Stranded Assets in the Energy Sector:
An Electric Company Perspective

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Southern Legislative Conference of The Council of State Governments
July 23, 2020
The Edison Electric Institute (EEI) is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for more than 220 million Americans, and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States.

In addition to our U.S. members, EEI has more than 65 international electric companies, with operations in more than 90 countries, as International Members, and hundreds of industry suppliers and related organizations as Associate Members.

Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

For more information, visit our Web site at www.eei.org.
Creating Value in America’s Economy

Contribute $865 billion annually to U.S. GDP or 5% of total GDP

Support 7 million+ jobs across the United States

Invest $110 billion+ per year to build smarter, cleaner, stronger, and more secure energy infrastructure
2020 Industry Priorities

- Clean Energy
- Smarter Energy Infrastructure
- Grid Security & Resilience
- Storm Response & Wildfire Mitigation
- ESG & Natural Gas Sustainability
- Electric Transportation
- Innovative Customer Solutions
- Workforce Development
Our Industry Vision
Is Customer-Driven

Value-Focused
More Dynamic, More Secure Energy Grid
Clean Energy
Innovative Energy Solutions
Leading On Clean Energy

Changing U.S. Energy Mix
38% CARBON-FREE

Over the Past Eight Years, More Than Half of New Electricity Generation Capacity Was WIND AND SOLAR

>1/2

Increasing Investments
$110 Billion+
PER YEAR IN SMARTER ENERGY INFRASTRUCTURE

Cutting Emissions

CO₂ ↓ 33%
BELOW 2005 LEVELS AS OF 2019

NOₓ ↓ 86%
BETWEEN 1990–2019

SO₂ ↓ 94%
BETWEEN 1990–2019

Providing
67% of the SOLAR ENERGY in the Country

Investing
$1.4 Billion+
TO DEPLOY CHARGING INFRASTRUCTURE

Using
90%+
OF ALL U.S. ENERGY STORAGE
Our Clean Energy Journey

**Investing in the Future**

- 2005: $48.4 B
- 2010: $74.3 B
- 2015: $104.0 B
- 2019: $135.6 B

**Capital Expenditures**

↑180%

**Keeping Electricity Affordable**

- 2005: 8.10¢/kWh
- 2010: 8.80¢/kWh
- 2015: 8.58¢/kWh
- 2019: 8.10¢/kWh

**Average Bills**

Flat (since 2010)

**Changing the Energy Mix**

- From 2005 Levels
- Electric Power Industry Carbon Emissions ↓33%

Sources and Notes:

- *Carbon-free = nuclear and hydropower and other renewables
Industry Capital Expenditures

Notes: Total company spending of U.S. investor-owned electric utilities, consolidated at the parent or appropriate holding company.

Source: EEI Finance Department, company reports, S&P Global Market Intelligence (October 2019).
Projected Functional CapEx

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Who regulates electric companies?
- Federal Energy Regulatory Commission (FERC): interstate transmission (wholesale power prices largely set by markets/market forces)
- State utility commissions: distribution system and generation (some, not all); state commissions also set retail electricity rates
  - If capital investments are “prudent”, “just and reasonable” and/or “used and useful,” they can be recovered in electricity rates

Regulated electricity rates: recover costs and investments (plus rate of return sufficient to attract capital) necessary to serve customers
- Not a guarantee, but the opportunity to earn rate of return
- Regulators review investments during rate reviews to determine if they should recovered/continue to be recovered
- Everything is case-by-case
Utility Accounting: Key Concepts and Terms

- **Depreciation**: an accounting and rate recovery practice
  - Large investments are recovered over the useful life of the asset, not all at once
  - Investments have a long life, but eventually need to be replaced
  - Intergenerational equity: customers should pay for the assets they use, but not more
  - Shorter depreciation periods have more immediate impacts on electricity prices
    - Shorter depreciation periods increase rates
  - Longer periods allow for larger returns on investment to be earned
    - Even if customer rates are lower
  - State commissions determine depreciation period for an asset; generally, larger investments have longer depreciable lives
How Do Assets Get Stranded?

- Assets are stranded when they are retired before the end of the depreciable life.…
  - Because something has changed – economics and/or policies
  - And, regulators no longer permit the investment to be recovered in electricity rates
  - If investments continue to be recovered, assets are not stranded, but other stakeholders often argue against continued recovery
  - Regulators can adjust depreciation schedules/amounts and can create “regulatory assets” to avoid stranding assets (but there are GAAP and other rules)
  - Assets are not always automatically retired after they have been fully depreciated

- When assets are stranded…
  - Less money is available for new investments (than originally expected)
  - Companies can be less attractive to investors in general
  - Cost of capital can increase, which increases costs to customers
Stranded Assets: Key Questions

- Have changed economics and policies stranded coal assets?
  - Generally not; most coal plants that are retired have already been depreciated
  - Sometimes, however, investments in control technologies have not been
  - Stranded coal investments don’t always mean increased costs for customers; it
depends on what other investments the electric company makes

- Should concerns about stranded assets mean that electric companies
  should not make (or be permitted to make) investments in new natural gas
  generation or new renewable generation?
  - Natural gas and renewable generation can cost less than coal-based generation
  - These resources have shorter depreciation periods, too
  - Investments in new generation can create jobs (and electric companies have worked
to find other employment opportunities for displaced workers)
Stranded Assets: Key Questions (II)

- Will COVID/decreased electricity sales result in more stranded assets?
  - Generally not, if state commissions continue to allow for recovery of investments
    • Recovery just may be slower
  - Bigger issue is increased arrearages (unpaid bills)
    • These have been increasing during pandemic due to increased unemployment and disconnection moratoria; biggest impact is on electric company liquidity/access to capital

- What tools are there to address stranded assets; who can exercise them?
  - Create regulatory assets (don’t write off costs, defer recovery)
    • State commissions can do this without legislative authority, but sometimes express authority is provided by statute
  - Mandatory recovery of certain investments
    • Some state legislatures provided for this when they required divestment of assets to allow for electricity restructuring
  - Securitization: turns electric company costs into bonds
    • Requires legislation; does not allow rate of return to be earned
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