

# Stranded Costs

Overview of the SCC's July 1, 2003  
Report to the EURC  
November 19, 2003

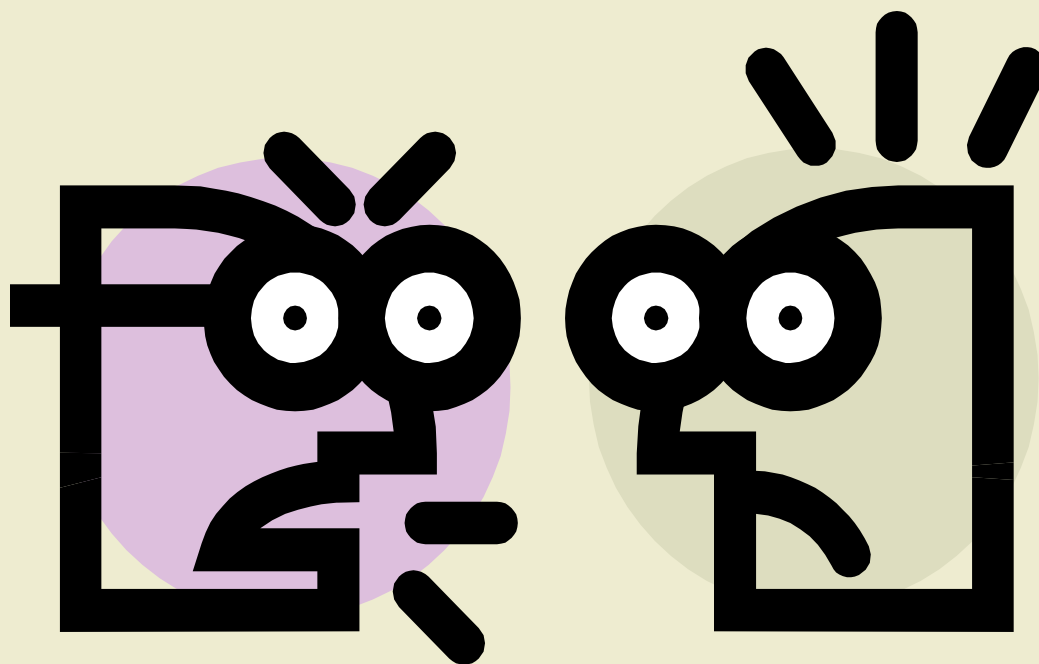
# Work Group Participants

- SCC Staff
- Office of Attorney General
- Investor-Owned Electric Utilities
- Electric Cooperatives
- Competitive Service Providers
- User Groups
- Virginia Independent Power Producers
- VCCC

# Purpose of Work Group

- Consensus Recommendations
  - Definitions (Requested Action (R.A.) No. 2)
  - Methodology (R. A. No. 3)
- If No Consensus
  - SCC Staff Analysis (R. A. No. 8)
- Recommendations for legislative or administrative Action (R. A. No. 9)

# No Agreement Reached



# Stranded Cost Definitions

- Stranded Costs are a utility's net loss in economic value arising from electric generation-related costs that become unrecoverable due to restructuring and retail competition.
- Just and Reasonable Net Stranded Costs are a utility's net loss in economic value arising from prudently incurred, verifiable and non-mitigable electric generation-related costs that become unrecoverable due to restructuring and retail competition.

# Methodologies to Calculate Stranded Costs

- Dominion Virginia Power Method
- SCC Staff Method
- VCFUR/ODFUR Method

# Dominion Virginia Power Method

- Monitor and Report to the EURC
  - Over/Under recovery collected via wires charges
  - Potential stranded cost exposure under capped rates
  - Funds expended to mitigate potential stranded costs
  - Expenditures that increase stranded costs during capped rate period

# Dominion Virginia Power Method

- Advantages

- Easy to calculate

- Disadvantages

- Not Responsive to the EURC Resolution:
  - No Quantification of Stranded Costs
  - Ignores Recoveries via Capped Rates



# SCC Staff Method

- Alternative Proposals
  - Pre-July, 2007
    - Measure the Annual Potential Stranded Costs/Benefits on an historical basis
    - Measure annual recoveries from capped rates and wires charges
  - Post-July, 2007
    - Measure Annual Stranded Costs/Benefits on an historical basis

# SCC Staff Method

- Primary Proposal
  - Calculate Stranded Costs based on an Asset Valuation Methodology
  - Calculate Stranded Costs Recoveries via Capped Rates and Wires Charges

# SCC Staff Method

- Advantages

- Quantifies stranded costs
- Quantifies recoveries from base rates and wires charges

- Disadvantages

- Asset Valuation model is complex
- Utilities are opposed to calculating just and reasonable net stranded costs

# VCFUR/ODFUR Method

- Similar to Staff's Primary Proposal
  - Calculate Stranded Costs based on an Asset Valuation Methodology
  - Calculated Stranded Costs Recoveries via Capped Rates and Wires Charges
- Main Difference:
  - Application of NPV

# SCC Staff Analysis

- EURC Resolution requests the calculation of:
  - Just and Reasonable Net Stranded Costs
  - Stranded Cost Recoveries via Capped Rates and Wires Charges

# SCC Staff Analysis

- Asset Valuation Methodology
- Capped Rate and Wires Charge Recoveries
- SCC available to assist

# Legislative/Administrative Action

- Direction needed from EURC
  - Choose Methodology
    - Or
  - SCC Proceeding to Determine Method
  - SCC Proceeding to Make Calculations based on Chosen Methodology