

# Careful Management of Cost Trackers

COST CONTROL

AT A GLANCE



**TARGET COST DRIVERS**

The policy can help to ease customer cost pressures created by these drivers

- Aging grid infrastructure
- Fuel price volatility
- Misaligned utility incentives



**IMPACT TIME HORIZON**

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How long it typically takes before changes materialize in utility behavior or customer bills



Medium-term (2-5 years)



**POTENTIAL COST SAVINGS**

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The level of cost savings that can reasonably be expected to result from this policy



Variable

CONTEXT AND BACKGROUND

A cost tracker is a regulatory mechanism to provide cost recovery for specific costs outside of general rate case proceedings.

Cost trackers are intended for costs deemed to be volatile, outside of the utility’s control, and present a substantial financial risk to the utility if not recovered.

While cost trackers can provide timely cost recovery for utilities, they can weaken the incentive for utilities to control costs because tracked costs typically receive less scrutiny by regulators compared to general rate cases.

Furthermore, in some instances, cost trackers are structured to provide guaranteed cost recovery.

The use of cost trackers has expanded in recent years, but legislatures and regulators may wish to carefully consider their use to ensure these mechanisms are not serving as vehicles for unfettered utility spending.

## REAL-WORLD EXAMPLES

As of 2022, all 50 states had cost trackers in place. The most common cost tracker is a fuel-adjustment clause (81% of the largest electric and gas utilities have fuel-adjustment clauses).



The **Kentucky** Legislative Research Commission completed a [study](#) to analyze the costs and benefits of implementing alternative rate mechanisms, including cost trackers, for public utilities regulated by the Kentucky Public Service Commission. While the report did not make any explicit recommendations, it did include an assessment of the benefits and limitations of cost trackers. Notably, the report highlighted that cost trackers weaken utility cost control incentives and are often not offset by reductions in a utility's ROE, despite less financial risk facing a utility due to the certainty of cost recovery.



The **Virginia** legislature passed a [joint resolution](#) in 2024 (H.J. 30) requiring the State Corporation Commission (SCC) and Virginia Department of Energy to conduct a stakeholder-informed study on the use of performance-based regulation (PBR). [Stakeholders](#) ultimately recommended a comparative analysis of the costs and benefits of recovering costs through rate-adjustment clauses (cost trackers), which are heavily used in Virginia, relative to base rates, performance-based tools, or hybrid mechanisms.



## FURTHER READING

- [“A Strategic Framework for Utility Cost Control”](#), RMI, 2025
- [“Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives”](#), National Regulatory Research Institute, 2014
- “Adjustment Clauses: A state by state overview”, S&P Global Market Intelligence, 2022



## IMPACT TIME HORIZON

### Medium-term (2–5 years)

Cost trackers are [usually adopted](#) in rate cases or other proceedings. Rate cases generally take [12-18 months to complete](#). Once adopted, costs covered by cost trackers are “trued-up” at regular intervals and can remain in place for an undetermined period of time. The savings that might result from carefully considering the use of cost trackers occur in the medium- to long-term.



## POTENTIAL COST SAVINGS

### Variable

The potential cost savings from careful management of cost trackers is variable and depends on the existing use of cost trackers by public utility commissions in different states. For example, [Dominion Energy](#) in Virginia estimates that \$39.3 billion (62%) of its \$63.4 billion net rate base will be recovered by cost trackers by 2029. While it's possible that some costs could be rejected by replacing cost trackers with a more thorough review process, it's not clear how much costs could be saved by avoiding cost trackers.



## LEGISLATIVE DESIGN AND IMPLEMENTATION CONSIDERATIONS

Legislation about the prudent use of cost trackers could include the following principles:

### Criteria for use and regulatory authority to revise

Directing regulators to [adopt a set of criteria](#) that must be met in order to use cost trackers can guard against excessive use. [Criteria could include](#) requiring utilities to prove that costs are outside the utility's control, unpredictable, and volatile, and would materially impact the utility's financial health if not recovered via a tracker. Additionally, legislation can include provisions that clarify the authority of the PUC to deny the approval of a cost tracker, deny recovery of certain tracked costs, and eliminate cost trackers that it deems no longer necessary.

### Complementary cost-containment incentives

Because cost trackers weaken a utility's incentive to control costs, legislation can provide a requirement and/or clear authority for regulators to [create complementary incentives](#) for

utilities to control any costs recovered via a cost tracker. One example of such an incentive is a shared savings mechanism, which rewards the utility with a share of the cost savings resulting from a particular action.

### Reduction of utility return on equity (ROE)

Cost trackers provide more certainty of cost recovery for utilities, so it may be appropriate to reduce a utility's allowed ROE in accordance with this reduction in financial risk. Directing regulators to consider the impact of cost trackers on a utility's financial risk and allowing for [reductions in utility ROEs](#) where reliance on cost trackers significantly reduces utility business risk can guard against unnecessary costs for customers.

The table below provides examples of how authority and responsibility for managing the use of cost trackers may be distributed across key entities.

VENUE	POTENTIAL ROLES
<b>Legislature</b>	<ul style="list-style-type: none"> <li>• Authorize the creation of a set of criteria that must be met for cost tracker recovery eligibility</li> <li>• Monitor the impact of cost trackers on customer bills</li> </ul>
<b>Regulator</b>	<ul style="list-style-type: none"> <li>• Create criteria for the appropriate eligibility of cost trackers</li> <li>• Review, approve, monitor, and discontinue implementation of cost trackers as appropriate</li> <li>• Consider cost trackers as part of the broader regulatory framework when making related decisions (ROE, PBR, etc.)</li> <li>• Adopt utility reporting requirements and conduct monitoring and evaluation of cost trackers</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>• Encourage legislatures and/or direct regulators to study the use of cost trackers in their state</li> </ul>
<b>RTO/ISO</b>	<ul style="list-style-type: none"> <li>• No direct role</li> </ul>