May 20, 2026

AR 676 Rulemaking General Rate Revisions HB 3179

Staff Straw Proposal

In the Matter of Rulemaking to Establish Multi-Year Rate Plan Framework (HB 3179 & SB 688 Implementation).

Introduction

This Straw Proposal outlines Staff's initial thinking on the structure and design elements of a Multiyear Rate Plan (MRP) framework. Its purpose is to help focus Phase 1 discussions by presenting a coherent set of concepts and decision points for stakeholder consideration. While these ideas build on the April workshop, written comments, and prior analysis, they remain preliminary and will continue to evolve through upcoming engagement.

Staff expects this proposal to serve as a starting point for focused feedback ahead of the target June 23, 2026, public meeting and final Phase 1 recommendation. Many elements will require refinement, clarification, or additional analysis, and several issues are intentionally left open for discussion to support an informed transition into Phase 2.

Ratemaking Framework Decision Points Summary Table: Staff Proposal v1

MRP/PBR Component	Staff Proposal
Principles, Goals, and Outcomes	Principles: • Contain and smooth customer rate impacts • Maintain utility financial stability • Reduce regulatory burden and improve administrative efficiency Goals and outcomes listed on page 2.
Type of MRP	Index-based revenue cap.
Revenue decoupling	Utilize decoupling to effectuate the revenue cap and promote efficiency. Design of the decoupling mechanism will occur in Phase 2 based on Staff's considerations and stakeholder input. .
Plan duration (stay-out period)	5-year term.
Scope of MRP	Seeking a comprehensive scope of utility revenues with limited exceptions, consistent with Staff's proposed principles. Exceptions include power costs, wildfire mitigation automatic adjustment clause (electric utilities), and Energy Trust of Oregon funding.
Adjustment Factors[1]	Utilize indexing to inform the revenue cap over the plan duration and design the mechanisms in Phase 2 based on Staff's considerations. • I-X-S+G+Z ○ Inflation measure (I)

[1] Adjustment factors may be set to zero.

MRP/PBR Component	Staff Proposal
	○ Productivity factor (X) ○ Stretch factor (S) ○ Customer Growth factor (G) ○ Exogenous/Extraordinary events (Z) • Supplemental capital funding mechanism for extraordinary expenses
Earnings Sharing Mechanism (ESM)	Included.
Capex/opex equalization	Include consideration of "Totex" (total expenditure accounting) and other capex/opex equalization strategies in Phase 2 scope.
Performance Incentive Mechanisms (PIMs)	"Backstop PIMs" (penalty-only): • Reliability • Safety • Customer service A limited set of additional PIMs to be considered, examples below: • Customer disconnections • Asset utilization • Progress on CBRE acquisition targets[E] Concepts for more exploration into PIM metrics • Equity • Resilience[E]

[E] Electric utility only

Staff Recommendations and Discussion

Principles Goals & Outcomes

Principles

1. **Contain costs and smooth customer rate impacts:** MRPs should both increase the predictability of rate changes for customers and outline a budget for utilities to stay within. Both of these principles serve to improve transparency and accountability in utility service. Through this, MRPs with performance-based components should better align utility investments with customer value while appropriately balancing risk between customers and utilities.
2. **Maintain utility financial stability:** MRPs should provide utilities a fair earning opportunity that reflects risk, maintains access to capital, and provides flexibility where needed. A predictable and clear ratemaking framework that is appropriately informed by planning processes will help maintain utility financial stability.
3. **Reduce regulatory burden and improve administrative efficiency:** MRPs should seek to streamline proceedings and review where possible, including through consolidation of various rate adjustments into MRPs, while striving to improve accessibility and procedural equity. Simultaneously, efforts to adopt a rate case schedule in AR 677 will result in less frequent and fewer overlapping rate cases across utilities.

Goals & Outcomes

The goals and outcomes below provide a framework for understanding the results the MRP is intended to support and will serve as a lens through which staff will develop and review incentives, metrics, and other elements of the framework. Outcomes that support performance areas specified in Senate Bill (SB) 688 (performance incentives for electric utilities) are noted with an asterisk (*). Outcomes specific to electric utilities are noted with an (^{E}) and outcomes specific to gas utilities are notes with a (^{G}).

Goals	Outcomes
Affordable, high-value service	Customer satisfaction*
	Reliability*
	Rate stability
High-performing utility	Cost containment*
	Investment efficiency
	Asset utilization
Achievement of key state and community goals	Efficient clean energy development and emissions reductions*^{E}
	Distributional equity*
	Resilience^{E}

Framework Overview

MRP design elements can be configured in countless ways dependent on strategic objectives. Staff's proposed framework starts from a foundation of discipline and predictability. Staff's strategy focuses on establishing a clear and meaningful "budget" and applying targeted flexibility during the budget period to facilitate utility focus on high performance and efficient progress on state and community goals.[2]

Individual elements of Staff's proposal will complement one another and inform an appropriate balance across the MRP framework. Staff notes that exercising budget discipline is consistent with its principle to contain costs and smooth customer rate impacts and is a key driver behind Staff's proposal to rely on indexing, use a revenue cap, and establish a longer plan duration. Further, a strategy with targeted flexibility and focus promotes Staff's goal of incentivizing affordable high-performing utility service. This informs Staff's proposal to use decoupling, a capital tracking mechanism, a

[2] Staff believes that efficient progress includes supply and demand-side options, utility and community-scale actions that make progress toward state and community goals when considering the constraints of the energy system and its users. Efficient progress involves a balanced approach to meeting system needs, such as the goals in the UM 2417 EO work planning approach: Optimize the existing energy system, accelerate new, beneficial investments, allocate benefits and costs equitably.

narrowly targeted set of PIMs, and keep consideration of capex/opex equalization in Phase 2.

Type of MRP

Staff's proposal is to use an **index-based revenue cap** for all Oregon utilities. This is the cornerstone of Staff's proposal for a disciplined and predictable "budget" framework.

An index-based revenue cap MRP begins by setting an allowed revenue level for the first year based on the utility's reasonable cost needs. In later years, the allowed revenue is adjusted using objective indices (adjustment factors). This cap functions as the utility's budget for the multi-year period and limits how much revenue can increase outside of indexed adjustments. The structure is meant to encourage the utility to manage costs efficiently because differences between allowed revenue and actual costs can be retained as earnings (subject to limits).

Staff chose an index-based revenue cap as opposed to an index-based price cap as it provides more incentive for cost containment, provides revenue certainty for utilities, and alleviates through-put incentive concerns. Further, Staff chose an indexed-based approach over a forecasted MRP to start from a place of disciplined budgeting and incorporate flexibility tools where most impactful. Further it will support administrative simplicity in managing the workload of capital prudence reviews.

Staff is also proposing that within the revenue cap index, the load forecast be updated annually when setting rates. Staff is making this proposal for two reasons. First, it alleviates the need to develop a medium-term load forecast in the MRP. Typically, in rate cases a short-term load forecast is used to forecast the test year load and often a different methodology is used in the long-term planning dockets. Updating the load forecast annually with predetermined methodology will allow utilities to continue their use of short-term load forecasting methodologies. Second, updating the load forecast annually more adequately handle unexpected changes to load such as the addition of large load customers during the course of the MRP. Overall, this load forecast approach paired with an index revenue cap encourages utilities to manage growth while recognizing the costs and risks associated with changing load.

Specific approaches to reflect the different growth trajectories of electric and gas utilities can be considered in Phase 2 and individual MRPs.

Revenue Decoupling

Revenue decoupling mechanisms serve an important supporting role within an index-based revenue cap framework by ensuring that utilities' investment plans and efforts to promote cost efficiency are not influenced by sales volumes and normal year-to-year

variations. Removing these variables allows utilities to focus on efficient delivery of high-quality service and emphasizes budget discipline going in both directions i.e., predictability in revenue for utilities. The decoupling mechanism trues up these variances and enforces the cap set in the MRP. When developing decoupling mechanisms in Phase 2, Staff will explore various decoupling structures; for example:

- Full decoupling - The utility recovers the full revenue requirement no matter the reason.
- Partial decoupling - Allows for some variance in recovery of the revenue requirement within a deadband. Can also be paired with performance incentives.
- Limited decoupling - There are many variations, such as:
    - Weather normalization adjustment
    - Lost margin recovery mechanism
    - Differential treatment for new and existing customers
    - Non-weather adjustments (end-use efficiency, macroeconomic trends, etc)
    - A combination of the above mechanisms

Plan Duration

Staff is proposing that each utility's multi-year rate plan be 5 years in duration for all utilities.

This approach enforces discipline and predictability and fully offers the opportunity for utilities to improve performance with additional management autonomy. Shorter MRP lengths weaken the "budget" exercise and longer MRP lengths may lead to too deep of a disconnect between utility revenues and costs. This approach helps manage administrative burden and guarantees at least one full year with no rate cases, allowing space for more technical dockets and potentially Staff-led audits. Other elements are used to ensure targeted flexibility that is right-sized to this plan duration.

While reopeners provide a path to realign a utility's allowed revenue with updated information about costs, load, and system needs when material shifts occur over the course of a multi-year plan, Staff proposes a plan duration which minimizes the need of this mechanism.

Scope of MRP

In Scope of MRP	Recovered Separately from MRP
• Operations and maintenance (O&M) expenses • Amortization, depreciation, taxes and fees • Administrative and general expenses • Transmission system costs • Distribution system costs • Generation system costs[3] • Return on rate base • Most trackers and deferrals, except those identified for separate recovery • Customer program costs	• Power costs, including PCAM • Gas costs (including purchased gas adjustment) • Wildfire mitigation tracker *(electric utilities)* * • Energy Trust of Oregon funding *

Including a cost category within the scope of the MRP means that it is recovered through the base rates established at the start of the multi-year plan and adjusted through the I-X-S+G+Z indexing formula or through rebasing at defined intervals. In contrast, cost categories designated as "out of scope" are recovered through separate, existing mechanisms, for example, power costs through the forecast/PCAM or gas costs through the PGA, and continue to be reviewed and adjusted outside the MRP structure because they tend to be large, volatile, or largely outside of utility control.

Staff's approach emphasizes discipline and consolidates the majority of controllable and relatively stable cost categories within the MRP under the "budget." This approach increases the administrative burden of a given MRP but increases overall administrative efficiency, improves predictability, and offers stronger incentives for cost-containment. Staff's proposed strategy offers limited exceptions. Specifically it excludes power costs and gas costs because of their level of volatility and excludes wildfire mitigation and Energy Trust costs because they are already on a different multi-year planning cadence and can be considered for harmonization with the MRP cadence after these multi-year budgeting processes and/or MRP implementation is more mature.

Staff also recognizes that new or emerging programs may require temporary treatment outside of the MRP until cost behavior is better understood; however, over time, Staff anticipates that additional cost categories could be brought into the MRP when they

[3] Staff still plans to comply with ORS 469A.120(2) but envisions a process that is built into the MRP process and not one that stands on its own.

demonstrate sufficient stability and are aligned with the overall intent of a comprehensive revenue cap structure.

Adjustment Factors

Staff is proposing that the MRP have five separate adjustment factors.[4] First, the Inflation (I) Factor would be pegged to an exogenous measure of inflation such as Consumer Price Index (CPI), Gross Domestic Purchases Price Index (GDPPI), or an industry specific supply-side price index. This would adjust utility costs for inflation during the MRP. Second, is the Productivity (X) Factor. The productivity factor reflects changes in productivity of the energy industry as a whole and would likely be informed by studies on industry trends. The Stretch (S) Factor can be used if a utility is less efficient than its peers and needs to "catch-up" with the rest of the industry, or if other factors suggest a need to reduce costs and revenues below the amount otherwise set by the index-based cap. If these factors are not present, the S-factor can be set to zero. The Growth (G) Factor accounts for costs related to changes to a utility's customer base (e.g., cost of line extensions). The G-Factor is an adjustment factor for revenue cap indexes as utilities experience changes in costs from increasing (or declining) customers and revenues otherwise would not change to reflect those under the revenue cap. Lastly, the Z-factor allows for adjustments related to unforeseen events outside of the utility's control – such as storm recovery costs. Criteria for triggering a Z-factor adjustment require additional attention.

Staff is proposing that these adjustment factors be included within utilities' index-based MRP caps as they provide flexibility for each utility's specific circumstances, while also creating a unified framework for all utilities. Staff did choose to exclude other common adjustment factors like the K-bar or Y-factor. K-bar is an indexing tool which accounts for new capital that is placed into service during the duration of the MRP. Staff finds the use of a K-bar mechanism out of alignment with ORS 757.355, as it could be viewed as placing capital into rates prior to its in-service date and a prudence review. However, Staff does note that while not our preferred solution, a K-bar if paired with a defined prudence and attestation process could reduce recovery outside of the defined indexed process particularly well during capital-intensive times. A Y-factor accounts for costs that are standard, but volatile and out of a utility's control—such as power costs. Instead, Staff is proposing to exclude power costs from the scope of the MRP.

Additionally, Staff proposes to include a supplemental capital funding mechanism intended to address limited, extraordinary capital projects that cannot reasonably be accommodated within the index formula. This mechanism is separate from the

[4] Staff notes that the specific methods for determining each factor, including the process by which they're set within the MRP framework, will be developed further in Phase 2.

adjustment factors described above, as it is not designed to capture routine year-to-year capital additions but instead provides a defined process for considering discrete projects with characteristics, such as size, timing, or policy-driven urgency, that would create material misalignment if recovered solely through the revenue cap. Staff expects to develop the criteria, scope, and procedural requirements for this mechanism in Phase 2. Staff prefers this approach over a K-bar or Y-factor because it applies only to exceptional capital projects and does not automatically index new capital into rates, thereby maintaining prudence review and avoiding the statutory concerns raised by K-bar.

Staff views the adjustment factors as a core element of its strategy to promote effective budget discipline under multiple scenarios and evolving realities. The adjustment factors allow utilities to operate within a predictable multi-year revenue path while accounting for a limited set of cost drivers that reasonably change over time. By design, the factors provide partial, predictable adjustments rather than full actual cost reconciliation, which places responsibility on utilities to exercise operational and investment judgement in the interim.

Staff recognizes that electric utilities are in a capitally intensive environment, driven by HB 2021 compliance along with load growth and other expectations for utility investments. Staff believes that adjustment factors along with a thoughtfully targeted capital funding mechanism can capture these investment needs in a manner without losing the benefits of managing to a budget or the administrative simplicity of indexing. Specifically, the inflation factor covers normal upward cost pressure the utility experiences. The productivity and stretch factors help benchmark and reflect industry and utility/state specific trends. The growth factor is included to capture cost pressures that rising or falling customer demand can have on costs. And the Z factor is meant to capture uncontrollable or unexpected events in a well-defined but reasonable manner. Staff believes that these factors in summation can accommodate the different circumstances that both electric and gas utilities may experience in a wide range of industry environments. That said, the functionality of the formulaic adjustment factors is complemented by targeted flexibility. Here, inclusion of a supplemental capital funding mechanism can be of particular importance in both managed-decline and capital-intensive contexts. For gas utilities the indexed structure provides a stable and predictable trajectory for revenue adjustments as system scale changes while the supplemental capital process ensures that essential, targeted investments can still be considered without requiring continual recalibration of base revenues in a shrinking system. In capital-intensive contexts, these tools provide strategic revenue adaptability to plan and execute qualified high-value or policy-driven investments while preserving the discipline of an index-based framework.

Earnings Sharing Mechanism

Staff is proposing that an Earnings Sharing Mechanism (ESM) be included in the MRP. An ESM automatically shares surplus or deficit earnings (or both) between utilities and customers that may result when the return on equity deviates from the regulator-approved target. The size and design of any ESM will be developed in Phase 2. An ESM is important to include in any MRP as it promotes cost containment, while also increasing the incentive for accurate going-in rates. Staff views a well-designed ESM as one that properly balances recovery risk between utility and ratepayers such that it strengthens incentive alignment while maintaining the budget consciousness that Staff's MRP aims to achieve.

CapEx/OpEx Equalization

Staff is recommending the continued investigation of the implementation of a policy that would promote CapEx/OpEx equalization. Under standard rate-of-return regulation, utilities have an incentive to build new capital as their rate base determines the overall level of net-income that is able to be recovered. Staff sees value in pursing options for complete or partial CapEx/OpEx equalization as it provides the utility with greater freedom to optimize planning and operations for the benefit of customers and removes barriers to lower-capital and third-party solutions. One notable mechanism that has been used in other (non-US) jurisdictions is TotEx accounting, which effectively capitalizes OpEx thus eliminating any CapEx bias. To Staff's knowledge, this has not been implemented in the US and may conflict with accounting principles. Staff is recommending continued investigation into this topic to ensure that, if implemented, it is compliant with all state and federal laws.

Staff also notes that other MRP design elements are intended to facilitate utility focus on optimizing its actions and investments to be a high-performing utility that makes efficient progress on state and community goals, such as an index-based revenue cap, efficiency carryover mechanisms, decoupling, and a narrowly targeted set of PIMs.

Performance Incentive Mechanisms (PIMs)

Performance Incentive Mechanisms (PIMs)	"Backstop PIMs" (penalty-only): • Reliability • Safety • Customer service A limited set of additional PIMs to be considered, examples below: • Customer disconnections • Asset utilization • Progress on CBRE acquisition targets[E] Concepts for more exploration into PIM metrics • Equity • Resilience[E]

Staff sees PIMs as an opportunity to reenforce key goals and outcomes and signal where it is not beneficial for utilities to focus cuts while managing to the "budget." A major learning from the Phase 1 engagement process is that PIMs can be key elements of a MRP design, but are challenging to get right. Staff's strategy is to err on the side of being narrow and targeted in establishing PIMs for the MRP framework and add more complexity over time if warranted.

Staff is proposing two categories of PIMs and the continued investigation of other PIM concepts. The first category of PIMs is "backstop" PIMs which provide a penalty if not met.[5] PIMs in this category represent fundamental utility service metrics where a floor of service quality should be met. Items in this category would include PIMs related to standard service reliability, safety, and customer service. Under an index-based revenue cap, a utility will manage to its "budget" without compromising fundamental service.

The second category of PIMs would focus on rewarding utilities for going above and beyond in high impact policy and customer service areas, These metrics may consider different incentive structures based on utility performance and could include metrics related to customer disconnections, asset utilization, and progress on community-based renewable energy (CBRE) acquisition targets. Staff proposes to further explore and refine these concepts in Phase 2.

Lastly, there are certain concepts that Staff is open to creating PIMs for, but where the exact metric to be used is not clear. These include concepts such as major event restoration time and equity. Staff is looking to work with stakeholders in Phase 2 to identify concrete metrics by which to address these concepts.

[5] Backstop PIMs protect customers from performance degradation without paying utilities to meet baseline obligations and avoid incentivizing investments beyond what is cost effective.

Phase 2 Decision points

Phase 1 establishes the core structural components of the MRP framework, but many of the detailed design choices will be determined in Phase 2. Phase 2 will focus on addressing any factors identified by the Commission and specifying and calibrating components, such as the adjustment factors associated with the indexed approach, designing capital funding mechanisms, and developing the earnings sharing mechanism, off-ramp and reopener criteria, and rebasing procedures. Phase 2 will also consider additional questions or design options including efficiency carryover mechanisms, capex/opex equalization options, and the selection and sizing of PIM metrics and scorecards.

Next Steps

The following dates outline the remaining Phase 1 activities leading up to the target public meeting where Staff will bring its final Phase 1 decision points recommendations to the Commission for decision making.

- **June 3, 2026:** Written comments on Staff's Straw Proposal due
- **June 16, 2026:** Target date for publication of Staff Report
- **June 23, 2026:** Target Public Meeting date

Staff appreciates stakeholders' continued engagement and looks forward to further discussion as we work toward a final Phase 1 recommendation.

Questions

If you have questions about this docket, please contact:

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