Stranded Assets – Evolving Views on Depreciation

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What is a “Stranded Cost”?

- Typical definition would indicate that Stranded Cost = Net Book Value
- Net Book Value = Installed Cost – Depreciation to date

But is this correct???

What is a "Stranded Cost"?

- Under Group Accounting, we consider all assets to be fully depreciated upon retirement.

UNLESS

The retirement is deemed to be an extraordinary retirement

THEREFORE

An extraordinary retirement may lead to a stranded cost

What has Changed?

National Energy Board Decision RH-003-2011

- Pushed back on the concept of a “regulatory compact”.
- Put the onus of recovery if capital on the company to pro-actively deal with changes in depreciation rates to changing uses of the pipeline and economic circumstances.

What has Changed?

Alberta Utilities Commission – Utility Asset Disposition Decision

- Stipulated that a retirement due a cause that was not considered in prior depreciation studies is an abnormal retirement event and can lead to a stranded cost or gain to shareholders.
- Assets that are not providing utility service should be removed from rate base.

Depreciation Impacts

- Needs to consider the impacts of non-fully utilized assets.
- Needs to consider risk of non-fully implementing changes to life and net salvage estimates in current studies (i.e. gradually introducing changes).
- Needs to consider the accumulated depreciation reserve position, and develop specific plans for any over under-recovery to as the study date.
- Needs to consider how the costs of removal will be recovered.
- Most importantly – “Getting it Right”.

Depreciation Questions

- **How do you calculate the Net Book Value of the specific assets?**
  - Do we need to consider the accumulated depreciation position of the group of assets?
  - Where do the costs of retirement or site redamation go?
- **Is a cause of retirement that was included in a depreciation study but rejected by the regulator reason to rule a retirement as abnormal?**
  - How do we determine which causes of retirement were included in the depreciation rates?
- **Should the impacts of gradualism or moderated increases in depreciation rates be considered in the determination of a stranded cost?**