Oregon Public Utility Commission

Ratemaking Framework

Workshop #2: PBR Foundations

January 27, 2026
9:00am–11:30pm PT

Meet the GPI Facilitation Team

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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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Agenda

9:00 Welcome and Introductions

9:15 Staff Presentation: Relationship of MRPs and PBR

9:30 CEG Presentation: Regulatory Goals & Outcomes

Q&A and discussion opportunity

10:00 BREAK

10:10 RAP Presentation: PBR Tools and Mechanisms

Q&A and discussion opportunity

11:10 Discussion: Goals, Outcomes, and PBR Mechanisms

11:25 Next Steps and Adjourn

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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. Provide clarity on the relationship between PBR and MRPs in Oregon.
2. Solicit perspectives on goals and outcomes for PBR in Oregon and prepare participants to share additional feedback.
3. Develop a shared understanding of a range of different PBR mechanisms and how they could be applied.

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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**	• Stakeholder input on goals/outcomes approach • Review common PBR mechanisms • Facilitated discussion
Late February 2026	**Existing Regulatory Structures**	• Review current regulatory structures in Oregon to clarify leverage points for incentive alignment • Facilitated discussion
Late March 2026	**Exploration of MYP and PBR Design for Oregon**	• Participants provide input on MYP design elements and preferred PBR mechanisms • Facilitated discussion
May 2026	• Staff to file report outlining foundational concepts, goals, and outcomes (Phase 1 items) for MYPs in Oregon • Staff to present report findings at Public Meeting	

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Staff Presentation:

Relationship between MRPs and PBR

Overview: Regulatory & Legislative History

- **Order No. 24-359 in UG 490:** Commission recognized that GRCs present an administrative burden, directed Staff to develop and present an MRP report
- **HB 3179, Section 7:** Commission must adopt rules establishing multi-year rate plans for jurisdictional electric and gas utilities
- **SB 688, Section 2:** Commission may investigate, develop, and adopt a performance-based regulation framework for jurisdictional electric utilities

For more details on these regulatory and legislative directives, please refer to the October 31, 2025 Staff Letter filed in the docket.

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Cost of Service Regulation (COSR)

- In COSR, the regulator determines the Revenue Requirement Requirement—i.e., the "cost of service"—that reflects the total amount that must be collected in rates for the utility to recover its costs and earn a reasonable return.

  Revenue Requirement = *(Rate Base x Authorized Rate of Return) + Operating Costs + Depreciation Expense + Taxes*

- A test year is used to determine which costs should be included in rates.
- Cost-causation principles are used to distribute costs among customer classes (residential, commercial, industrial)
- Only costs that are used, useful, and prudent are allowed. Regulators review expenses and returns to protect consumers and encourage efficient utility management.

Common Characteristics of COSR:

- Predictable and investor stable
- Earnings linked to capital investment (not outcomes)
- Sales volumes affect returns absent decoupling
- Supports reliability but can limit flexibility and innovation

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Oregon's COSR adaptations and alternatives
(examples of PBR-like mechanisms)

- Energy efficiency and Demand Side Management Incentives
- Decoupling
  - Removes throughput incentive
- Cost trackers; Earnings-sharing and Performance bands
  - Power Cost Adjustment Mechanism [PCAM],
  - Purchased Gas Adjustment [PGA];
  - Alternative Rate Mechanisms [ARM], etc.)
- Service quality and reliability metrics and reporting
  - SAIDI, SAIFI, CAIDI
- Carbon-reduction and Electrification targets

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How Multi-Year Rate Plans and Performance-based regulation fit together

- ***MRP establishes a multi-year revenue path that encourages cost control and reduces frequent rate cases.***
- ***PBR aligns utility performance with policy and customer outcomes through metrics, incentives, and accountability.***
- Shift focus from inputs to outcomes
  - An MRP without performance accountability risks rewarding cost cuts over outcomes
- Balance efficiency with accountability
- Create stability and predictable revenues:
  - Creates a cost-containment incentive that helps keep rates affordable
  - MRP provides time horizon for performance measurement
- Replace reactive cost recovery with proactive performance

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Scope of an MRP Ratemaking Framework

Plan Duration

- 3-7 years

Revenue Setting Mechanisms

- Going-in rates
- Forecasts/escalations/caps
- ROE
- Capital funding mechanisms

Additional PIM opportunities

Adjustments

- Performance measures (PIMs)
- Reconciliation/sharing/deadbands
- Reopoeners/off ramps

Rebasing

Oregon Public Utility Commission

CURRENT

ENERGY GROUP

cussion on Goals

January 27, 2026

AR 676

Discussion objectives

- Introduce a Goals-Outcomes-Metrics hierarchy
- Invite dialogue on draft goals and outcomes
- Provide references that can support subsequent stakeholder feedback

Goals-Outcomes-Metrics Hierarchy

Goals: broad, widely accepted objectives to organize and direct regulatory purpose

Outcomes: reflect observable results from the utility system and that derive, in part, from utilities' operations and business decisions

Metrics: provide a standard of measurement that allows observation and tracking of one or more outcomes

Hawaii PUC's PBR Goals and Outcomes

Goal	Priority Outcome	
Enhance Customer Experience	Traditional	Affordability
		Reliability
	Emergent	Interconnection Experience
		Customer Engagement
Improve Utility Performance	Traditional	Cost Control
	Emergent	DER Asset Effectiveness
		Grid Investment Efficiency
Advance Societal Outcomes	Traditional	Capital Formation
		Customer Equity
	Emergent	GHG Reduction
		Electrification of Transportation
		Resilience

+ 3 Principles for PBR Design

1. A customer-centric approach
2. Administrative efficiency
3. Utility financial integrity

Each jurisdiction has applied their own version of goals, outcomes definitions

In some cases, one state's "outcomes" might be another's "goals"

Connecticut	• 9 *Priority Outcomes* according to 4 *Goals* • 5 *Foundational Considerations*
Hawaii	• 12 *Priority Outcomes* (traditional or emergent) according to 3 *Goals* • 3 *Principles*
North Carolina	• 3 *Outcomes* (Dpt of Environmental Quality) • *Policy Goals* defined via legislation
British Columbia	• 5 *Principles* for MRP evaluation
Alberta	• 2 *Objectives* for PBR • 5 adopted *Principles*
Ontario	• 4 *PBR Outcomes*

See workshop pre-read appendix for additional detail

Oregon possible goals and outcomes – for discussion

Affordable, high-value service

- Affordability *
- **Reduced disconnections ***
- Customer service
- Customer trust
- **Reduced energy burden**
- **Support for vulnerable and low-income customers ***
- Plain language, translated, and regular communications
- **Cost containment**

Clean energy development

- GHG emission reductions *
- DER expansion *
- **Energy efficiency ***
- Electrification
- Low-carbon fuels
- Community solar expansion *
- Microgrid expansion *
- Demand response expansion *

Predictable and efficient regulatory system

- Procedural equity
- **Reduced administrative burden**
- **Stagger rate increases**
- **Reduced rate case frequency**
- **Rate transparency**
- **Narrow and clear tracking mechanisms**
- Standardization in the rate setting and rate case process
- **Smooth and predictable rates and bills**
- **Consolidated rate-setting process**
- **Reduced single-issue ratemaking**
- **Alignment between forecasts and expenses**

High-performing utility business

- Strategic and efficient capital investment
- **Efficient utility operations ***
- Asset utilization
- **Increased productivity**
- **Safety**
- **Reliability ***
- **Resilience ***
- Financial health
- **Fair earning opportunity**
- Planning
- Interconnection
- **Investments in policy goals**

Asterisk (*): Outcomes identified in SB 688

Bold: Outcomes listed by three or more stakeholders in scoping survey

Other

System innovation and evolution **Community benefits** Just transition **Balanced risk between utilities and customers**

Discussion and Q&A

1. Is the list of possible regulatory goals and outcomes presented today consistent with your vision for Oregon's energy system? What, if any, goals or outcomes do you think are missing from this list?
2. Which of these outcomes are most applicable to PBR and MRPs?
3. Are any of these outcomes in tension with one another? If so, how should competing goals and outcomes be handled?

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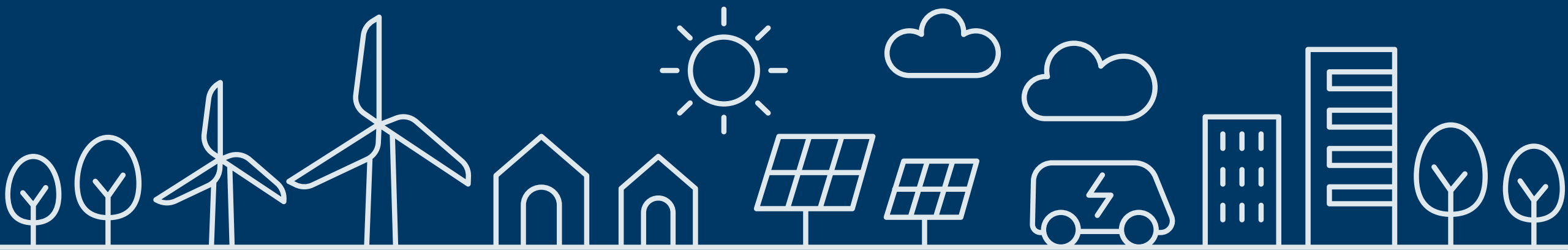
BREAK

Return at 10:10 am PT



January 27th 2026

Aligning Utility Incentives with the Public Interest: A Framework for Performance-Based Regulation (PBR)

Oregon PUC Staff Workshop Regarding Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688 Implementation)

Alex Antal
Principal
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About The Regulatory Assistance Project

Who We Are

RAP is a nonpartisan, nonprofit organization providing technical and policy assistance to energy regulators, consumer advocates, and policymakers worldwide.

Our Mission

We are dedicated to accelerating the transition to a safe, reliable, and affordable energy future by helping commissions implement industry best practices tailored to local regulatory contexts.

The Problem with "Business as Usual"

- **The Capital Bias:** Traditional Cost-of-Service Regulation (COSR) encourages utilities to build large-scale infrastructure to earn a return, even if more cost-effective alternatives exist.
- **The Throughput Incentive:** Profits are tied to sales volumes. This creates a natural conflict: the utility loses money when customers save energy.
- **The Innovation Gap:** Backward-looking rate cases cannot keep pace with 21st-century technologies like distributed energy resources, and high impact load growth.
- **Administrative Inefficiency:** Frequent rate cases are time intensive and costly for all stakeholders, leaving less time and resources for other regulatory issues.

The "Regulatory Compact" and the Public Interest

- **Early 1900s:** Electricity was a "natural monopoly." Having multiple companies run competing wires down the same street was wasteful, expensive, and chaotic.
  - **The Regulatory Compact:** A grand bargain between the state and private utilities.
- **1945–1970:** For decades, this model worked. Demand was growing, technology was improving, and power plants were getting larger and more efficient.
  - **Public Interest Result:** Real prices for electricity fell for 50 years straight, even as the grid expanded to every home in the country.

Why the "Traditional Model" Began to Fray

- **The End of "Bigger is Cheaper":** By the 1970s, "economies of scale" peaked. Building larger plants no longer lowered the unit cost of power.
- **Economic Shocks:** High inflation and interest rates made it incredibly expensive for utilities to borrow money for new infrastructure.
- **Environmentalism:** New regulations (like the Clean Air Act) required expensive retrofits, adding costs without increasing the amount of electricity sold.
- **The Result:** Instead of rates falling, utilities have been forced to go to Commissions every year or two to ask for price hikes. This creates "Regulatory Lag," where utilities couldn't recover costs fast enough, and consumers feel more frequent bill increases.

Why the Fraying Has Hit a Breaking Point Today

- **The IT Revolution:** Advanced Metering Infrastructure (AMI) provides granular, two-way data that was impossible 20 years ago, providing the digital "nervous system" to manage a decentralized grid in real-time.
- **DERS:** Rapidly falling costs and improvements in solar, storage, and EVs mean customers are no longer just "consumers"—they are "producers" (Prosumers).
- **Resiliency:** Extreme weather events have proven that a centralized, "hub-and-spoke" grid is a single point of failure. Distributed resources offer local "islanded" power during emergencies.
- **The Result:** Regulatory Lag and Administrative Burden have hit a breaking point, which is why we are discussing this today.

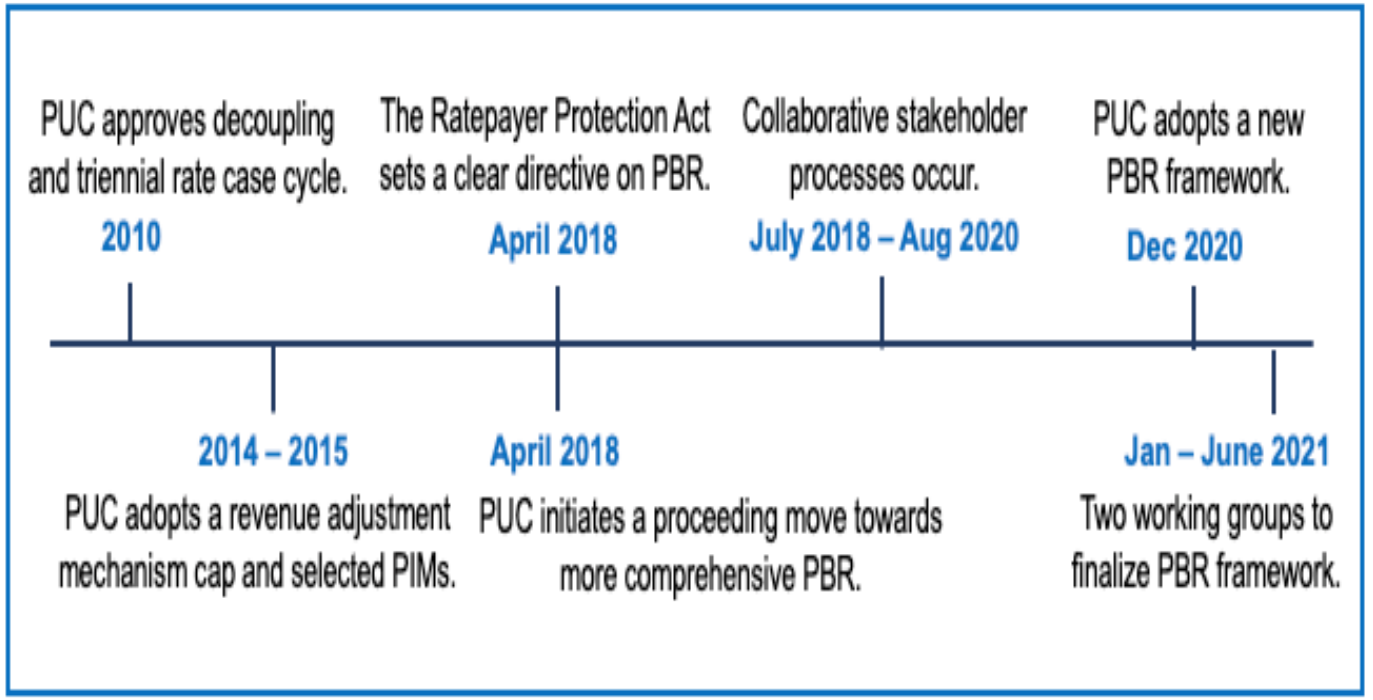
Shifting the Regulatory Paradigm

- **Purpose:** Develop a regulatory framework that better reflects a modern proxy for competition, aligns utility revenues and profits to the value and outcomes they provide to customers and society, while reducing the bill impacts on customers and administrative burden on regulators.
- **Core Shift:**
  - From: Paying for Inputs (How much steel is in the ground?)
  - To: Paying for Performance (How reliable, clean, and affordable is the service?)
- **Goal:** Create a "Win-Win-Win" for utilities, customers, and regulators.

PBR Mechanisms for Utility Transformation

- **Revenue Decoupling:** Breaks the link between sales and profit.
- **Multi-Year Rate Plans (MRPs):** Extends the time between rate cases to encourage efficiency.
- **Performance Incentive Mechanisms (PIMs):** Targeted "bonuses" or "penalties" for specific public interest goals.
- **Questions so far?**

Hawaii PBR Timeline



Revenue Decoupling: Removing the Throughput Incentive

- **How it works:** Regulators set an "authorized revenue" level. If the utility sells less power, rates adjust slightly to ensure they still recover their fixed costs.
- **Result:** The utility becomes "indifferent" to sales volume, allowing them to support efficiency, DERs, fuel switching without fearing a short-term financial loss.

Periodic Decoupling Calculation	
From the Rate Case	
Target Revenues	$10,000,000
Test Year Unit Sales	100,000,000
Price	$0.10000
Post Rate Case Calculation	
Actual Unit Sales	99,500,000
Required Total Price	$0.1005025
Decoupling Price “Adjustment”	$0.0005025

Revenue Decoupling: Removing the Throughput Incentive

Annual Incremental Energy Efficiency Savings as Percentage of Retail Sales[68]

Highlighted cells are the year that utility started decoupling.

	2004	2005	2006	2007	2008	2009	2010
Pacific Gas & Electric[69]	1.1%	1.6%	1.0%	2.1%	3.5%	2.0%	1.9%
Idaho Power Company	0.1%	0.3%	0.5%	0.6%	1.0%	1.1%	1.3%
Baltimore Gas & Electric	0.0%	0.0%	0.0%	0.0%	0.5%	0.6%	1.7%
Wisconsin Public Service Corporation[70]	0.3%	0.3%	0.3%	0.3%	0.9%	1.0%	0.9%
National Grid	1.1%	0.9%	1.2%	0.9%	0.5%	1.1%	1.36%
Hawaiian Electric Company[71]	0.0%	0.5%	0.5%	0.4%	0.5%	1.1%	1.2%

Decoupling Case Studies: Revenue Regulation Implementation in Six States, RAP 2014

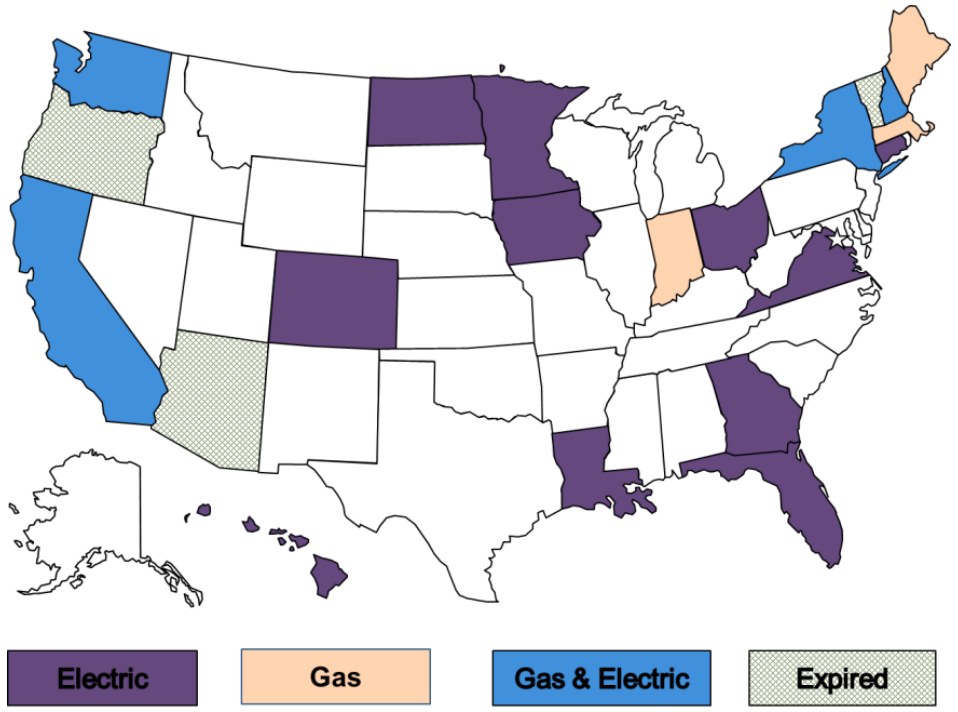
Multi-Year Rate Plans (MRPs): Driving Operational Efficiency

Structure: Rates are set for 3 to 5 years with pre-determined annual adjustments.

The Incentive: Because rates are "locked in" the utility keeps the money it saves by operating more efficiently.

Customer Safeguards: Should include standards to ensure the utility doesn't cut customer service.

Multi-Year Rate Plans in the U.S. (2017)



Source: M. Lowry et al. State PBR Using Multi-Year Rate Plans for U.S. Electric Utilities, July 2017.

Hawaii's MRP: Driving Operational Efficiency

- On a 5 year-cycle, revenues start from current effective rates and then change annually through an indexed Annual Revenue Adjustment (ARA) formula.
- The PUC describes the purpose of the MRP as realigning utility incentives with state goals and encouraging cost control.

The ARA formula is:

ARA = (I Factor) – (X Factor) + (Z Factor) – (Customer Dividend)

I-factor = inflation (GDP Price Index)

X-factor = productivity (initially set at 0%)

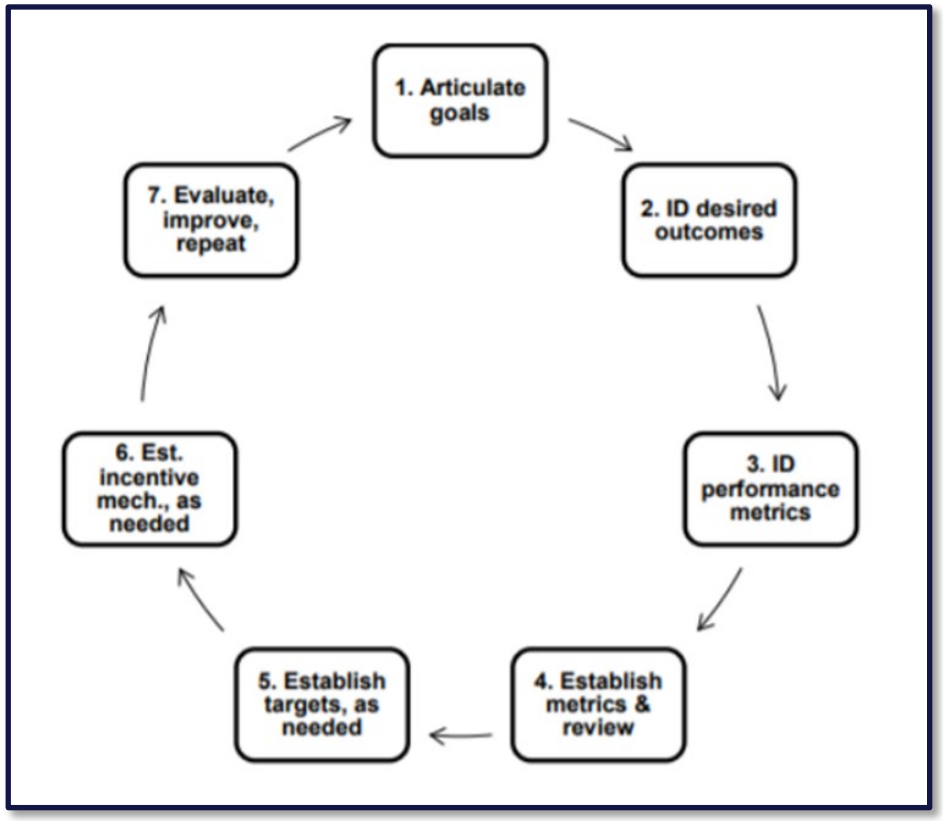
Z-factor = exogenous events, handled as an ex post adjustment

Customer Dividend = mechanism intended to ensure customers share in benefits

Source: M. Lowry et al. State PBR Using Multi-Year Rate Plans for U.S. Electric Utilities, July 2017.

Performance Incentive Mechanisms (PIMs): Targeting Specific Policy Outcomes

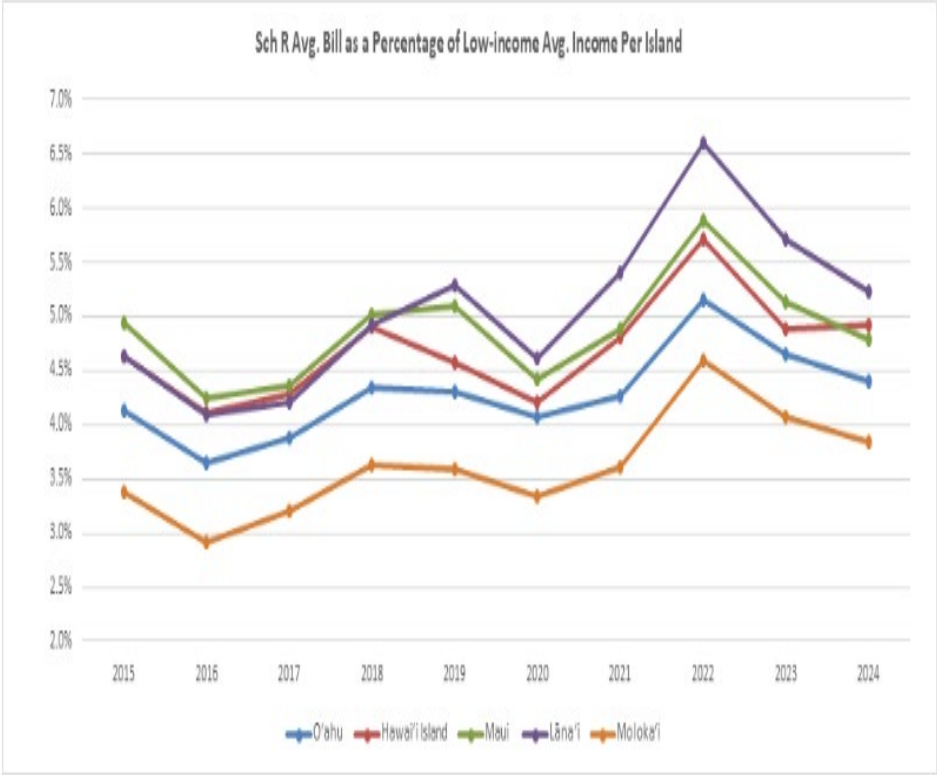
- **Reliability:** Reducing the duration and frequency of outages.
- **Decarbonization:** Meeting targets for renewables integration or GHG reduction.
- **Equity:** Improving energy access and affordability for low-income customers.
- **Customer Satisfaction:** Reducing customer service wait times.



Source: Order Establishing Performance Incentive Mechanism Process; Minnesota Public Utilities Commission; January 8, 2019

Hawaii Uses Scorecards to Display Performance Metric Achievement Data

- Affordability: LMI energy burden, payment arrangements, and disconnections
- Capital Formation: credit ratings and third-party generation
- Cost Control: cost control for non-ARA components, rate base per customer, operations and maintenance cost per customer, and annual revenue growth
- Customer Engagement: program participation, Green Button Connect My Data, Green Button Download My Data, Time-of-Use participation, and AMI opt-outs
- Customer Equity: LMI program participation
- DER Asset Effectiveness: DER grid services capability, DER grid services enrollment, DER grid services utilization, and DER curtailment
- Electrification of Transportation: fleet electrification, measured electric vehicle ("EV") load (energy and demand), estimated EV load, EV count, and ride sharing fueling hubs
- Greenhouse Gas ("GHG") Reduction: GHG emissions and GHG intensity
- Grid Investment Efficiency: avoided transmission and distribution investment and non-wires alternatives total cost
- Interconnection Experience: total DER interconnection time, truck roll response time, independent power producer interconnection, and interconnection cost overrun
- Resilience: critical load, national incident management system certification, and emergency response training



https://www.hawaiianelectric.com/about-us/performance-scorecards-and-metrics/affordability

Designing Metrics that Matter

To be effective, every metric must be:

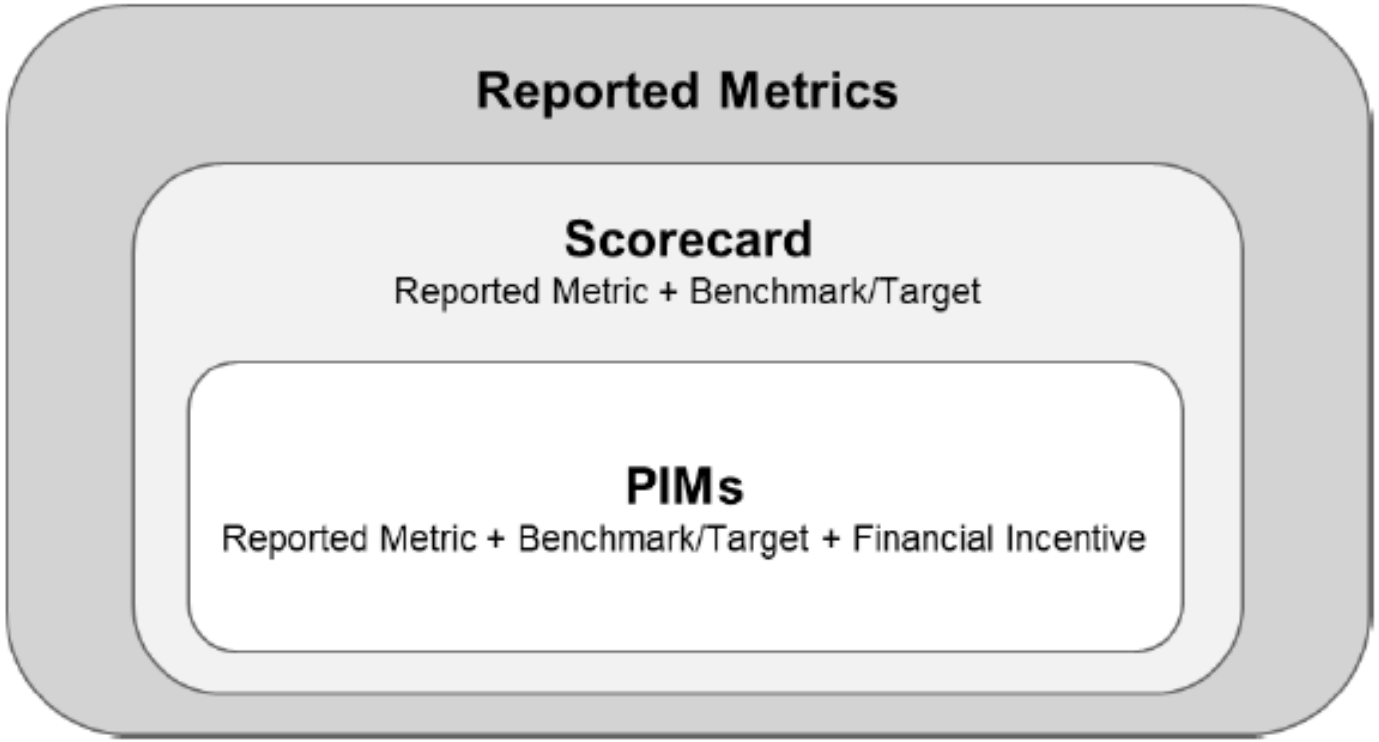
Specific: Clear definition of what is being measured.

Measurable: Based on verifiable, high-quality data.

Attainable: Within the utility's control (avoiding "acts of god").

Relevant: Tied directly to a public interest goal.

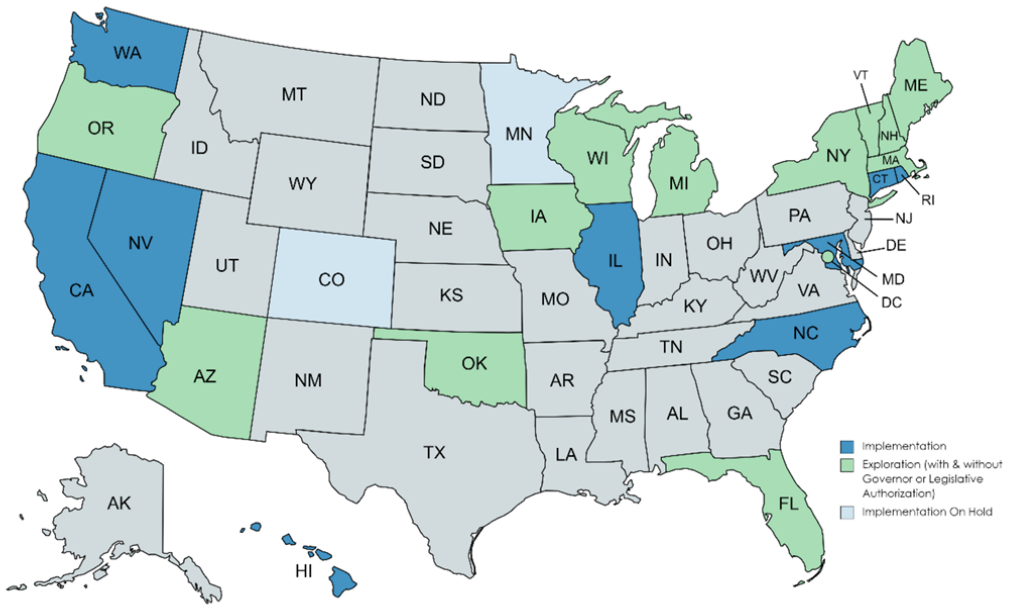
Time-bound: Defined by a specific reporting period.



Source: Hawaii PBR Phase 1 Staff Proposal, page 32 (Figure 6)

PIM Implementation Roadmap: Best Practices for Regulators

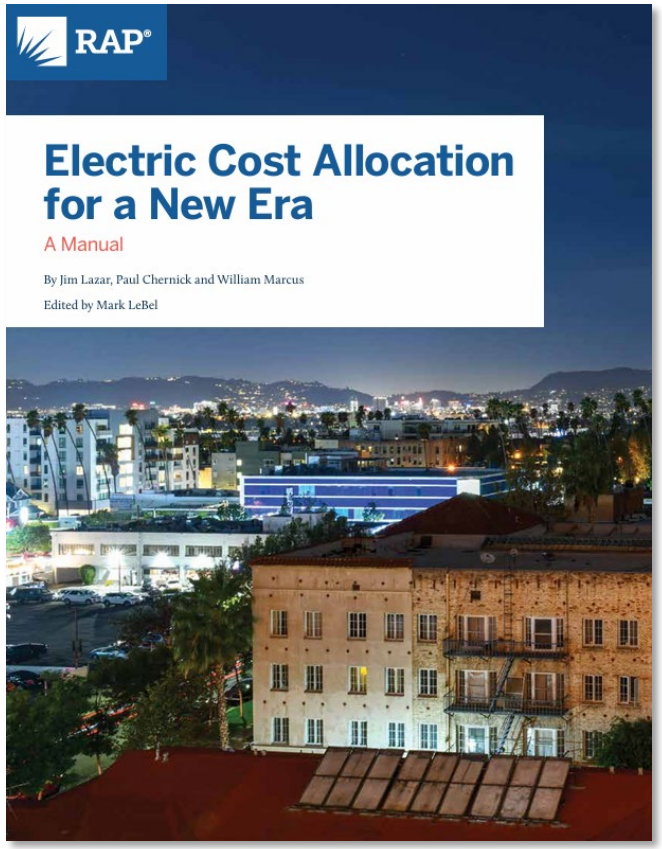
- **Stakeholder Collaboration:** Define goals before picking metrics.
- **Shadow Reporting:** Track data for 1-3 years before putting "money on the line" to ensure the metric works as intended.
- **Symmetry:** Use both rewards for excellence and penalties for failure.
- **Simplicity:** Focus on 6-12 high-priority PIMs rather than dozens of small ones.



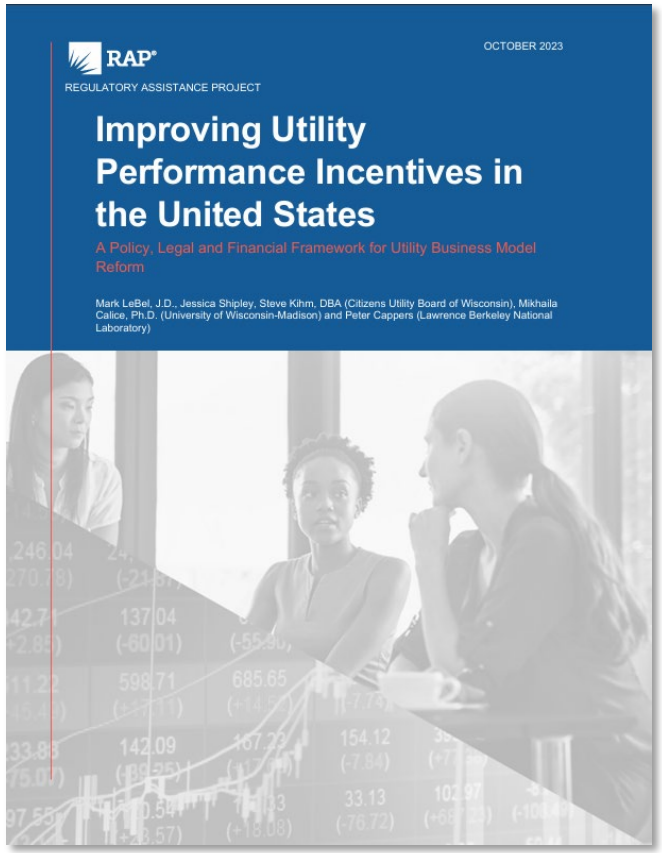
Key Takeaways

- Traditional regulation has served us well, but it is not designed for a decarbonized, decentralized, and customer centric future.
- When designed correctly, PBR rewards the utility for being a partner in innovation, not a barrier to it.

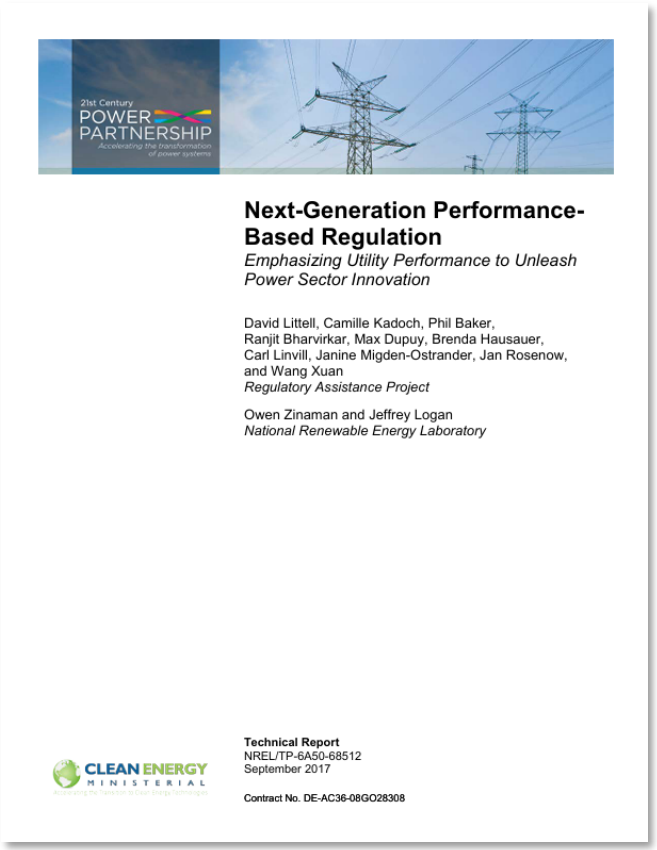
PBR Publications by RAP Authors



https://www.raponline.org/wp-content/uploads/2023/09/rap-lazar-chernick-marcus-lebel-electric-cost-allocation-new-era-2020-january.pdf



https://www.raponline.org/knowledge-center/improving-utility-performance-incentives-in-the-united-states-a-policy-legal-and-financial-framework-for-utility-business-model-reform/



https://docs.nrel.gov/docs/fy17osti/68512.pdf

About RAP

Regulatory Assistance Project (RAP)® is an independent, global NGO advancing policy innovation and thought leadership within the energy community.

Learn more about our work at raponline.org

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Discussion and Q&A

1. How might different PBR mechanisms or MRP design elements help improve alignment with state policy?
2. Which PBR mechanisms and/or MRP design elements do you think could be beneficial in Oregon?
3. What are the underlying issues you care most about that an updated ratemaking framework could help address?

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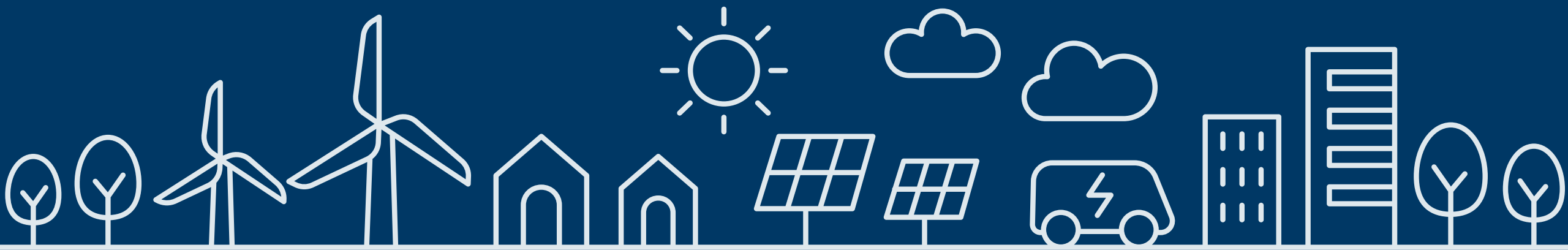
Wrap-Up and Next Steps



Wrap-Up and Next Steps

- Next meeting topic: **Existing Regulatory Structures for Incentive Alignment** (late February)
- Final remarks from Staff

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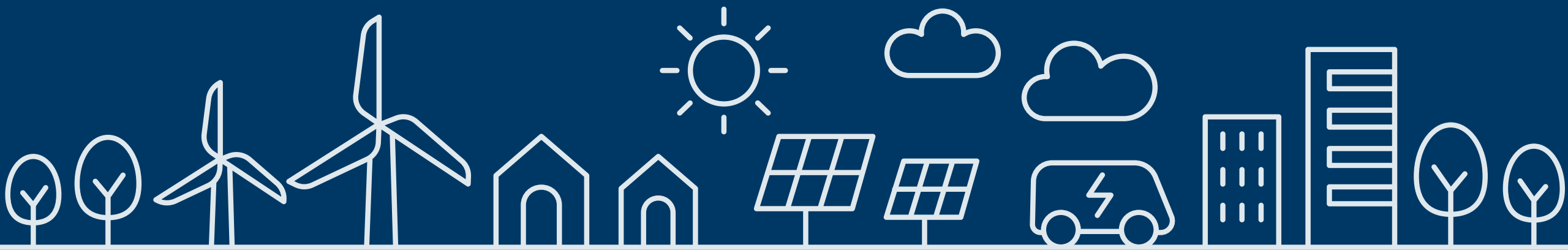
Thank you!

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