



# Strategies for Encouraging Good Fuel- Cost Management A Handbook for Utility Regulators

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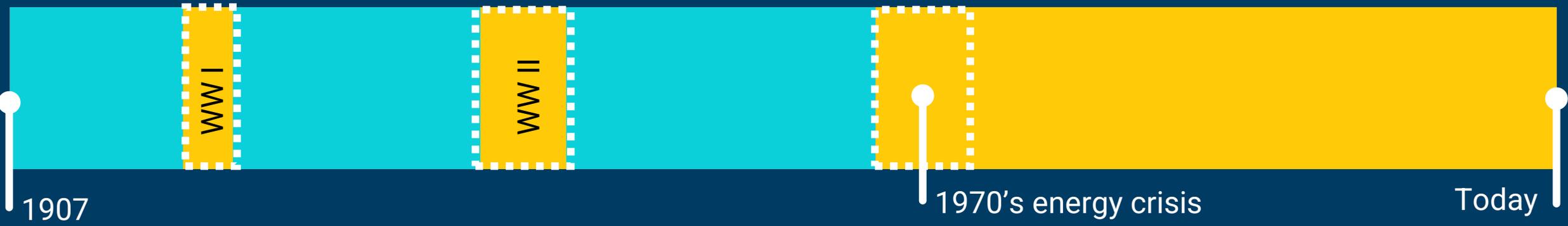
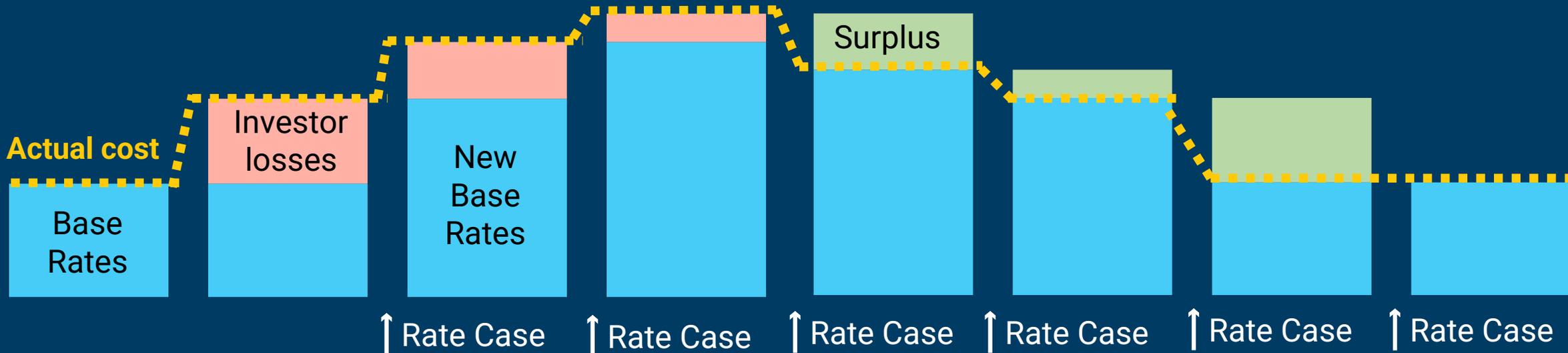
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October 25, 2023

# Agenda

- Brief history of Fuel Adjustment Clauses (FAC)
- How the FAC creates a Moral Hazard
- Explore some alternatives
- Facilitated Q&A with authors

# History of Fuel Cost Recovery



# How does fuel pass through work?



# What is the impact of fuel pass through



Moral Hazard



Fairness to Systemwide Assets



Fairness to Other Industries



Increases Financial Pressure for Low-Income Users

# List of alternatives

Fuel-Cost  
True-Up  
Removal

Fuel-Cost  
Sharing

Efficiency  
Ratio

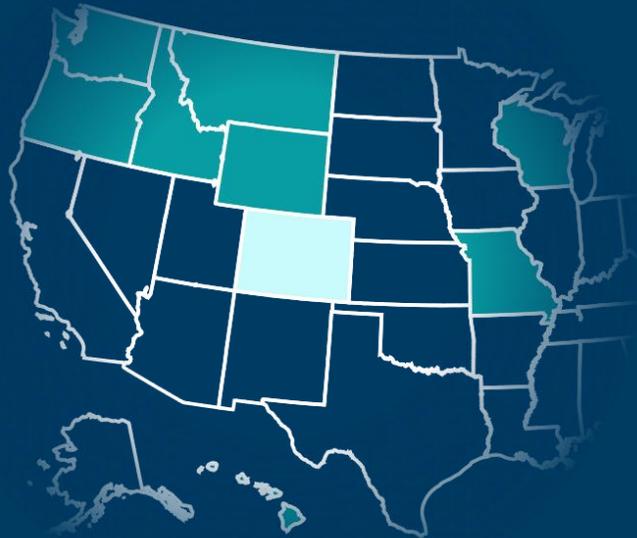
Fuel-Risk  
Reduction  
Tariffs

Increase  
Access to  
Information

Planning and  
Procurement



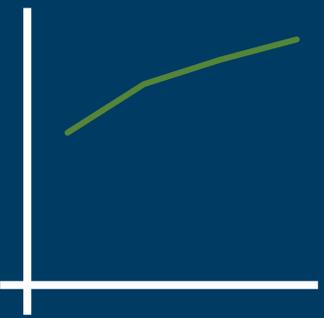
# Fuel Cost Sharing



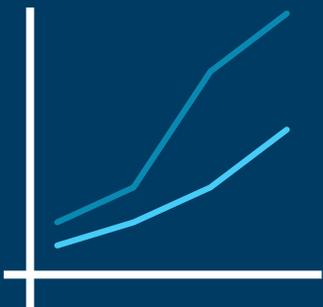
: Savings. A portion of savings go back to customers and the remainder of savings go to investors



: Overruns. A portion of excess costs get covered by customers and the rest get paid for by investors



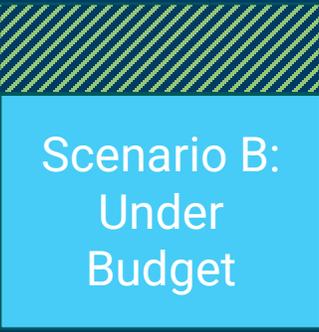
Load Forecast



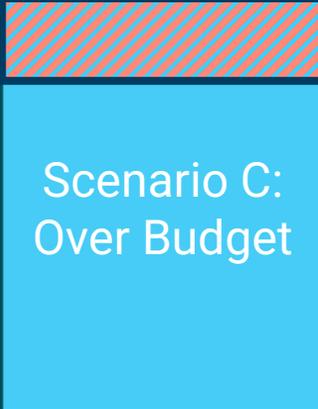
Fuel price forecast



Scenario A:  
On Budget



Scenario B:  
Under  
Budget



Scenario C:  
Over Budget

# Efficiency Ratio



Increase in \$/MWh (efficiency decrease)  
↓  
**smaller** customer bill increase and lower investor earnings

Decrease in \$/MWh (efficiency increase)  
↓  
lower customer bills and higher investor earnings

# Fuel-Risk Reduction Tariffs

Offer tariffs that let customers lock in a rate for the fuel-costs in their bills.

- **Such tariffs could provide some protection to enrolled customers against fuel-price volatility.**
- **Could also encourage the utility to reduce fuel costs (if structured properly).**
- **They might appeal to customers concerned about volatility**
- **States that have adopted “flat-charge” tariffs include OK, FL, and IN.**

## Key Questions:

- How should the fuel-risk reduction tariff be structured?
- How often should customers be allowed to opt in and out of the tariff?
- Which customer classes should be included?
- How should the preset rate or charge for fuel be determined?
- How often should the rate or charge be updated?
- Would a fuel-risk reduction tariff affect electrification?

# Planning and Procurement

Update planning and procurement to reduce reliance on costly and price-volatile fuels.

Changes to long-term planning

Greater scrutiny of fuel-price projections

Locking in forecasts for new generation

Adopting all-source solicitation and procurement

Requiring fuel management plans

Changes to hedging practices

# Transparency (Increased Access to Information)

Improve regulators' visibility into fuel-cost practices and thereby improve oversight.

## Fuel Adjustment Clause, section 2 "Filing Requirements":

(1) If a utility initially proposes a fuel adjustment clause, **the utility shall submit copies of each fossil fuel purchase contract** not otherwise on file with the commission and all other agreements, options, amendments, modifications, and similar documents related to the procurement of fuel supply or purchased power....

(5) **Copies of all documents** required to be filed with the commission under this administrative regulation **shall be open and made available for public inspection at the [PSC office]** . 807 KAR 5:506.

Kentucky

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION FOR: (1) REVISION OF )  
ITS RETAIL RATES UNDER ADVICE )  
NOTICE NO. 282; (2) AUTHORIZATION )  
AND APPROVAL TO SHORTEN THE )  
SERVICE LIFE OF AND ABANDON ITS )

CASE NO. 19-00170-UT

TOLK GENI  
AND (3) OTI

SOUTHWES  
COMPANY,

COAL SUPPLY AGREEMENT – HARRINGTON STATION

by and between

TUCO INC.,  
a Delaware corporation,  
Seller

and

SOUTHWESTERN PUBLIC SERVICE COMPANY,  
a New Mexico corporation and electric utility subsidiary of First Energy, Inc., a Minnesota corporation,  
Buyer

Effective January 1, 2018

New Mexico

1.24 "Quarter" or "Quarterly" means a calendar quarter. The First Quarter is January through March, the Second Quarter is April through June, the Third Quarter is July through September, and the Fourth Quarter is October through December.

1.25 "Rosebud Mine" means those mining areas under Seller's ownership and control located near Colstrip, Montana, contained within coal mining permits issued by the State of Montana and, if required by law, the Office of Surface Mining Reclamation and Enforcement, within Rosebud and Treasure Counties, Montana in Townships 1 North and 2 North and Ranges 38 East through 41 East, plus all assets, plant and equipment related thereto. A map showing the general area of the Rosebud Mine is attached as Exhibit 2 hereto.

2. SALE A<sup>2</sup>

2.1 M

During its term, this Agreement shall be Rosebud Seam coal produced from the Rosebud Mine.

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Montana

DOCKET NO. \_\_\_\_\_

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES

PUBLIC UTILITY COMMISSION  
OF TEXAS

DIRECT TESTIMONY

Control Number: 49831

Item Number: 24

Addendum StartPage: 0

CONFIDENTIAL

GLOSSARY  
LIST OF ATTORNEYS  
I. WITNESSES  
II. ASSISTANT RECORDERS  
III. REPLY  
IV. COAL  
V. REASONS  
VI. NO CONFIDENTIAL AFFIDAVIT

Texas

# To learn more about the report:

## **Strategies for Encouraging Good Fuel-Cost Management A Handbook for Utility Regulators**

**Kaja Rebane, Jeremy Kalin, Albert Lin, Joe Daniel,  
and Rachel Gold, Strategies for Encouraging Good  
Fuel Cost Management: A Handbook for Utility  
Regulators, RMI, 2023.**

**[https://rmi.org/insight/strategies-forencouraging-  
good-fuel-cost-management/](https://rmi.org/insight/strategies-forencouraging-good-fuel-cost-management/)**

