Multi-Year Rate Plan Framework

Docket No. AR 676
Phase 1 Staff Recommendation

Oregon Public Utility Commission

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Principles, Goals & Outcomes

Evaluating design choices and defining successful outcomes

PRINCIPLES

Contain & smooth customer rate impacts

Maintain utility financial stability

Reduce regulatory burden & improve administrative efficiency

GOALS & OUTCOMES

Affordable, high-value service

- Customer satisfaction
- Reliability
- Rate stability

High-performing utility

- Cost containment
- Investment efficiency
- Asset utilization

Key state & community goals

- Clean energy & emissions reductions
- Distributional equity
- Resilience

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Overview: Phase 1 Decision Points

Staff Recommendations

#	Decision Point	Staff Recommendation
1	**Plan Duration**	5-year term
2	**MRP Type**	Index-based revenue cap including:
	2a.	Adjustment Factor framework (index formulas I-X-S+G+Z and capital funding mechanism)
	2b.	Revenue Decoupling Mechanism
	2c.	Earnings Sharing Mechanism (ESM)
	2d.	Targeted use of Performance Incentive Mechanisms (PIMs) i.e., 3 key backstop PIMs + 3 targeted outcome area PIMs
3	**Scope of MRP**	Comprehensive with targeted and/or temporary exclusions (power costs, wildfire, ETO)
*	*Phase 2 Areas*	*Design details of Phase 1 elements; exception process; reopeners and offramps; rebasing and ECM; procedural requirements*

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Key Questions

Major questions among stakeholders

1 Level of Standardization

- Now or in Phase 2
- Between sectors
- Between utilities
- Plan-by-plan

2 Capturing different types of costs (over 5 years)

- Under the revenue cap or outside
- Relying on indexes or other design elements (e.g., supplemental capital, forecasted budgets, PIMs, etc.)
- Threshold for off ramps and reopeners

DECISION POINT 1

Plan Duration

How long should each multi-year rate plan run? (Statute allows a 3-to-7-year range)

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OPTIONS

○ **3-year term**
More frequent review; shorter commitment

✓ **5-year term**
Balances discipline and responsiveness

○ **7-year term**
Longest budget horizon; strongest incentives

✓ STAFF RECOMMENDS

A five-year term

- Best balances budget discipline, predictability & responsiveness
- Standardizes terms to meet the statutory annual rate-increase limit
- Adjustment factors keep the plan durable to changing conditions

BENEFITS

- Stronger cost-management incentives & discipline
- Predictability for utilities and stakeholders
- Fewer rate cases, less administrative burden

RISKS / LIMITS

- Shorter terms weaken incentives, add burden
- Longer terms risk outdated assumptions
- Greater chance of revenue–cost divergence

STAKEHOLDER PERSPECTIVES

● SUPPORTS STAFF

Energy Advocates support a five-year term with a structured mid-point review.

● MIXED / CONDITIONAL

OSSIA points to the statutory 3–7-year range, not five specifically; Renewable Northwest took no position on duration.

● WANTS MORE FLEXIBILITY

PGE (3-yr inaugural), Idaho Power (3-yr), and the Gas Utilities (3-yr initial) favor a shorter start; PacifiCorp opposes a mandatory 5-year term. Gas ties this to revenue/cost alignment and safeguards.

DECISION POINT 2

Type of MRP

How should allowed revenues be set and adjust across the plan period?

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OPTIONS

✓ **Index-based revenue cap**
Formula-adjusted revenue budget

○ **Index-based price cap**
Per-unit price path; keeps throughput incentive

○ **Forecasted MRP**
Rates set on multi-year cost projections

○ **Hybrid**
Mix of forecast and index elements

✓ **STAFF RECOMMENDS**

An index-based revenue cap

- Supports a disciplined, multi-year budget with strong cost control incentive
- Supports predictable revenue path for utilities
- Removes throughput incentive

BENEFITS

- Active management to a defined budget
- Strong revenue predictability for utilities
- Removes the throughput (more-sales) incentive

RISKS / LIMITS

- Requires careful index calibration
- Forecasts add burden & prudence-review risk
- Price caps keep volumetric volatility

STAKEHOLDER PERSPECTIVES

● SUPPORTS STAFF

Energy Advocates, OSSIA, and Renewable Northwest support an indexed revenue cap.

● MIXED / CONDITIONAL

Gas Utilities accept indexing as one component but want a hybrid structure anchored in a cost-of-service GRC; AWEC supports indexing but not prescribing cap type in rule.

● WANTS MORE FLEXIBILITY

PGE, PacifiCorp, and Idaho Power want room for forecasted, hybrid, or utility-specific elements.

DECISION POINT 2a

Adjustment Factors

How does the revenue cap adjusted within the plan period?

THE INDEX FORMULA

I	− X	− S	+ G	+ Z
Inflation Economy-wide cost growth (e.g., CPI/GDPPI)	**Productivity** Expected efficiency	**Stretch** Added performance / policy expectation	**Customer Growth** Changing scale & service obligations	**Exogenous** Extraordinary events outside utility control

Formula: Revenue Cap adjusts by I – X – S + G + Z. Calibration and rules set in Phase 2.

STAKEHOLDER PERSPECTIVES

SUPPORTS STAFF

Energy Advocates & OSSIA want a limited, predictable set and support excluding a K-bar.

MIXED / CONDITIONAL

Renewable Northwest support index but wants to ensure framework encourages investment efficiency and asset utilization; AWEC cautions against prescribing methods too early.

WANTS MORE FLEXIBILITY

Gas Utilities want gas-specific inflation & TFP studies and lumpy-capital treatment; Gas Utilities and Idaho Power lead K-bar / capital-recovery advocacy. PGE and PacifiCorp inclusion and calibration of factors be determined in MRP filings

DECISION POINT 2a continued…

Supplemental Capital Funding Mechanism

How should allowed revenues be set and adjust across the plan period?

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OPTIONS

✓ **Index-based revenue cap**
Formula-adjusted revenue budget

○ **Broad capital tracker**
Recovers most new capital spending

○ **K-bar**
Formulaic capital-additions recovery

○ **No mechanism**
Rely on the index alone

✓ STAFF RECOMMENDS

Include targeted mechanism

- Balances the index for targeted, material, and/or discrete policy-driven investments
- Preserves cap discipline and used-and-useful review

BENEFITS

- Limits extra recovery to targeted/defined projects
- Preserves durability with targeted flexibility under cap
- Keeps used-and-useful review intact

RISKS / LIMITS

- Requires careful eligibility criteria
- Still involves case-by-case review
- Price caps keep volumetric volatility

STAKEHOLDER PERSPECTIVES

SUPPORTS STAFF

AWEC supports a capital mechanism with project level prudence review for “major capital projects”; Energy Advocates and OSSIA support one kept limited and bounded.

MIXED / CONDITIONAL

Renewable Northwest support only a narrowly bounded mechanism that preserves procurement neutrality and avoids capital bias.

WANTS MORE FLEXIBILITY

Gas utilities; PGE; PacifiCorp and Idaho Power favor broader capital recovery options and want greater capital flexibility based on different cost needs.

DECISION POINT 2b – d

Decoupling, ESM & PIMs

Staff recommends inclusion in framework with design consideration in Phase 2

Revenue Decoupling

✓ **INCLUDE — design in Phase 2**

Separates revenue from sales volumes so the cap holds and throughput incentives disappear.

- **Supports:** Energy Advocates, OSSIA; Gas Utilities (reaffirm); PGE (partial)
- **Mixed:** AWEC (customer-class impacts); RNW no position
- **Opposes mandate:** PacifiCorp- utility should retain the right to decline

Earnings Sharing Mechanism

✓ **INCLUDE — design in Phase 2**

Moderates sustained over- or under-earnings, keeping reopeners and off-ramps a last resort.

- **Supports:** PGE (symmetric, core element); Energy Advocates (asymmetric)
- **Conditional:** Gas Utilities (defer; symmetric if adopted); PacifiCorp, Idaho Power cautious
- **Recommends against:** AWEC- no customer sharing of under-earnings, plus ROE offset

Performance Incentive Mechanisms

✓ **INCLUDE — recommend minimum set**

Backstop (penalty-only): reliability, safety, customer service. Outcome: disconnections, asset utilization, CBRE (electric).

- **Supports:** Energy Advocates, OSSIA, Renewable Northwest
- **Mixed:** PGE (staged, data-driven); AWEC (careful calibration)
- **Concern:** Idaho Power (penalty/capital mismatch); Gas (appropriate for gas?)

DECISION POINT 3

Scope of MRP

Which utility costs are managed within the multi-year framework?

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WHAT THE MRP COVERS

✓ IN SCOPE

O&M and A&G; depreciation; amortization; taxes & fees; transmission; distribution & generation; return on rate base; most trackers & deferrals; customer program costs

✕ RECOVERED SEPARATELY

Power costs; purchased gas costs; wildfire mitigation tracker; Energy Trust of Oregon funding

✓ STAFF RECOMMENDS

Comprehensive, with limited exceptions

- Broad scope strengthens discipline & transparency
- Supplemental capital mechanism; reopeners, Z-factor absorb change
- Phase 2 may give some program and policy costs added treatment

OTHER OPTIONS

- **Hybrid / targeted exclusions:** carve out volatile or policy-driven costs
- **Narrow scope:** few costs under the cap; more trackers
- **Phase 2 Decision point:** Defer and evaluate specific scope decisions to Phase 2

STAKEHOLDER PERSPECTIVES

● SUPPORTS STAFF

Energy Advocates, OSSIA, and Renewable Northwest support the broadest practical scope.

● MIXED / CONDITIONAL

Broad agreement to keep power and purchased-gas costs separate due to volatility; AWEC urges caution.

● WANTS MORE FLEXIBILITY

Gas Utilities, PacifiCorp & PGE seek to exclude customer programs and statutory mechanisms, request further evaluation and utility-specific considerations (incl. hybrid cost treatment). Recommend specific inclusions/exclusions be taken up in Phase 2

FUTURE DECISION POINTS

Other Phase 2 considerations

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1 Index Calibration

- X-factor methodology
- S-factor methodology
- G-factor design & thresholds
- Z-factor triggers & qualifying events
- Level of specificity in rule

2 Mechanism Design

- Going-in rates
- Supplemental capital eligibility & guardrails
- Decoupling structure & true-ups
- ESM bands, symmetry & sharing
- Exception process, reopeners and off-ramps
- Rebasing and ECMs

3 Accountability & PIMs

- PIM metrics
- Targets & incentives
- Additional PIM areas
  - Clear and measurable
- Reporting & compliance

4 Exploratory Topics

- Capex/Opex equalization
- Framework standardization
- Differences between electric and gas

5 Procedural Requirements

- Procedural requirements
- Exception process
- Draft rule language

Content requirements

Staff Recommendation

PROPOSED COMMISSION MOTION

Adopt Staff's recommended MRP framework to inform the scope of rules developed in Phase 2:

1. Five-year duration (term);
2. Index-based revenue cap (MRP type) that includes the following
    a. Adjustment Factors (index formulas I-X-S+G+Z and capital funding mechanism);
    b. Revenue decoupling mechanism;
    c. Earnings sharing mechanism; and
    d. Targeted use of performance incentive mechanisms (PIMs); Initial suggestion includes PIMs in each of the following key backstop and outcome areas for examination in Phase2
        i. Backstop PIMs:
            1. Reliability
            2. Safety
            3. Customer Service
        ii. Outcome PIMs:
            a. Customer disconnections
            b. Asset utilization
            c. Progress on CBRE acquisition targets (electric only);
3. Comprehensive inclusion of costs in the MRP; excluding power costs, non-routine wildfire mitigation; and Energy Trust of Oregon funding (scope of MRP) for the time being.

Questions?

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