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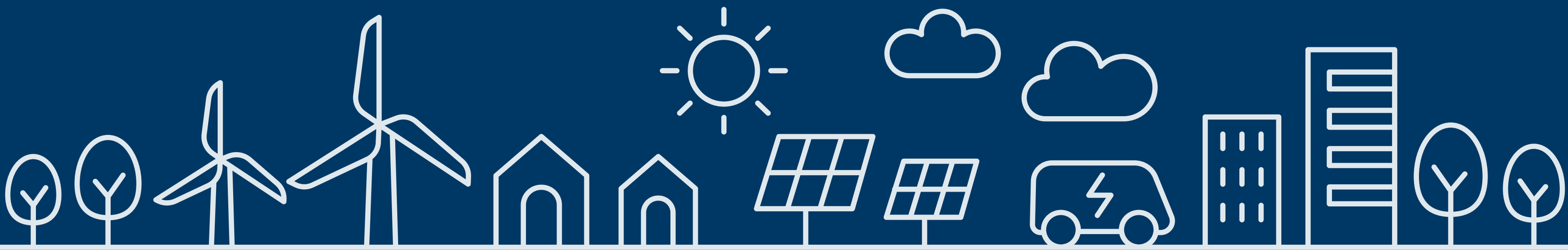
Oregon Performance-Based Regulation Workshop 1:

AR 676: *Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688)*

December 17, 2025

9am–12pm PST



Meet the GPI Facilitation Team

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Val Stori
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The Great Plains Institute is an organization of leaders and experts dedicated to engaging and collaborating with people, organizations, and communities to craft nonpartisan, pragmatic energy solutions that benefit people, the economy, and the environment.

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Meeting Ground Rules

1. Respect differences of perspective and the time we have together.
2. Be open to continued learning and growth informed by new information; it is ok for perspectives to shift or change throughout the process.

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Meeting Objectives

1. Introduce the AR 676 proceeding, including the directives established under HB 3176 and SB 688, as well as the proceeding timeline.
2. Share and discuss Commission and participant objectives, desired outcomes, and success for AR 676.
3. Present Staff's multi-year rate plan (MYP) report (prepared by Current Energy Group), which will serve as a reference for future work.

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Mentimeter Logistics

Mentimeter

Throughout the meeting, we will be asking for your input via Mentimeter polls.

Use a browser on your computer or mobile device.

Menti.com

Use code

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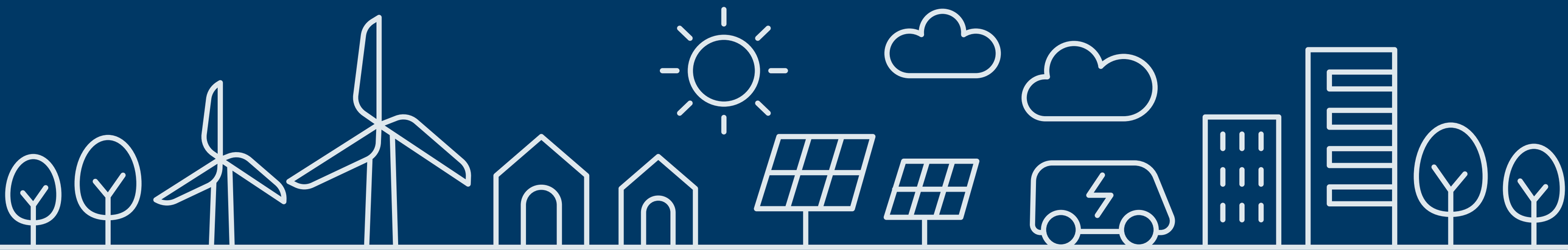
Introduction to AR 676: *Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688)*



Regulatory and Legislative History

Order No. 24-359 in UG 490, *First, Second, and third Partial Stipulations Adopted; Application for a General Rate Revision Approved as Revised*

In this Order, the Commission addressed the following:

- GRC are administrative burdensome and costly
- Multi-year rate plan reports
- Multi-year rate plan stakeholder workshops

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For further details on the regulatory and legislative history leading to this proceeding, please refer directly to the OPUC Staff Letter ("Implementation of House Bill 3179 & Senate Bill 688, Docket No. AR 676") filed on October 31, 2025.

Regulatory and Legislative History

HB 3179: Section 7

(2)(a) The Public Utility Commission **shall** establish rules requiring an electric or natural gas company to establish a **multiyear rate plan** for rate revisions that subject an **electric or natural gas** company's return on equity to review or modification.

(b) The rules **must:**

(A) Include procedural and content requirements for a multiyear rate plan.

(B) Require an electric or natural gas company to file a multiyear rate plan on a regular interval that is no less than three and no more than seven years long.

(C) Establish a limit on the number of electric or natural gas companies that are allowed to request a rate increase in any given year.

(c) The rules **may:**

(A) Provide for incentives for efficient utility operations.

(B) Authorize refunds to customers under certain circumstances.

(C) Allow an electric or natural gas company, or third party, to request an exception to a requirement established by rule under this section on a showing of good cause

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For further details on the regulatory and legislative history leading to this proceeding, please refer directly to the OPUC Staff Letter ("Implementation of House Bill 3179 & Senate Bill 688, Docket No. AR 676") filed on October 31, 2025.

Regulatory and Legislative History

SB 688, Section 2, Sub. 3 also established that OPUC may investigate, develop, and adopt a PBR framework.

SB 688, Section 2 also established parameters for such a framework.

(4) A framework that is adopted under this section must:

(a) Provide for performance **standards and a baseline** from which performance is measured;

(b) Provide for performance metrics that are **clear, objective, verifiable and achievable** for measuring an electric company's performance;

(c) Describe how the performance standards and metrics are to be carried out;

(d) Identify **actions and mechanisms** that an electric company may carry out or implement to meet performance standards; and

(e) Provide an electric company **incentives or penalties** based on an electric company's performance.

The Commission must also consider **ratepayer impacts** in developing incentives and penalties. The Commission may also establish performance metrics that are not subject to incentives or penalties but are instead subject to **annual reporting** requirements.

For further details on the regulatory and legislative history leading to this proceeding, please refer directly to the OPUC Staff Letter ("Implementation of House Bill 3179 & Senate Bill 688, Docket No. AR 676") filed on October 31, 2025.

Proceeding Timeline

Q4 2025 – Q2 2026

Phase 1: Foundations and Concept Development

- Conduct scoping survey, release MYP report, host workshops on foundational MYP and PBR concepts, receive stakeholder comments
- Commission decision adopts core foundations and concepts

Q3 2026 – Q4 2026

Phase 2: Framework Design

- Phase 1 learning informs specific design elements, host stakeholder workshops and receive comments, draft administrative rule language
- Staff present final MYP framework for Commission approval

Q1 2027

Phase 3: Formal Rulemaking

- Commission conducts formal rulemaking to implement outputs of Phases 1 and 2

Q3 2027+

Phase 4: Implementation

- Electric and gas utilities begin to employ new rules and guidance in subsequent proceedings

AR 676 Phase 1 Workshop Schedule

Date	Workshop	
December 17, 2025	**Kickoff Meeting**	• Review objectives and process • Presentation of MYP report • Presentation of survey results
January 27, 2026	**PBR Foundations**	• Review common PBR mechanisms • Stakeholder input on design principles and goals/outcomes approach • Facilitated discussion
February 2026 (date TBD)	**Existing Regulatory Structures**	• Review current regulatory structures in Oregon to clarify leverage points for incentive alignment • Facilitated discussion
March 2026 (date TBD)	**Exploration of MYP and PBR Design for Oregon**	• Participants provide input on MYP design elements and preferred PBR mechanisms • Facilitated discussion
May 2026 (date TBD)	Staff present MYP foundational Phase 1 concepts at Public Meeting	

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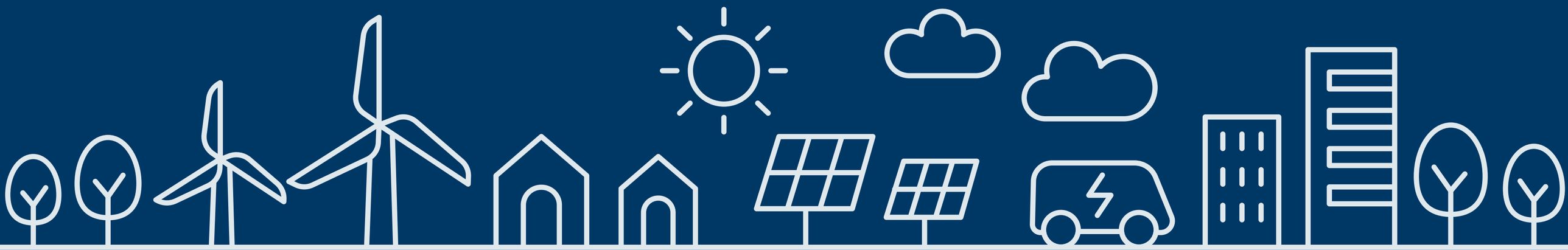
Q&A and Discussion:

Do you have any logistical questions about the engagement process?



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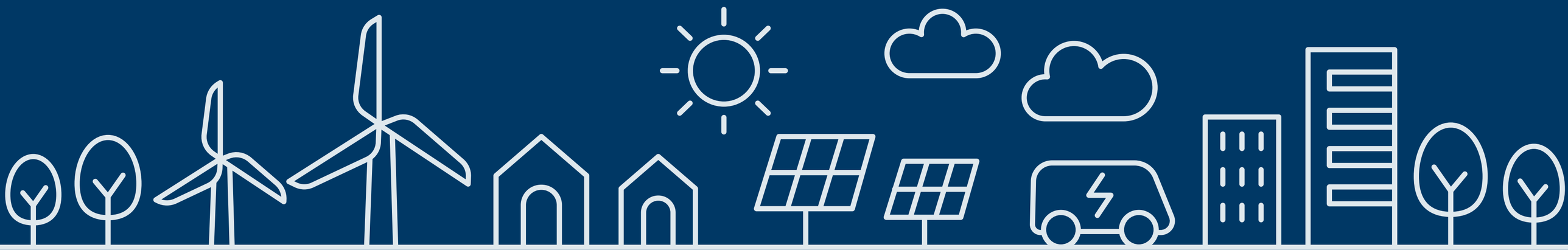
Initial Perspectives on the Proceeding



Many Voices, Common Ground

Regardless of the voice, there's a clear meeting of minds around:

- Predictable rates
- Increased productivity/efficient operations
- Reduced Administrative Burden
- Less frequent rate cases/longer periods between rate cases
- Transparency

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Pre-Workshop Survey Findings

Question: *Please list the top three (3)* ***outcomes*** *from the energy system that a Multi-Year Rate Plan framework should provide.*

Answer:

- Utilities:
  - Long term planning/Revenue stability/Smooth, incremental and predictable rates
  - Financial health and integrity
  - Transparency/Clear tracking mechanisms
  - Fairness, across utility sectors/symmetric risk allocation
- Advocate groups:
  - Cost containment through improved efficiency
  - Predictable rates and transparency
  - Alignment with Oregon energy policies and customer objectives
  - Enhanced services for low-income customers
  - Workload mitigation

Pre-Workshop Survey Findings

Question: *Please list the top three (3) utility **actions and priorities** that multi-year ratemaking framework **should encourage**.*

Answer:

- Utilities:
  - Lowest reasonable cost through efficiency/increased productivity
  - Reduced administrative burden
  - Safe and reliable services through system investments
  - Fewer deviations from capital spend
  - Increase in customer value
  - Operational flexibility
- Advocate groups: Participants responses to were similar to the responses for desired outcomes. Listed here are responses in addition to those shared in desired outcomes.
  - Performance based regulation
  - Increased Community benefits/Community centered energy and resilience
  - Proactive, least cost clean energy investments
  - Better integrated planning using existing systems/Grid enhancing technologies

Pre-Workshop Survey Findings

Question: *Please list the top three (3) ways you would like to see the **ratemaking process change** through the implementation of multi-year rate cases and the improvement you expect from those changes.*

Answer:

- Utilities:
  - Greater cost recovery certainty.
  - Clarity in reporting requirements.
  - Incentives for efficient operations.
  - Longer periods between rate cases by supporting capital requirements.
  - More tools to establish reasonable rates.
- Advocate groups: Participants responses to were similar to the responses for desired outcomes and encouraged actions. Listed here are responses in addition to those already shared.
  - Better align company incentives with progress on customer and key policy goals.
  - Less frequent rate cases/reduction in alternative rate mechanisms.
  - Investments that comply with Oregon Energy Strategy and Climate Protection Program.
  - Use of plain language; translated summaries.

Discussion and Q&A: Scoping Survey Takeaways

- Does anything from the scoping survey results surprise you?
- Are the key takeaways from the survey aligned with what you'd expected?

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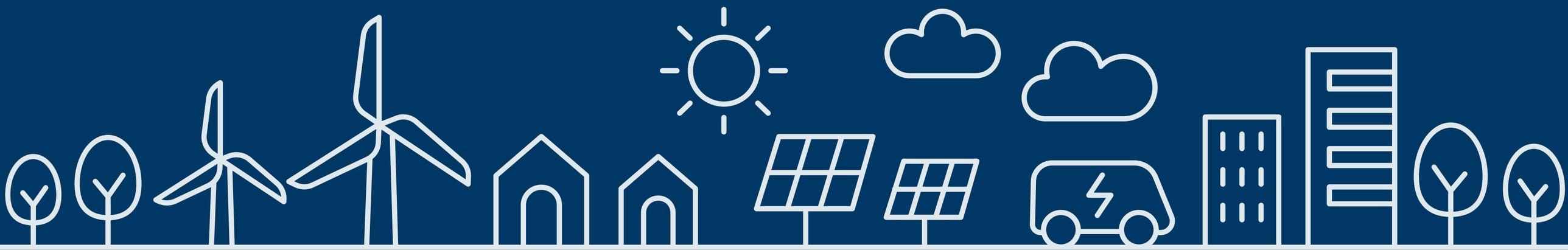
Mentimeter Polling

We kindly request that Commissioners refrain from responding to these Mentimeter questions.



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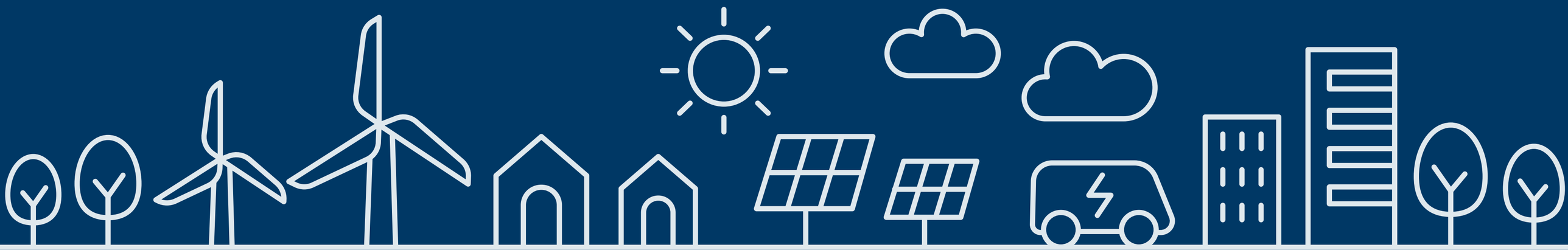
BREAK

Return at 10:30am PST



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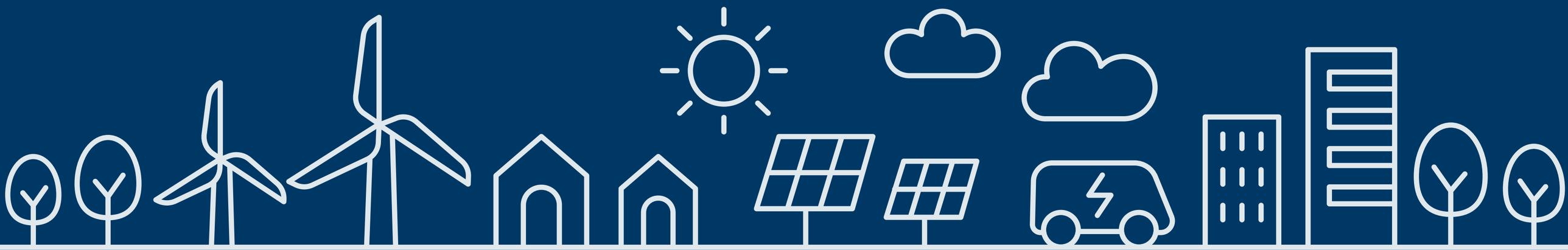
Multi-Year Rate Plan Report

Dan Cross-Call, Current Energy Group



CURRENT
ENERGY GROUP

Multi-Year Rate Plans:
Purpose and Design Considerations

Summary of report prepared for the Oregon Public Utility Commission

AR 676 – Workshop 1

December 17, 2025

Agenda

- MRP Purpose and Context
- Types of MRP
- MRP Design Elements
- Challenges and Risks
- Putting It Together

About Current Energy Group

We provide solutions that balance sustainability, affordability, and reliability—helping to shape the future of energy systems.

Practice Areas of Excellence

Advanced Rate Design + Cost of Service

Modern and equitable tariffs and programs that provide advanced price signals and compensation mechanisms.

Gas Transition

Transform regulatory processes from planning to ratemaking, to manage gas utility system investments and protect ratepayers amid a changing landscape.

Power System Planning

Advise leading energy providers and consumers to develop efficient and future-proofed energy infrastructure plans that incorporate the latest clean energy solutions.

DER Integration

Advise on policy and regulatory approaches to equitably accommodate the interconnection and compensation of distributed energy resources.

Regulatory + Policy Innovation

Provide thought leadership on developing innovative regulatory frameworks and clean energy market design solutions that are equitable and impactful.

Energy System Decarbonization

Develop impactful strategies, roadmaps, and regulatory testimony to support and accelerate cost-effective, low-carbon energy systems.

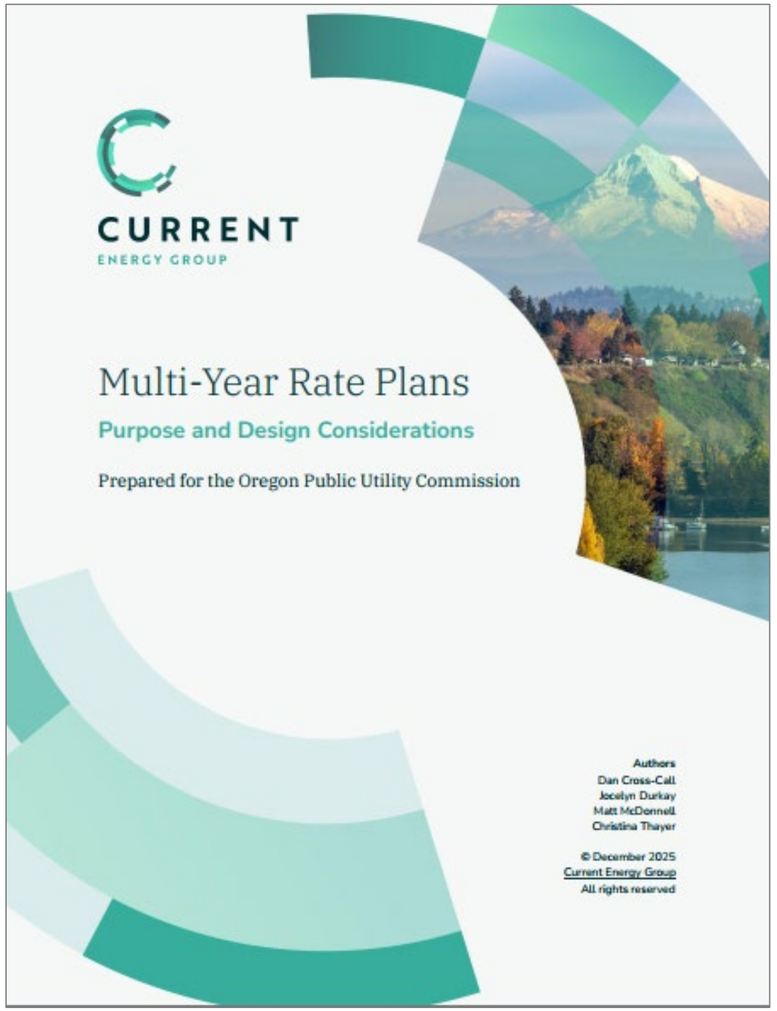
Purpose and Context

Report Objectives

- Respond to OPUC directives (including Order No. 24-359) and legislative requirements (HB 3179).

- Present common MRP options and critical details for designing and implementing MRPs in Oregon. (Provide a taxonomy and shared reference from which to begin MRP design.)

- Share examples of MRPs in practice, from which to learn and inform Oregon design choices.



Foundations: What and Why

Multi-Year Rate Plan (MRP): Revenue requirement set for more than one year, during which adjustments to utility base rates are permitted based on predetermined variables.

Tenets of successful MRPs

- Utilities have incentives to achieve cost savings, in pursuit of higher earnings.
- A share of savings get passed on to customers, reducing total bills against alternatives
- Utilities hold greater responsibility to optimize operations and investments – greater management discretion leads to opportunities for utility earnings.
- Less frequent rate cases allow for greater attention to service delivery and reduce administrative burden.
- Rebalancing of risks and benefits between utility and customers.
- MRPs are often one component of performance-based regulation (PBR).

MRPs should support long-term utility cost containment.

Lower total utility costs can be achieved from

- Near-term utility incentives to seek cost savings below a revenue (or price) cap – i.e., savings within each MRP period
- Long-term reduction in total revenue growth (compared to COSR baseline), as cost savings are carried into future periods' allowed revenue

Requires calibration of incentives, within and between periods to achieve fair and balanced outcomes

Illustrative Comparison of Customer Rates Under an Index-Based Revenue Cap Versus Cost of Service (COSR) Regulation

Benefits follow if MRP is designed well

Available benefits from MRPs include

- Cost containment
- Rate reductions or bill savings
- Increased earning opportunity for utilities
- Reduced capex bias
- Foundation upon which to build additional regulatory features
- Utility innovation and flexibility (autonomy) to pursue solutions
- Reduced administrative burden

… achieved via complementary and integrated features

- Multi-year stay-out period without a general rate case
- Reduced (not eliminated) link between utility revenue and costs
- Alignment and coordination with other ratemaking activities (IRPs, DSPs, etc.)
- Analysis and deliberation to set appropriate designs
- Tracking to monitor utility performance
- Tolerance for new utility earning potential
- Adaptive regulatory strategies (between successive MRP periods)

An MRP is a foundation for a holistic Performance-Based Regulation (PBR) structure

MRPs are commonly employed among other PBR mechanisms.

- PBR mechanisms fall into three main types (at right)
- Additional PBR mechanisms are useful for balancing or fine-tuning MRP incentives.
- Can also be utilized to motivate utility performance in targeted areas, incorporate additional reforms, or achieve new regulatory objectives.

The CEG report does not review other PBR mechanisms in detail. Additional attention is needed to consider if and how to incorporate those.

Type of Mechanism	Example Mechanisms
Revenue Adjustment Mechanisms	MRP
	Allowed ROE and ESMs
	Capex/Opex equalization
	Revenue decoupling
Performance Mechanisms	Metrics and scorecards
	Performance incentive mechanisms (PIMs)
	Shared savings mechanisms (SSMs)
	Fuel cost sharing mechanisms
Other Regulatory Structures	Innovation programs (e.g., regulatory sandbox)
	All-source competitive procurement
	Independent energy efficiency utility

Types of MRPs

Index-based cap MRPs

Target revenue (cap), is set for the first year of the MRP period, then annual adjustments are made using predefined factors that are "indexed" to variables outside of utility control.

- Exogenous factors can include inflation or adjustments in the case of extreme events.

- *Price cap* can be used instead of a *revenue cap*, in which the revenue requirement is translated into rates that are held fixed (except for index-based adjustments).
    - As a price cap does not cap utility revenues, a utility can still increase its profits by increasing sales volumes.

Pros	Cons
• Promotes cost efficiency • Capped revenue (or price) functions as a budget against which utility should manage their costs • Motivates utility to seek cost savings and operational efficiencies throughout the duration of MRP period	• Revenue cap that is too high can dilute cost-containment incentives • Complex deliberations to set adjustment factors (X-factor, etc.)

Forecasted MRPs

Allowed revenue in each year of the period is derived from a utility's forecasted costs.

- The revenue determination is more directly derived from costs that are in the utility's control.

- Distinct from index-based cap MRP, in which revenue adjusts year-to-year based on exogenous factors.

- Important for Forecasted MRPs to ensure that allowed revenues are not too generous or skewed by inflated cost forecasts.

Pros	Cons
• Can motivate cost containment (*with use of a cap*) • Based on expected utility costs for the MRP period • Allows for direct comparison of forecast and actual costs in rate-setting • Grants additional utility input to inform allowed revenue (compared to Index-based cap MRP)	• Utility may have too much control over estimated future costs • Cost forecasts could be inflated (information asymmetry) • Revenue cap that is too high can dilute cost-containment incentives

Formula-based rates

Utility revenue is updated according to the utility's actual costs, including deviations from previously forecasted or approved costs.

- Can contain multiple cost categories and projects (functioning like a cost tracker).
- Approved formula for cost recovery adjusts utility revenues based on actual costs (cost changes passed through to customers).
- Not to be confused with use of "formulas" in an index-based cap MRP:
  - Formula rates: Adjustments made based on actual costs incurred
  - Indexed cap: Adjustments made based on exogenous variables

Pros	Cons
• Favorable for utilities and investors due to reduced risk of uncollected costs	• Increases in utility costs are passed through to customers • Little cost containment incentives because of assured (or likely) cost recovery from overruns

Formula-based rates may be applied in a *multi-year* structure (i.e., automatic adjustments without a general rate case), but commonly lack cost containment incentives that should characterize MRPs

MRP Design Elements

Plan Duration

The length of time for which rates are set for a utility without an update through a general rate case.

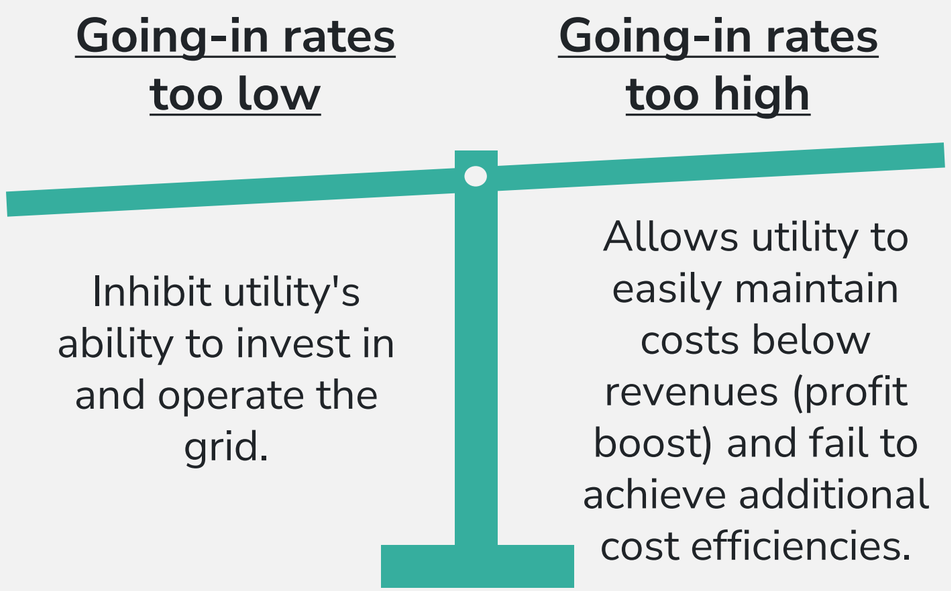
- Plan duration should provide sufficient opportunity for a **utility to pursue meaningful cost efficiency and business innovation,** while **balancing rapid changes** in utility industry.
- Multi-year periods can **reduce the administrative burden** of frequent rate cases.
- Regulators can predetermine circumstances that trigger adjustments during the plan duration.

Plan Duration in Select Peer Jurisdictions				
State	**2 Years**	**3 Years**	**4 Years**	**5 Years**
Alberta				✓
Connecticut			✓	
Great Britain (RIIO)				✓
Hawaii				✓
Maryland		✓		
Massachusetts				✓
North Carolina		✓		
Washington	✓	✓	✓	

Going-In Rates

Going-in rates are the amount of utility allowed/target revenue set in Year 1 (“base year”) of an MRP period.

- Can be calculated from forecasted or historical costs, or both.
- Process can **resemble COSR** through use of a test year or a cost-of-service study, alongside other traditional COSR methods.
- **Historic test years can accurately reflect actual costs,** but may need to be altered if expected costs substantially differ.
- **Forward test years can account for expected investments,** but utility forecasts may exacerbate information asymmetry.



Example

Alberta: Forecasted test years

Set using a COSR methodology and a forecasted test year spanning two years.

Return on Equity (ROE)

The rate that a utility's shareholders expect to earn on the equity portion of capital expenses.

- ROE should **enable the utility to attract capital while considering risk and management efficiency.**
  - Also, should equitably weight **customer affordability** and **utility returns.**

- Process can mimic ROE-setting in a COSR, but MRPs can **structure ROE to include performance-based measures.**

- Can be **coupled with an Earnings Sharing Mechanism (ESM)** to mediate significant over- or under-earnings during the plan duration.

Examples
Connecticut: "The Authority continues the use of traditional methods for establishing ROE, with PIM incentives and penalties being treated separately from ROE."
Alberta: "ROEs above authorized levels were evidence of successful cost management and an indication for continuing on the MRP path."

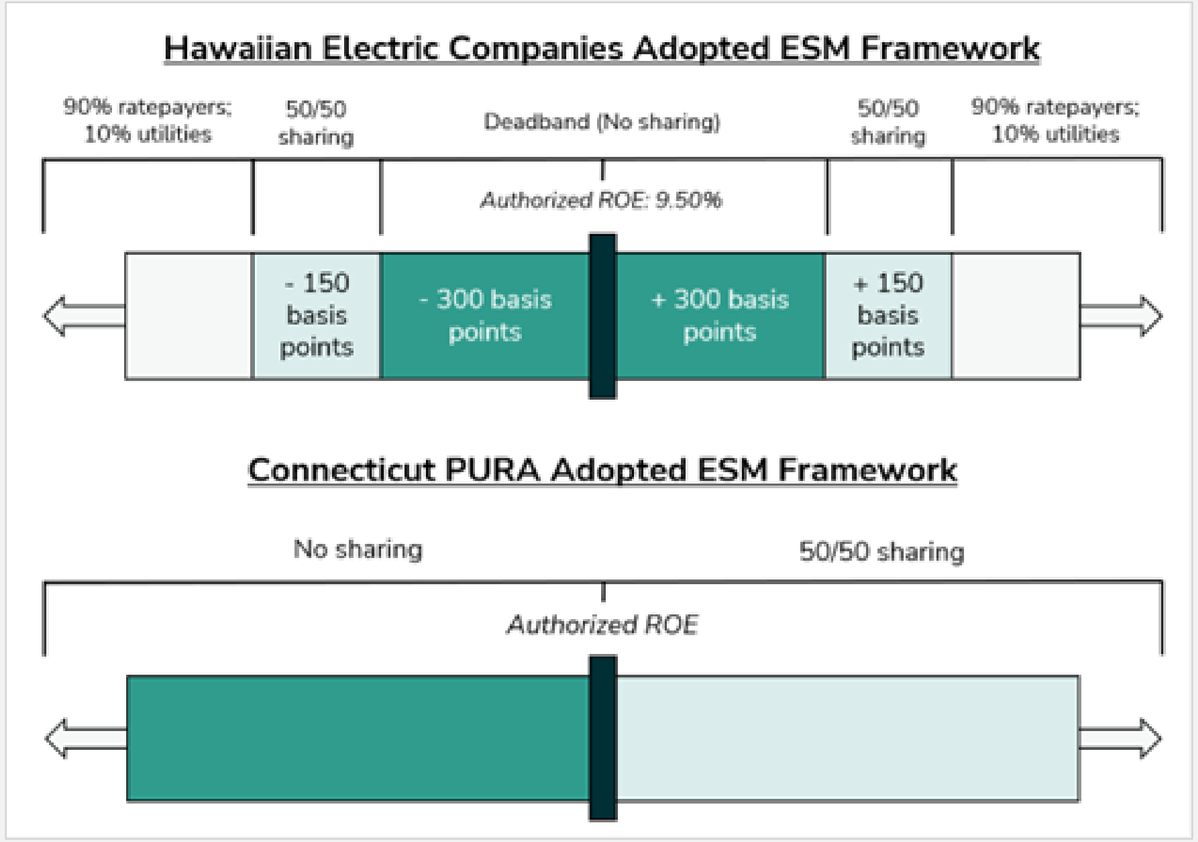
Earnings Sharing Mechanism (ESM)

Structure by which the utility and customers share a portion of over- or under-earning outside the authorized ROE.

Features of an ESM can include:

- **Deadbands** (range where the utility retains all earnings or losses)
- **Tiers** (incremental customer-utility sharing proportions)
- **Symmetries** (equal application of tiers above and below ROE)
- Design should **align customer and utility incentives** through achievement of cost efficiencies and equitable risk- and benefit-sharing.

Examples: Hawaii and Connecticut



Attrition Relief Mechanism (ARM)

Structure to make annual adjustments to target revenue according to a predetermined formula and factors that are separate from actual costs incurred.

Illustrative ARM formula

Target Revenue Year N = Target Revenue Year (N – 1) + Inflation – X-factor + K-bar + Z-factor + …

- Meant to address potential erosion of achievable savings in an indexed-cap MRP.
- ARM formula can contain a **mix of fixed values and external (exogenous) factors,** like inflation (I-factor) or unforeseen future events (Z-factor).
- **Components within the formula can be attuned to certain guiding principles or governance priorities,** such as motivating utility productivity gains above and beyond peer utilities.

Example
Hawaii: Gross Domestic Purchases Price Index (GDPPI)
Annual adjustment made according to the annual forecasted change in GDPPI.

Capital Funding Mechanisms

Ratemaking provision that allows the utility to recover costs associated with capital outside of the MRP's primary revenue components.

- Capital recovery in MRP should be designed to consider **totality of rate base obligations, ongoing capital projects, and potential additional investments** during plan duration.
- Common capital recovery approaches include:
  - **K-bar:** Adjustment factor set based on historical capital expenditures.
  - **Forecasted capital:** The utility estimates its necessary capital expenditures for the MRP period, which informs a capped revenue allowance for those projects during the period.
  - **Capital trackers:** Annual cost trackers allow recovery of actual costs incurred.
  - **Project- or program-specific cost recovery:** Allow recovery of costs incurred for designated projects or capital funding programs, subject to certain criteria.

Example

Connecticut: Customized K-bar ("CT-bar") plus separate capital cost trackers

Two-part structure: (1) "CT-bar" for incremental capital expenditures that are not captured in the Revenue Cap Formula, and (2) additional capital cost trackers for occasional cases.

Reconciliation Mechanisms (example)

Maryland established a pilot Forecasted MRP framework with an "MRP reconciliation mechanism" that trues-up utility revenues annually to actual costs incurred.

- Uses a bill rider to **adjust allowed revenues** upwards or downwards during the MRP period (similar to Formula Rates).
- In practice, **large upward adjustments** have been made to utility allowed revenue, eroding cost containment objectives.
- A second MRP period was denied for Pepco, due in part to lack of cost containment measures.

Example

Maryland's MRP Reconciliation Mechanisms

	2021	2022	2023	2024
Pepco - MRP1	$1,488,000	$7,611,000	$31,000,000	
Delmarva - MRP1			$(8,021,675)	$(855,406)
BGE Gas - MRP2				$458,000
BGE Gas - MRP1	$7,117,000	$14,786,000	$73,338,000	
BGE Electric - MRP2				$27,973,000
BGE Electric - MRP1	$10,711,000	$43,945,000	$78,938,000	

Rebasing

Process at the end of an MRP period that sets the going-in rates for the next MRP.

- Some MRP orders intentionally set general guidelines to direct rebasing to assure **flexibility and retain discretion** in future rebasing efforts.

Example: Connecticut

Illustrative MRP Timing and Transition Process Between Periods (as expressed by Connecticut PURA)

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
MRP 1					
Rate Case Proceeding EDC files rate application on Year 1, Day 1)	Rate Year 1	Rate Year 2	Rate Year 3	Rate Year 4	
	MRP 2				
			Management Audit Performed	**Rate Case Proceeding**	Rate Year 1

Efficiency Carryover Mechanism (ECM)

Allows the utility to retain a portion of cost savings achieved from productivity gains during the last years of an MRP, which can be applied as additional earnings in the next rate period.

- Tool to counteract incentive for utilities to maintain higher costs in later years of an MRP, to seek elevated revenue requirements for future MRPs.
- Requires a baseline calculation to assist in determining cause and effect of achieved cost efficiencies.
- ECM design can **support long-term cost efficiencies** over successive MRP periods**.**
- Requires a trade-off to give some additional opportunity for short-term utility earnings to achieve lower total costs in the future.

Example
Australia: Applies a “calibrated ECM” to promote cost savings for both operating and capital expenditures, with estimated savings of greater than AU$1,000 per customer per year.

Off-Ramps and Reopeners

Off-Ramp

A **mid-period exit** from an MRP that permits an overhaul or substantive changes to the regulatory structure due to unforeseen events or perverse outcomes.

Examples

Hawaii: Allowed for extreme situations, only after PUC investigation deems it necessary

Connecticut: Would be allowed based on criteria for circumstances related to the utility's degraded financial conditions, windfall profits, or falling interest rates.

Reopener

A **mid-period review** during an MRP to consider changes to allowed revenue or updates to mechanism design, due to unanticipated results.

Example

Hawaii: Reopeners are explicitly permitted if (1) the utility's credit rating outlook indicates a rating below investment-grade, or (2) ROE is in the outermost ranges of the ESM sharing bands (both upside and downside).

Challenges and Risks

MRPs are not without challenge

Require awareness and proactive attention to address challenges and risks throughout the MRP lifecycle.

Design

Must be vigilant against:

- Lack of meaningful cost-containment incentives.
- Imbalanced allocation of risk between utilities and customers.
- Multiple avenues for cost recovery outside of base rates.

Implement

High initial effort and resource requirements are needed for:

- New and complex rate case elements.
- Expertise requirements to assess plan details and their embedded incentives.

Review and Maintain

Not a set it and forget it approach

- Must have regulatory continuity to maintain primary structures.
- ...and be willing to refine and calibrate.
- Avoid temptation to claw back earnings (which could disincentivize future savings).

Putting It Together

Core Design Standards

Suggested foundations needed to create a functioning MRP with cost-containment potential.

Plan duration of at least three years.

A revenue cap to provide an authorized, or target utility revenue for each year of the MRP period.

Indexed adjustments for exogenous cost contributors.

A capital funding mechanism that maintains cost control.

Limited use of adjustment or reconciliation mechanisms.

Backstop performance incentive mechanisms (PIMs) to prevent service degradation.

Balanced risks and benefits between utility shareholders and customers.

MRP Best Practices

Integrated design can support broad-based outcomes to achieve regulatory and policy objectives.

- **Design for expanded outcomes** in addition to cost containment and administrative efficiency
- **Incorporate performance incentives** for additional priority outcomes
- **Mitigate capital expenditure bias** to address gold-plating or overbuilding
- **Consolidate revenue recovery** within the MRP structure
- **Apply additional performance-based mechanisms** beyond the MRP
- **Promote innovation** in the utility business model, as well as the broader energy system

Report Appendices

Suggested Reading

Includes...

Glossary

Term	Definition
Attrition relief mechanism (ARM)	An MRP structure to address potential erosion of achievable savings by making periodic rate adjustments (usually annual) that are set by a predetermined formula and adjustment factors that are separate from actual costs incurred. Adjustments can be calculated according to external index values, preset values, or the incorporation of costs or savings due to extraordinary events. ARMs are commonly incorporated with, and sometimes used synonymously with, index-capped MRPs.
Capital cost tracker	A capital funding mechanism that recovers actual costs associated with capital expenses over the term of the MRP plan. Project costs are pre-approved by the commission and passed through to customers, with an annual true-up of actual expenses. Project-specific capital cost trackers are a variant that applies to specific, approved projects.
Capital funding mechanism	Ratemaking provision that allows the utility to recover costs associated with capital outside of the MRP's primary revenue components. Various methods may be used to calculate capital funding levels, including historical expense data, forecasted capital costs, or some combination of these.
Earnings sharing mechanism (ESM)	A provision to automatically share surplus or deficit earnings (or both) between utilities and customers that may result when the return on equity deviates from the regulator-approved target (e.g., allowed ROE).
Efficiency carryover mechanism (ECM)	Provision within an MRP that allows the utility to retain a portion of cost savings achieved from productivity gains during the last years of a rate period, which can be applied as additional earnings in the next rate period. An ECM can lessen the utility's diminished interest in achieving cost efficiency if they expect that savings will result in lower

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Thank you.

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Q&A and Discussion: Multi-Year Rate Plan Report

1. What is your top takeaway from CEG's presentation?
2. What from CEG's presentation would you like to learn more about?

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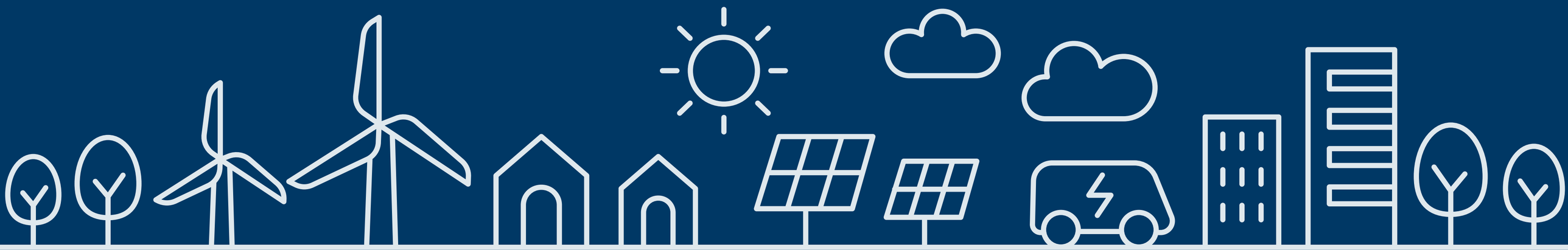
Fixing Multi-Year Rate Plans

Guest Presenter:

Gennelle Wilson, RMI



Getting Multiyear Rate Plans Right:

Avoiding design pitfalls to support utility cost control

Oregon PUC | December 2025

Gennelle Wilson

Manager, Electric Utility Regulation

Gwilson@rmi.org

This presentation is not an analysis of the Oregon context. The analysis presented in this deck reflects general observations across many MRPs approved in the U.S.

Agenda

I. The cost control benefit of well-designed MRPs

II. Characteristics of flawed MRPs & five design pitfalls to avoid
   - Pitfall 1: excessive revenues in the MRP
   - Pitfall 2: incremental capital funding mechanisms
   - Pitfall 3: off-ramp thresholds that are too easily met
   - Pitfall 4: imbalanced treatment of savings
   - Pitfall 5: reliance on cost reciliation mechanisms

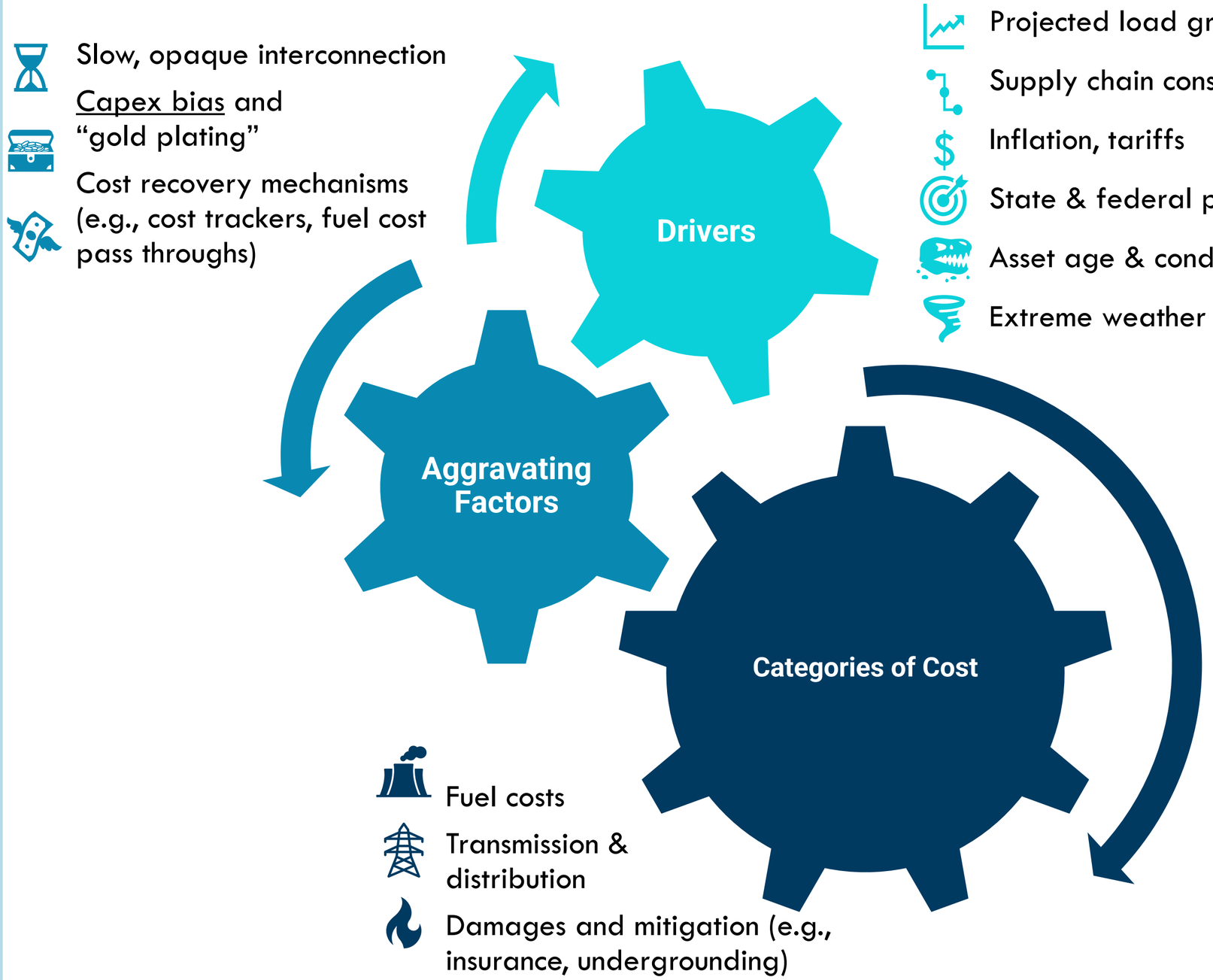
Appendix

Additional recommendations, considerations, and information

I. The cost control benefit of well-designed MRPs

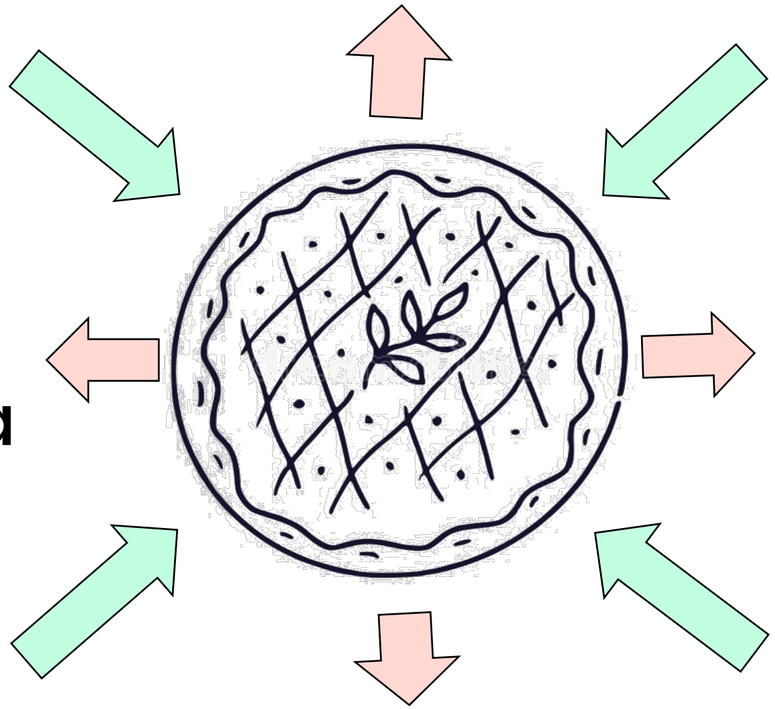
Why are costs increasing?

A confluence of long-standing challenges and new stressors



What does it mean to "control utility costs" in an era of increasing costs?

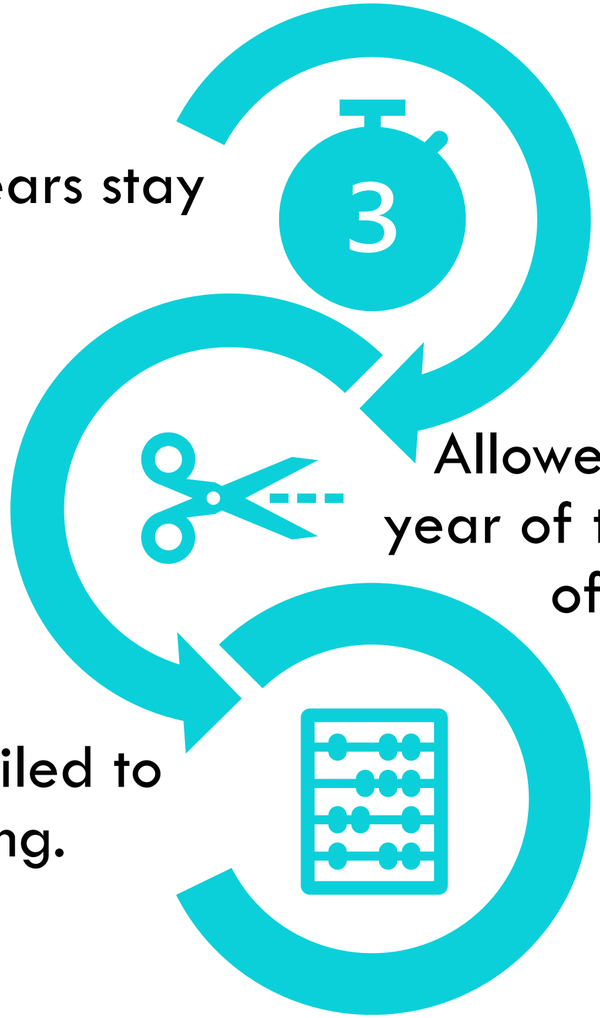
- **It means that the rate of cost growth is no more than necessary to support a reliable, safe grid, while also meeting state regulatory/policy objectives.**
- **Does not *necessarily* mean that costs will decline or remain at current levels.**
  - But it *can* lead to a cost reduction depending on the circumstance.



What is an MRP?

Three criteria:

A minimum of three-years stay out



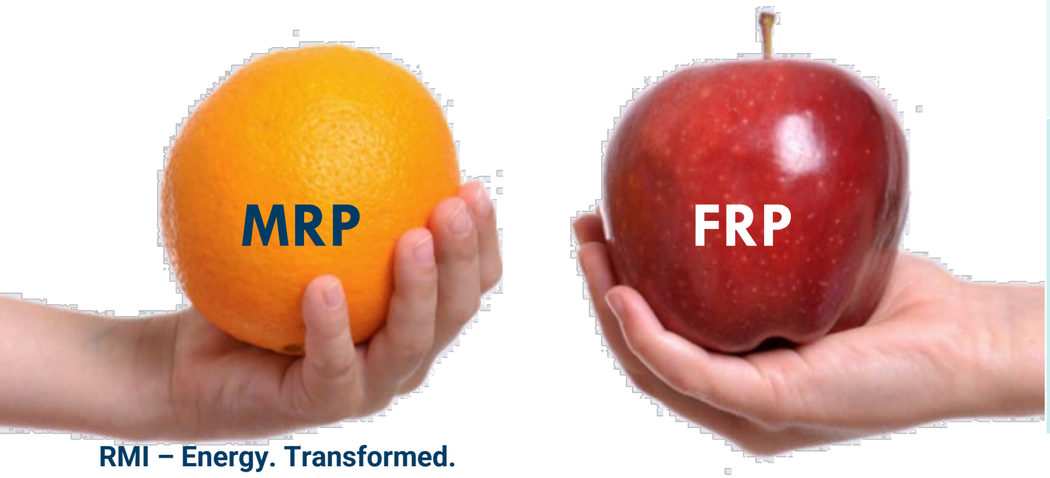
Allowed rates or revenues for each year of the plan are set independently of the utility's actual costs.

Revenues are not reconciled to match actual spending.

What an MRP is not

MRPs and FRPs are categorically different and philosophically opposed ratemaking approaches

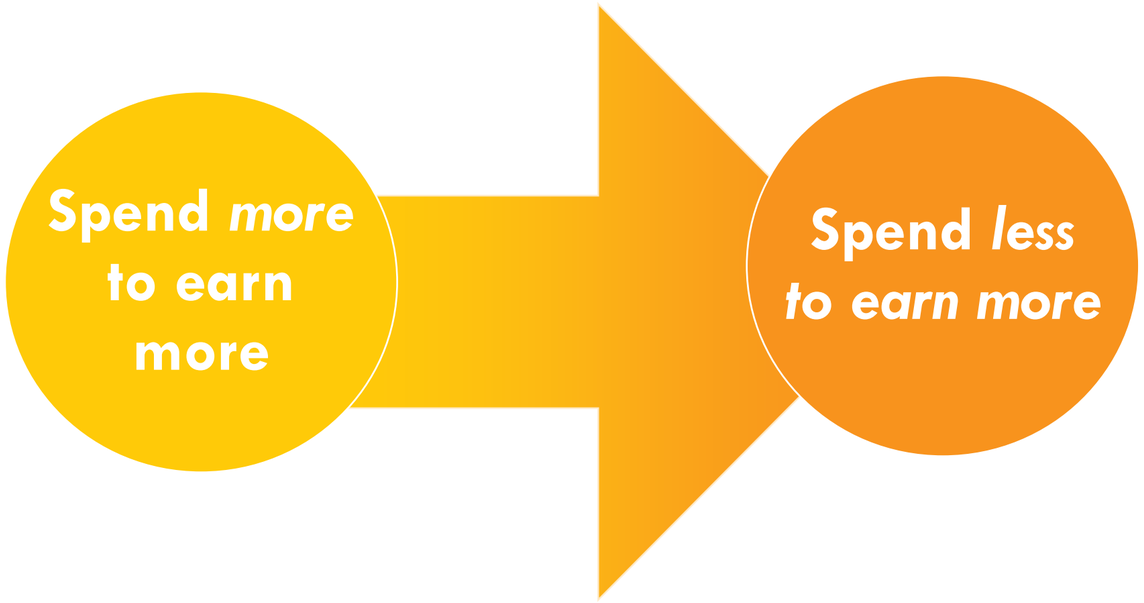
- A formula rate plan (FRP) is often mistaken for a MRP, but violates the third MRP criteria
- FRPs ensure that allowed revenues track utility spending



MRP	FRP
Utility bears risk of managing its business costs "within budget" for a prolonged period	Utility risk is minimized and transferred to ratepayers
Budget management risk is offset by opportunity to increase earnings if utility can operate more efficiently	
If used, a formula adjusts rates based on macroeconomic circumstances.	Formula automatically adjusts rates to track spending to maintain utility's authorized ROE

How MRPs can support cost control

Paradigm Shift

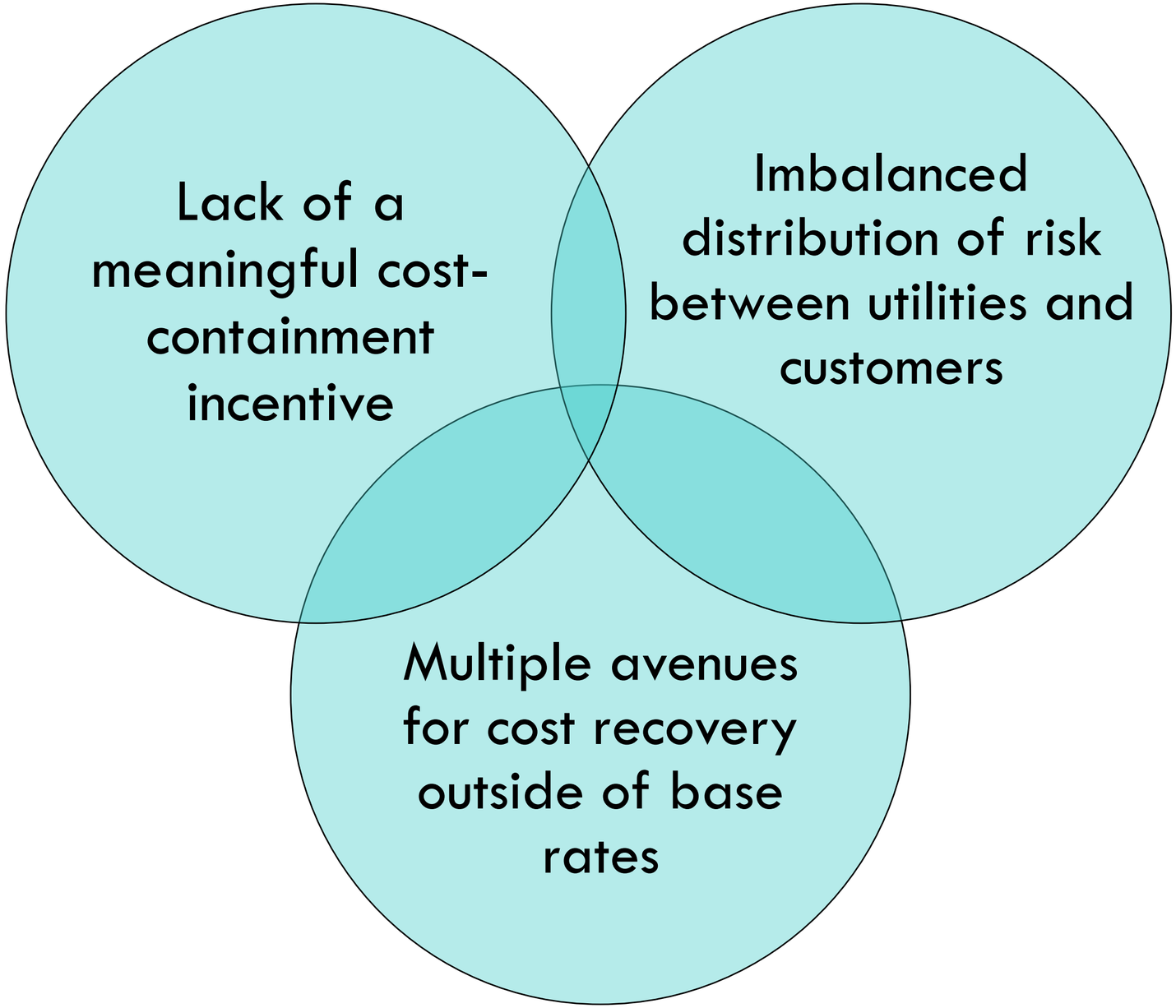


- **Reduces the ability of utilities to file rate cases at will**
- **Once base rates are set, they're in place for several years, functioning like a budget:**
  - If the utility spends ***less***, it can benefit financially from the savings — creating an incentive for it to seek cost-saving opportunities.
  - If the utility's costs are ***higher*** than expected during the MRP period, the utility bears the financial consequences of that result.

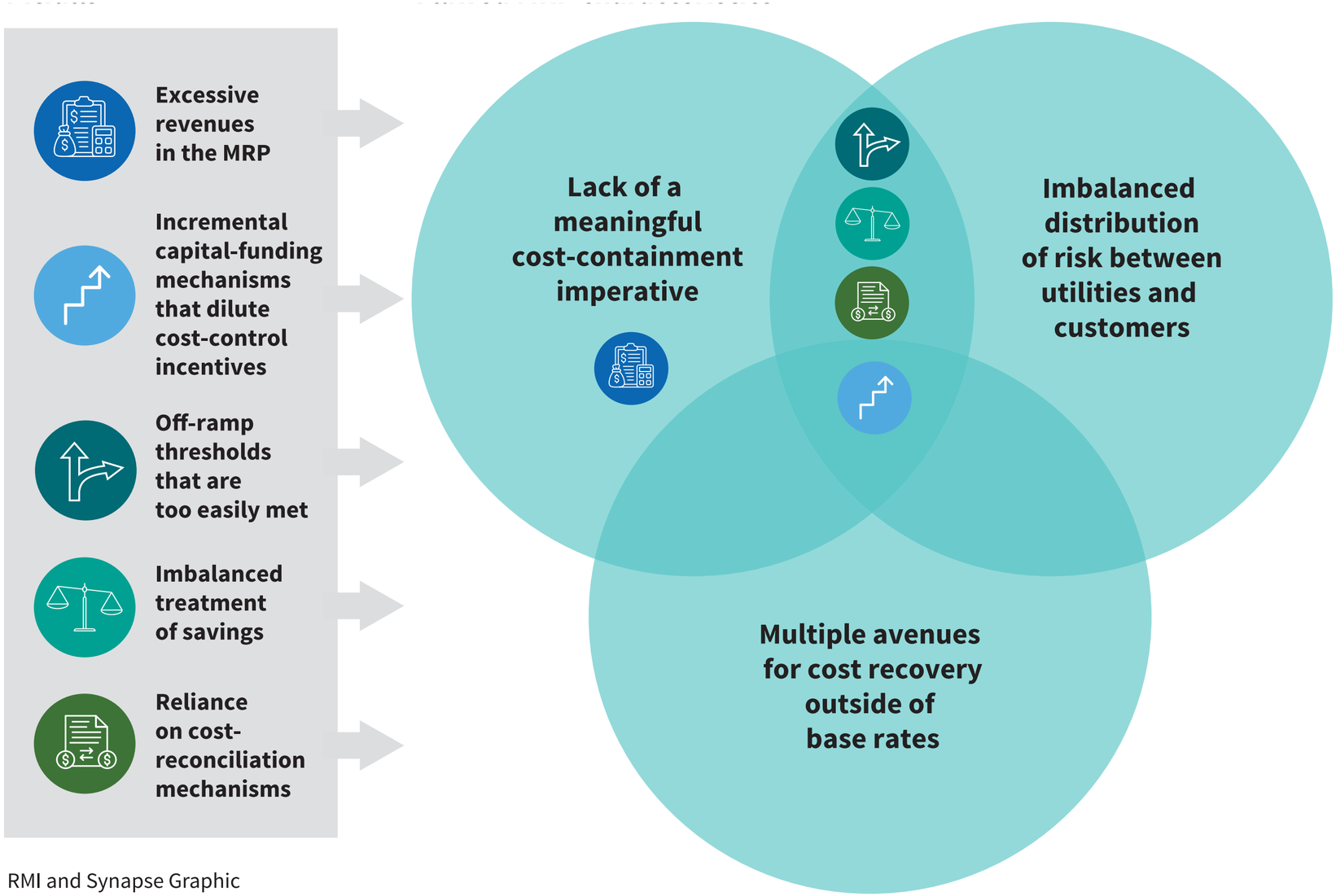
II. Characteristics of flawed MRPs & five design pitfalls to avoid

The following slides are not an analysis of the Oregon context. The pitfalls presented in the following slides reflect RMI and Synapse's general observations across many MRPs.

Three fundamental flawed characteristics associated with MRPs that do not support cost control



Five design pitfalls that perpetuate flawed MRP characteristics



RMI and Synapse Graphic

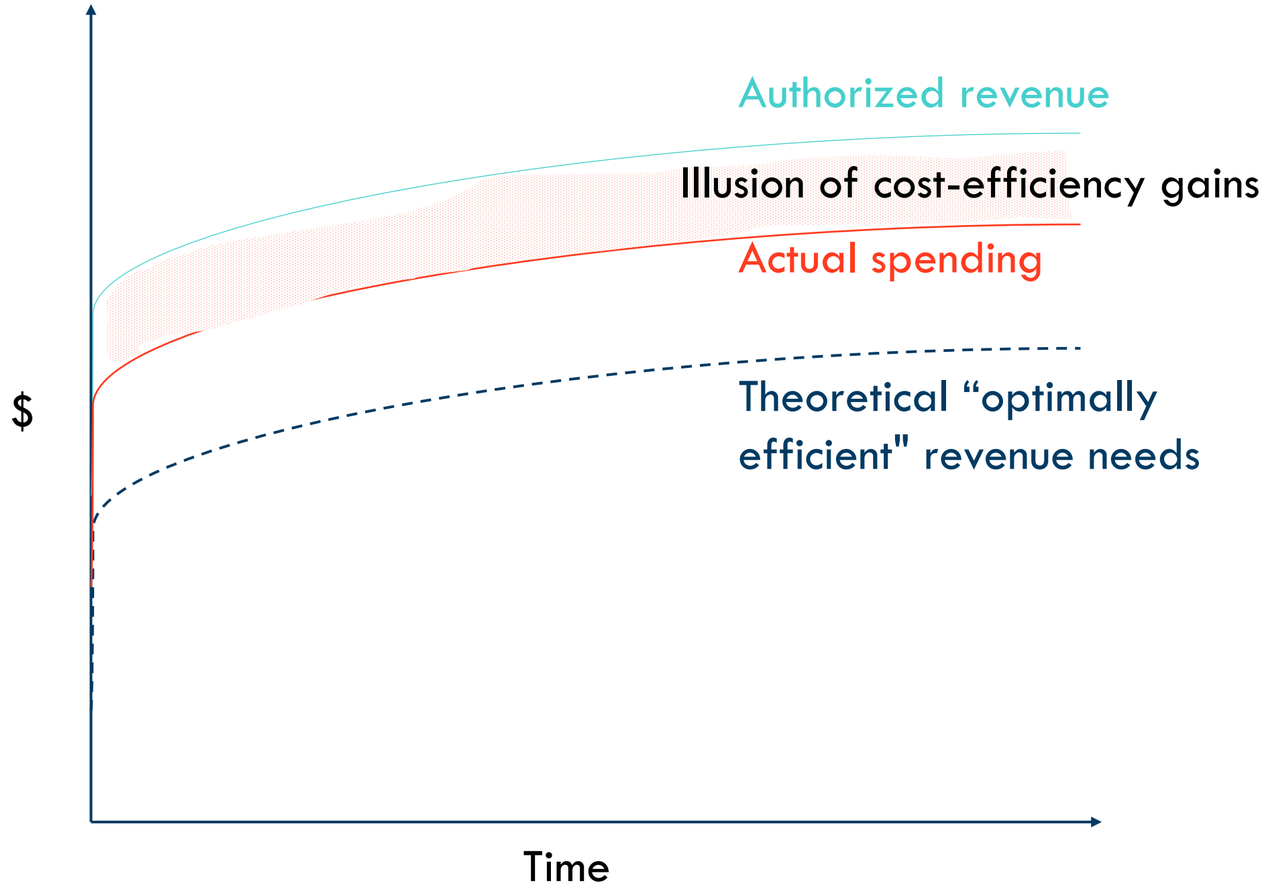
Pitfall 1

Excessive revenues in the MRP

The challenge

If allowed revenues are set too high:

- customers end up paying more than is reasonable
- resultant “savings” create an illusion of cost-efficiency gains

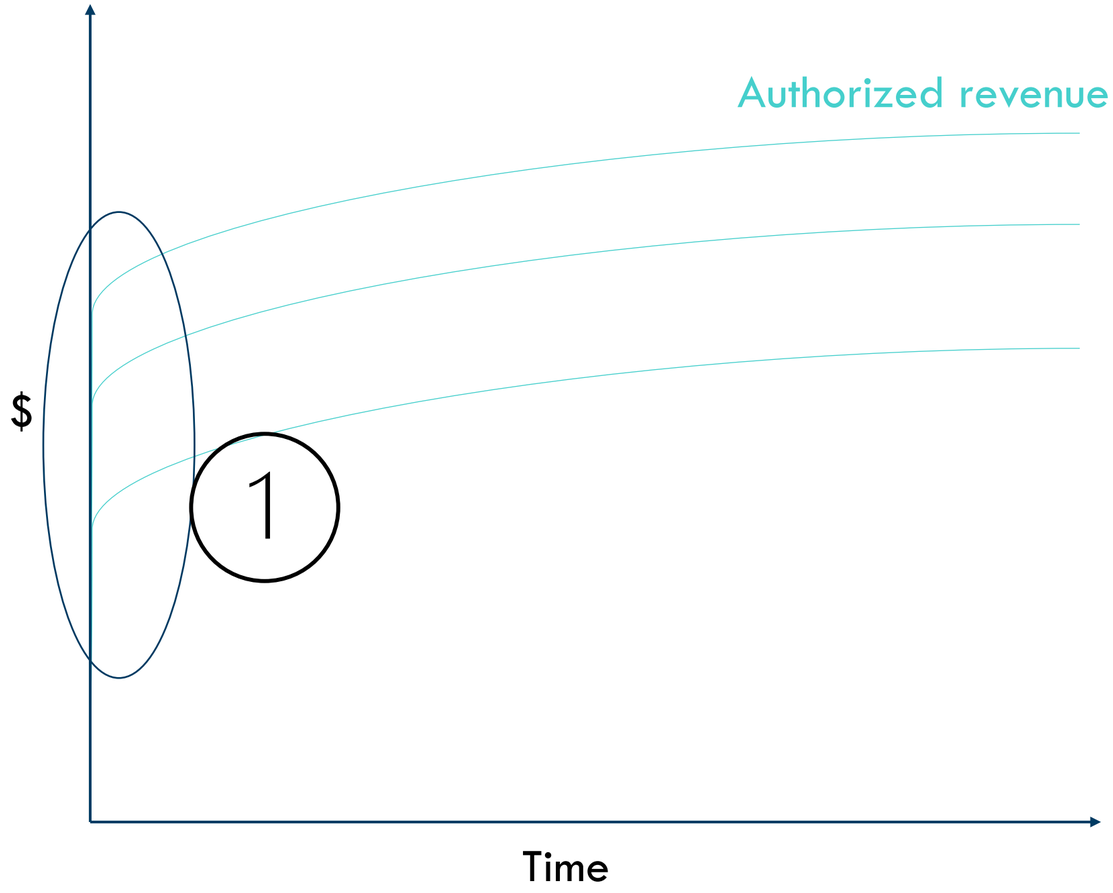


Pitfall 1

Excessive revenues in the MRP

The challenge

- **Two components to excessive revenues:**
  1. Starting revenue requirement (i.e., Y1 of MRP)
  2. Annual revenue trajectory (i.e., attrition relief mechanism or "ARM")



Pitfall 1

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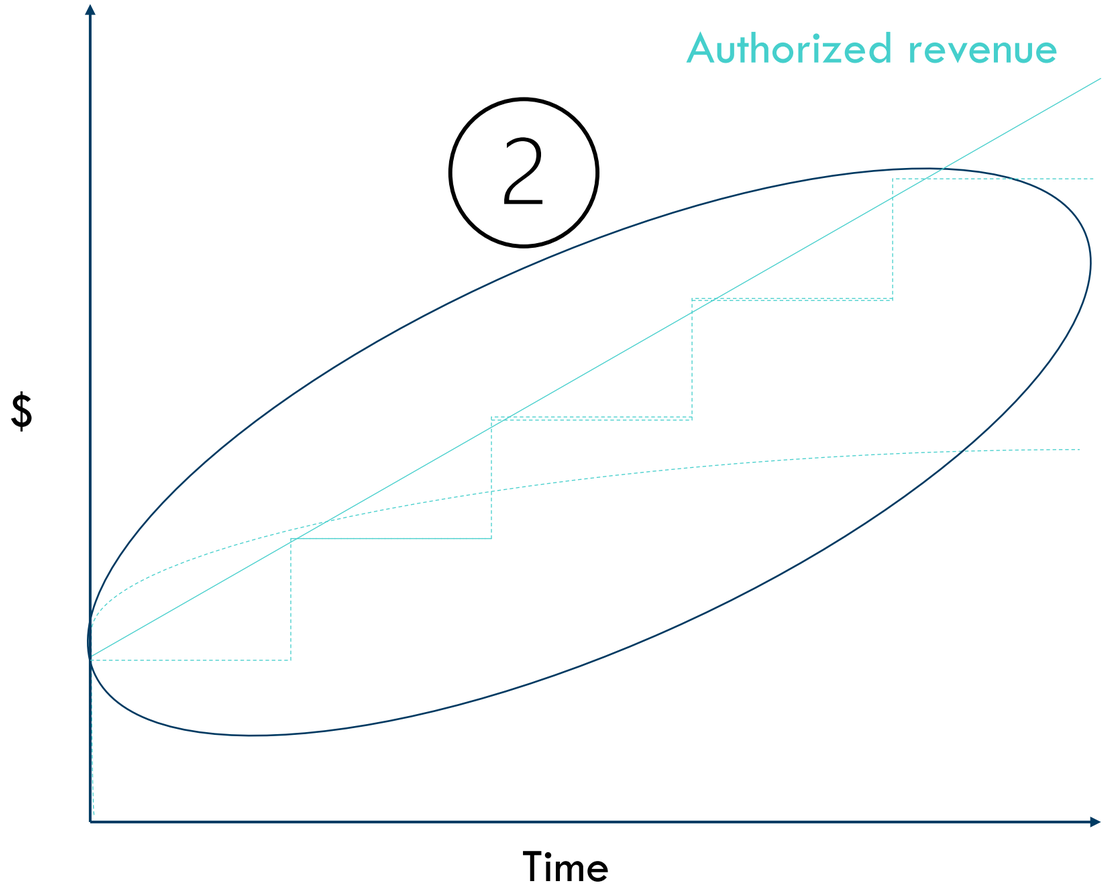


Pitfall 1

Excessive revenues in the MRP

The challenge

- **Starting revenue requirement is generally based on a prudency review of an HTY, or FTY**
- **The ARM can be based on either**
  - External indices (e.g., inflation)
  - Utility forecasted costs, or
  - Hybrid of the two

An index-based ARM is likely to lead to greater efficiency improvements because it escalates revenues ***based on circumstances outside of the influence of the utility.*** With forecasts, utilities have incentive to inflate predictions.

Pitfall 1

Excessive revenues in the MRP

The remedies

ARMs based on cost forecasts:

- Thorough review of
  - categories of costs,
  - assumptions, and
  - the robustness of the IRP and distribution planning processes that informed the cost forecasts.
- E.g., what uncertainties were modeled and explored? Were alternatives to high-cost capital projects considered? How are those reflected in the forecast?
- Employ benchmarking to ensure that forecasts are reasonable.

ARMs based on indices:

- Stress-test outputs of statistical models in a robust manner
  - Do stakeholders have the information they need to propose alternative model specifications?
- Ensure multiple independent analyses for PUC consideration (e.g., a consultant retained by the regulator)
- **Example:** Alberta PUC considers several total factor productivity studies when determining an X factor

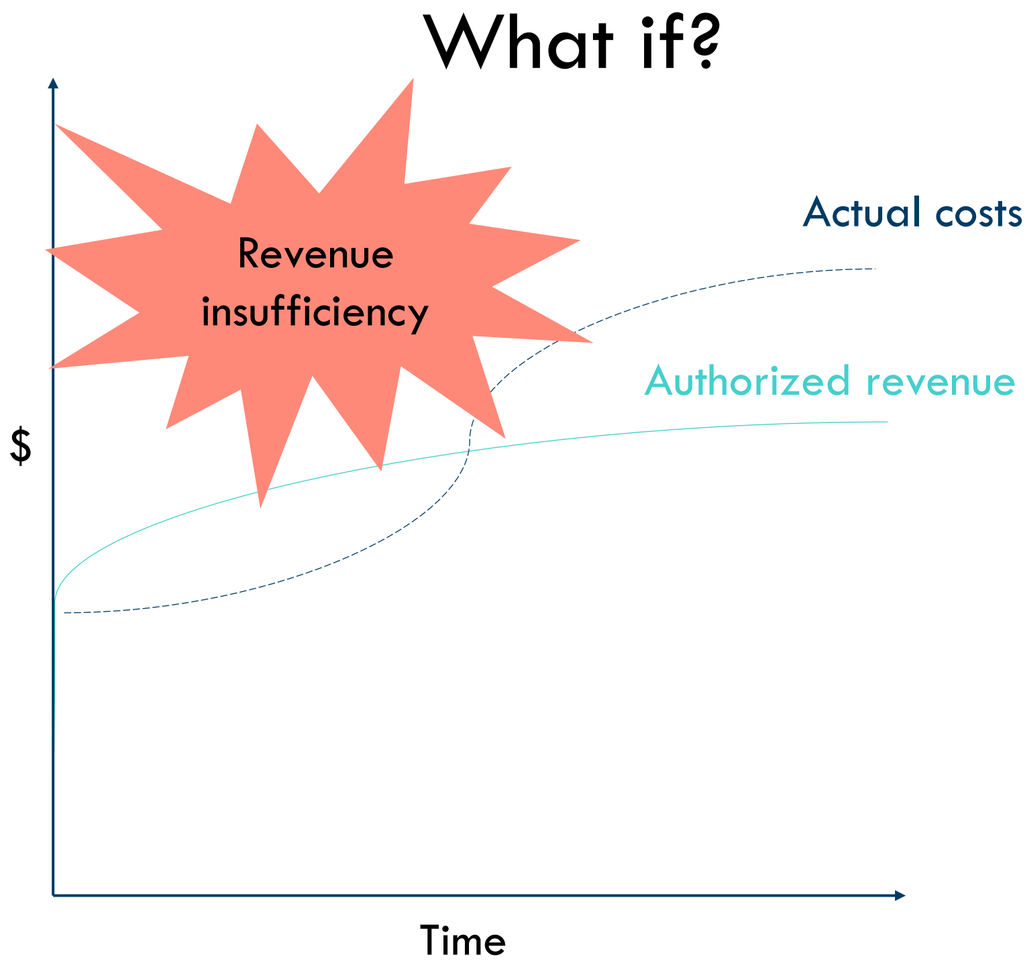
Use management audits

- Reduces the efficiency "slack" to motivate deeper utility efficiency efforts during MRP
- **Example:** Hawaii conducted a management audit and found $25 million in annual capital and O&M savings opportunities, which were reflected in the authorized MRP revenues

Pitfall 2

Incremental capital funding mechanisms

The challenge

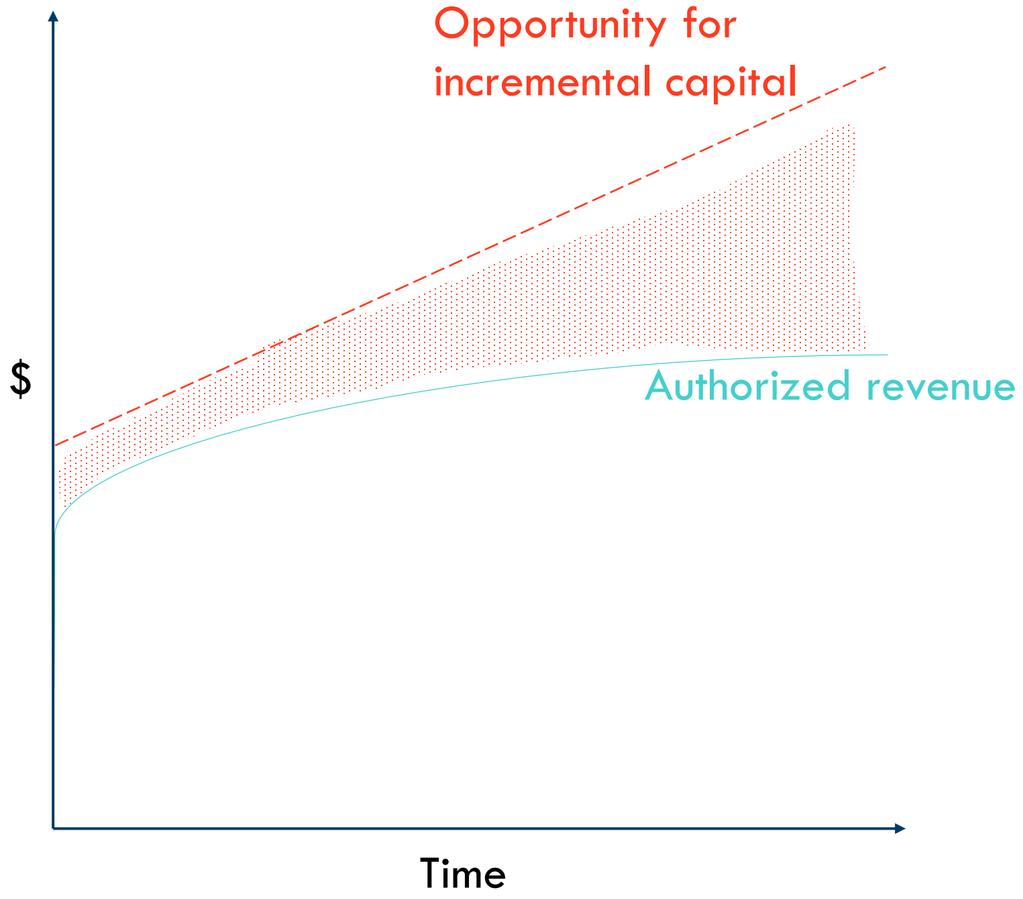


- **Utilities often advocate for supplemental capital funding mechanisms**
  - The logic for supplemental capital is stronger when an index-based ARM is used as opposed to a forecasted ARM.

Pitfall 2

Incremental capital funding mechanisms

The challenge



- **Risk: incremental capital support may attenuate MRP's incentive to control costs**
  - Provides an "outlet" if utility is not effective as seeking out efficiencies under the MRP, relaxing the cost-containment incentive
  - Utility can "game" cost recovery through MRP v. supplemental funding mechanism
  - Provides opportunity to act on capex bias to increase earnings
  - Self-fulfilling prophecy: existence of incremental capital support might enable greater-than-needed spending

Pitfall 2

Incremental capital funding mechanisms

The challenge

Two common vehicles for incremental capital funding

	Rationale	Potential Benefits	Potential Drawbacks
Cost Tracker	Adjusts rates between rate cases to allow for recovery of specific costs (capex & opex), often on a dollar-for-dollar (i.e., cost-of-service) basis.	• Timely recovery, enhancing utility financial position • Avoids over-recovery by basing revenues on actual costs incurred (rather than an index or forecast)	• Eliminates regulatory lag Removes opportunity to benefit from cost reductions • Particularly concerning when applied to capex
K-Bar	Provides additional revenue for capital-only, based on the utility's actual historical (rolling-average or fixed-period) capex. Can support utility capex needs during times of escalating investment while preserving some regulatory lag.	• Supplemental revenues limited to historical averages, which limits annual revenue increases. • An averaging approach may preserve some regulatory lag. • May preserve greater cost-control incentives than cost trackers.	• Re-establishes the linkage between allowed revenues and utility spending during the term of the MRP, which dilutes the cost-containment incentives of the MRP.

A K-Bar may be preferable to a cost tracker in terms of the strength of the cost containment incentive, though the design can be complex and challenging. Example: Alberta implemented iterative supplemental cost recovery over three generations of MRPs (see case study appendix in *Fixing MRPs* report).

Pitfall 2

Incremental capital funding mechanisms

The remedy

Limit cost tracker use	Enhance reporting requirements	Enhance performance accountability
• Limit and prescribe eligibility criteria to include only costs that are beyond utility control, unpredictable, and present significant financial risk.	• Require additional detail about tracker-funded expenditures (e.g., a forecast). • Example: Storm cost rider recovery is contingent upon a "full review" of hardening and vegetation management to ensure storm restoration costs are reasonable and not the result of deferred maintenance in Nova Scotia.	• Adopt complementary incentives to support cost control or to ensure supplemental capital mechanisms deliver benefits (e.g., defer earnings until benefits have been demonstrated. • Example: The Collective Shared Savings Mechanism HI applies to fuel, purchased power, and PUC-approved cost trackers incentivizes keeping total rider spending below a historical threshold.

Avoid incremental capital altogether	• Example: NH PUC rejected a proposed K-Bar by Eversource Energy and instead approved a traditional ARM with a negative X factor to provide additional revenue increase for each year of the MRP.

Pitfall 3

Off-ramp thresholds that are too easily met

The challenge

The **stay-out period** prevents utilities from filing rate cases during the MRP, forcing them to operate within allowed revenues and encouraging disciplined spending.

An **off-ramp provision** allows a utility to file a new rate case during the MRP term under specified circumstances, which can:

- Provide flexibility in the event of unforeseen circumstances (e.g., global pandemic), and
- Serve as a safeguard against unintended consequences.

A **reopener** is a *closely related* mechanism which *prescribes the circumstances in which the commission can reconsider* the

- Regulatory framework,
- Design of the MRP, and
- Sufficiency of revenues under the MRP.

Pitfall 3

Off-ramp thresholds that are too easily met

The design challenge

A poorly designed off-ramp can undermine the MRP's cost containment incentive;

- If thresholds are set too low, a utility can file a new rate case without good reason.

Generally, there is high reputational risk for employing an off-ramp, so utilities are reticent to employ them.

Example: An Overly Permissive Off-Ramp in North Carolina

- Electric utilities are allowed to file a new rate case during an MRP *if actual earnings fall below the authorized ROE*.
  - No deadband; any earnings shortfall below the authorized ROE can trigger the off-ramp provision.
  - Triggers apply equally regardless if due to **controllable** causes (e.g., poor cost management) and **uncontrollable** causes (higher inflation).

Observation: this approach confuses the utility's **right to the opportunity** to earn a fair return with a **right to a guaranteed return**.

Pitfall 3

Off-ramp thresholds that are too easily met

The remedy

Define criteria for when an off-ramp can be employed to ensure it is a meaningful protection but not a “get out of jail free” card.

Example: The Reopener Provision in Hawaii

- Allows the utility to *petition* for an examination of the MRP and regulatory framework if an explicit triggering event occurs, such as:
  1. A credit rating outlook indicating a potential downgrade below investment-grade status.
  2. The actual ROE entering the outermost sharing tiers of the Earnings Sharing Mechanism (ESM).

Pitfall 4

Imbalanced treatment of savings

The challenge

- An earnings sharing mechanism (ESM) protects customers from the utility excessively earning during an MRP (e.g., too high authorized revenues or price cap)
- An ESM defines how utility earnings above (or below) its authorized ROE are shared with customers

- However, a poorly designed ESM can be counterproductive in two ways:
  1. Overly aggressive sharing requirements
  2. Provisions that allow utilities to recover underearnings

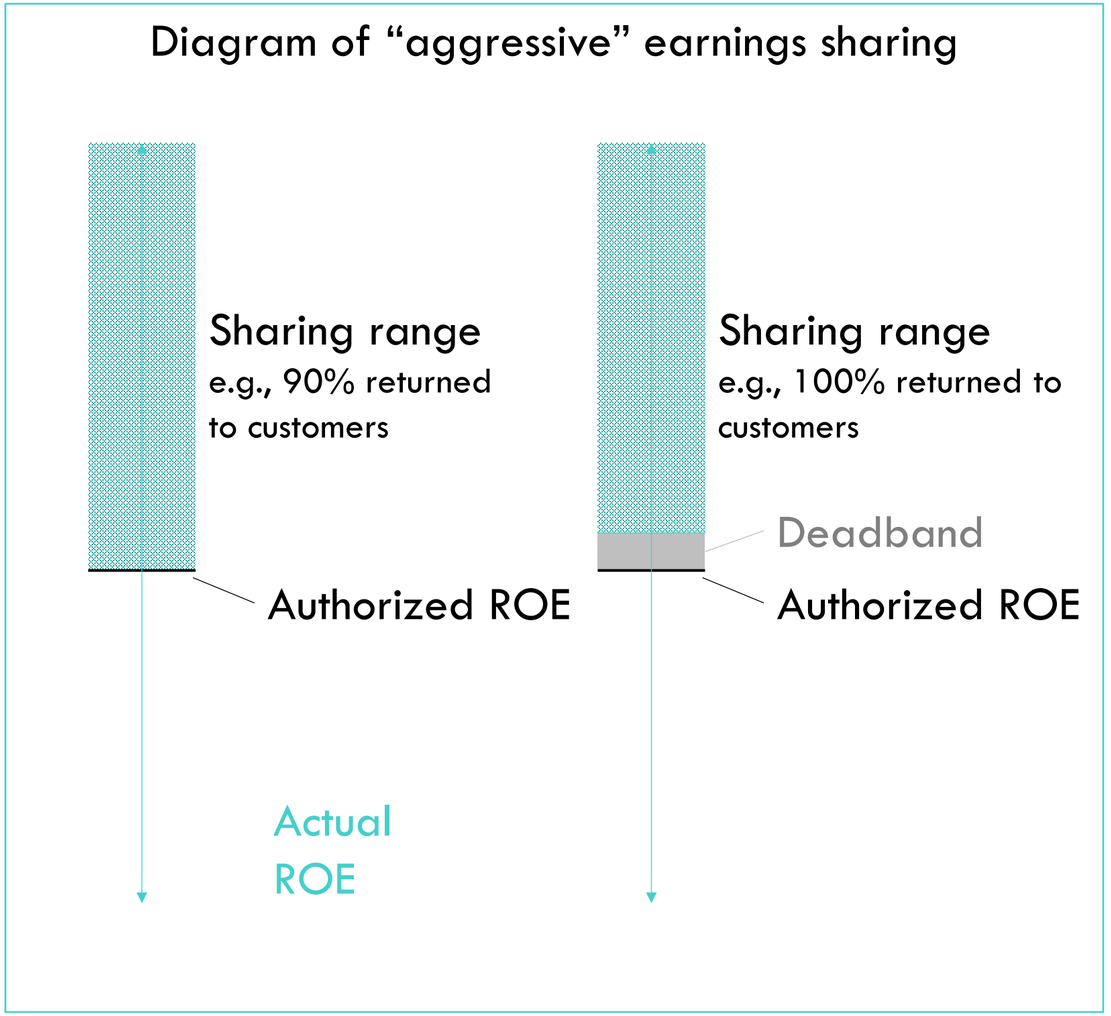
Pitfall 4

Imbalanced treatment of savings

The challenge

1. Overly Aggressive Sharing Requirements

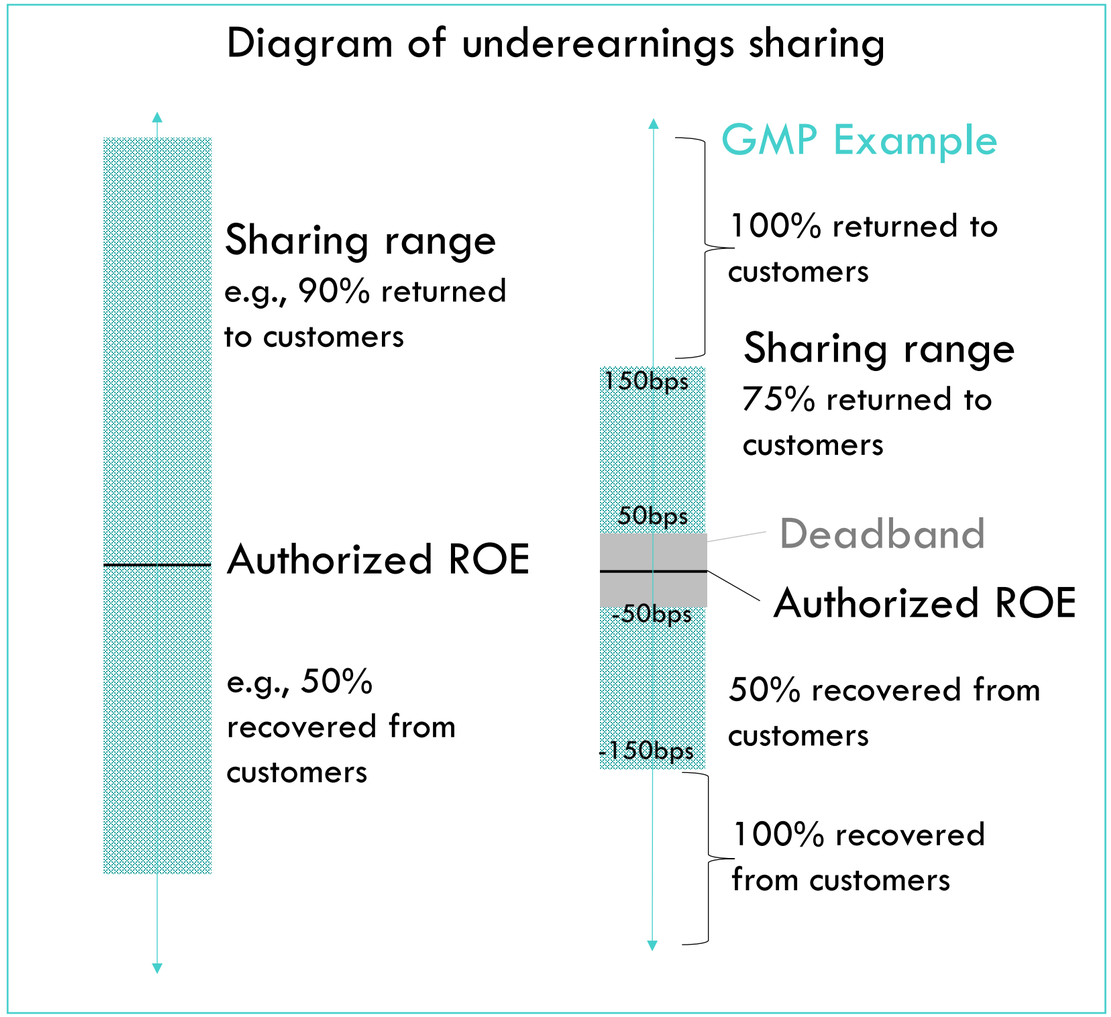
- Weakens cost-containment incentives because the financial reward for cost-saving efforts diminishes.
  - Example: Virginia's utilities are subject to a biennial rate review; 85% of all overearnings below 50 bps above ROE are returned to customers. 100% returned if over 150 bps.
- To preserve incentives, many ESMs include a **deadband** within which utilities retain all earnings.
  - The wider the deadband, the more the cost containment incentive is preserved.



Pitfall 4

Imbalanced treatment of savings

The design challenge



2. Recovery of Underearnings

- Recovery of underearnings from ratepayers ***shifts financial risk*** from the utility to customers.
- Revenues are adjusted to recover costs from ratepayers if the utility underearns, eroding incentive for utility efficiency
- Example: Green Mountain Power (VT) has a ±50bps symmetrical deadband
  - 75% of excess earnings between 50 and 150 basis points returned to customers
  - 50% of underearnings between -50 and -150 bps are recovered from customers
  - Beyond the sharing range, 100% passed through to customers.

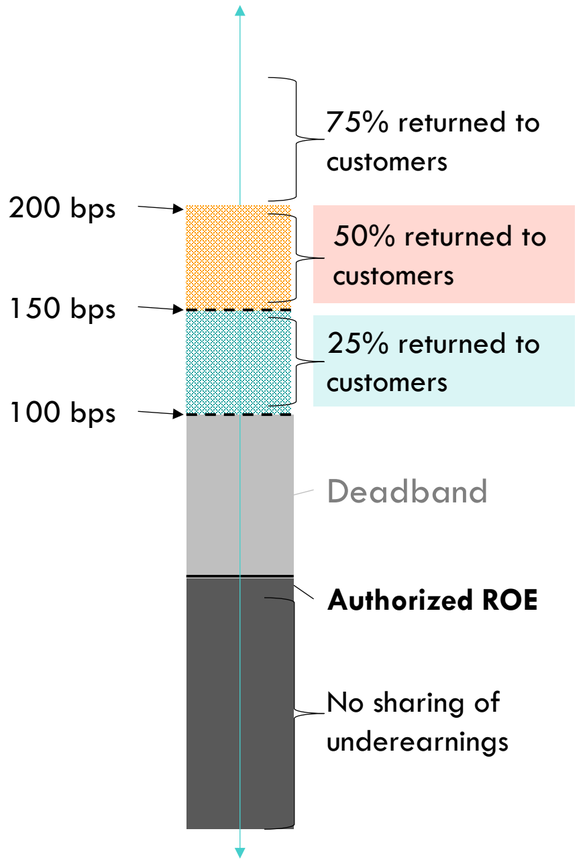
Pitfall 4

Imbalanced treatment of savings

The remedy

- Some MRPs forgo ESMs altogether
- ESMs should be implemented carefully, ***ideally with sizable deadbands.***
  - However, ESMs with narrower deadbands can also play a role in preventing utilities from benefiting from inflated cost forecasts.
- Sharing of underearnings ***should be avoided.***
  - Preferred approach: create a well-defined reopener criteria so that the reasons for underearning can be examined and the MRP can be revised if necessary.

Eversource Example



Example

Eversource Energy (MA) has a tiered ESM:

- Customers receive 25% of earnings above the authorized ROE between 100 and 150 basis points.
- 50% between 150 and 200 basis points.
- 75% above 200 basis points.
- There is **no** sharing of underearnings.

Pitfall 5

Reliance on cost reconciliation mechanisms

The design challenge

Reconciliation restores utility's revenue-to-cost link, weakening cost-containment incentives.

- Can increase regulatory burden due to the need to conduct detailed annual reviews (undermining administrative efficiency benefit).
- Can lead to potentially worse outcomes than traditional COS rate case.

Reconciliation can distort incentives bi-directionally

Reconciliation of overspending

- Function: Allows utility to recover costs exceeding the MRP revenue cap.
- Why: Reduces utility risk if it needs to spend more than ARM
- Impact:
  - Eliminates utility's motivation to control costs
  - Customer bears full cost of utility overspending (risk shifting)

This is NOT an MRP, it's an FRP

Authorized revenues

Reconciliation of underspending

(aka clawback mechanisms or net plant balance reconciliation)

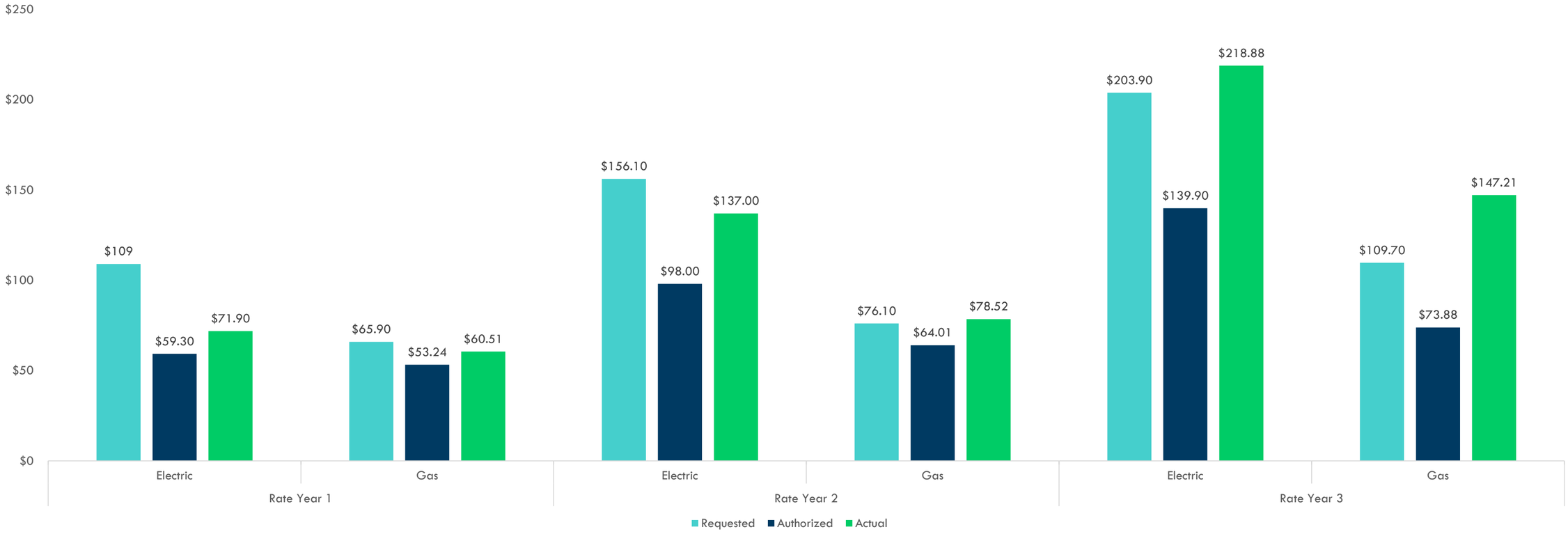
- Function: Reimburses ratepayers un-used utility revenues
- Why: Can protect customers from risk of inflated forecasts or unexecuted investments
- Impact:
  - Eliminates the utility's reward for efficiency gains
  - Reinforces "capex bias" - utility maintains incentive to over-invest in capital (to earn returns) without a counterbalance

Pitfall 5

Reliance on cost reconciliation mechanisms

The design challenge

Example: BGE MRP Requested, Authorized, and Actual Revenue (millions)



Case Nos. 9618/9645, Brief of the Maryland Office of People's Counsel, Maryland Public Service Commission, December 13, 2024, Table 1, page 17

Pitfall 5

Reliance on cost reconciliation mechanisms

The remedy

Avoid reconciliation mechanisms in MRPs

- While clawbacks may offer short-term savings, they may contribute to higher long-term costs by weakening cost-reduction efforts
  - Instead of reconciling under-spend, pass utility savings onto ratepayers in the next rate reset
- Alternatively, apply reconciliation narrowly to costs over which utility has limited control such as
  - Recurring pass-throughs or mandated costs
  - One-time, extraordinary costs

Preferred Alternative: Index-Based ARM + ESM

- Better to set revenues using an index-based ARM without reconciliation
- Combine with an ESM featuring a narrower deadband to prevent excessive overearning

Thank You!

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Manager, Electric Utility Regulation
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Summary of common MRP pitfalls and their remedies

	Pitfall	Remedy to the Pitfall	Example(s) of Good Practice
1	**Excessive revenues in the MRP**	• Employ index-based formulas rather than utility forecasts as the basis for revenue escalation. • Conduct management audits to ensure starting revenues are reasonable and efficiencies are "baked in".	Alberta and Hawaii
2	**Incremental capital funding mechanisms that dilute cost-control incentives**	• Carefully evaluate whether supplemental capital is justified. • Consider an ARM with a negative X-factor instead. • If necessary, a K-Bar may be preferable to cost trackers to support cost containment. • If cost trackers are used, adopt complementary mechanisms to incentivize cost containment and/or make cost recovery conditional on performance. • Adopt reporting metrics to understand the influence of cost trackers on total revenues.	Alberta, Nova Scotia, New Hampshire
3	**Off-ramp thresholds that are too easily met**	• Define strict criteria for when an MRP off-ramp can be employed. • Retain authority to determine whether an off-ramp is appropriate before proceeding with a new rate case.	Hawaii
4	**Imbalanced treatment of savings**	• Implement earnings sharing mechanisms with sizable deadbands to reward utilities for operating efficiently. • Avoid sharing of underearnings altogether.	Massachusetts
5	**Reliance on cost reconciliation mechanisms**	• Avoid reconciling revenues to accommodate overspending. • Although reconciliation of underspending (clawback mechanisms) can provide short-term savings to customers, this should also be avoided; An earnings sharing mechanism is preferrable to reconciling revenues to match actual costs.	Each of the above

Comparing cost containment incentive under an MRP vs. traditional cost-of-service (COS) rate case

Evaluated on their ability to support cost control

Under an MRP

- Cap on revenues or prices allows utility to keep all (or a large portion of) the difference between revenues and actual costs
- Can create a strong incentive to seek and pursue all available cost efficiencies to maximize its earnings during the stay-out period

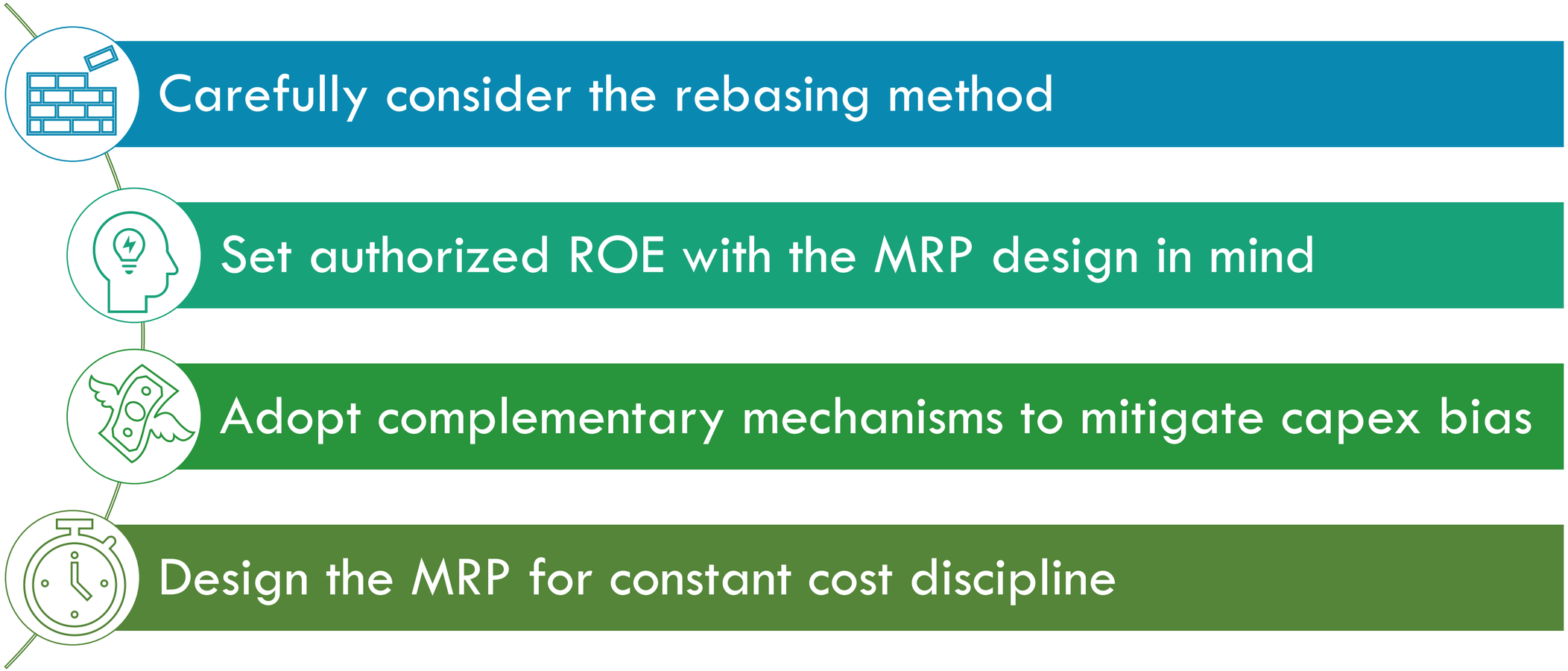
Under COS rate case

- Regulatory lag
- Prudency review & risk of disallowance

However, …

- The incentive to seek cost efficiencies is *limited* by the recently approved revenue requirement
- The utility can file a new rate case *at any time* to increase its approved revenue requirement
- Challenging to discern imprudent expenditures, and whether there is room for more efficient operations, resulting in a relatively low actual risk of disallowance.

Additional recommendations for MRPs that contain costs



Broader considerations for MRP oversight and implementation

Tackle information asymmetry by creating additional transparency requirements

Establish robust reporting metrics to ensure service quality does not erode

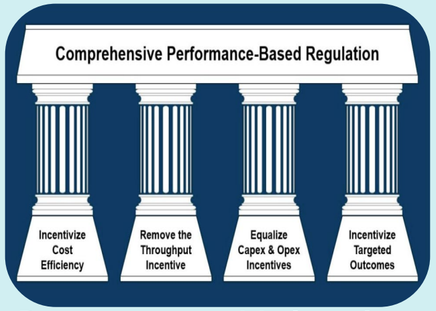
Wait to tackle revenue sufficiency for projected load growth until the demand and cost allocation are more certain

Establish a collaborative regulatory process to support design of MRPs

RMI resources related to cost control & MRPs

A Strategic Framework for Utility Cost Control

Offers comprehensive menu of eight strategies and sixteen regulatory levers that can support cost-control across various utility decision-making venues.

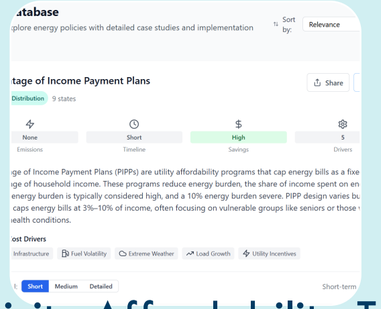


How to Restructure Utility Incentives

Guidance on how to use comprehensive PBR to improve utility incentives, including in support of cost control, as well as other outcomes.

Fixing Multiyear Rate Plans

Recommendations on how to improve the design of Multiyear Rate Plans to ensure these mechanisms are delivering on their potential to support cost control.



Electricity Affordability Toolkit

A list of 24+ tools to help stakeholders identify and advance effective electricity affordability solutions aligned with state context, interests, and goals.

Q&A and Discussion: Fixing Multi-Year Rate Plans

Gennelle Wilson, RMI

1. What is your top takeaway from RMI's presentation?
2. What from RMI's presentation would you like to learn more about?

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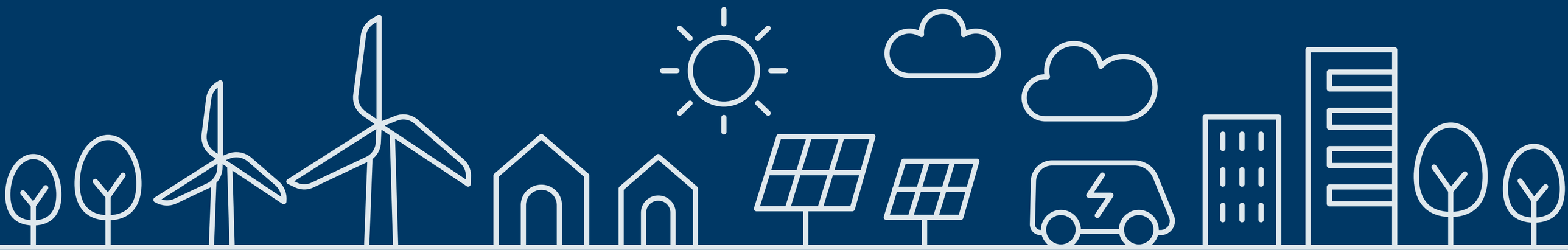
Mentimeter Polling

We kindly request that Commissioners refrain from responding to these Mentimeter questions.



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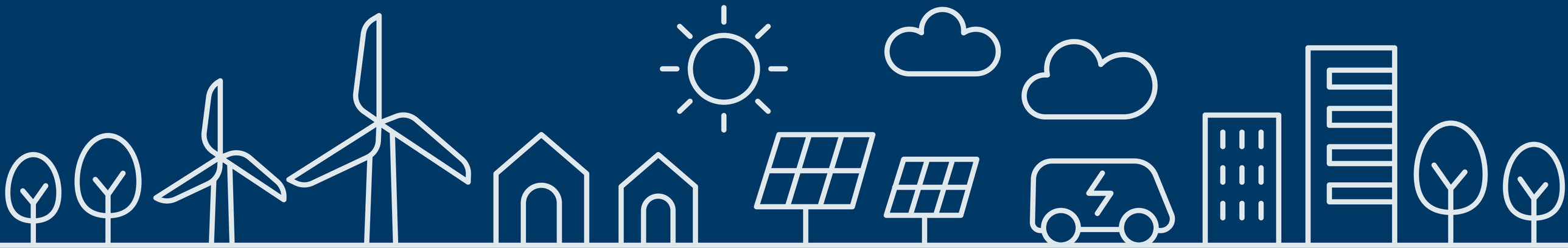
Wrap-Up and Next Steps



Wrap-Up and Next Steps

- Next meeting:
  - Topic: PBR Foundations
  - Time: 9am-12pm PST, Tuesday, January 27, 2026
- Scheduling survey for February, March, and May meetings
  - https://forms.office.com/r/BJtDJK4D9M (will also be posted in AR 676)
- Final remarks from Staff

Any questions?

Please reach out to Luz Mondragon, Oregon Public Utility Commission,

luz.mondragon@puc.oregon.gov

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Uncharted territory OR a path forward?

- Equity Metrics
  - Energy burden
  - ETO metrics
  - Community benefit indicators
- Safety Indicators
  - Risk spend efficiency
  - Vegetation management audits
  - Accident performance indicators
- Reliability Metrics
  - SAIDI
  - SAIFI
  - CAIDI
- Variable costs mechanisms
- Earnings tests
- Sharing and deadbands
- Renewable Natural Gas (RNG)
- Renewable Adjustment Clauses (RAC)
- Decoupling
  - WARM
  - SPM

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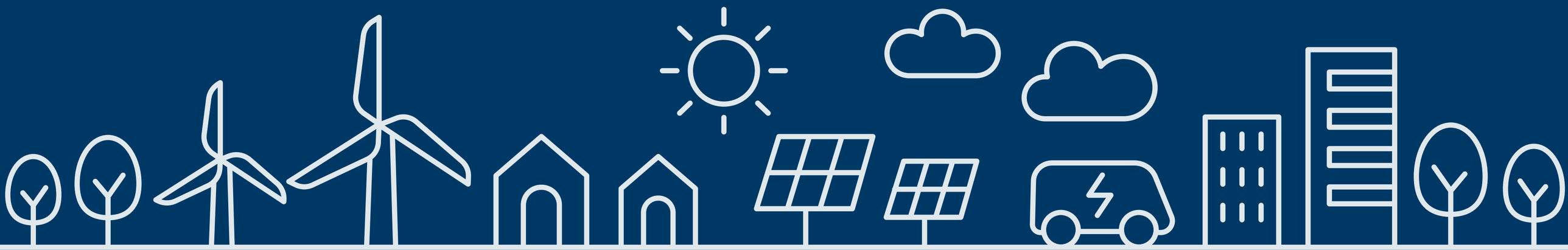
Thank you!

Staff Contact:
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Cell: 503-510-4687