RMI

ELECTRICITY AFFORDABILITY TOOLKIT

Multi-Year Rate Plans

COST CONTROL

AT A GLANCE

TARGET COST DRIVERS

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

- **Aging grid infrastructure**
- **Misaligned utility incentives**

IMPACT TIME HORIZON

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

●●● **Long-term (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 multi-year rate plan (MRP) is a performance-based regulation tool that extends the time between utility rate cases beyond the typical one to two years. MRPs are intended to establish base rates that are not reset to reflect the utility's actual costs for several years.

This creates an incentive for the utility to reduce spending as it can benefit from cost savings achieved relative to its allowed rates for a longer period of time compared to a traditional rate case procedure.

Ultimately, efficiency gains achieved by the utility can create savings that flow down to customers via lower rates in the next cycle or through excess utility earnings returned to customers.

Additionally, MRPs can provide cost savings by reducing the administrative costs associated with undertaking more frequent rate cases.

However, there are several key components of MRPs that need to be carefully designed in order to provide a strong incentive for utilities to reduce spending and deliver the greatest savings to customers.

LEGISLATIVE DESIGN AND IMPLEMENTATION CONSIDERATIONS

Legislation on MRPs can include these principles:

PUC directive

Successfully implementing a multi-year rate plan to reduce costs for customers is a complex undertaking that requires careful consideration of design components like attrition relief mechanisms, earnings sharing mechanisms, and off-ramps, among others, and their implications on a utility's incentive to contain costs. Legislation can list multi-year rate plan components for public utility commissions (PUCs) to consider and provide them with the flexibility to design plans that achieve the greatest cost reductions. Additionally, legislation should make affordability and utility cost containment a central pillar of the PUC's mandate in designing an MRP.

Regulatory framework

Combining MRPs with other performance-based regulation (PBR) and innovative regulatory tools like revenue decoupling mechanisms, fuel-cost sharing mechanisms, and performance incentive mechanisms can strengthen the cost containment incentive of MRPs and ensure service quality remains high. Legislation that allows regulators to consider a broader suite of regulatory tools in conjunction with MRPs can deliver the greatest impact on affordability.

PUC support

Because of the complexity in successfully implementing MRPs, it's critical to ensure that PUCs have adequate financial and staff resources to properly study and design them. Additionally, it may be beneficial to allow PUCs to commission independent analyses or to hire consultants to support them in designing PBR frameworks that limit the potential for unintended consequences.

Policy structure

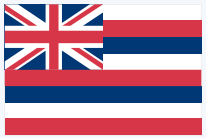
Effective MRP design is best left to the PUC and stakeholders through a collaborative process. However, it can be helpful for legislation to provide some guardrails. For example, reconciliation of spending should be avoided (as this functions as a formula rate plan), leave the determination to allow incremental capital funding up to the regulator, but ensure that if such a mechanism is authorized, it is accompanied by a complementary incentive for the utility to spend cost-efficiently. If an earnings sharing mechanism is included, ensure there is a wide deadband before the sharing would be triggered to preserve the cost-containment incentive of the MRP.

The table below provides examples of how authority and responsibility for MRPs may be distributed across key entities.

VENUE	POTENTIAL ROLES
Legislature	• Enable PUCs to approve, modify, or reject MRPs depending on if they are in the public interest and support cost containment. In addition to cost control, create a list of regulatory outcomes or policy priorities that should be supported by MRPs. • Give authority to the PUC to implement customer protections and equity provisions • Enable use of other complementary regulatory tools
Regulator	• Consider the tradeoffs of a variety of design elements like attrition relief mechanisms, earnings sharing mechanisms, and off ramps • Consider other existing mechanisms of the regulatory framework as part of the MRP design process • Oversee utility reporting • Involve stakeholders in the evaluation of multi-year rate plan effectiveness, and seek their input for modifications to support iteration
Administration	• Encourage legislatures and/or direct regulators to study or implement MRPs
RTO/ISO	• No direct role

REAL-WORLD EXAMPLES

As of 2024, **14 states** currently have MRPs. An **additional five states** have historical experience with multi-year rate plans.



Hawaii had utilized a triennial rate case cycle since 2010, and legislation in 2011 (H.B. 2390) and 2018 (S.B. 2939) gave the Hawaii PUC broad authority to implement regulatory reforms in support of ratepayers and the state's energy policy goals. This led to the PUC initiating a three-year investigation focused on PBR, culminating in a PBR framework launched in 2021, which features a five-year MRP.

Illinois enacted legislation (Public Act 102-0662), which allows Commonwealth Edison and Ameren Illinois to submit MRPs with four-year terms to the Illinois Commerce Commission (ICC). Prior to submitting their MRPs, the legislation requires the ICC to complete an audit of each utility to evaluate the current condition of the distribution grid, understand the benefits of utility investments for ratepayers, and establish a baseline for future distribution grid spending.

Nevada passed legislation (S.B. 300) in 2019 requiring the Public Utility Commission of Nevada to determine if alternative ratemaking mechanisms, including MRPs, are suitable for electric utilities in the state based on nine criteria, including alignment with state public policy goals, among others.

Oregon passed legislation (H.B. 3179) in 2025 requiring the PUC to establish rules for electric and gas utilities to submit three- to seven-year MRPs and limit the quantity of utilities allowed to submit rate increases in a given year. The law gives the PUC authority to consider the cumulative economic impact of proposed rate increases on residential ratepayers, taking into consideration a variety of metrics related to affordability.

IMPACT TIME HORIZON

Long-term (5+ years)

Most regulators have adopted plan terms of 3-5 years, and it can take several years for utilities to adjust their operational and planning approaches in response to an MRP. Ultimately, the primary cost savings impact from a well-designed MRP are likely to manifest when the revenue requirement for future rate cases is determined.

POTENTIAL COST SAVINGS

Variable

MRP design and implementation has a significant impact on potential cost savings, so it is challenging to estimate potential savings across the United States. In one study, Pacific Economics Group estimated that a utility under a five-year multi-year rate plan could achieve 5% lower costs after 10 years than a utility under a traditional three-year rate case model. However, savings could range from 2%–9% depending on policy design and other factors.

FURTHER READING

- "A Strategic Framework for Utility Cost Control", RMI, 2025
- "Multi-Year Rate Plans: Core Elements and Case Studies", Synapse Energy Economics, 2019
- "Fixing Multiyear Rate Plans: Building a Firm Foundation for Utility Cost Control", RMI and Synapse Energy Economics, 2025