

Fuel-Cost Sharing

COST CONTROL

COST DISTRIBUTION

AT A GLANCE



TARGET COST DRIVERS

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

- 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

●●○ Medium

CONTEXT AND BACKGROUND

Fuel-cost sharing is a policy that provides a financial incentive for a utility to carefully manage its fuel costs by exposing the utility to a portion of fuel-cost volatility risk, allowing a utility to earn more if it reduces fuel costs and bear a share of the burden if those costs rise.

In most vertically integrated states, all fuel costs are passed through to customers with what is often called a fuel adjustment clause (FAC). A FAC allows utilities to recover the exact fuel costs they incurred from customers, facing no risk if they spend more than expected on fuel and not benefiting from any savings if they spend less than expected. Alternatively, [fuel-cost sharing](#) mechanisms work by building an expected amount of utility spending on fuel costs into customer rates and then exposing a utility to a certain percentage of its fuel costs if it deviates from the expected value.

If a utility spends more than expected on fuel costs, it pays a portion of the difference between expected vs. actual costs rather than passing it completely through

to customers, and vice versa if a utility spends less than expected on fuel costs.

For example, suppose a utility's expected fuel costs are \$100 million, and they have a 10% fuel-cost sharing mechanism. If the utility spends \$110 million on fuel, they are on the hook for \$1 million (10 million * 10%) and recover the remaining \$9 million from customers. If the utility can manage its fuel costs and only spends \$90 million, they get to keep \$1 million of the underspend, while the remaining \$9 million difference between actual and expected fuel costs is returned to customers.

In [2024 alone](#), utilities spent \$71 billion on fuel costs for electricity generation, so any incentive for utilities

to spend less on fuel can provide substantial savings to utilities and customers alike. With [volatile natural gas prices](#) in recent years and some states relying on natural gas for as much as [83% of their electricity generation](#), fuel-cost sharing mechanisms can be an important tool to protect customers from some of this risk and encourage better fuel-cost management by utilities.

In practice, fuel-cost sharing mechanisms can be customized for utilities along many dimensions, such as the level of sharing, how the expected amount is set, and more to incentivize utilities to manage fuel costs in a manner that is aligned with the best interests of customers.

As of 2025, nine states utilize some type of fuel-cost sharing mechanism for electric utilities, and state legislatures can play an important role in directing or requiring public utility commissions (PUCs) to implement fuel-cost sharing mechanisms in their states. These nine states are Hawaii, Idaho, Missouri, Montana, Oregon, Vermont, Washington, Wisconsin, and Wyoming. In 2025, [Nevada](#) legislators directed the PUC to study the potential of implementing a fuel-cost sharing mechanism.

REAL-WORLD EXAMPLES

As of August 2025, nine states (based on RMI’s [PIMs database](#)) have electric utilities subject to fuel cost sharing: **Hawaii, Idaho, Missouri, Montana, Oregon, Vermont, Washington, Wisconsin, and Wyoming.** [Nevada](#) has recently passed authorizing legislation. *Read an in-depth case study about Missouri, Page 4.*



The **Montana** legislature modified state code (Mont. Code Ann. § 69-3-331) in 2019 to require a [10% sharing mechanism](#) for NorthWestern Energy’s purchased power and fuel costs outside of a forecasted amount.



Wisconsin state code (Wis. Admin. Code § PSC 116) requires all investor-owned utilities to operate under a [fuel cost tolerance mechanism](#) where purchased power and fuel costs inside a +/- 2% forecasted range are absorbed by utilities and costs/savings outside the range are allocated to customers. The fuel cost tolerance has been in effect since 2011.



Wyoming implemented a 20% [purchased power and fuel-cost sharing mechanism](#) in 2011 for Rocky Mountain Power. The new mechanism replaces Rocky Mountain Power’s Power Cost Adjustment Mechanism which included a deadband of no sharing and three bands of different sharing percentages.



FURTHER READING

- [“Strategies for Encouraging Good Fuel-Cost Management”](#), RMI, 2023
- [“Learning to Share: A Primer On Fuel-Cost Pass-Through Reform”](#), Albert Lin, Jeremy Kalin, and Kaja Rebane, 2023



IMPACT TIME HORIZON

Medium-term (2–5 years)

For example, Nevada passed [legislation](#) (A.B. 452), effective July 1, 2025, requiring the PUC to open an investigatory docket on fuel cost sharing. The legislation requires the PUC to submit a report to the legislature on the outcomes of the docket by July 1, 2026, and authorizes the PUC to implement fuel cost sharing if it is in the public interest. Following implementation of fuel-cost sharing mechanisms, regulators often perform true-ups [annually](#).



POTENTIAL COST SAVINGS

Medium

While savings will vary with policy design and implementation, fuel-cost sharing promotes affordability by creating an incentive to reduce fuel costs and reducing bill volatility. Fuel costs represent a major portion of customer electric bills, roughly 25% over the course of the year, and reducing those costs directly translates into customer savings. Volatile bills have a destabilizing effect on customers and can lead to customers falling behind on their bills, racking up late fees, and eventually losing service.

LEGISLATIVE DESIGN AND IMPLEMENTATION CONSIDERATIONS

Legislation on fuel-cost sharing mechanisms can include the following elements:

PUC directive

Legislation can direct regulators to study the use of fuel-cost sharing mechanisms in their state, allow regulators to approve fuel-cost sharing mechanisms proposed by utilities, or require the use of fuel-cost sharing mechanisms by certain utilities.

Policy structure

Fuel-cost sharing mechanisms can include a [variety of design components](#) like deadbands, sharing symmetry, the method for setting the expected value, the frequency and method of conducting true-ups, and the actual sharing percentage, among many other potential components. Legislation can specify key components for regulators to consider when designing the fuel-cost sharing mechanism to provide more guidance for regulators as they develop and implement the mechanism.

Reporting and transparency

In addition to enabling the use of fuel-cost sharing mechanisms, legislation can include provisions like regular prudence reviews or audits of utility fuel management practices to enhance transparency and oversight.

Customer protections

Including provisions like maximum rate increase caps, protections for low-income customers, or the expansion of energy assistance programs can safeguard customers.



The table below provides examples of how authority and responsibility for fuel-cost sharing mechanisms may be distributed across key entities.

VENUE	POTENTIAL ROLES
Legislature	<ul style="list-style-type: none"> • Enable use of fuel-cost sharing mechanisms • Establish transparency, oversight, and evaluation requirements • Require provisions to safeguard vulnerable customers
Regulator	<ul style="list-style-type: none"> • Design, implement, and evaluate fuel-cost sharing mechanisms • Integrate with other regulatory frameworks and programs
Administration	<ul style="list-style-type: none"> • Encourage legislatures and/or direct regulators to study or implement fuel-cost sharing mechanisms • Establish or coordinate with other statewide programs and policies
RTO/ISO	<ul style="list-style-type: none"> • No direct role



CASE STUDY: MISSOURI

OVERVIEW

All of Missouri's [investor-owned utilities](#) — Ameren Missouri, Liberty, Evergy West, and Evergy Metro — operate under fuel-cost sharing mechanisms called fuel adjustment clauses with 5% utility sharing.

While FACs in most states pass through 100% of costs to customers, Missouri's FACs function as fuel-cost sharing mechanisms. [Prior to 2005](#), FACs were deemed unlawful by the Missouri Supreme Court because they would allow rates to go into effect without a general rate case which could consider all relevant factors.

However, in 2005, the legislature enacted [SB 179](#), which allowed the Missouri Public Service Commission (PSC) to implement FACs and include incentives designed to improve the efficiency and cost-effectiveness of utility fuel and power purchases. The PSC determined that passing 100% of fuel costs through to customers would not incentivize utilities to prudently manage their fuel costs and settled on a 5% utility sharing level for each utility.

THE DETAILS

In addition to the legislative details highlighted above, [SB 179](#) includes the following specific provisions regarding the use of FACs in the state:

Policy structure

Prudently incurred fuel and purchased power costs can be tracked and recovered in a FAC. In practice, fuel and purchased power costs are included in the FACs for each of Missouri's investor-owned utilities.

PSC directive

SB 179 gave the PSC broad authority to establish incentives to encourage more efficient fuel and purchased power cost management, including establishing a FAC. The PSC can approve, modify, or reject FACs only after a full hearing in a general rate case. After the PSC approved a 5% sharing mechanism for [Evergy West](#) in 2007, they subsequently approved 5% sharing mechanisms for [Liberty](#), [Ameren Missouri](#), and [Evergy Metro](#) in 2008, 2009, and 2015, respectively.

Reporting and transparency

The PSC must conduct prudence reviews of the costs included in the FAC at least once every eighteen months, conduct true-ups of the FAC at least once per year, and require FACs to appear as a separate line item on customer bills. In practice, true-ups occur at the end of each recovery period (either 8 or 12 months depending on the utility) where the PSC evaluates the actual incurred costs relative to the costs included in permanent rates and adjusts the FAC to credit or charge customers depending on if costs were lower or higher than expected, respectively.

KEY TAKEAWAYS

Between 1979 and 2006, electric utilities in Missouri covered 100% of their fuel and purchased power costs.

In response to volatile natural gas prices adversely impacting smaller utilities, the Missouri legislature passed SB 179 in 2005, which granted the PUC authority to implement a FAC and establish incentive mechanisms to encourage more prudent management of fuel and purchased power costs.

As a result of this second key provision, the PSC adopted 5% fuel-cost sharing mechanisms for each of Missouri's investor-owned utilities, which helps protect customers from volatile fuel power supply costs while incentivizing utilities to efficiently manage these costs.