

SDP Newsletter

Volume 14, Issue 1, Spring 2001

A Message From Your President

Anthony "Tony" Flesch



Greetings! After an unusually cold winter across much of the country, even here in Texas, spring is finally on the horizon. Maybe someone at this year's annual meeting can enlighten us as to just how deregulation in the California energy sector has been good for the consumer!

This year will mark our 15th annual meeting. As we embark upon this milestone anniversary, it's time to reflect on where we have been, and consider where we are going. The Society started with an idea to form a professional society devoted to the highly technical field of depreciation, and to recognize the skills and expertise of the individuals involved in the depreciation process. Our membership consists of diverse interests and viewpoints united under one professional society. Our annual meetings continually add value for our members with high-quality speakers and training sessions. With the creation of the CDP exam and recertification process, members can be recognized as a "Certified Professional" if they so choose. The SDP Journal features publications pertaining to our profession and gives our members the opportunity to become a "published author" by publishing an article in a professional journal. We communicate and keep our members informed through the website and tri-annual newsletter. I would like to thank all those individuals who have participated as an officer or on any committees to make us the organization that we are today. And I would encourage anyone that is interested in participating on a committee to call the appropriate committee chair and volunteer your services.

Now, as to where we are going, depends largely on your views and predictions of the future. The answer to "where are we going?" is as easy to answer as "what is the right life?". Many people thought depreciation would be a moot topic by 2000. But as we have found, the emphasis just shifts from one area to another that still requires the expertise and skills of depreciation professionals. My personal view is that our Society can continue to flourish and provide value to the depreciation field through our membership. I will discuss this topic more in the next edition of the newsletter.

Finally, attending the annual meeting is an excellent way to keep in touch and exchange views with all your friends in the Society. We have a fantastic site selected for our 15th annual meeting, and Pat Morcom and the Program Committee are hard at work planning an exciting agenda! Please check the SDP website for updated information on the annual meeting: www.depr.org. I encourage you to make your reservations early and plan to attend our 2001 annual meeting on September 9-12 in Tucson, Arizona at the Sheraton El Conquistador.

I am looking forward to serving as your President in 2001. Please feel free to email or phone me anytime with any questions or comments. Thanks.

Membership Report – Dale Urban, Chair

Do you have any membership issues? What would you like to see your Membership Chair accomplish? I have several questions that I would like some feedback on so I can do the job you need and want me to do.

1. Should we, as a society, actively seek out and recruit members or should we continue our present approach?
2. Should we look to expand our membership? Should we seek out members in other related industries (e.g. water, airlines etc) and/or members from other countries (e.g. Australia, New Zealand, U.K. etc.)
3. Would there be value to organize our members by region? This could (potentially) allow for the set up of regional conferences as well as giving members a ready group to contact in respect to regional issues (i.e. how members of a specific region are handling the processing of asset retirements after a regional ice storm).

I would be interested to know what you think about these or any other membership related issues you have. Please contact me via email at (urban@epcor.ca).

Join us at the Sheraton El Conquistador, Tucson, Arizona

By Tony Flesch

The 2001 SDP annual meeting will be held at the Sheraton El Conquistador <http://www.sheratonelconquistador.com> in Tucson, Arizona on September 9 to 12, 2000. The Sheraton El Conquistador Resort and Country Club is situated on 500 acres of high desert at the foot of the Santa Catalina Mountains just north of Tucson. The Sheraton El Conquistador offers 428 spacious, Southwestern-style guest rooms and casitas, five distinctive restaurants, and over 50,000 square feet of meeting function space. The El Conquistador has 45 holes of championship golf, 28 lighted tennis courts, 4 swimming pools, on-site horseback riding, and offers open-air jeep tours of the Sonora Desert. It also offers Sonora Desert walking tours and mountain bike rentals, and has a fitness center and full service spa facilities. Other nearby attractions include the Arizona Sonora Desert Museum, Old Tucson Movie Studios, San Xavier Mission, Biosphere II, and Nogales, Mexico.

This should be an excellent location for our annual meeting. However, this hotel usually fills to capacity, so we strongly encourage you to make your hotel reservations early to ensure that we have sufficient rooms available for our members. Please contact the Sheraton El Conquistador, 10000 North Oracle Road, Tucson, AZ 85737, Phone: (520) 544-5000, directly to make your room reservations and request the special room rate of \$130 for the Society of Depreciation Professionals. Please check the SDP website for updated agenda and meeting information at: www.depr.org

Some Informative Web Sites:

<http://www.sheratonelconquistador.com/>

<http://www.visittucson.org>

<http://www.arizonaguide.com/>

Upcoming Events

Farconsult Seminar on Capital Recovery +ACY-Fixed Assets Valuation

May 2 – 4, 2001 in Charleston, SC.

For more information, contact Aly Elfar at alyelfar@home.com

AGA/EEI Accounting Services and Property Accounting Meeting

May 20 – 23, 2001 in Denver, CO.

For more information, contact Doug Allen at 202/824-7261 dallen@aga.org

AGA/EEI sponsored Property Accounting & Depreciation Training Seminar

May 23 – 24, 2001 in Denver, CO,

Registration questions, contact Tricia Vanderpool at 202/824-7251 tvanderpool@aga.org

Seminar content, contact Doug Allen at 202/824-7261 dallen@aga.org

Call for Newsletter Articles

If you would like to write an article for the newsletter, submit it to Rhonda Watts at rhwatts@dtus.com by April 30, 2001.

Call for Journal Articles

It's not too late, although it will be soon, to submit an article for the SDP Journal. Pat Lee, Chair of the Journal Committee, needs to know by the end of April if you plan to submit an article, and the articles must be submitted no later than May 30th. Please contact Pat at PLEE@psc.state.fl.us if you plan to submit an article. Or, contact the SDP office for publication guidelines.

The Lights Are On In California - At Least For Now

Richard Clarke, California Edison

When California decided to deregulate the power industry, it was designed to increase competition and lower consumer rates. No one realized at that time that the strong economy in California would create as much demand for electricity as has actually taken place. Also there hasn't been any new generation built in California for quite a while and that has contributed to an imbalance between supply and demand. There have also been rumors of market manipulation by power sellers.

Under deregulation retail rates were frozen, utilities were forced to sell generating facilities, and wholesale power costs were free to fluctuate. However, rather than low prices and surpluses, prices soared, supplies are scarce, and companies that bought the generating plants are suddenly sitting on a gold mine. Average wholesale prices have more than tripled from 1999.

The state's two biggest utilities, Pacific Gas & Electric and Southern California Edison, have been forced to the point of financial collapse. They are both on the verge of bankruptcy and both have been cut to junk bond status. They racked up billions of dollars in wholesale power bills above what they could recover in rates. The utilities recover about 6 cents/kwh in their frozen rates while paying an average of 25-30 cents/kwh in the

wholesale market to buy power. By January the utilities had built up a huge deficit with considerable risk of recovery. The generators began shying away from selling power to the utilities due to fear of never collecting. As the lights started to go out in parts of California from limited supply, the Federal Government stepped in to force generators to sell power to California.

Finally the Governor of California, Gray Davis, was forced into action to fix this dysfunctional power market and avoid blackouts. The governor has designated the state Department of Water Resources to take the utilities' place and assume the procurement of power for California. He feels by having the state responsible for power he would ease the producers' concern about not recovering their costs and at the same time the state would have enough clout to negotiate long-term contracts with these power generators. So far the Governor claims to have set up agreements with 20 power suppliers for periods of 5-20 years. Although contracted prices haven't been made public, they are said to be considerably lower than the 20-30 cents/kwh we had been paying.

Although at this time these contracts only represent about 25% of the summer demand in California, the state is confident that it will continue to sign more long-term contracts before the summer peak. The state also will spend money on incorporating a stringent conservation program in which the governor hopes to curtail thousands of megawatts of usage. Governor Davis is planning to spend several billion dollars to buy the transmission plant of the three investor-owned utilities in California. Gains on the sales of these assets, with the proceeds of securitization of future rates, hopefully will restore the credit worthiness of the utilities. California state officials and the utilities will continue to work closely in the coming weeks and months to address solutions for this dysfunctional power market and keep the lights on in California.

Proposed FASB Changes

Rhonda Watts

There are a couple of new proposed accounting statements that affect depreciation accounting and practices. The following is to update you on the status of these pronouncements.

The Financial Accounting Standards Board (FASB) has been working on the issuance of a statement "Accounting for the Obligations Associated with the Retirement of Long-Lived Assets" (ARO). This statement will be released in the second quarter of this year with an implementation date after fiscal year end June 15, 2001 although the implementation date may be extended one year. The scope seems to have been limited to "legally enforceable" obligations rather than the original Exposure Draft, which included "constructive obligations" as well. The measurement of this liability is going to be at fair value. It will require subsequent recognition and measurement as conditions and circumstances change, using an interest allocation method. There will be disclosure

requirements associated with this standard. If you would like additional information on this you can visit the FASB website at www.fasb.org.

The Accounting Standards Executive Committee (AcSEC) is preparing to release its Exposure Draft on a proposed Statement of Position (SOP) "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment." They will be soliciting comments from any interested parties on this Exposure Draft. Of particular interest to us are the Issues identified under Accounting for Costs Incurred, Issue 3 and Component Accounting, Issues 9,10,11 and 17. We urge you to read this document and submit comments on these issues. The comments are to be received by July 25, 2001, and addressed to Marc Simon, Technical Manager, Accounting Standards, File 4210.CC, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775, or via the internet to msimon@aicpa.org.

In the past, the number of comments supporting certain positions has influenced the board in their decisions. It is important that you respond to this Exposure Draft on the various issues affecting you as a Consultant or as an employee of your Company.

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Support Your Society

There are four ways to support SDP. Companies may become Sustaining or Business Members. Individuals may become Patrons or Friends to SDP.

Sustaining Members \$750

Benefits: Recognition in the Journal and Newsletter and a Plaque at the Annual Conference.

Business Members: \$300

Benefits: Recognition in the Journal and Newsletter

Patrons \$200

Benefits: Recognition in the Journal and Newsletter.

Friends: \$100

Benefits: Recognition in the Newsletter.

Send your donation to:

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