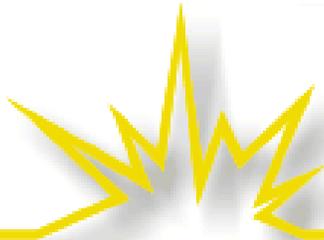


# Stranded Costs

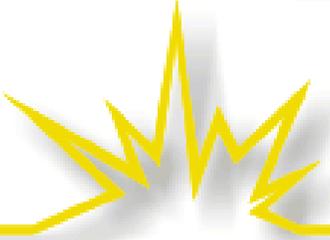


## *The Regulatory Assistance Project*

*50 State Street, Suite 3  
Montpelier, Vermont USA 05602  
Tel: 802.223.8199  
Fax: 802.223.8172*

*Website:  
<http://www.raonline.org>*

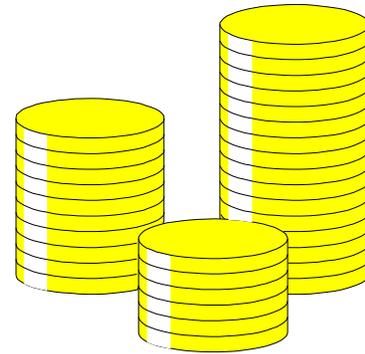
*177 Water Street  
Gardiner, ME 04345-2149  
Phone (207) 582-1135  
Fax (207) 582-1176*



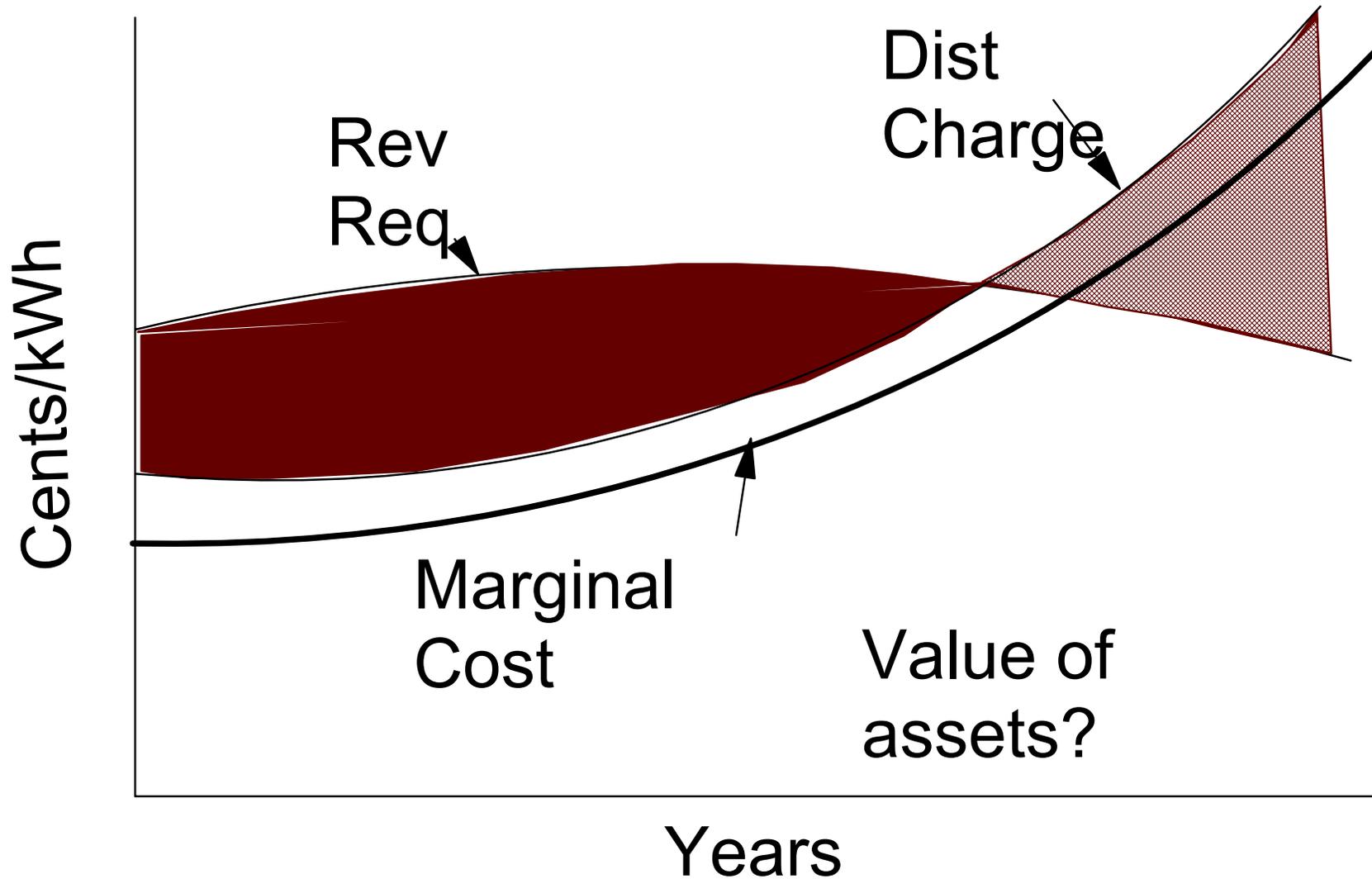
# Stranded Costs

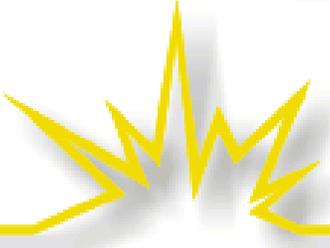
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- How defined
- Who determines
  - PUC, or
  - Market
- Is it a one-time determination, or who bears the risk of mis-estimates



# Stranded Cost Fish

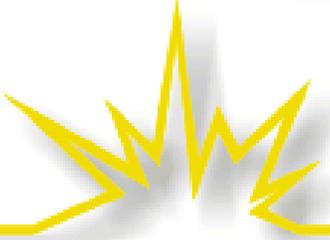




# Things to Notice

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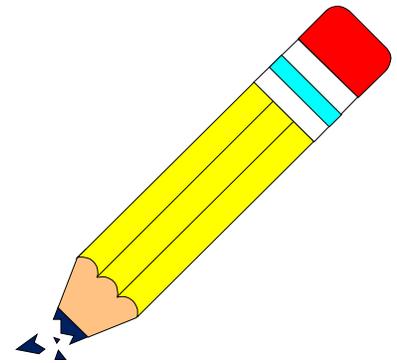
- Everything is included
- Everything is projected
  - Old - everything from rate and QF cases
  - New - value of assets, sites
- There is a tail
- Probability and magnitude of error are great

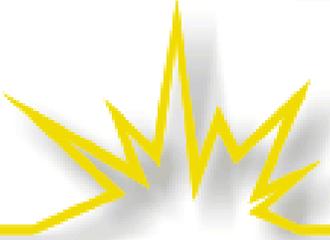


# Who Determines

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- Market value of power is the market's current estimate of the cost of power over a long period of time
- Can be determined by PUC
  - One bear of a case
- Or the market
  - Means divest





# One Time?

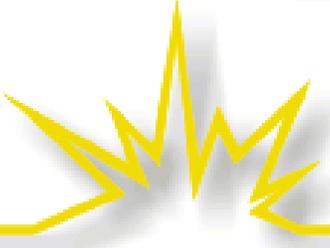
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## ➤ Administrative

- Market price estimate - pick number between high and low estimate
- Value of assets e.g. sites, salvage, cost savings, often ignored
- Market power impacts ignored

## ➤ Market test

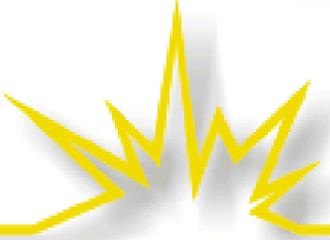
- Market price est. - pick highest bid
- Value of asset reflected in bid
- Market power reflected in bid



# Mitigation

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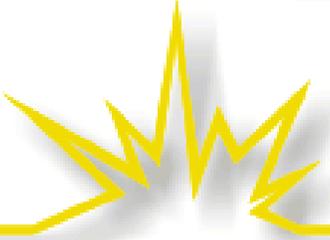
- All states agree that there should be strong emphasis here
- Attractive sale price is one option
- Has utility mitigated if they fail to take advantage of generation prices well above perceived market price?



# Revisit Stranded Cost?

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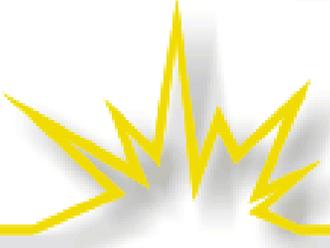
- One time determination: some benefits and sometimes needed
- True-up - fully reconciled
  - What gets trued up?
    - Market price regardless of cause
    - Fuel cost
    - Plant operations
- Update - prospective changes
  - What gets adjusted?



# Misc

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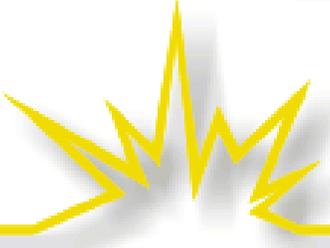
- Education campaign on theft



# Who pays?

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- It is a gov't owned entity
- The questions are
  - If assets are not sold or privatized there are no stranded costs
  - What happens to prices
  - Who gets gain or loss on the sale of plants
    - Use gain on sale to realign prices
    - Take every opportunity to move in the right direction



# Stranded Cost

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➤ How to minimize?