September 4, 2026

AR 676 Rulemaking General Rate Revisions HB 3179

Staff Electric & Gas O&M Concept v1

Phase 2; Track 1

Purpose

This document provides Staff's initial concept proposal related to the treatment of electric and gas utility operations and maintenance (O&M) costs under the multi-year rate plan framework. While informed by the AR 676 engagement and record to date (synthesis included in Attachment 1), this initial concept is intended to provide a straw proposal from which additional feedback and considerations can be directed.

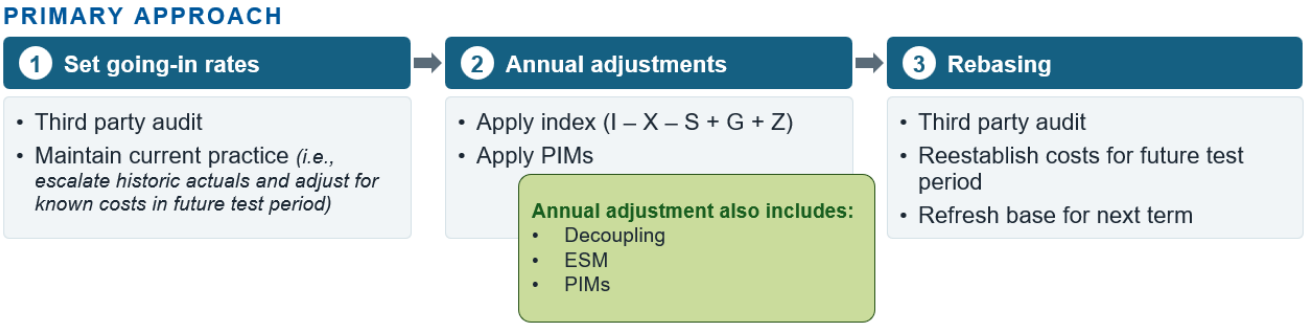
Introduction

The Track 1 process is designed to establish a deeper understanding of how specific costs and scenarios will function under the MRP framework. It is intended to surface cost types and scenarios that may benefit from different treatment than the primary approach of setting going in rates for the test year and adjusting revenue annually using the indices (along with decoupling, earnings sharing mechanism, and PIMs). Staff plans to use these insights to:

- Clarify initial expectations for how the MRP framework will work;
- Identify changes needed to the timing of other processes that support going in rates (i.e., planning dockets);
- Confirm which cost types will be included in the scope of the MRP;
- Consider alternative approaches to setting going in rates, such as forecasting and normalization; and
- Inform the development of criteria for the use of alternative approaches to annual adjustments that will be designed in Track 2, such as Z-factor, capital funding mechanism, reopeners.

Oregon's existing ratemaking framework does not provide dollar-for-dollar, contemporaneous recovery of O&M costs and Staff does not propose shifting to that paradigm under an MRP. The utility should generally receive a reasonable forward-looking starting budget and then manage ordinary differences among costs within the indexed revenue requirement. Staff's concept for how O&M costs will operate under the MRP reflects the finding that in general, the bulk of O&M costs are managed as intended within an indexed plan. That said, Staff appreciates the utilities flagging a limited number of categories that may function well with alternative treatment in order to maintain alignment with existing regulatory structures (e.g., planning and program budgets) and/or preserve incentives, at least for the first utility MRPs. Thus, while the

primary approach (below) remains the default for utility O&M costs, Staff's concept does contemplate limited departures where characteristics of the cost clearly justify doing so.



Electric and Gas O&M Cost Treatment

Staff's concept is not intended to propose a universal treatment for a given cost category, but to indicate how a utility may best propose the use of alternative tools depending on the challenge they are running into using the primary approach. In developing this concept, Staff considered how the going-in level of a cost could be established meaningfully at the time of filing and whether the index, in conjunction with utility cost containment and budget management, reasonably accommodates the cost's rate of change. Staff notes that the discussion of scenarios primarily focused on costs that can escalate outside of the indices, but several examples were provided that would contribute to budget flexibility such as, OEAP, property sales, and REC or RTC sales. The summary table on page 3 of this document illustrates how Staff sees this approach being applied in practice.

Electric and Gas O&M Cost Staff Concept v1 Summary Table

COST CHARACTERISTIC	COST EXAMPLES[1]	FRAMEWORK PATHWAY(S)[2]
Recurring & predictable	• Routine operations and maintenance • Labor • Routine IT • Administrative and general	**PRIMARY APPROACH**
Recurring & volatile	• Insurance • Routine storm and weather-driven T&D work • Customer programs	***If justified:*** • **Reopener for qualifying material deviation.** • **Special Commission-determined exclusion.**
Future & predictable	• Major, planned IT implementation • O&M attached to an asset entering service mid-cycle • Non-recurring start-up costs	***If justified:*** • **Mid-cycle step adjustment (subject to review); or** • **Included in SCFM with eligible capital.**
Future & volatile[3]	• Major storm and weather-driven T&D work • Lumpy cyclical maintenance, including major maintenance accruals • Independent evaluator	***If justified:*** • **Normalize into going-in rates for modest fluctuations,** • **Z-factor for qualifying events.**

Unforeseen material event	• Qualifying events or cost deviations based on:
	  • Established criteria and
	  • Case by case review
		• **Z-factor for single or related qualifying events; or**
		• **Limited use of deferral at Commission direction; or**
		• **Reopener for targeted but material qualifying cost deviations; or**
		• **Off-ramps for events or deviations impacting the plan as a whole.**

[1] Areas raised for consideration were identified during O&M engagement and do not automatically qualify for alternative recovery pathways
[2] Alternative pathways described in Staff concept may be proposed by utilities where justified, subject to review
[3] Current O&M ratemaking practices sometimes treat future, volatile expense like recurring i.e., create a normalized O&M budget for expenses that often arise

Alternative Approaches

Staff will develop specific concepts related to annual adjustments and the exceptions process within Phase 2, Track 2 of this proceeding. That said, as we have begun to explore costs and alternatives to the primary cost treatment approach in Track 1, stakeholders have contributed insights on considerations and criteria that may inform the framework's flexibility and use of alternative approaches. The sections below describe some of what Staff has learned on these topics.

Scope

Phase 1 identified all customer programs as in-scope of the MRP revenue cap. Under Staff's concept we clarify that limited exclusions may be considered for specific costs, subject to Commission order. The following cost categories were identified by Staff and stakeholders as potentially appropriate to be handled outside of scope until more budget certainty and/or frameworks are established by the Commission:

- HB 2475 bill discounts,
- Demand response and flex load,
- Community Solar administration, and
- Community Based Renewable Energy activities that are justified to occur outside of power cost.

Going-in rates

Staff's concept would maintain Oregon's current approach to establishing base rates in a general rate case, which uses a forward-looking test year informed by historical actuals, escalated and inclusive of known and measurable costs. This approach could be supplemented by a third-party audit of costs, procured by the Commission, and included as an exhibit and addressed in testimony as part of the utility's initial filing.

Staff believes that the current approach to establishing going-in rates will account for the majority of the costs the utility may seek to recover from customers. However, Staff notes that alternative options may be proposed where justified, to account for costs that cannot be reasonably captured in the primary cost treatment approach. For example, reasonably anticipated future + volatile costs with modest fluctuations may be appropriate to forecast and then normalize into going-in rates. Other costs that are predictable and expected to occur in mid-cycle may be best recovered through a step adjustment subject to review for actual amounts and reasonableness.

The following cost categories were identified by Staff and stakeholders as potentially mismatched with indexed treatment under the primary approach.

Indices

Staff believes that evaluation of the indexed forecast compared to expected costs within the MRP can provide a meaningful evaluation of rate trajectory. Certain indices may be adjusted to reflect the impact of expected or known deviations within particular cost categories. For example, utilities flagged that union contracted labor may not track with standard inflation indices. As such, Staff will look at alternative indices for labor in Track 2 of Phase 2. Ultimately, the indices will function to maintain a reasonable and prudent budget but will be informed by reasonable and prudent utility operations during the determination of indices values.

Unforeseen Material Costs

Z-factor events, reopeners, and off-ramps provide limited-use mechanisms where the standard framework cannot reasonably accommodate recovery. The Z-factor seems best situated to handle unforeseen impactful events like a major storm or policy change materially impacting utility costs. Reopeners provide the utility an opportunity to seek re-evaluation of a particular cost category when events and unrealized assumptions result in material deviations from cost recovery. Lastly, off-ramps provide a tool to recalculate going-in rates when things go completely off the rails.

In Track 1, Staff heard that certain costs, like insurance, may fluctuate materially and may result in a proposal to use these exceptional tools. While Staff understands these concerns, we want to continue to preserve cost-containment signals. As such, Staff will work with stakeholders in Track 2 to establish materiality thresholds and where cost-sharing may be appropriate, especially where costs may already have been forecast and normalized.

Providing Feedback on Staff Concept v1

While this proposal has been informed by Phase 2 engagement and discussions to date, concept development is an iterative process, and Staff invites stakeholders to continue to bring their own perspectives, ideas, and recommendations to the discussion. Staff and stakeholders are scheduled to have one additional dedicated discussion on the Electric & Gas O&M cost topic (September 8) and written comments are due September 18. Generally, Staff is interested in hearing if, where, and why stakeholders may continue to have concerns with O&M cost treatment and preserving regulatory incentives in the MRP under Staff's proposal. Other areas of suggested feedback might include (but not are not limited to): where additional clarity on the concept elements are needed; what different approaches might be preferred across specific cost categories or cost characteristic groupings; and what thresholds might we start considering within alternative treatment criteria.

Staff would also like to note that the utility provided cost information has been extremely valuable to support a better understanding of utility cost realities and challenges from which we can work together to address through these concepts. Given emerging

discussions around cost treatment, Staff believes it would be helpful if utilities could plan to provide cost scenario examples and coordinate on cost categories and visualizations of within Track 1 topics in their filed pre-reads. Several stakeholders commented on the usefulness of visualizations depicting dollar and percentage breakouts of costs (e.g., union labor) within a cost category (e.g., O&M) and as a percentage of overall revenue requirement. Staff thanks utilities for putting these pre-reads together and looks forward to the ongoing submissions throughout Track 1.

Next Steps

The following dates outline upcoming Phase 2, Track 1 activities:

- **September 8, 2026:** Electric & Gas O&M discussion
- **September 9, 2026:** Electric Distribution workshop
- **September 11, 2026:** Gas Distribution, Transmission, & Storage cost information
- **September 14, 2026:** Electric Distribution discussion
- **September 18, 2026:** Electric & Gas O&M comment deadline

Staff appreciates the robust efforts that stakeholders have put into this process thus far and recognizes the significant work ahead. Thank you for your continued engagement in this process.

Questions

If you have questions about this docket, please contact:

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Attachment 1. AR 676 Phase 2, Track 1, Electric & Gas O&M Discussion Synthesis

Areas of general alignment

- **Going-in rates are an important factor that impact the applicability of alternative approaches**.
  - O&M baseline should be based on knowable costs.
  - Discussion focused on historical actuals, normalization, known and measurable changes, and the extent to which planned or forecast information should inform the first-year budget.
- **O&M costs can behave differently but differences are not necessarily a trigger for alternative treatment.**
  - Labor, insurance, IT, T&D operations, customer programs, and capital-related O&M have different drivers. There was broad interest in examining the underlying driver rather than treating all O&M as economically identical.
  - Individual costs may rise or fall at different rates while the utility manages the overall O&M budget
  - There is a clear distinction between ordinary budget variability and circumstances that may warrant use of a separate regulatory tool.
  - The analysis should consider slower-growing or declining costs, productivity, offsets, and the utility's ability to manage within the overall budget.
- **Materiality should be demonstrated; exceptions should be limited and principled.**
  - There is a need for some threshold or criteria for alternative treatment.
  - Forecasts, deferrals, balancing accounts, reopeners, and true-ups can improve accuracy, but broad use would erode the administrative and cost-control benefits of an MRP. Framework should discourage mid-cycle filings for every cost difference.
- **Alternative approaches/mechanisms should be calibrated for over-recovery as well.**
  - Temporary costs that roll off, lower-than-forecast costs, and savings should be considered in the same space as supplemental recovery tools.
- **Alternative approaches should consider least departure options first.**
  - Use of historical averages or normalization to establish a representative baseline may be preferred over deferrals or balancing mechanisms that move more costs out of the MRP.

Unresolved Issues

- **Budget responsibility vs. cost-specific recovery.**
  - Utilities emphasized the risk that some costs may materially outpace an index or arise at a time not reflected in going-in rates.
  - Non-utility stakeholders emphasized that an MRP is intended to require management within a budget and that higher costs in one area may be offset by lower costs, efficiencies, or reprioritization elsewhere.
- **Hybrid approaches in going-in rates.**
  - Utilities generally favored reflecting identifiable future cost changes where they are known and supportable.
  - Discussion explored whether predictable out-year costs should inform budget setting, while recognizing trade-offs in forecasting costs that do not occur in the first rate year.

- **Effect of exceptions on MRP incentives.**
  - Stakeholders differed on how much flexibility is needed. Some utility examples focused on avoiding under-recovery or operational constraints; other stakeholders cautioned that broad exceptions could reduce incentives to control costs and could recreate more frequent cost-of-service review.
- **Customer programs.**
  - Recognition that customer programs are heterogeneous, but no agreement on a single default treatment.
  - Questions remain on how to balance preserving participation and policy outcomes, with maintaining cost-control incentives, and accounting for programs whose costs vary with enrollment, benefits, or other factors.

Specific Cost Category Alternative Treatment Discussion Synthesis

Issue	Utility input	Non-utility response
Labor	Some utilities cited contractual wage growth and labor-market pressures that may exceed a broad inflation measure.	Stakeholders noted that individual labor accounts should be viewed with total O&M, productivity, and offsets.
Insurance	Utilities described recent premium increases, reduced market capacity, liability exposure, and annual policy timing. Some utilities currently use deferral or sharing approaches.	Stakeholders questioned whether recent volatility necessarily predicts the next MRP and noted that coverage level and other O&M choices remain management decisions.
IT / cyber	Utilities distinguished routine IT from large implementations, cloud migration, temporary start-up costs, and externally driven cyber requirements. Timing may not align with the MRP cycle.	Stakeholders questioned whether predictable costs can be reflected through budget setting and noted that temporary costs can also create over-recovery if embedded in the base after they roll off.
T&D / storms	Utilities described normalization of recurring but uneven storm costs and noted that some unit costs or work volumes may not track inflation.	Stakeholders emphasized that normalization is different from deferral and that variable recurring costs can often be reflected in a representative baseline without actual-cost recovery.
Taxes	*Reserved topic for alternative space (to be addressed in "Gas Other Costs" Track 1 events)*	