

# Consideration of Stranding Risk

COST CONTROL

## AT A GLANCE



### TARGET COST DRIVERS

The policy can help to ease customer cost pressures created by these drivers

- Aging grid infrastructure
- Load growth
- Misaligned utility incentives



### IMPACT TIME HORIZON

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How long it typically takes before changes materialize in utility behavior or customer bills

●●● Long-term (5+ years)



### POTENTIAL COST SAVINGS

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The level of cost savings that can reasonably be expected to result from this policy

●●○ Medium

## CONTEXT AND BACKGROUND

Regulators can utilize realistic assumptions and planning methodologies when considering the [asset-stranding risk](#) of utility-proposed generation resources to mitigate negative cost impacts for customers.

In the electricity sector context, a stranded asset is typically a power plant that becomes uneconomic or needs to be retired in accordance with state or federal policy requirements before its costs have been fully recovered by ratepayers.

Regulators review the stranding risk of utility-proposed power plants to determine the value it is likely to provide ratepayers, however, unrealistic assumptions about the expected useful life of the power plant or failing to account for market disruptions like the cost trajectories of other technologies can lead to an inaccurate assessment of a power plant's stranding risk.

There are a [few common results](#) in these cases: customers pay for an uneconomic power plant to continue operating, customers pay for a plant no longer operating, or regulators require utilities to absorb the unrecovered costs from the power plant. In all these cases, failure to proactively consider stranding risk results in unnecessary costs for customers or utilities.

Legislatures can direct regulators to enhance their processes for considering the stranding risk of new power plants by requiring the use of expected asset lifetimes in analyses (rather than the typical 40-50 year timelines), requiring utilities to conduct different

scenario analyses to estimate the assets value under different circumstances, requiring utilities to revalue assets which may provide more value in early years and less value in later years, or requiring a lower return on equity (ROE) for power plants with higher stranding risk than the utility's standard ROE.

By using appropriate assumptions and methods for considering stranding risk, regulators can better understand the overall cost impact of different energy sources on ratepayers.



### FURTHER READING

- [“Stranded Fossil Fuel Infrastructure: How Big Is the Stranded Asset Problem, and What Should We Do About It?”](#), Brattle, 2021
- [“A Strategic Framework for Utility Cost Control”](#), RMI, 2025
- [“Avoiding the Stranded Asset Mistakes of the Past: A Case Study in Wisconsin”](#), RMI, 2025

### REAL-WORLD EXAMPLES



[Colorado](#) passed [legislation](#) (Senate Bill 23-291), which requires utilities to use a discount rate that does not exceed the long-term rate of inflation when evaluating the net present value of carbon-based fuel costs. This helps [mitigate stranding risk](#) by ensuring fossil fuel resources are fairly valued compared to alternatives.



Minnesota [statute](#) (216B.243) requires utilities to evaluate the risks associated with environmental costs and regulation of fossil power plants over their lifetime and whether electricity demand could be met using demand response, distributed generation, or other measures when submitting a certificate of need for a new power plant.



### IMPACT TIME HORIZON

#### Long-term (5+ years)

Consideration of stranding risk occurs in the utility planning process and can be evaluated by regulators in rate cases or integrated resource planning (IRP) proceedings. [Most IRP filing frequencies](#) range from 1–5 years. Impacts may not be felt for another 10+ years.



### POTENTIAL COST SAVINGS

#### Medium

While cost savings will vary from state to state, improved planning processes and evaluating the true potential costs of resources with more realistic asset lifetimes against less expensive alternatives can help avoid these types of stranded costs. In [Wisconsin](#), a utility invested in equipment to extend the life of a coal plant instead of investing in new resources. The coal plant ultimately retired early anyway because it was too costly to operate, costing ratepayers \$680 million over 17 years.