

## President's Message

John Spanos, CDP, President-elect



The holiday season is upon us, which leads me to a time of reflection as the year winds down on the ever changing utility industry and specifically the area of depreciation. The Society of Depreciation Professionals (Society) continues to take a leading role in educating members of current developments during our day and a half annual meeting as well as our dynamic four-day training sessions on the aspects of depreciation. Our Society has been in existence for 25 years and we have experienced many changes in the field of depreciation as those discussed by our founding fathers. Issues regarding whole life versus remaining life and Average Life Group versus Equal Life Group; have evolved into over and under recovered reserve balances; the use of net salvage accruals; early retirements of assets; technological obsolescence; Amortization Accounting; and International Financial Reporting Standards (IFRS) accounting. Our membership has grown to include individuals across the United States and Canada as well as the diverse perspectives of utility personnel, consultants and regulators.

Some of the topic highlights of our recent meeting in Atlanta included topics on cost of capital and revenue requirements, the impact of reserve imbalances, componentization of PP&E under IFRS, regulator and intervener perspectives on key depreciation practices and our annual accounting update. Our speakers once again stimulated tremendous discussion throughout the meeting. Our 25th anniversary meeting also began the Society's full time relationship with Jaffe Management as Executive Director.

What will 2012 bring for the Society? As many of you have experienced, depreciation has become a major component in rate cases and the ability to understand the changes that occur and the challenges to properly react to new rules and regulations has provided many long days for us all. The Board continues to discuss the best ways to present these issues and the best forum to showcase these topics. We have also decided to bring 2012's Annual Meeting further north this year to Minneapolis; we will be announcing the exact hotel right after the New Year. Our training program, led by Dr. Susan Jensen continues to find ways to address new depreciation issues at the same time the staff establishes a solid foundation of basic depreciation concepts. Thank you Susan and Staff!!

Our mission for 2012 is to maintain the backbone theme of the Society by promoting professionalism and ethics within the art of depreciation, and provide information of interest to depreciation professionals all at the same time that we develop lasting relationships with individuals all across North America.

As you enjoy the holiday season with friends and family, take some time to ponder what you would like to achieve as a Society in 2012.

I would like to thank the members of the 2011 Board for continuing to grow the Society.

**SDP BOARD OF DIRECTORS**

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- Coordinating**..... **Steve Barreca**  
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- Depr. Education & Training** ..... **Susan Jensen**  
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- Ethics and Standards** ..... **Rhonda Watts**  
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**Save the Dates**

**2012 Annual Conference and Training**  
**September 15 – September 21, 2012**  
Minneapolis, Minnesota

*Hotel to be announced in January 2012!*

Look for more information in 2012 at:  
[www.depr.org](http://www.depr.org)



## Message from Executive Director - Jaffe Management

After a successful conference the Society's Board and staff are thinking about ways of improving and making things more streamlined for 2012. Here is a highlight of a few of the items we are working on for next year.

### Technology

In 2012, the Society will be working on a revamp of its website, with a new updated look, information that is easier to find and more consistent updates. In addition, we are moving to an online membership and registration system. This will streamline the process of registration for members and guests and also allow for everyone to have a unique User ID and Password to access the site. We will be rolling out these improvements throughout the first half of 2012 and look forward to your feedback.

### Membership

Along with our technology changes we are going to streamline and bring clarity to the membership year. Starting in 2012, the membership year will go from September 1<sup>st</sup> to the following August 31<sup>st</sup>. Members will be able to start renewing their memberships as early as June 1<sup>st</sup> when Conference Registration opens. Until this change goes into effect in the Fall of 2012, all members who have paid their dues for 2011 will be considered full members, but of course, will be asked to renew as summer approaches. Full details about the new system put into place will be posted later this year.

Wishing everyone safe holidays and a happy New Year. - David Jaffe ❖

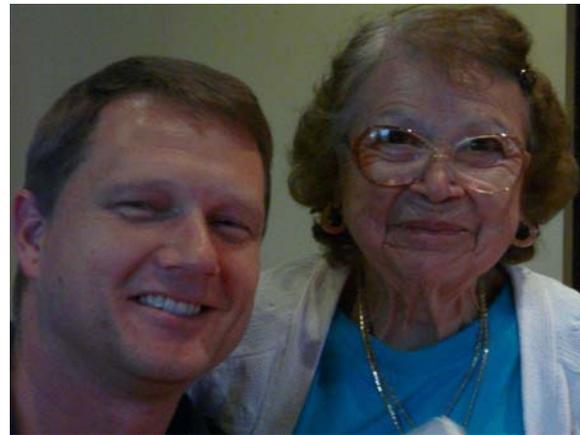


## The lighter side of the Annual Meeting and Training

Society members and attendees use the Annual Meeting and Training as a great opportunity to not only stay abreast of the most current trends in Depreciation; but many travel early or stay late at the conference location to play tourist and see the local sights.

This year in Atlanta, a number of attendees took advantage of our hotel being located right across the street from the Fox Theatre and went to see the musical Wicked. Many also took the MARTA rapid transit to the spectacular Georgia Aquarium, the World of Coca-Cola and the Martin Luther King Jr. National Historic Site. A couple of football fans even ventured out to see the Atlanta Falcons.

Those who have been attending the annual meeting and training for a number of years certainly look forward to being able to reconnect and touch base with depreciation friends and colleagues from across the United States and Canada.



As you can see, Society member Harold Kingston and the lovely Mrs. Myrna Ferguson were pretty happy to have the opportunity to catch up with each other in Atlanta.

We hope you are looking forward to the 2012 Annual Meeting and Training to be held in Minneapolis, Minnesota. Watch for information on all the great things to do in Minneapolis in a future issue of the SDP Newsletter. – Lorrie Mullen, CDP ❖

## 2011 Annual Meeting and Training

Atlanta, Georgia

The 2011 Annual Meeting and Training took place in Atlanta, GA from September 18 to 23, 2011.

**The Annual Meeting program, which was coordinated by the Program Committee, chaired by John Spanos, CDP, began with a reception Sunday evening and continued through Tuesday morning.**

Monday's outstanding lineup of presenters and breakout session leaders included:

- Tim Zeldenrust, PowerPlan
- Paul Hunt, Southern California Edison
- Tony Biacci, Florida Power and Light
- Rick Fisher, CDP, Southern California Edison
- William Dunkel, William Dunkel & Associates
- Tom Petersen, Atmos Energy Corp
- John Johnson, Atmos Energy Corp
- Kyle Long, PriceWaterhouse Coopers
- Chris Lorenz, PriceWaterhouse Coopers

Tuesday we benefited from the excellent presentations of:

- Earl Robinson, CDP, AUS Consultants
- Dr. Susan Jensen, CDP, Surface Transportation Board
- Scott Armstrong, CDP, Virginia State Corporation Commission
- Gayle Freier, CDP, Arkansas Public Service Commission
- John Lacey, PhD, California State University, Long Beach.

Topics covered over the two days included:

- Rate making challenges and remedies
- Determination of cost of capital for a regulated utility
- Theoretical reserve imbalances and impact on regulatory reporting and accounting
- Depreciation methods and revenue requirements
- Depreciation issues – The Kansas Generic Case
- PP&E under IFRS: Componentization
- Depreciation – The Last 25 years
- Regulatory Perspective on Depreciation
- 2011 Accounting Update



*L to R: Gayle Freier, CDP, Scott Armstrong, CDP And Dr. Susan Jensen, CDP*



*SDP Training in Action*



*The Georgian Terrace Hotel, the site of the 2011 Conference and Training, in the heart of Atlanta*

**Dr. Susan Jensen, CDP, again coordinated our outstanding SDP Training. The extended session Tuesday afternoon through Friday noon was comprised of the following concurrent classes:**

- **Depreciation Basics**  
An introduction to *Plant and Depreciation Accounting and IFRS, Data Requirements and Collection, Simulation Life Analysis, Actuarial Life Analysis, Salvage and Cost of Removal Analysis, Depreciation Models, Life Cycle Analysis, and Technology Forecasting. This course is often taken by trainees preparing to take the CDP test.*
- **Life and Net Salvage Analysis**  
The *Actuarial* and *Simulation* analysis classes include applications to real-world data to prepare you to use the models in your depreciation studies or review the use of the models in studies presented to you. We will also again offer *Gross Salvage and Cost of Removal* and also *FAS 143 & Overview of IFRS*. And in the class *Evaluation of a Depreciation Study*, you will learn how to "get behind the numbers" developed in a depreciation study.
- **Preparing and Defending a Depreciation Study**  
This course begins with a review of life, net salvage, and depreciation models and then focuses on *Developing Life and Salvage Estimates, Preparing a Depreciation Study Report, and Defending the Study, including Witness Preparation and Techniques.*

And for the second year, we offered a **Brief Introduction to Depreciation** Sunday afternoon. *This is also a great course for trainees preparing to take the CDP test.*

In 2012 we plan to again offer our popular *Life Analysis for Valuations* course designed for appraisers, taxing authorities, and analysts who use or develop economic lives of plant and equipment. **To accommodate our repeat trainees and offer the courses you would benefit from, we invite you to tell us the topics you would like us to include next year.**

*For additional information about our courses, please visit our website [www.depr.org](http://www.depr.org).* As we all know, there is no depreciation training available anywhere with the depth and breadth as that provided at the SDP conference.

With 65 attendees at the annual meeting, 70 trainees attending classes, and 6 members taking the CDP test, we are pleased to report a very busy and successful week.

We thank our committee organizers, presenters, and expert instructors for their valuable contributions toward making our 2011 Annual Conference and Training a great success. – Lorrie Mullen, CDP ❖

### ***Thank You to our 2011 Board of Directors!***

We would like to extend our sincere thanks to all the members of the 2011 SDP Board of Directors, under the leadership of Rob Pierce, CDP, and 2011 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.

## FROM THE DESK OF JOHN FERGUSON, CDP

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### Stratification of Depreciable Property Groups

The depreciable property groups adopted by entities practicing the group concept of depreciation accounting tend to be primary plant accounts. However, stratification into two or more categories is sometimes warranted for accounts comprised of components having wide ranges of lives, material types, scrap values, or retirement ages. This discussion suggests that those conducting depreciation studies emphasizing the understanding of the past need to be alert for situations when property group segregation is appropriate.

Retirement dispersion patterns recognize ranges of lives, but do not do well when the range is wide, because the experienced survivor curve tends to reflect the component with the lowest life and components with higher lives cause a quite long tail and a very wide dispersion pattern that is different from the range of dispersion patterns described by the Iowa-type family. This situation is likely to be obvious when aged data are utilized for life analysis purposes, but will require an analysis of account content to identify when unaged data are utilized.

Some property groups will exhibit a need for segregation when new technology is introduced. This need will be obvious when the new technology has a life much different from the old technology or causes the old technology to be rapidly phased out, both of which occur when electro-mechanical meters are replaced by electronic meters. The need for segregation may not be obvious when the new technology merely shifts the predominant causes of depreciation for the old technology from being non-physical to being physical, such as occurred when open wire telephone lines were replaced by cable.

Some property groups exhibit a progression of material types that leads to wide ranges of scrap values and retirement ages that may prompt segregation, perhaps only for analysis purposes. For example, copper conductor has a scrap value that is

considerably higher than does aluminum conductor, and bare conductor has a higher scrap value than does weather protected or insulated conductor. Copper conductor is typically old, except in coastal areas where its corrosion resistance is required, so tends to be a higher portion of retirements than of survivors. Options for dealing with this situation include segregation for salvage analysis purposes and applying the results to the mix of survivors, or using current or predicted scrap prices to calculate an expected future salvage amount for the quantities of surviving material types.

Progression of pipe material types results in the retirement age of cast iron or steel gas mains and services being much higher than for plastic. The cast iron and steel retirements being older than plastic retirements causes the cost of removal factors for metal pipe to be higher than for plastic, because of the longer length of time for cost escalation to influence recorded cost of removal amounts. Therefore, the net salvage factors being currently experienced for metal pipe may provide an indication of what can be expected for the surviving plastic pipe. However, other circumstances can influence the metal/plastic relationship, and may need to be recognized when trying to relate past experience for metal pipe to future expectations for plastic pipe. For example, plastic is popular as a consequence of being less expensive, which influences the denominator of the cost of removal factor calculation, and some of the retirement tasks for plastic pipe cost about the same as for metal pipe and some cost less, which influences the numerator of the factor calculation.

While unlikely to prompt segregation, the mix of high value reuse for young retired items and of low value scrap for old retired items should be considered when evaluating experienced salvage factors, because the current reuse/scrap mix of retirements is likely to be different from the mix expected at the time the surviving property is retired. ❖

We also wish to acknowledge our 2011 Annual Meeting & Training Sponsors for their generous donations. Most of the donations go towards the many breakfasts, lunches and receptions that our members and attendees enjoy.

## Platinum



## Gold



## Silver



## Friends

Dr. Susan Jensen, CDP

### Congratulations to the 2012 Board of Directors

At the SDP Annual Meeting in Atlanta, GA., the following officers were elected to lead the Society through 2012. The 2012 officers are:

**President - John Spanos, CDP**  
Gannett Fleming

**At Large Director – Tony Biacci**  
Florida Power and Light

**Vice President – Dave Davis**  
American Electric Power Company

**At Large Director – Scott Armstrong, CDP**  
Virginia State Corporation Commission

**Treasurer – Don Clayton, CDP**  
Tangibl LLC

**Past President - Rob Pierce, CDP**  
Southern California Edison

**Secretary – Lorrie Mullen, CDP**  
Alberta Utilities Commission

**Past-Past President - Michael Plunkett, CDP**  
PowerPlan Consultants

We wish this new Board of Directors much success in 2012.

If you would like to become more involved in the Society, please contact any of the 2012 SDP Officers, or contact the SDP by email at: [admin@depr.org](mailto:admin@depr.org) ❖