

President's Message

Dave Davis, SDP President-elect



Minneapolis welcomed the Society of Depreciation Professionals (SDP) to celebrate our 26th year and hold our annual conference and training in 2012. An excellent conference turnout of over 100 attendees from utilities, state commissions, consultants and railroads were treated to presentations covering accounting and ratemaking challenges of environmental regulations, decommissioning the Mohave generating station, estimating terminal removal costs for steam plants, jurisdictional accumulated depreciation, accounting for early plant retirements, whole life depreciation and reserve amortization, analyzing salvage and removal, frequent depreciation study issues, working capital, and an accounting update.

While the conference covered many different

topics, our theme was new or proposed environmental regulations and the resultant earlier than previously forecasted retirements of coal-fired electric utility generating plants or units. Major issues such as early plant closure will continue to push depreciation calculations to the forefront of rate hearings and could possibly necessitate divergent accounting treatment for GAAP versus rate making. It is the SDP's goal to be informed regarding early closure requirements and other depreciation-related developments at society member industries and to serve as a source of information and provide industry contacts for our members.

Our objective for future conferences is to continue to emphasize major issues in the field while diversifying our presentations to provide useful content for all attendees. We welcome input from our members regarding new and emerging topics that we should consider for the next and future conferences.

After the conference was completed, our extended depreciation training program followed. Our training continues to be highly rated by participants and provides an excellent understanding of depreciation concepts for future depreciation professionals and novices. Dr. Susan Jensen coordinates the training and regularly updates the training material to insure that new situations and challenges are appropriately addressed. Thanks again to Dr. Jensen and the training staff for maintaining a superior training program.

In addition, much credit for the success of the 2012 conference and training efforts must go to Jaffe Management under the direction of David Jaffe. Jaffe Management assisted with nearly every aspect of our meeting and training including conference promotion, hotel selection,*Presidents message continued on page 3*

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Save the Dates

2013 Annual Conference and Training

September 15 – September 20, 2013

Salt Lake City, Utah

Look for more information in 2013 at:

www.depr.org



Skyline of Salt Lake City, Utah

This year’s conference will be held at Salt Lake City’s Grand America and Little America hotels and resorts. The Grand America Hotel is the only AAA Five Diamond Hotel in Salt Lake City, while Little America is the Salt Lake City’s most luxurious Four Diamond Hotel. Rooms will be available from \$134 to \$200. Both hotels are conveniently located near Downtown Salt Lake City, a hub for artistic exhibitions, boutique shops, and vibrant nightlife.



The Grand America Hotel and Resort

arranging rooms and audio visual equipment for presentations, selecting food, printing conference presentations and training materials, etc. The conference and training would not have been a success without the efforts of David and his team.

With the 2012 conference and training behind us, it's time to plan for 2013 and design a new conference agenda and training that will highlight major issues and satisfy the needs of our members. With that in mind, the SDP board has chosen Salt Lake City, Utah as the site for its 2013 conference. We have selected the Grand American and Little America hotel for the conference and training and will provide further details in the New Year.

Thanks to all of our members, trainers, sponsors, committee chairs and the SDP board of directors for making 2012 a successful year. Happy Holidays to all and hope to see you in Salt Lake City in 2013. ❖

Results from 2012 Annual Meeting Evaluations

Here is a brief summary of the 2012 Conference evaluations related to hotel accommodations:

- While there were some negative comments about the quality of the Millennium Hotel, most attendees appreciated the proximity of the hotel to restaurants and entertainment. The ease of travel to and from the city and airport also rated high.
- Attendees indicated they liked the 3rd week of September for the timing of the conference.
- Following is the response to the preferred hotel price range:

\$120 to \$140	25%
\$140 to \$160	36%
\$160 to \$180	22%
\$180 to \$200	17%

We appreciate your comments and input. ❖

The Lighter Side of the Annual Meeting and Training

Society members and attendees of our 26th Annual Conference and Training certainly enjoyed this year's valuable and informative presentations on a wide variety of timely topics: a sample of which included environmental regulations, retirements and decommissioning and cost of removal. We also heard about frequently encountered depreciation study issues and specific accounting topics such as working capital and IFRS.

After a full day of learning, a number of attendees took to the Nicolette Mall to enjoy the array of shopping opportunities in Minneapolis as well as a vast selection of great restaurants – all within walking distance of the conference and training hotel.



L to R: Mike Plunkett, Andy Murphee , Aaron Smith

There were more than a few excursions by train to the Mall of America and sports fans were able to catch the ball game on Sunday afternoon. Monday nights group reception was a twilight cruise up the mighty Mississippi River aboard the sternwheeler, the Johnathan Padelford. ❖

2012 Annual Meeting and Training Minneapolis, Minnesota

The 2012 Annual Meeting and Training took place in Minneapolis, MN from September 16 to 21, 2012.

The Annual Meeting program, which was coordinated by the Program Chair, Dave Davis, began with a reception Sunday evening and continued through Tuesday morning.

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

- Michael Baird, American Electric Power
- Richard Bennett – Southern California Edison
- Dan Franczak – Sargent & Lundy
- Aaron Smith – PowerPlan Consultants
- David Picconi, Cathy Schwartz – Xcel Energy
- Doris McCarter – Public Utilities Commission of Ohio
- Wade Horrigan – Tangibl, LLC

Tuesday we benefited from the excellent presentations of:

- Larry Kennedy and Dick Clarke - Gannett Fleming
- Richard Fisher, Southern California Edison
- John Lacey, PhD, California State University, Long Beach.

Topics covered over the two days included:

- Environmental Regulations, Decommissioning a Generating Station
- Estimating Terminal Removal Costs
- Jurisdictional Accumulated Depreciation
- Early Plant Retirements
- Whole Life Depreciation and Reserve Amortization
- Analyzing Salvage and Removal.
- Frequent Issues in Depreciation Studies
- Working Cash
- Professor John Lacey's – Accounting Update

On behalf of all Society members and attendees who joined us at this year's meeting in Minneapolis, a big thanks to our speakers for all your efforts in making our 26th annual conference a huge success. ❖



Monday night's reception aboard the John Padelford



L to R: David Jaffe and Dave Davis



Professor John Lacey presenting his 2012 Accounting Update

SDP TRAINING

Dr. Susan Jensen, CDP, Training Chair

We are pleased to report that a record 91 trainees attended the 2012 SDP training in Minneapolis, MN. Training began Sunday afternoon with our popular overview course, ***Brief Introduction to Depreciation***, followed by Extended Training Tuesday afternoon to Friday noon. Extended Training was comprised of four concurrent courses, each of which included separate classes taught by subject matter experts. After the classes ended each day, trainees and instructors gathered at informal receptions that provided valuable networking opportunities.

Trainees report that the skills acquired in the SDP courses are readily transferable and are also useful in taking the CDP exam. The courses offered in 2012 are discussed below.

- **Sunday Training – Brief Introduction to Depreciation (5.5 CPEs)**

Responding to your requests, in 2012 we enhanced our Sunday Training and increased the CPEs awarded for this course. We enjoyed a record 23 trainees who gave this course high marks for its excellent preview of topics included in Extended Training and on the CDP exam.

- **Extended Training -- Depreciation Basics (22 CPEs)**

This popular course included 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 excellent course is often repeated by trainees wanting additional study on select topics or additional preparation for the CDP exam.

- **Extended Training -- Life Analysis for Valuations (22 CPEs)**

This course gave trainees a set of objective and proven tools for use in developing economic lives that capture all forms of depreciation and obsolescence impacting the productive life of property. Course segments included Actuarial Life Analysis, Simulation Life Analysis, Life Cycle Analysis, Technology Forecasting, Depreciation Tables and Economic Lives, and Current Regulatory Issues in Valuation.

- **Extended Training -- Life and Net Salvage Analysis (22 CPEs)**

The Actuarial analysis, Life Cycle analysis, and Technology Forecasting analysis classes included applications of these models to real-world data to prepare trainees to use the models to prepare depreciation studies or to review the studies prepared by others. Other segments included Gross Salvage and Cost of Removal, FAS 143, and an Overview of IFRS. In the class Evaluation of a Depreciation Study, trainees learned how to “get behind the numbers” developed in a depreciation study.

- **Extended Training -- Preparing and Defending a Depreciation Study (22 CPEs)**

This course began with a review of life, net salvage, and depreciation models. The course then focused on Developing Life and Salvage Estimates and Preparing and Defending a Depreciation Study. A popular segment of the course was a presentation on Witness Preparation and Techniques. This course is intended for professionals who participate in preparing depreciation studies as well as managers who want an overview of the preparation and review of depreciation studies.

Additional information about our courses is available on our website www.depr.org. There is no depreciation training available anywhere with the depth and breadth as that provided in SDP Training. ❖

FROM THE DESK OF JOHN FERGUSON, CDP

TESTING THE ADEQUACY OF A BOOK RESERVE – PART 1

Testing the adequacy of a book reserve is done through comparing the recorded book reserve amount with the amount of a calculated theoretical reserve. The age/life relationship defines the theoretical reserve when there is no retirement dispersion, so is suitable for the item or component concept of depreciation accounting and for the group concept when attained age is the basis for recording retirements. There are two methods for calculating a theoretical reserve when retirement dispersion exists – retrospective and prospective. The retrospective method is rarely utilized, because of difficulty in obtaining certain historical data needed for this method. Therefore, this discussion is for the widely-utilized prospective method.

The prospective method determines the theoretical reserve amount by subtracting the depreciation amount that will be recorded in the future from the total amount to be recorded, which is expressed as the following basic formula:

$$(100 - \text{Average Net Salvage}) - (\text{Depreciation Rate} \times \text{Remaining Life})$$

Substituting the formula for a whole life depreciation rate for the rate element in this basic formula results in the following formula that is typically used for theoretical reserve calculations:

$$(100 - \text{Average Net Salvage}) \times (1 - (\text{Remaining life}/\text{Average Service Life}))$$

Thus, inherent in this typical formula is the presumption of a whole life depreciation rate. When the formula for a remaining life rate is substituted for the rate element in the basic formula and future and average net salvage are similar enough to be considered identical, the formula becomes:

$$\text{Theoretical Reserve} = \text{Book Reserve}$$

These formulas reflect net salvage, and the types of net salvage of potential significance to theoretical reserve calculations which include Current, Past, Average, and Future. Current is that applicable currently, such as for a site-specific power plant demolition cost estimated at the existing price level, and reflects the age of the current depreciable balance. Past is that measured by an analysis of historical retirement experience, and reflects the age of past retirements. Average is the average of Past and Future, reflects an age equal to the average service life, and is supposed to be utilized for calculating whole life depreciation rates. Future reflects an age equal to the probable life (current age plus remaining life), and is supposed to be utilized for calculating remaining life depreciation rates. The net salvage factors for these four types will be different for any given property group, because the four ages are different, so those calculating theoretical reserves need to be sure to utilize the factor(s) appropriate for their use of theoretical reserve amounts.

While appropriate, I have observed proposals in regulatory proceedings to reflect Average or Future net salvage or a small step toward Average or Future net salvage for average life property to be universally rejected. In view of this regulatory response, it is not surprising that proposed depreciation rates for average life property reflect Past net salvage rather than Average or Future net salvage. The situation is different for life span property such as power plants, because it is not unusual for their terminal net salvage to be based on demolition cost estimates that are escalated to the price level expected at the time of demolition. However, including this cost escalation for power plants other than nuclear always becomes an issue in regulatory proceedings, and sometimes an applicant will propose Current net salvage in order to eliminate the future escalation issue.

.....*Testing Book Reserve from page 6*

The basic formula shown in the NARUC publication, *Public Utility Depreciation Practices*, is similar to the basic formula shown above, but the total to be recorded is stated to reflect Future net salvage, rather than Average net salvage. The NARUC recognizes that the theoretical reserve calculation assumes whole life rates. Therefore, reflecting the Future net salvage that is inherent in remaining life rates in the formula is inconsistent. However, differences between the basic formula above and the NARUC's basic formula will be small, if there is little difference between Average and Future net salvage.

Depreciation Systems by Wolf and Fitch does not show a basic formula, so does not provide a formula that is useful when depreciation rates reflect Current or Past net salvage, but does show a formula similar to the typical formula shown above. However, the *Depreciation Systems* formula includes an additional term that is the Average net salvage less Future net salvage. Again, the differences between the typical formula above and the *Depreciation Systems* typical formula would be small, if there is little difference between Average and Future net salvage.

The AGA/EEI publication, *Introduction to Depreciation and Net Salvage of Public Utility Property and Property of Other Industries*, describes the theoretical reserve as being the total to be recorded less the amount to be recorded in the future and makes use of the typical formula above, but does not disclose that whole life rates are inherent in the typical formula.

Part 2 of this discussion will appear in a later Newsletter, and will address uses of the theoretical reserve. ❖

Thank You to our 2012 Board of Directors!

We would like to extend our sincere thanks to all the members of the 2012 SDP Board of Directors, under the leadership of John Spanos, CDP, and 2012 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.

Please make note of our contact information:

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From the SDP Office.....

This was a great year for the SDP, with over 100 people at the annual meeting, setting what we believe is a new record for attendance at the annual meeting. We also had very strong attendance in all of our training classes as well.

With almost 2/3rds of the membership requesting room rates below \$160 we are excited to be having the meeting at the Grand America and training at the Little America in Salt Lake City. These are Five Diamond and Four Diamond resorts respectively and will offer a price point of \$134 for huge tower rooms at the Little America and \$200 for those who want some more luxury and want to stay at the Grand America. Regardless of where you stay, you will be able to access the amenities of both properties which are directly across the street from each other, enjoying the best of both worlds. Both are just a few blocks from all of the downtown restaurants and bars. See you in September!

David Jaffe

We also wish to acknowledge our 2012 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.

All of our sponsors this year were at the Platinum Level



Congratulations to the 2013 Board of Directors

At the SDP Annual Meeting in Minneapolis, MN., the following officers were elected to lead the Society through 2013. The 2013 officers are:

President - Dave Davis
American Electric Power Company

Vice President – Aaron Smith, CDP
PowerPlan Consultants

Treasurer – Don Clayton, CDP
Tangibl LLC

Secretary – Lorrie Mullen, CDP
Alberta Utilities Commission

At Large Director – Tony Biacci
Florida Power and Light

At Large Director – Gayle Freier, CDP
Public Service Commission, Arkansas

Past President – John Spanos, CDP
Gannett Fleming

We wish this new Board of Directors much success in 2013.

If you would like to become more involved in the Society, please contact any of the 2013 SDP Officers, or contact the SDP by email at: admin@depr.org ❖