Multi-Year Rate Plan Framework

Docket No. AR 676
Phase 2 Track 1

Electric Distribution Workshop 1

Oregon Public Utility Commission

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Standard approach under the MRP framework

Applies to each cost category absent a determination that different treatment is warranted.

PRIMARY APPROACH

1 Set going-in rates

- Traditional test-year GRC approach
- Informed by Distribution System Planning (DSP)

2 Annual adjustments

- Indices (I – X – S + G + Z)
- PIMs

Annual adjustment also includes:
- Decoupling
- ESM
- PIMs
- Used-and-useful confirmation (informational)

3 Rebasing

- Return to actual cost of service
- Reset the base for the next plan

ALTERNATIVE APPROACHES

- Normalize
- Forecast

- SCFM
- Deferral or balancing account
- Mid-cycle step
- Z-factor

MRP capital cost treatment tools

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Index only	Normalization	Dedicated AAC	SCFM project
Going-in capital level escalates by the formula.	Recurring but variable capital (e.g., storm restoration) averaged into the going-in level, then indexed.	Policy-driven mitigation capital recovered through an existing statutory mechanism (e.g., wildfire).	A single material or extraordinary project recovered on actual cost and in-service date.
Administratively simple; assumes capital is broadly formula-shaped.	No separate mechanism; requires an agreed averaging method and period.	Removed from the GRC and netted out of the index to avoid double recovery.	Requires a materiality threshold and used-and-useful review.

Mid-cycle Step	Z-factor	Deferral	Rebasing true-up
A known, material addition reflected at going-in that steps into rates when the asset enters service during the plan	A discrete, material exogenous event outside utility control. Distinct from SCFM. Narrow use.	Actual qualifying costs tracked where the amount cannot be forecast.	Actual recorded plant, including SCFM-recovered investment, becomes the foundation for the next plan.
Requires reliable in-service date and true-up; places forecast burden in the initial filing.	Requires a materiality threshold and a definition of qualifying events.	Recovers prudent costs incurred; least cost-containment effect.	Reconciles forecast to actual; resets the base.

Prevent "double recovery": Capital recovered through a dedicated mechanism, i.e., the SCFM, or a deferral should be netted out of going-in rates and the index

Distribution Capital Cost categories

Distribution capital categories and concept considerations raised in utility pre-reads.

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PRIMARY APPROACH

Routine plant additions
Poles, conductors, transformers, meters, service connections

Customer growth and load growth
New connections and ordinary system expansion

Normalized storm restoration
Recurring but variable; averaged into the going-in level

POTENTIAL CANDIDATES FOR SCFM OR Z-FACTOR

Unique, extraordinary projects *SCFM*
Non-recurring, externally driven, far above a materiality threshold

Material related investments *SCFM*
Substantive common driver (e.g., a system-wide cybersecurity upgrade under a new federal requirement)

Catastrophic, non-routine events *Z-factor*
Beyond what a normalized base and the index can absorb

Staff takeaway: Most distribution capital is programmatic and budgeted and fits the primary approach. Alternative treatment is intended to be narrow and targeted, not a default recovery channel.

Distribution cost situations

Hypothetical concepts for potential cost treatment

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	Predictable	Not predictable
Recurring	*E.g., routine plant additions* **Going in:** Current test-year approaches, informed by DSP **Annual adjustments:** Standard indices	*E.g., major storm restoration* **Going in:** Normalize **Annual adjustments:** Z-factor for events beyond the normalized level, if material
Future	*E.g., known project entering service mid-cycle* **Going in:** Forecast **Annual adjustments:** True-up for actual cost and in-service timing	*E.g., new mandate* **Going in:** Not applicable **Annual adjustments:** SCFM or Z-factor (criteria dependent)

Storm Costs, Mitigation Capital & Extraordinary Projects

Staff synthesis of utility pre-reads.

Category	Reason for specialized treatment	Treatment identified in utility pre-reads	Questions for discussion
Recurring storm restoration	Frequency and severity of storm-driven distribution work is rising and does not track a general inflation index.	Normalize a representative level into the going-in base, escalated by the index; reserve a Z-factor or deferral backstop for catastrophic, non-routine events.	Does current practice (i.e., normalizing major storm costs and escalating them) carry forward into the MRP? What should qualify an event for extraordinary treatment: an emergency declaration, a materiality threshold, or both?
Policy-driven capital	Some capital is driven by statute, a mandate, or a Commission-directed program rather than ordinary system need (e.g., wildfire mitigation).	Recover through the existing dedicated mechanism (e.g., an automatic adjustment clause); remove from the GRC and net out of going-in rates and the index.	Wildfire mitigation remains on its own cadence and mechanism. What, if any, other capital examples that warrant this treatment? Should eligibility turn on the policy driver, or on materiality regardless of driver?
Unique, extraordinary projects	A single non-recurring, externally driven project can be far larger than an annual index-based step can reasonably absorb.	Supplemental capital mechanism recovered on actual cost and in-service date, above a materiality threshold, with used-and-useful review and a true-up at rebasing.	What should distinguish use of the SCFM treatment from a Z-factor? Should a known project be identified at going-in, with a narrower review when it enters service?

Interaction with Utility Planning Dockets

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How will distribution going in rates be identified?
What about planning or other regulatory dockets needs to be modified?
What timelines need to change?

Regulatory Process/ Docket	Relevance to Distribution Capital
Distribution System Planning (DSP)	Thorough review of utilities' proposed grid investments and operational plans to allow participants to influence decisions prior to their implementation when possible, and lay the groundwork for cost recovery and any associated performance metrics. Includes a 5-year Near-term Action Plan.
Integrated Resource Plan (IRP)	Identifies long-term generation and system need; may point to downstream distribution or interconnection requirements, but planning approval is not itself a ratemaking determination.

Also – info only annual true up?

Questions?

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Next Steps

Track 1: Electric Distribution Schedule

- **September 14**: Discussion session 12:30-1:30pm PT
- **September 21**: Discussion session 12:30-1:30pm PT
- **September 25**: Staff synthesis and concept v1 issued
- **September 28**: Discussion session 12:30-1:30pm PT
- **October 9:** Written comment deadline

Potential Structure of Staff Concept

1. **Default treatment:** Treatment applicable absent a determination to the contrary
2. **Criteria:** The basis on which a category may be proposed for different treatment
3. **Tools :** The mechanisms for different treatment (if any)

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