Policy Opportunity Brief: Utility Cost Control

Background

Electricity bill increases have been generally commensurate with the rate of inflation. However, as wages fail to keep pace, energy burden has increased, particularly for low-income households (Goldenberg, et al. 2025). Rising energy costs can be attributed to a handful of key drivers:

1. Increased spending by utilities on generation, transmission, and distribution infrastructure to replace aging assets (Goldenberg, et al. 2025; Levinson and Goldsmith 2025).
2. Natural gas price fluctuations (Crowley and Mcleod 2024; Goldenberg, et al. 2025).
3. Increased spending to address and prevent damages from extreme weather and fires (Goldenberg, et al. 2025; Levinson and Goldsmith 2025).
4. Load growth-driven price increases and delays connecting new generation resources to the grid (Goldenberg, et al. 2025; Levinson and Goldsmith 2025).

Strategic Framework for Utility Cost Control

Source: RMI, 2025.

Compounding all of this, the traditional business model for investor-owned utilities (IOUs) creates a "capex bias" because IOUs earn a "rate of return on their [capital expenditures (capex)], whereas operating expenses (opex) generally do not offer the utility a profit, [incentivizing utilities] to prioritize capital investments over operational solutions […]." Because the traditional business model disincentivizes cost-saving measures, U.S. utilities are less likely to deploy technologies that could reduce costs for customers (Goldenberg, et al. 2025, p. 21). There are tools that policymakers can employ to address this and promote access to affordable and reliable energy.

Policy Opportunities

1. *Anticipate Future Needs*

Robust planning processes can ensure that utility investments are secured at lowest cost and that unnecessary spending is avoided. Policymakers can reform integrated resource planning (IRP) processes to require that utilities evaluate non-traditional solutions against traditional investments. To ensure a system-wide perspective, policymakers can reform requirements to ensure that transmission and distribution system plans are incorporated into the resource planning process. Policymakers can also require that utility plans incorporate "asset-stranding risk." Economic, market, and regulatory trajectories suggest that some fossil-fuel plants currently being proposed will be retired earlier than forecasted in utility plans. To avoid investing in assets that may become stranded, policymakers can require that proposed assets be evaluated under different future scenarios that incorporate economic, market, and policy considerations (Goldenberg, et al. 2025, p. 29).

2. *Coordinate Electric and Gas Regulation*

Electric and gas utilities typically engage in discrete planning processes. However, the two systems are increasingly intertwined. Policymakers can direct electric and gas utilities to coordinate planning to reduce redundancies and eliminate overlapping investments. In states with merged electric and gas utilities, policymakers can consider merging these utilities' dual rate bases into a single rate base. In the long term, policymakers might consider facilitating responsibly managed electrification to ease energy burden and address the concerns of remaining gas system users as other customers electrify and leave the system (Goldenberg, et al. 2025).

3. *Reduce Financing Costs*

A utility's capital expenses come in two categories: the money required to pay off an asset over time (the depreciation expense) and the money required to provide investors with a sufficient return on their investment (financing costs). Financing costs are calculated by multiplying the allowed rate of return, set by regulators, by the undepreciated value of the utility's capital investments. An appropriate rate of return should attract investors without overburdening ratepayers. However, the rate of return is often set well above the level needed to attract investment. To reduce financing costs, policymakers can consider reforming the methodology used to calculate rate of return to incorporate research-informed best practices. Policymakers can also consider enabling ratepayer-backed securitization, which is typically associated with interest rates much lower than utility rates of return, to allow utilities to refinance uneconomic utility assets (Goldenberg, et al. 2025).

4. *Incentivize Reduced Spending*

Policymakers can consider creating financial incentives that reward utilities for reducing their spending. The most comprehensive approach is to adopt multiyear rate plans (MRPs), which, when well designed, encourage utilities to reduce spending to manage costs over time. A narrower alternative to an MRP is a shared savings mechanism (SSM), which allows utilities to retain a portion of the money they save when they adopt "cost-effective alternatives to traditional solutions." Finally, capex-opex equalization is a set of strategies which attempt to mitigate or eliminate the capex bias, which can support long-term cost control (Goldenberg, et al. 2025, p. 39; p. 41).

5. *Leverage Competition*

Competition can be leveraged to unleash cost savings. For example, policymakers can direct utilities to engage in all-source procurement, which allows transparent selection of the most cost-effective resources from an expansive pool of options that includes traditional resources, renewable resources, and alternative solutions. Policymakers can also incentivize distributed energy resources (DERs). When leveraged to their full potential, DERs can compete with utility-scale generation to mitigate peak demand, reduce system costs, and defer investments in traditional assets (Goldenberg, et al. 2025).

6. *Avoid Inefficient System Expansion*

Utility profits are linked to the amount of electricity they sell, which can encourage utilities to overbuild resources and creates a perverse incentive to resist initiatives to promote energy efficiency and distributed generation. Revenue decoupling, a regulatory measure that disconnects utility profit from sales volume, is an approach many states have taken to address this. Anticipated peak demand also contributes to overbuilding when utilities invest in expensive resources used only a few times per year. Policymakers can direct utilities to implement demand response programs and time varying rates that reduce system costs by allowing customers to alter how and when they consume power (Goldenberg, et al. 2025).

7. *Encourage Better Fuel Cost Management*

Utilities pass fuel costs directly to their customers, which disincentives utilities from reducing the amount of fuel they consume or the price they pay for it. Policymakers can require utilities to share the costs of fuel with customers, creating an incentive for utilities to limit their exposure to volatile prices. Policymakers can also direct utilities to engage in economic dispatch, which requires that least-cost generation resources are used to meet demand first (Goldenberg, et al. 2025).

References:

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Levinson, M., and I. Goldsmith. 2025. "What's Really Driving Up US Electricity Prices? We Unpack the Numbers." *World Resources Institute*. 15 Dec. Available: https://www.wri.org/insights/whats-driving-us-electricity-prices.

Discover additional policies to reduce electricity bills here: https://affordability-toolkit.rmi.org/.