



Fuel Cost-Sharing and Return on Equity

What the Evidence Says About Utility Risk

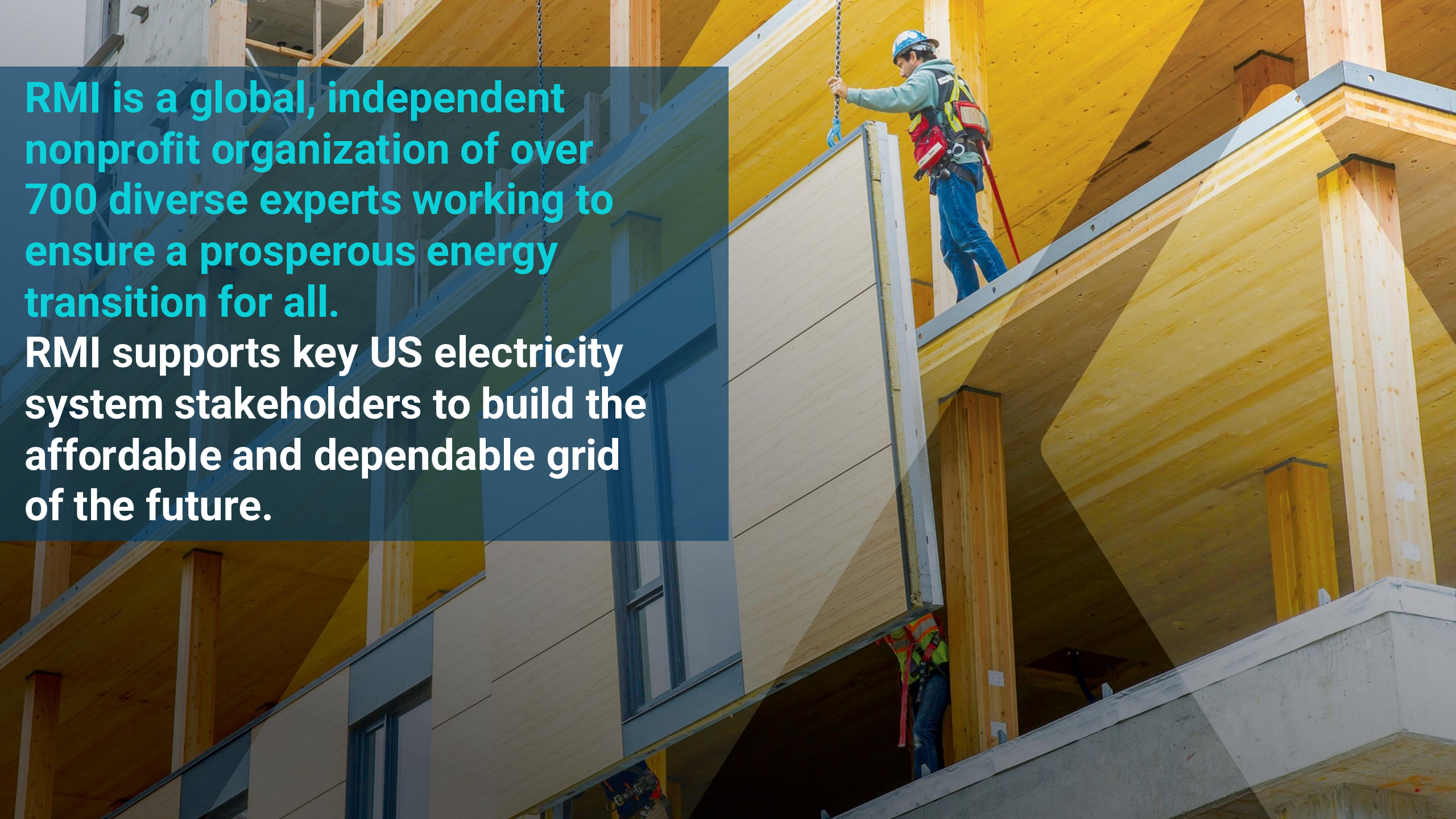
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RMI

Laura Sánchez Bolaños (Vereda Advisory)

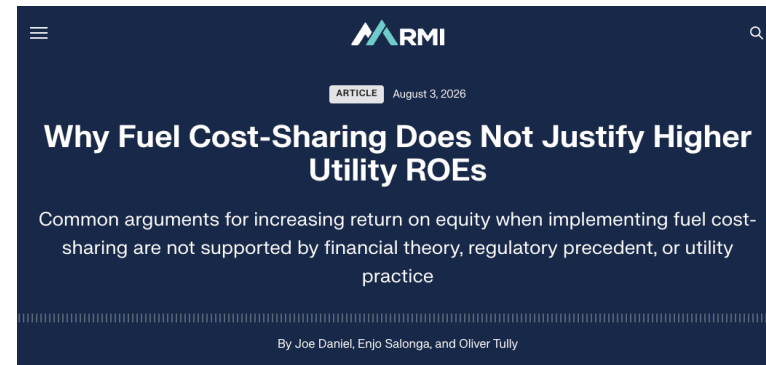
RMI is a global, independent nonprofit organization of over 700 diverse experts working to ensure a prosperous energy transition for all.

RMI supports key US electricity system stakeholders to build the affordable and dependable grid of the future.



Agenda

- Background and Overview of Fuel Cost-Sharing
- Presentation by Laura Sánchez Bolaños (Vereda Advisory)
- Audience Q&A



As electricity bills continue to rise, state policymakers are looking for new ways to improve affordability. One policy receiving growing attention is [fuel cost-sharing](#), which gives utilities financial incentives to manage fuel costs while helping protect customers from utility price volatility.

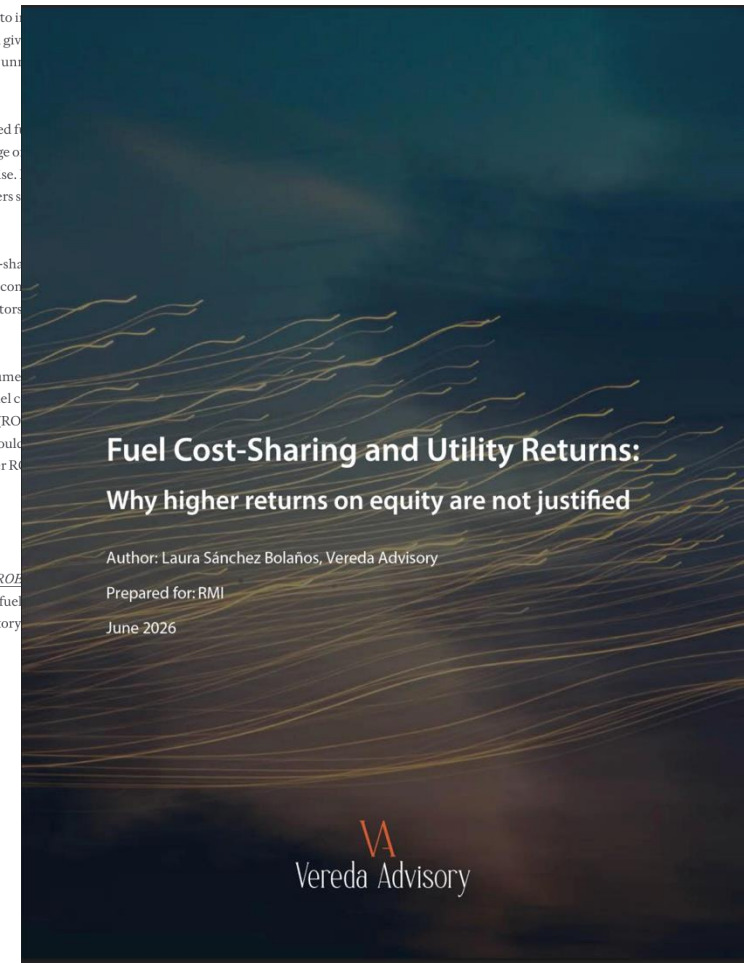
Under a fuel cost-sharing policy, the utility sets a “fuel budget” based on expected fuel costs for the term, if actual costs are greater than expected, the utility pays a percentage of the difference, saving customers money by reducing the amount they would have paid otherwise. If fuel costs are lower than expected, the utility retains that difference as a reward, and customers see corresponding reductions in fuel costs overall.

North Carolina recently introduced legislation that would implement fuel cost-sharing. A recent [analysis](#) shows the policy could save customers \$89 million over 5 years. Similar policies are being considered in [Utah](#), [Nevada](#), [New Mexico](#), [Georgia](#), and [Virginia](#), where regulators are exploring ways to better align utility incentives with customer affordability.

Whenever fuel cost-sharing enters the conversation, however, one familiar argument often comes behind. Critics often contend that if utilities are required to absorb a share of fuel cost increases, regulators should compensate them with a higher authorized return on equity (ROE). If regulators accepted that argument, some of the customer savings from fuel cost-sharing could be offset by higher financing costs. Which raises the logical question: should utilities receive higher ROEs if fuel cost-sharing is adopted?

A new report commissioned by RMI concludes they should not.

Prepared by Vereda Advisory, [Fuel-Cost Sharing and Utility Returns: Why Higher ROEs Don't Justify Fuel Cost-Sharing](#) examines the most common arguments for increasing authorized ROEs under fuel cost-sharing. The report finds that those arguments are not supported by financial theory, regulatory precedent, or utility practice.



Existing processes for recovery of utility fuel costs create perverse incentives and undermine affordability goals

- Vertically integrated utilities typically pass 100% of fuel costs (i.e. the fuel used to generate electricity at power plants) through to customers via Fuel Adjustment Clause (FAC).
- As a result, utility customers bear essentially all the risk of fuel price volatility but have the least agency in controlling those costs compared to the utility.
- This creates a moral hazard: the utility makes the decisions while customers bear the risks.



100% pass-through of fuel costs insulates the utility from the risks of poor fuel cost management decisions

- **100% pass-through reduces incentives for utilities to carefully manage their spending on fuel.**
 - Undermines affordability goals
 - Reinforces a reliance on price-volatile fuels.
- **These affordability challenges are exacerbated by the price volatility of and growing reliance on natural gas as a fuel for electricity generation.**

Wholesale Prices and Impact of Fuel Costs: 2025 vs. 2024

Load-weighted average real-time wholesale price and price change in cents/kWh, inflation adjusted to 2025\$, compared to year-over-year change in regional natural-gas hub prices

Region	2024: wholesale electricity price	2025: wholesale electricity price	Change in wholesale price (cents/kWh) ▼	Change in natural gas price (\$/Mcf)
ISO-NE	4.4	7.3	2.9	3.4
NYISO	3.9	6.6	2.7	3.1
PJM	3.5	5.1	1.6	1.6
MISO	3.0	4.3	1.3	1.1
ERCOT	3.0	3.3	0.4	1.2
SPP	2.6	2.9	0.3	1.2
CAISO	3.6	3.4	-0.1	0.7
National	3.3	4.4	1.2	1.1

Source: LBNL and The Brattle Group, *Retail Electricity Price Trends and Drivers: Data Update-2026 Edition* (April 2026)

Fuel cost-sharing is a key utility affordability solution

Fuel cost-sharing gives utilities stronger financial incentives to manage fuel costs while helping to mitigate customer exposure to price volatility.

Fuel cost-sharing adjusts how much of overall fuel costs are passed through to customers (instead of 100% pass-through).

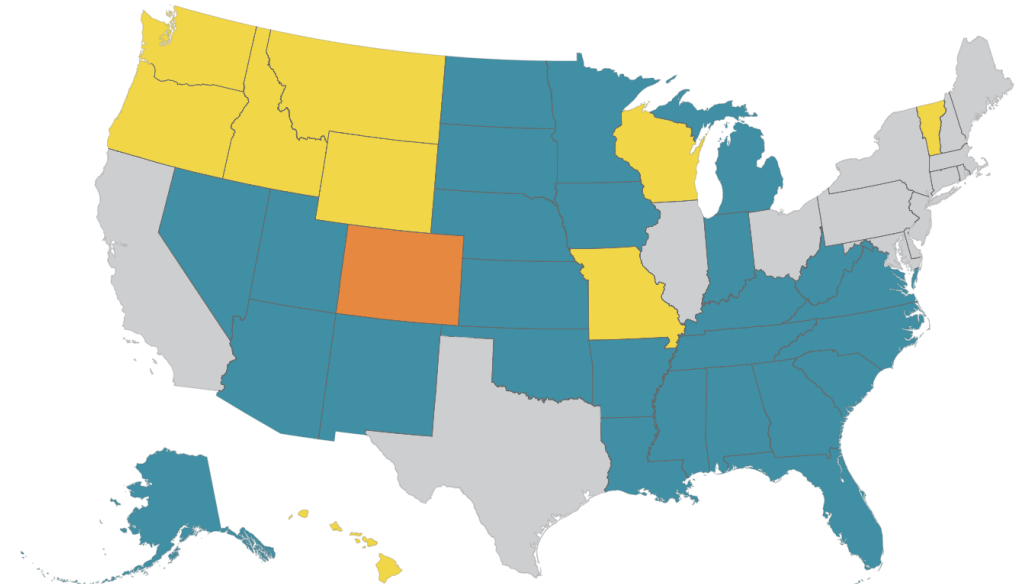
By shifting some of the financial risk of fuel price volatility from ratepayers to utilities, fuel cost-sharing gives utilities “skin in the game.” This incentivizes utilities to:

- Better plan and account for the price volatility of fuels.
- Seek out cost efficiencies, delivering savings for customers.

Fuel cost-sharing policies by state

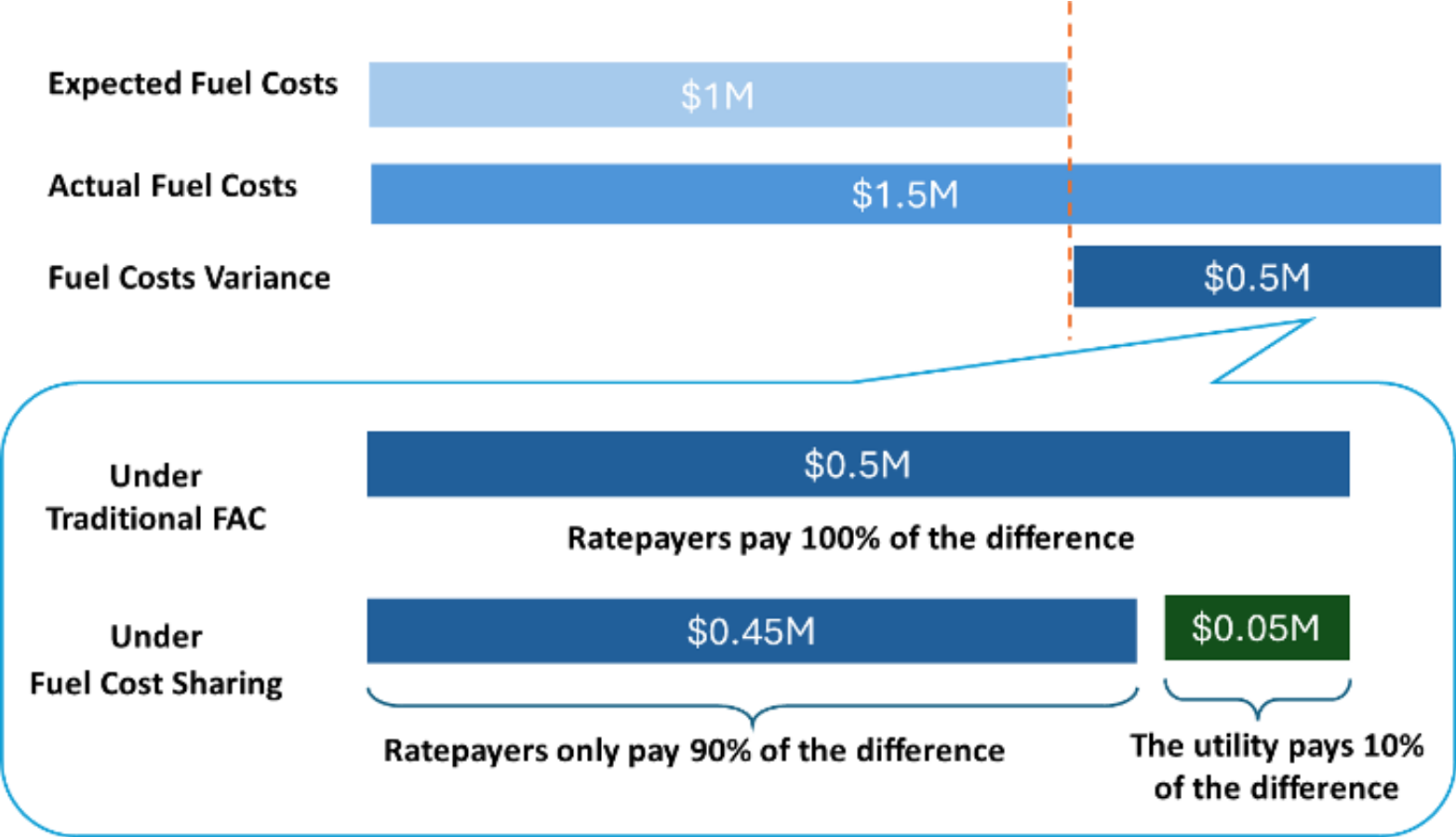
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■ Fuel cost-sharing ■ Fuel price volatility performance incentive mechanism ■ No fuel cost-sharing ■ Restructured state: regulated utilities not responsible for fuel procurement

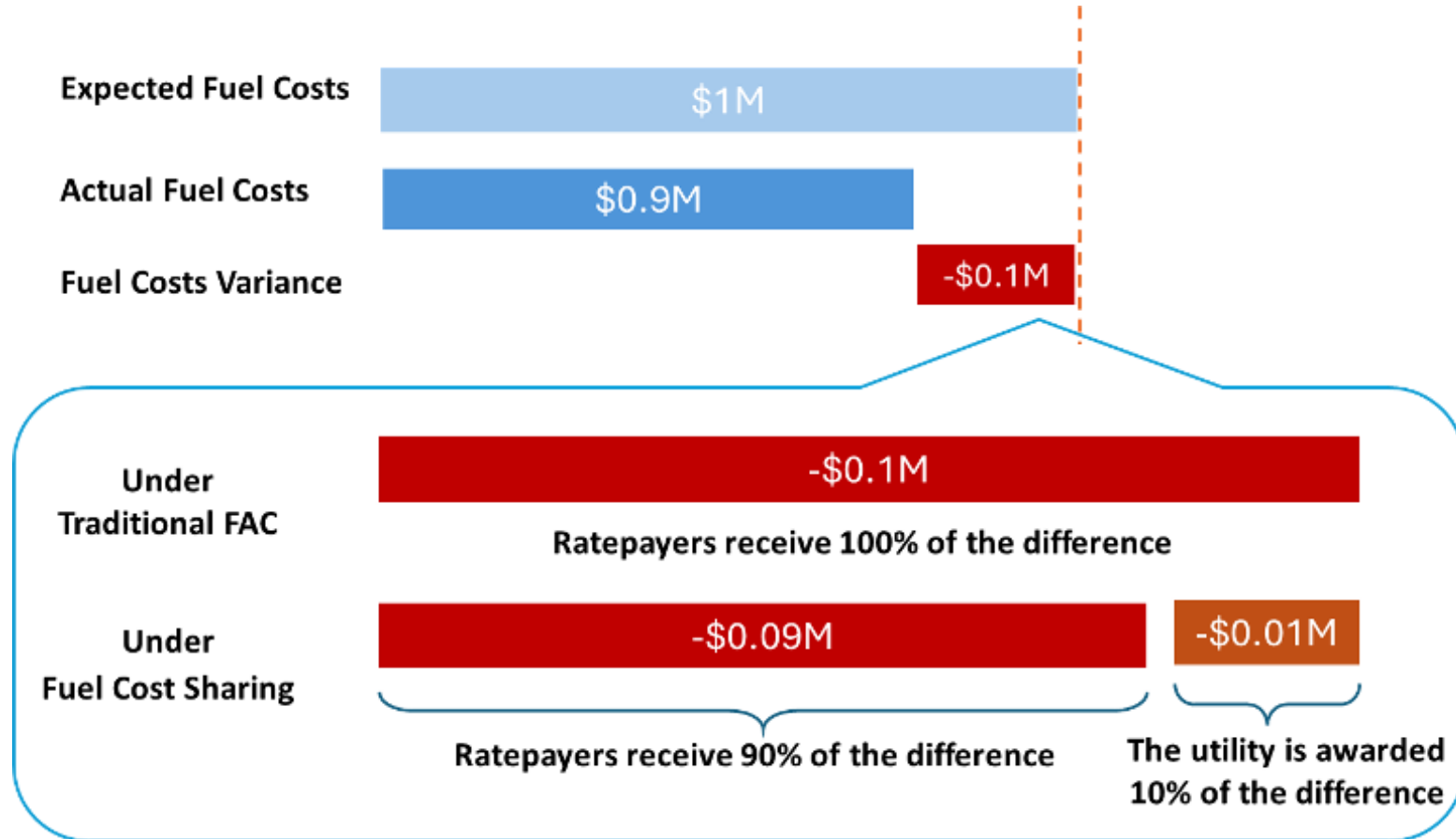


Source: RMI analysis. Note: Generation in Tennessee and Nebraska is publicly owned and operated, so there is no option for fuel cost-sharing.

Example A: Actual fuel costs are greater than expected costs (with 90%/10% sharing)



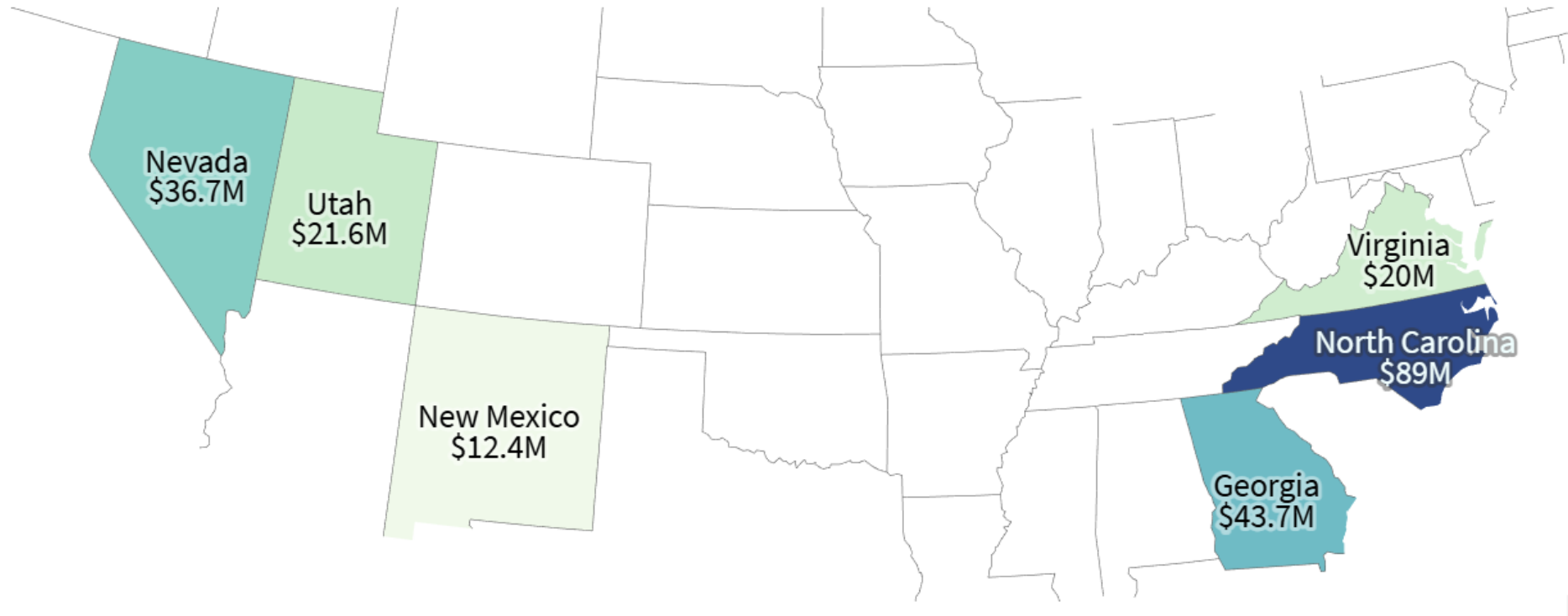
Example B: Actual fuel costs are lower than expected costs (with 90%/10% sharing)



RMI Graphic

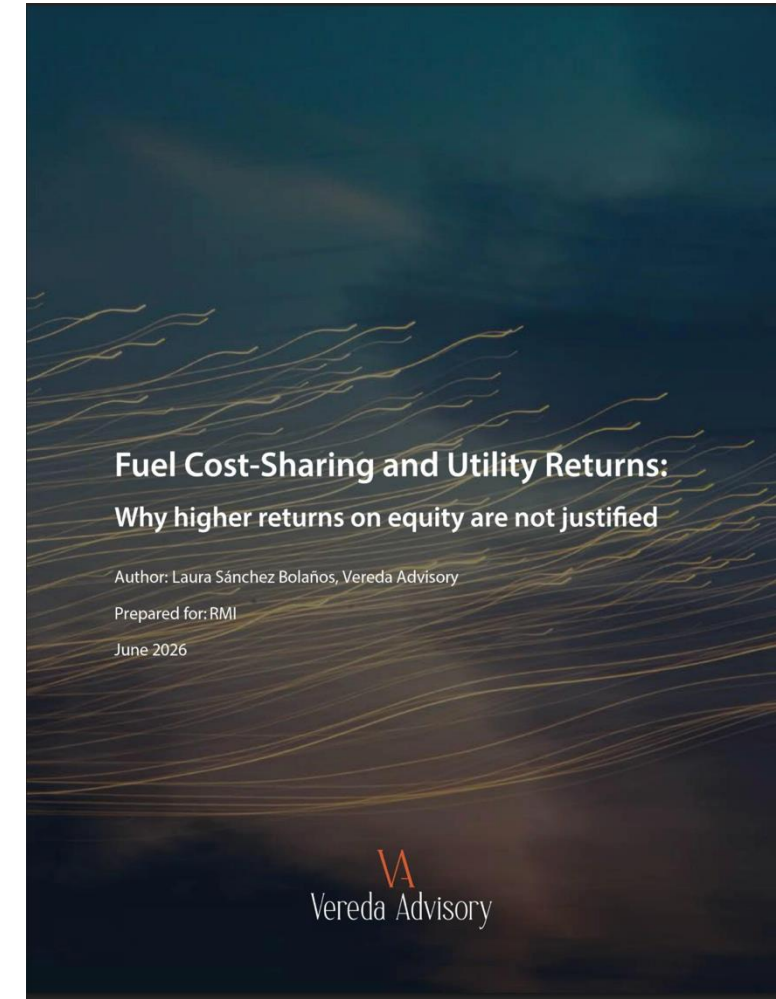
Fuel cost-sharing could lead to significant customer savings

Net cumulative customer savings, 2020-2024 (90/10% sharing, 1% cap)



Critics contend that utilities exposed to fuel cost-sharing should have the opportunity to earn a higher authorized return on equity (ROE)

- When regulators consider fuel cost-sharing, critics often contend that if utilities are required to absorb a share of fuel cost volatility, regulators should compensate them with a higher authorized ROE.
- RMI commissioned Vereda Advisory to examine these arguments and answer the question: "Should utilities receive higher ROEs when fuel cost-sharing is adopted?"
- The report finds that those arguments are not supported by financial theory, regulatory precedent, or utility practice.



Resources

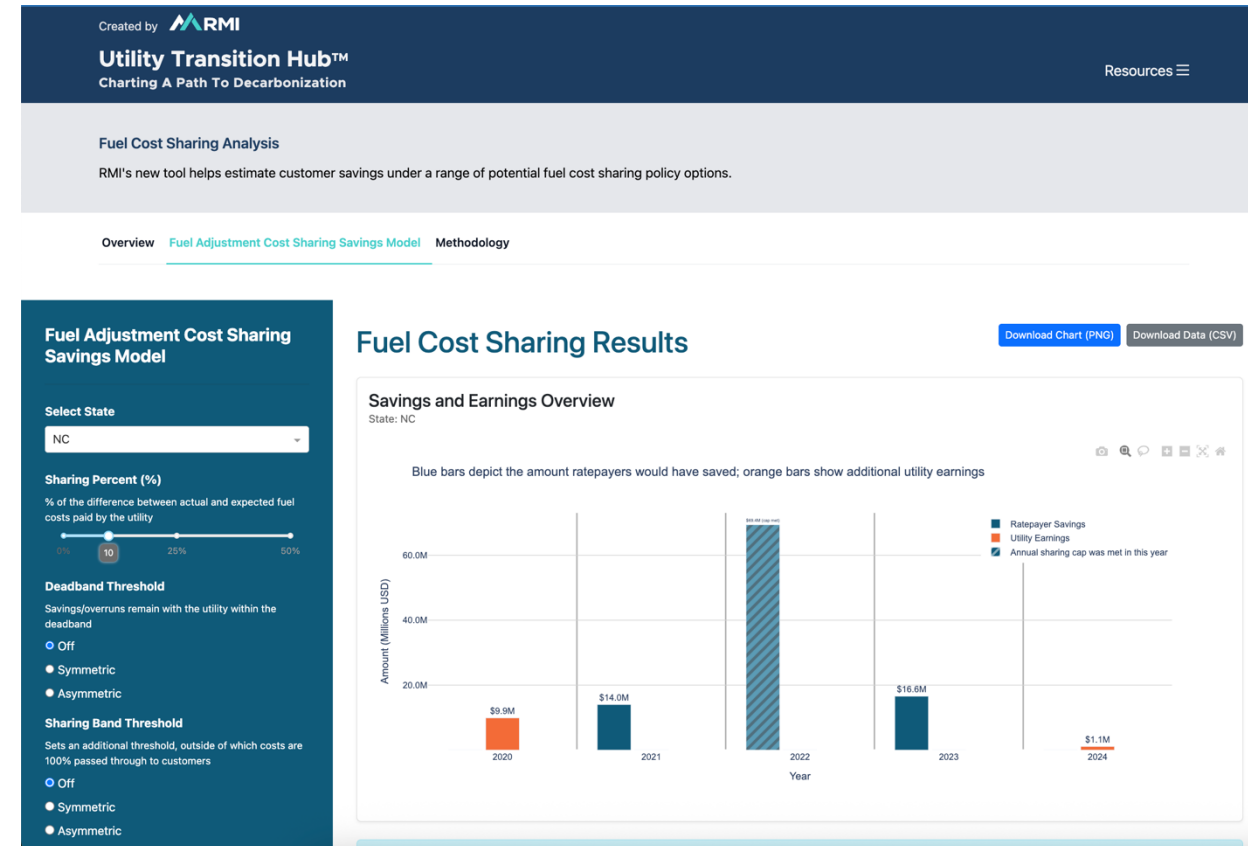
[*Fuel Cost-Sharing and Utility Returns: Why higher returns on equity are not justified*](#) (Vereda Advisory, 2026)

[*Why Fuel Cost-Sharing Does Not Justify Higher Utility ROEs*](#) (RMI, 2026)

[*Fuel Cost-Sharing Analysis and the Fuel Adjustment Cost Sharing Savings \(FACSS\) Model*](#) (RMI's Utility Transition Hub)

[*Strategies for Encouraging Good Fuel-Cost Management: A Handbook for Utility Regulators*](#) (RMI, 2023)

[*Learning To Share: A Primer On Fuel-Cost Pass-Through Reform*](#) (RMI and Pearl St. Station Finance Lab, 2023)



If you need support on topics related to FACs or fuel cost-sharing, RMI is available to...

Share information & insights

- Stakeholder education on Fuel Adjustment Clause reform strategies.
- Examples and lessons learned from state experiences with fuel cost-sharing.
- Best practices for designing and implementing fuel cost-sharing or reforming FACs.

Identify challenges & solutions

- Evaluate existing fuel cost recovery mechanisms and identify jurisdiction-specific opportunities for reform.
- Support evaluation and design of regulatory solutions.

Support strategic planning

- Facilitate or support discussions to develop high-level reform strategies.



Thank you!

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