



NEWSLETTER

8100 Wyoming Boulevard NE # 228 Albuquerque, NM 87113 Volume 21, Issue 3 December 2009

President's Message

Robert Poulsen, CDP, President

My thanks go to all members who attended our Albuquerque meeting. The banter between attendees and presenters was the sign of a healthy get-together. Mike Plunkett did the Society a great service by packing the agenda with speakers presenting diverse concepts around International Financial Accounting Standards (IFRS). Perhaps the most important insight provided was that potentially, group asset accounting may be compatible with IFRS after all. But, the take-away wasn't that simple: Companies hoping to maintain group accounting for financial reporting will likely need to demonstrate more than just a cursory understanding of its mechanics and proving a theory may be more difficult than many of us understand.

In the future, Society members may be called upon to support the compatibility of group accounting with IFRS by teaching new audiences (with little regulatory depreciation background) the complex concepts behind the development of group asset depreciable lives and the procedures used to develop rates within those concepts. Those of us who regularly work with auditors and regulators will be intensely interested in how those discussions proceed. If you are a part of that process, please consider your knowledge and insight with the rest of the membership. In any event, adoption of IFRS appears to be a looming major investment for U.S. companies, increasing the demand for well-trained asset management and depreciation professionals.

The Society's training program steps up to that demand. Under Dr. Susan Jensen's leadership, the training program continues to meet our high standards for professionalism.

IFRS was not the only agenda topic of course. The Society was very appreciative of the presentations by both senior Society members and honored guests. We hope you enjoy both the "deep dives" into familiar topics, and the areas where the presenters expose potential new applications of our discipline. For example, this year we learned about pipeline abandonment, how power plant demolition cost estimates are developed and recovered, and efforts to develop service lives for the U.S. highway system.

Curtis McElwee presented some intriguing information about SDP membership. The make-up of the Society has shifted over the years, away from telecom dominance and toward electric utility dominance. I expect we'll have much more discussion of how to grow membership overall, and how to increase the number of members gaining CDP certification without diluting the value of the certification. Please share your thoughts on membership with Curtis or any other member of the SDP Board.

I'd like to wrap this up by thanking the members of the 2009 Board of Directors and the Committee Chairs – Mike Plunkett, Robert Welsh, Brian Caldwell, John Johnson, Curtis McAlwee, Donna Hobkirk, Steve Barreca, and Susan Jensen. Specific accomplishments included development of a compensation practice, and a standardized process for updating the Society's website. We can all look forward to Mike's leadership in the coming year. See you in St. Louis next October!

2010 Annual Conference and Training
September 27-October 1, 2010
Marriott Union Station
St Louis, MO

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Time to Renew Your Membership

Curtis McElwee, Membership Chair

Membership in the Society continues to grow. For those of you who support the Society through your continued membership, thank you. In tough economic times we are often forced to evaluate the benefit of membership while still aiming to control costs (member dues, registration fees and travel to conferences are often the first costs to be eliminated). Through your efforts, the Society is currently 211 active members strong for the 2009 operating year. This is the 3rd straight year of increasing membership and the highest level since 1995. And while the Society has experienced nice growth, the Membership committee has initiated plans for 2010 with the hope of continued growth. The overall goal is that by bringing new membership, new perspectives and energy will naturally follow. Some activities that are planned include presenting the Society at the 2009 Fall EEI/AGA Committee meetings. Both organizations have common agendas and similar issues which make recruiting a good fit. The committee is also working on updating the membership database in an effort to link the depreciation profession and the certification process with hopes to increase the number of Certified Depreciation Professionals and enhance its value to the depreciation profession. Your Membership Committee will continue to focus on increasing membership and strengthening the Society for the next few years.

Soon we will be sending out renewal notices for 2010. If you have not already paid your 2010 dues with your 2009 Annual Meeting fee, look for this communication and renew your membership. Dues for 2010 will remain at \$75 and include all the wonderful benefits you have enjoyed in the past.



2010 SDP Conference Location
www.stlouisunionstation.com

Thanks to These Contributing Members

SDP Sustaining Members

AUS Consultants
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Individual Patron

Dr. Susan Jensen, CDP.

SDP Friends

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Thanks to the 2009 SDP Board of Directors

We would like to extend our sincere thanks to all the members of the 2009 SDP Board of Directors, under the leadership of Robert Poulsen, CDP, 2009 Society President. The board worked hard on issues important to Society members. Committees were active and much progress was made. Congratulations on a job well done.



Robert Poulsen, CDP, 2009 SDP President

Congratulations to the 2010 Board of Directors

At the SDP Annual Meeting in Albuquerque, New Mexico, the following officers were elected to lead the Society through 2010. The officers are:

President - Michael Plunkett, CDP
PowerPlan Consultants
Vice President - Rob Pierce, CDP
Southern California Edison
Treasurer - Robert Welsh, CDP
Welsh Group, LLP
Secretary - Brian Caldwell, CDP
Entergy Services, Inc
At Large Director - Dave Davis
American Electric Power Company
At Large Director - Curtis McElwee
Sierra Pacific Power Co and
Nevada Power Co
Past President - Robert Poulsen, CDP
Embarq

We wish this new Board of Directors much success in 2010.

If you would like to become more involved in the Society, please contact any of the 2010 SDP officers, or contact the SDP office at:

sdp@his.com
505/867-9513

Meet Me In St Louis

The classic movie, *Meet Me In St Louis*, may be the theme for the 2010 Annual Conference and Training. St Louis is centrally located and easy to reach for most of our membership. The city offers great entertainment, sports, shopping and dining.

St. Louis Union Station, once the largest and busiest passenger rail terminal in the world, is now one of America's great marketplaces. Union Station first opened in 1894, but ceased operation as an active train terminal in 1978. Union Station reopened in August of 1985 as the largest adaptive re-use project in the United States.

Today, this 114 year old National Historic Landmark of unmatched beauty and elegance has been dramatically restored and redeveloped as a dynamic mixed-use project that includes great shopping, delicious dining and fabulous entertainment.

St. Louis Union Station houses a 539 room Marriott Hotel, luxury offices, a lake and a plaza for festivals, concerts and other special events. The century-old St. Louis Union Station boasts a unique and colorful history as well as a bright future. St. Louis Union Station is truly a shopper's delight with over 80 shops and restaurants to choose from. An important part of the Station's special appeal is the variety of unique retail shops, offering everything from fine fashions to one-of-a-kind gifts.

Rob Pierce, CDP, will be the chair of the 2010 Annual Meeting Committee. The Annual Meeting will begin with a reception on Sunday evening, September 26th, and continue through Noon, Tuesday, September 28th. As the agenda develops, you will find details on the SDP web site: www.sdp.org.

Dr. Susan Jensen, CDP, will again coordinate the SDP Training classes. Training classes will

begin at 1:00pm on Tuesday, September 28th, and continue through Noon on Friday, October 1, 2010. As with the Annual Meeting, as details become available on the training classes, that information will be posted on the SDP web site.

For hotel reservations, please contact the Marriott Union Station - **(800) 410-9914** - and ask for the Society of Depreciation Professionals special rate.

See you in St Louis.



Marriott Union Station



Downtown St Louis

2009 Annual Meeting and Training

The 2009 Annual Meeting and Training took place in Albuquerque, NM, from October 4-9, 2009. The Annual Meeting program, coordinated by Michael Plunkett, CDP, included timely discussion on international financial standards (IFRS) as well as regulatory issues facing depreciation professionals. Sixty-six people attended the Annual Meeting, representing diverse industry backgrounds, consultants, and state and federal regulators.



Dr. John Lacey, discussing accounting updates at the SDP Annual Meeting.

The 2009 annual Depreciation Training classes offered training in:

- Depreciation Basics
- Life and Net Salvage Analysis
- Life Analysis for Valuations
- Preparing and Defending
a Depreciation Study

Fifty-nine people participated in the depreciation training classes.

Training classes continue to receive great reviews largely because of the expert faculty engaged in teaching each class. Depreciation training classes will again be offered in 2010 in St Louis. Details and registration information will be available in Spring 2010 at the SDP website: www.depr.org.

Annual Meeting and training attendees experienced one of Albuquerque's most famous events, the annual Hot Air Balloon Fiesta. Unfortunately, the Sunday evening folks also experienced New Mexico's famous desert winds, and consequently the hot air balloon events were cancelled. However, those who attended the mass ascension of hot air balloons on Thursday morning experienced the best that New Mexico has to offer. The pictures below provide proof.



The Creamland Dairy hot air balloon.



Special shape balloons taking to the air.

A Plant Tour as a Depreciation Study Component

John Ferguson, CDP

Making a Plant Tour is sometimes touted as enhancing the validity of a depreciation study, and is sometimes referred to as an Inspection. *Inspection* is probably not a suitable description of the activity, because I have found that the usefulness of looking at property for the determination of mortality characteristics (life, pattern of variation of retirements, and salvage and cost of removal factors) is limited. However, this does not mean that looking at property and talking to field personnel is not a useful aspect of a depreciation study.

The usefulness of a tour or inspection depends upon the emphasis of the study. Such an effort is not useful for a study that emphasizes the measurement of the past, because a computer – rather than the analyst – selects the property mortality characteristics. Such an effort is a necessary component of a study that emphasizes the understanding of the past, because such a study must move well beyond mere measurement. Experienced field personnel are equipped to assist the analyst to explain why analysis results are what they are and to understand whether the past can be accepted as a reasonable indication of the future, provided the analyst can deal with field personnel on their terms. I have found field personnel to relate well to graphical representations, which has prompted me to expand such representations beyond those typically produced by life, salvage, and cost of removal analyses.

Some refer to the study step involved in developing understanding as the Estimation Phase, and I refer to it as the Evaluation Phase. Whatever it is called, this study phase is not limited to discussions with field personnel, as discussions with office personnel such as accountants, engineers, and planners are also useful. However, I have observed that the hands-on experience of field personnel gives them a better understanding of the property than do office personnel. For example, while working for a power equipment manufacturer, I became aware that shrinking design and manufacturing tolerances were causing certain types of new power equipment to be

less robust than older equipment that had been designed and manufactured to higher tolerances.

After becoming a depreciation analyst, I found field personnel of electric utilities to generally have a better appreciation for the impact of this situation on equipment life than do office personnel.

Inspections can provide useful information when combined with discussions. For example, during a visit to a residential subdivision just starting to be developed, I became aware of a client shifting from using copper for underground electric cable to using aluminum. I was already aware that a fault causes copper to melt and aluminum to burn, so this client's shift had depreciation implications, because:

A faulted copper cable in conduit may be able to be pulled out for repair, but an aluminum cable probably could not be, so is likely to incur a higher cost of removal expenditure than would a copper cable;

Whether in conduit or direct buried, damage from a fault is likely to be more extensive for aluminum than for copper, and the heat from burning aluminum may damage adjoining cables;

Its lower cost is responsible for the popularity of aluminum cable, but expenditures for removal or abandonment are likely to be independent of the material type, so aluminum can be expected to produce a higher terminal cost of removal factor than would copper; and,

The scrap value of aluminum is lower than copper.

My experience is that the visits and initial and follow-up discussions for a vertically integrated electric utility will take at least a week or two, and that initial discussions are more effective when face-to-face on the turf of the personnel being interviewed. Whether follow-up discussions need to be face-to-face depends on the circumstances.



SOCIETY OF DEPRECIATION PROFESSIONALS

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Membership Status (Check one)

____ New Member

How did you hear of us? _____

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Two or more years of depreciation experience

____ Associate Member -

Less than two years of depreciation experience

Name _____

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