Synapse
Energy Economics, Inc.

Holding the Line on “Hold Harmless”

NASUCA Vignette

November 16, 2026

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Hold-harmless commitments abound across the U.S.

Colorado

“Existing customers should not be required to bear higher electricity rates if large loads withdraw their interconnection requests, nor should existing customers be required to subsidize the cost of serving new large loads.”

Source: Decision in Xcel Energy Electric Resource Plan Proceeding (24A-0442E)

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Hold-harmless commitments abound across the U.S.

Kentucky

"The Public Service Commission shall not allow a utility to increase rates paid by other ratepayers to recover costs caused by the development and operation of a data center.“

Source: Governor Andy Beshear, Executive Order 2026-494, August 6, 2026, § I.B

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Hold-harmless commitments abound across the U.S.

Michigan

“[P]rior to each large load customer taking service under this tariff, Consumers must make an ex parte filing with the Commission that clearly demonstrates compliance with the tariff requirements and that costs caused by the interconnecting large load customer to be served under this tariff are not being paid for by other customers”

Source: Final Order in Consumers Large Load Tariff Proceeding (U-21859)

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Hold-harmless commitments abound across the U.S.

(White House's) Ratepayer Protection Pledge

"Companies will pay for all new power delivery infrastructure upgrades required to service their data centers, including adequate network upgrade costs to ensure that these expenses are not passed on to the ordinary household.“

Source: Ratepayer Protection Pledge, March 4, 2026, Commitment 2.

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Large Load Tariffs are now standard practice

LLT BEST PRACTICES



Contract Term

Often 15-20 years



Minimum Bill

80-90% of contract demand



Exit Fees

Remaining minimum bills owed on departure



Collateral

Letters of credit or cash



Contributions in Aid of Construction (CIAC)

Upfront payment for facilities serving the customer



Ramp Limits

Capped ramp periods with rising bill demand

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Large load tariffs secure revenue, but may not prevent cost-shifting

In Colorado, Xcel confirmed its 80% minimum bill proposed in the LLT may not cover the incremental cost of serving large loads. An LLT can be fully enforced **and still shift costs.**

Brattle/ESIG calculates a worst-case 0.63 cents/kWh average rate impact for a modeled Southeast utility **even with an 80 percent minimum billing demand.**

In Michigan, Synapse estimated a potential **cost shift of $255 million to $833 million** in the Consumers rate case (U-22070) and a **potential cost shift of around $116 million** in the I&M tariff case (U-21986). In both cases, the cost shifts were in spite of tariff provisions.

Source: Proc. 26AL-0137E

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Fairly charging large loads requires more than updating embedded allocators

Changes to embedded allocators can help to better reflect the system usage of high load factor customers…



Generation costs assigned with peak-based methods advantage customers with a steady load profile
1CP < 4CP < 12CP < POD



Transmission cost allocation based on demand only does not account for year-round benefits of serving high load-factor large load customers
Blended energy and CP methods, emulating BIP for generation

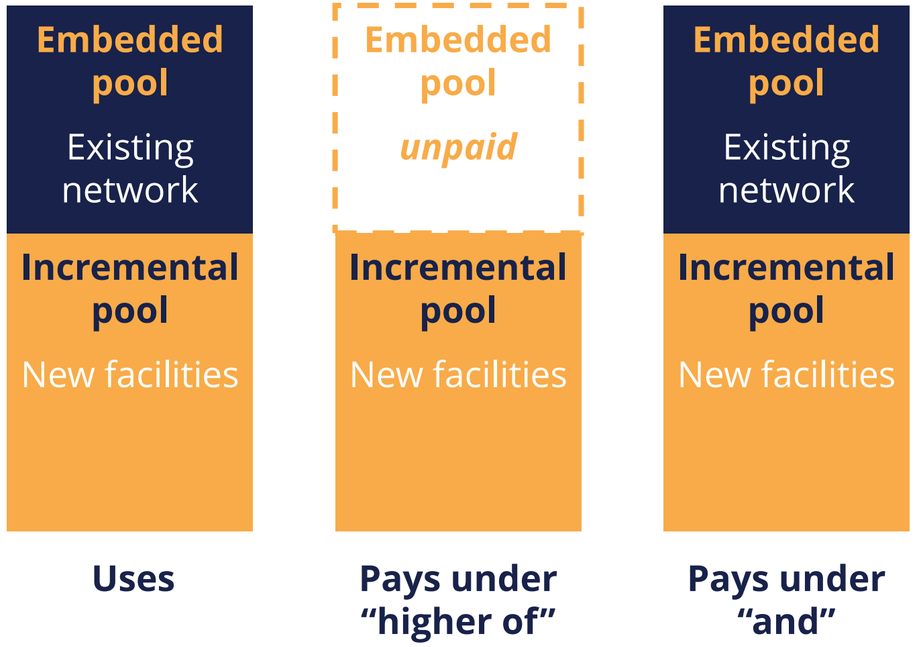
But updates to embedded cost allocation will not necessarily prevent cost shifting…

A Responsibility for **higher marginal costs** for new capacity to serve large loads is shared by all customers via average (embedded) rates

B Assets built for large loads **outlive LLT contract terms,** and embedded cost allocation would spread those asset costs over the remaining customers on the system

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Alternative paradigms: "higher of" vs. "and" approaches



A large load can pay every dollar it adds and still ride the existing system for free – ***large loads may consume existing headroom AND cause new capex!***

On the risk of double counting

"The prohibition on 'and' pricing was never meant to prevent a power-hungry consumer from paying its full transmission costs. FERC's 1994 policy was aimed at improving transmission access for new market entrants by stopping utilities from overcharging their competitors. Data centers are not competing with a utility in any market."

– Ari Peskoe, Harvard Law School

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Considerations for an “and” approach

The “and” approach may be warranted because of the scale, speed, and marginal costliness of new large loads.

The “and” approach may be necessary to realize rate reduction benefits for other customers from large loads.

Analysts and advocates should carefully consider the actual utilization of the system to avoid concerns about double charging

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Case Examples

Recent Synapse Cost Allocation Engagements

Colorado: Xcel's Incremental Cost Test can still leak

How Xcel's revised ICT works

- **With/without modeling:** separate capacity expansion (incremental capex) and production cost (incremental variable cost) runs
- **Transmission:** evaluated through separate planning/modeling processes, outside of EnCompass
- **"Higher of":** Schedule TL pays the greater of embedded or incremental cost

Cost Leakage Risks

A **Rolling baseline**
Each new run appears to fold earlier large loads into the base case, so their incremental costs become baseline costs shared by all

B **No lock-in**
No provision for locking costs to the large load class over asset lives

Synapse recommended:



Large load plant account locked to Schedule TL for asset lives



Capital floor: Schedule TL never pays less than that plant's revenue requirement



Direct-assign all large load transmission, outside the ICT



Lesson from Colorado: A with-and-without test can capture this period's incremental costs. But unless attributions are locked in, cost responsibility drifts back to other customers in later rate cases. Hold harmless is only as durable as the accounting behind it.

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Michigan's order for studies resulted in uninformative modeling

The MPSC ordered IOUs to produce **six cost allocation proposals** "that ensures that large load interconnection customers are paying the costs of interconnection…**including transmission, generation, and distribution costs**."

1. Traditional COSS
2. Same as (1) but with a large load rate class
3. Same as (2) but with 12 CP allocator instead of 4CP
4. Same as (1) without large load customers in service
5. Direct assignment of costs to a new large load rate class
6. Direct assignment of costs to individual large load customers

Consumers modeled:

A **1GW** hypothetical customer served entirely by a 2025-priced PPA, while boasting a **9GW** large load pipeline to investors outside of the rate case

Only incremental substation costs associated with large load, resulting in a higher residential bill under direct assignment

DTE modeled:

Load with a different test year from costs with no escalation, resulting in **inability to compare to the rate case**

Identical production plant and transmission expense across scenarios with varying large load, despite modeling incremental transmission expense in a concurrent special contract case

Lesson from Michigan: An order to study cost shifts is only as good as the assumptions the utility chooses. An order for a separate class and but-for direct assignment of assets would make for easier cost shifting assessment.

Sources: Proc. U-22070 and U-22046

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Takeaways: Best Practices for your next case

1. Separate class for large load customers
2. Separate cost tracking (with supporting, transparent modeling)
3. Locking in costs over time
4. Hold-harmless provision (“higher of”)
5. Potentially, an “and” approach

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