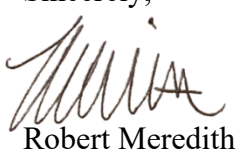
1. **Conditions for reopening a case.** A case should be reopened when circumstances change in ways the plan's existing mechanisms cannot reasonably address and continuing under the current terms would not produce just and reasonable rates. The utility would bring forward the facts supporting a reopener, and the Commission would decide whether good cause exists.

2. **Conditions for filing a new case early.** An off-ramp should be available when conditions have changed so fundamentally that the plan as a whole no longer works, and a targeted reopener would not be enough. As with a reopener, the utility would make its case, and the Commission would decide whether good cause exists to file a new case ahead of schedule.

3. **Firm thresholds versus principles.** Re-openers and off-ramps should rest on principles the Commission evaluates, not on firm thresholds. The events that might justify them are, by nature, hard to predict. A fixed threshold set today could miss circumstances that clearly warrant relief, or it could trigger relief when it isn't needed. A good-cause standard lets the Commission look at the specific facts of each situation while keeping the burden on the utility to support its request.

PacifiCorp looks forward to continuing conversations with Staff and stakeholders in this workstream. 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