Fuel Cost-Sharing Could Have Delivered Savings For New Mexico Utility Customers

June 2026

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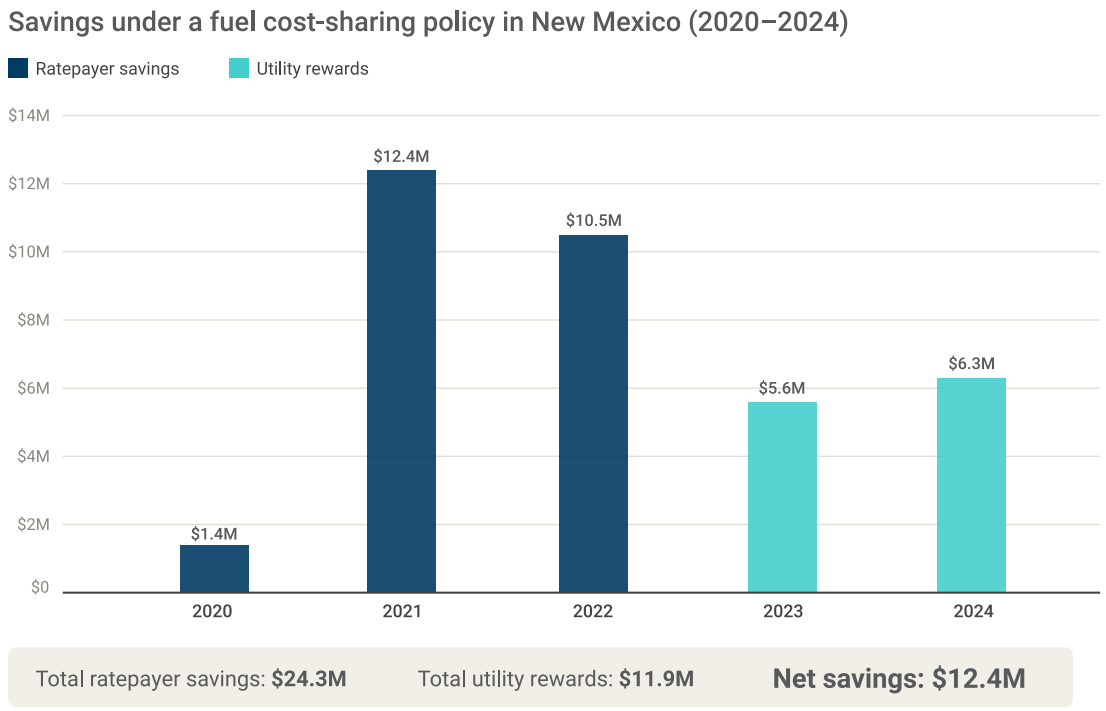
RMI analysis shows that a well-designed fuel cost-sharing policy, in which a utility would cover some of the excess costs for fuel, **could have delivered $12.4 million** in net cumulative savings for New Mexico utility customers between 2020 and 2024. By shielding customers from some of the risks of fuel price volatility and incentivizing good utility fuel-cost management, fuel cost-sharing can deliver on energy affordability goals by directly reducing customer fuel costs.[i]



Dollar amounts for each year are inflation-adjusted, rounded to the nearest million, and reported in 2025 dollars.

Our analysis assumes that the amount of sharing annually would be capped at 0.5% of the prior year's total retail electric sales revenues. The cap was not hit during the study period.

Delivering customer savings through fuel cost-sharing

Utilities in New Mexico currently pass 100% of fuel costs to customers through the Fuel and Purchased Power Cost Adjustment Clause (FPPCAC),[ii] which insulates utilities in the state from the financial consequences of fuel procurement decisions. If New Mexico utilities manage to reduce their fuel costs, they retain none of the savings; if they spend more than is budgeted, their customers pick up the bill. This reduces incentives for utilities to manage fuel costs or explore alternatives that could reduce customer exposure to volatile fuel markets.

i For additional discussion of this dynamic, see Joe Daniel et al., *Strategies for Encouraging Good Fuel-Cost Management: A Handbook for Utility Regulators,* RMI, 2023, https://rmi.org/insight/strategies-for-encouraging-good-fuel-cost-management/.

ii Mechanisms like the FPPCAC are rate riders that true up the revenues collected from customers to match the utility's actual fuel expenditures. In New Mexico, utilities submit a monthly compliance filing, and the Commission conducts an annual review.

The traditional rationale for fuel pass-through mechanisms like the FPPCAC is that fuel prices are outside of utility control and therefore should not affect utility earnings. This rationale, however, is misleading because utilities have considerable influence over their fuel-related costs: they decide how much fuel-reliant generation to build or retire, negotiate fuel supply contracts, choose dispatch strategies that determine fuel burn, and have access to a growing array of low- and no-fuel resources such as wind, solar, geothermal, battery storage, energy efficiency, and demand response.

The current fuel pass-through mechanism creates a "moral hazard," in which utilities make decisions, but customers bear the cost and risk of those decisions. Fuel cost-sharing mechanisms address this by shifting a portion of fuel price volatility risk from ratepayers to utilities, giving utilities "skin in the game" and incentivizing better fuel cost management through fuel cost-saving strategies. Under fuel cost-sharing, utilities set a fuel budget at the start of the year based on expected fuel costs. If actual costs are greater than expected, utilities pay a share of the difference, which reduces customer bills. If actual costs are lower than expected, the utility retains that difference as a reward, and customers save money from the reductions in fuel costs overall.

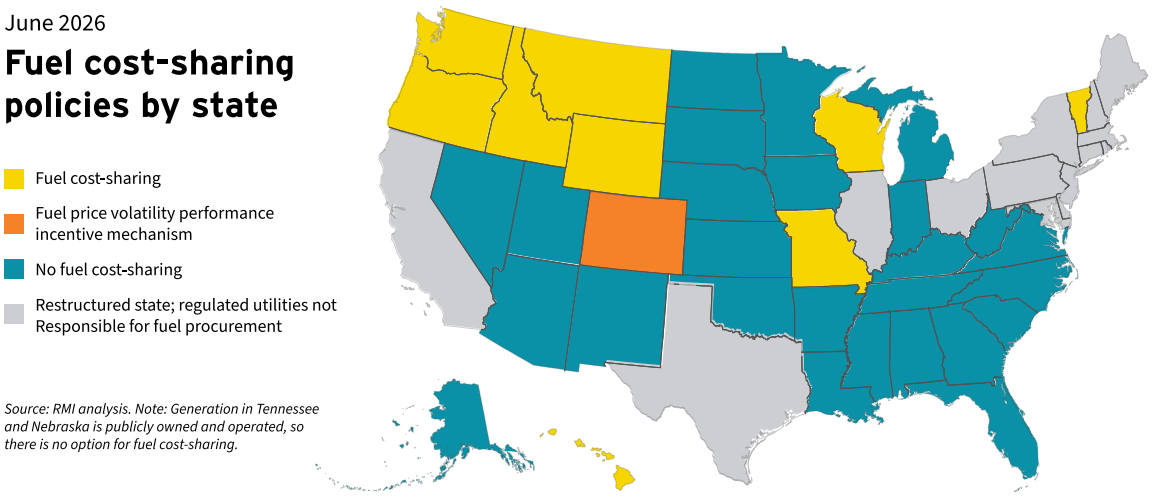
RMI's analysis using the Fuel Adjustment Cost Sharing Savings (FACSS) Model

Our analysis is based on a policy design that assumes a 10% sharing rate between utilities and customers and a cap equal to 0.5% of the prior year's total retail electric revenue, which was not hit during the study period. In 2020, 2023, and 2024, when actual fuel costs were lower than expected, customers would have benefited from lower bills while utilities retained a share of the savings, creating incentives to further reduce fuel costs. Our analysis shows that even in high volatility years, fuel cost sharing would not materially threaten utility finances.

These results do not account for behavioral changes that could have created even greater benefits. In a real-life scenario where this policy is implemented, a rationally acting utility should respond to the fuel cost-sharing policy by pursuing strategies to reduce fuel expenditures, saving money for customers while retaining a portion of the savings. Fuel cost-sharing is an essential tool for decision makers to leverage to save Georgia utility customers money in the short term, with the potential to save them much larger windfalls in the long term. Fuel cost-sharing policies can be designed in a variety of ways using different sharing percentages, deadbands, caps, and/or asymmetrical incentives. Explore more here.

June 2026

Fuel cost-sharing policies by state



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

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