



## SDP Newsletter

### Volume 16, Issue 1, Spring 2003

#### A Message From Your President *Richard Clarke, CDP*

To my fellow SDP members I would like to welcome you to another year of interactive communication and participation in our organization. For those new members and rookies in the Society I would like to introduce myself. I have been a member and have been involved with this Society since the beginning and have functioned in a number of positions on the Board of Directors. I currently work in the Controllers Organization of Southern California Edison and have responsibility for both book and tax depreciation, ad valorem tax, capital forecasting and rate base. I have made a number of presentations to this group including my infamous reporting on the rise and fall of electric deregulation in California. I look forward to the coming year and serving as your President.

The past couple of years have been trying in many ways for all of us, making it difficult at times to concentrate on anything except the world situation and the safety and comfort of our friends and loved ones. From that never to be forgotten SDP meeting in Tucson, Arizona on September 11, 2001 to current day fighting of our troops in Iraq it has been difficult. Along the way we saw the downfall of some of the largest companies in America including many energy related businesses. We saw utility companies going into bankruptcy and some being bought out. We saw long and trusted accounting firms in turmoil, some being merged, some being reorganized and some being dissolved. We saw more stringent rules being placed on our utility accounting by auditors, the Securities and Exchange Commission, FASB, etc., including the introduction of the Sarbanes-Oxley Act addressing disclosure and internal control issues. It has been most difficult for all of us but in these times it is important to not only have our Society as a place to consult with our colleagues concerning various current issues but also as a place to talk with friends and acquaintances made over the years. I remember how important it was at that Tucson meeting to have the comfort of friends and members of the Society during that period which seemed like eternity waiting to get home.

There is much to do for 2003. We will continue to search for ways that we can add value to being a member of the Society. With all the accounting issues currently taking place in the industry there is much to discuss and hopefully add guidance. We did this last year at our annual meeting which brought many positive comments. Another area we are considering making changes beginning this year is our training program. The Society and it's membership realize that the availability of detailed training in the area of depreciation accounting is limited. The more we could do to help this

situation would be a benefit to our industry. Dr Susan Jensen will be leading a group to incorporate extended training in the areas of life analysis, net salvage analysis, and depreciation accounting. You will be hearing more about this exciting opportunity throughout this year with the incorporation of actual course training scheduled to begin at this year's annual meeting. We will continue the current issue reports by John Ferguson and his committee which have not only been informative but have actually been helpful with implementation of various depreciation related methodologies. Lou Walters has made the Society high tech and has incorporated most of our issues on our web site. Lou will continue to add informative information along with developing additional interactive communication between our members

This year's annual meeting is scheduled for September in Jackson Hole, Wyoming. For those of you who have not visited this area it is wonderful, surrounded by National Parks and great air, it has fast become a convention capital. Rhonda Watts is planning a great meeting which will again address current accounting issues and provide us with informative information concerning the electric, gas, telecommunications and water industries. If you have any ideas or outstanding issues you would like to see addressed, give Rhonda a call.

In this Newsletter we have identified those members that have volunteered to work on the Board of Directors and serve as Committee Chairpersons this year. I would like to thank all of them for helping me and the Society. We are always looking for new and fresh ideas. If you have any suggestions, questions, or comments feel free to contact any of us. We are here to serve you and the Society.



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Anthony Flesch, Verizon  
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972/718-7350 FAX: 972/719-7460

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## Newsletter Staff

**Publisher:** Ronald Daniel

The SDP Newsletter is published tri-annually. *Please send your contributions to the Editor.*

### Society of Depreciation Professionals

5505 Connecticut Ave, NW # 280  
Washington DC 20015  
202/362-0680 FAX: 202/966-2283  
e-mail: SDP@dmg-dc.com

## Welcome to our Newest Members

**Charles Allred**, Tyan Valuation Services, Dallas TX  
**John Curtin**, Ernst & Young LLP, New York NY  
**James Harden**, Ernst & Young LLP, Houston TX  
**James Johnson**, WE Energies, Milwaukee WI  
**Roy King**, Avail Consulting, LLC, Houston TX  
**Ruth Lesbirel**, Aliant, Saint John, New Brunswick  
**Steven Martin**, Ameren, St. Louis MO  
**Kevin Pewterbaugh**, Federal Energy Regulatory Commission, Washington DC  
**Angela Wadden**, Nova Scotia Power, Halifax, Nova Scotia

## Membership Report

Dale Urban, Chair

It seems that the years go by faster and faster. If you're like me I was just getting used to writing the date as 2002 and now they have gone and changed the year on me. And so in keeping with this please check and make sure that you have paid your membership dues for this (new) year.

Towards the end of 2002 I contacted as many people as I could who had not paid their dues and I will do this again this year. Presently our membership is relatively static, while we do get new members joining they are offset overall by old members leaving either through changed jobs, retirements and so on. So please keep your dues and membership current. And if you know of someone who is not a member and should be let me know and I will contact them.

No where else will you find professional colleagues who share the same issues and concerns in the field of depreciation. Membership dues are only \$40 per year, and that fee provides you with three newsletters, the annual SDP Journal, reduced fees at the annual conference, a web page with valuable information and links, and regular communications among the members.

## Do you aspire to be a published author?

Tony Flesch, Chair

The SDP Journal needs your article to publish a 2003 edition. Some of the benefits of submitting an article are: Providing a resource of knowledge and research to the Society -- becoming a published author in a prestigious international professional journal -- enhancing credentials for your resume or testimony -- demonstrating your professional knowledge and skills to other members of the Society -- earning CDP re-certification points -- becoming a contributing member of the Society -- and personal satisfaction!

Writing an article is not as hard as you think, it just requires some motivation and dedication. Article guidelines are listed on the SDP web page. If you have an article to submit, or would like to discuss contributing an article please feel free to contact me with any questions - Tony Flesch, phone 972-718-5934 or e-mail [tony.flesch@verizon.com](mailto:tony.flesch@verizon.com). Please submit articles to both Rod Daniel, [rdaniel@dmg-dc.com](mailto:rdaniel@dmg-dc.com), and me. Thanks!

## Special Thanks to our Contributing Members

### SDP SUSTAINING MEMBER

AUS Consultants

### SDP BUSINESS SPONSOR

E. Wotring, Associates, Inc.

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Jules Breitling  
John Lamparello, Jr

## Statement of Financial Accounting Standards No. 143

### Accounting for Asset Retirement Obligations

Don Roff, CDP

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143. Effective for fiscal years beginning after June 15, 2002, SFAS No. 143 requires all entities to recognize legal obligations to remove property on the Balance Sheet as liabilities. These liabilities are called *Asset Retirement Obligations* (ARO's). The measurement criterion is at fair value and an offsetting asset labeled *Asset Retirement Cost* ("ARC") is also recorded. The ARC is depreciated in a systematic and rational manner over the expected life of the asset. Fair value can be measured in many ways, and the Standard allows the use of expected cash flow approaches

For regulated utilities, the provisions of SFAS No. 71 permit the recording of regulatory assets and liabilities. During initial application of SFAS No. 143, it is expected that the cumulative effect adjustment outlined in SFAS No. 143 might be recorded as a

regulatory asset/liability. The primary ARO's that have been reported relate to nuclear power plants and certain environmental requirements. Some companies have indicated that they may have ARO's for certain mass assets, but cannot currently determine the life for these assets.

SFAS No. 143 adequately describes the accounting for a legal asset retirement obligation. SFAS No. 143 does **not** describe the accounting for non-legal asset retirement obligations. The FERC, on October 30, 2002, had issued a Notice of Proposed Rulemaking ("NOPR") relative to SFAS No. 143. In addition to creating new accounts for the ARO's and some new expense accounts, certain definitions and account classifications and descriptions were to be amended, as well as new definitions. As of this writing, no rules had been promulgated.

The Securities and Exchange Commission has expressed concerns for regulated entities to disclose differences between Generally Accepted Accounting Principles ("GAAP") and regulatory accounting. Non-legal asset retirement obligations have been recorded into the Accumulated Provision for Depreciation as a component of depreciation expense. Such a difference must be disclosed as part of the footnotes to an entity's financial statements. A variety of calculation approaches to determine these amounts have been debated. Without question, the most accurate approach would be the historical build-up of cost of removal accruals, offset by actual removal cost in the accumulated depreciation balance. Such an effort may be burdensome, and alternative simplifying assumptions have been developed with little sacrifice in precision. These include the use of the relationship between cost of removal and net salvage, a theoretical reserve calculation with and without cost of removal, and the relationship between a segregated depreciation accrual rate into investment recovery and cost of removal components.

## **Current Issues Report**

John Ferguson, Chair

In its process of winding down the accounting standards activities of the AICPA Accounting Standards Executive Committee (AcSEC), the FASB has decided to allow AcSEC to continue its efforts on the Statement of Position (SOP) concerning the accounting for property, plant and equipment. However, the FASB has imposed some limits on the scope of the project. These limits are stated in an April 8, 2003 letter from Marc Simon, Technical Manager, Accounting Standards, to AcSEC that summarizes AcSEC's activities to date on this project. The letter is posted in the Accounting Standards section of the AICPA web site (<http://www.aicpa.org/>). AcSEC is to discuss the SOP at its April 29, 2003 meeting.

On April 9, 2003, the FERC approved and issued via Order No. 631 the final rule in Docket No. RM02-7-000 on the changes made to 18 CFR Parts 35, 101, 154, 201, 346 and 352 in response to SFAS 143. The final rule is little changed from the October 30, 2002 Notice of Proposed Rulemaking. The rule is effective 30 days after appearing in the Federal Register, and is adopted for accounting and reporting purposes as of January 1, 2003 for jurisdictional entities having calendar fiscal years. The Order is posted on the accounting rulemaking page of the FERC's web site (<http://www.ferc.gov/>).

## **Web Page News**

*Lou Walters*

On the SDP Directory and Jobs Listing page on our website, there is a Society member who is looking for a job, as well as a company with a job opening. I am not going to divulge the individual's identity or what company has the opening - you will need to go to the website to find out the details!

The SDP Directory and Jobs Listing page are in a protected area that is restricted to SDP members only - you will be prompted for a User Name and Password. To gain access, User Name=society and the Password=society. The responses are case sensitive; "society" must be lowercase.

Since SDP members are intelligent and have great work ethics, if you know of a depreciation-related job opening in your company, let me know and I will post it!

The SDP web page address is [www.depr.org](http://www.depr.org) - see you there!

# SOCIETY OF DEPRECIATION PROFESSIONALS

5505 Connecticut Avenue NW #280 Washington DC 20015

## INVOICE

MEMBERSHIP DUES JANUARY 1, 2003 - DECEMBER 31, 2003

Name \_\_\_\_\_

Professional Affiliation: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_ FAX: \_\_\_\_\_ E-Mail \_\_\_\_\_

Dues:

		\$40	\$_____	New___	Renewal ___
Sustaining Member	@	\$750	\$_____		
Business Sponsor	@	\$300	\$_____		
Patrons' Donation	@	\$200	\$_____		
Friends' Donation	@	\$100	\$_____		

Society of Depreciation Professionals  
5505 Connecticut Avenue, NW #280  
Washington DC 20015

**2003 Annual Meeting  
September 8-12, 2003  
Snow King Resort, Jackson Hole, Wyoming**

Come join us at the Snow King Resort in Jackson Hole, Wyoming. This year's agenda will include presentations on current issues at the FERC, the SEC's newly created Public Company Accounting Oversight Board (PCAOB) and the Sarbanes-Oxley Act, Post ARO Implementation Panel and an update on the AcSec Statement of Position on Property, Plant and Equipment. If these topics are not enough to interest you maybe the beautiful surroundings will be.

For the first time, the Society of Depreciation Professionals will be offering an expanded training course beginning at 1:00pm on Tuesday, and continuing until Noon on Friday. Complete details on the training agenda are on the following pages.

Snow King Resort is located in the Town of Jackson at the base of Snow King Mountain. The Jackson Hole Airport is a convenient ten miles away. Grand Teton National Park is four miles and Yellowstone National Park is fifty-nine miles from Jackson. Teton Village and the Jackson Hole Ski Area are located twelve miles from our resort. September is a time when the weather is at its best, and the Fall colors should be reaching their peak.

The Jackson Hole Airport has regularly scheduled flights from most major airlines. For most people, the trip will involve a one-connection flight from a major hub such as Chicago or Denver.

To learn more about the Snow King Resort, and Jackson Hole, visit their web site at [www.snowking.com](http://www.snowking.com).

Please share this information with any colleagues who you think would be interested in joining us in Jackson Hole.

**Society of Depreciation Professionals MEETING RESERVATION FORM  
17th Annual Meeting \* September 8-12, 2003 \* Snow King Resort, Jackson Hole, Wyoming**

**Early Registration Deadline: August 5, 2002**

Name: \_\_\_\_\_  Please check here if you need special assistance.

Title: \_\_\_\_\_ Company: \_\_\_\_\_

Address/City/State/Zip/Country: \_\_\_\_\_

Phone: \_\_\_\_\_ FAX: \_\_\_\_\_ Email: \_\_\_\_\_

2003 Annual Meeting – Member (\$200)*	\$ _____
2003 Annual Meeting – Nonmember (\$250)*	\$ _____
2003 Training – Member (\$500)	\$ _____
2003 Training – Nonmember (\$700)	\$ _____
2003 Training – each additional SDP member from the same company/commission – (\$400)	\$ _____
2003 Training – SDP Members employed by a State/Federal Commission – (\$400)	\$ _____
2003 Membership Dues (\$40)	\$ _____
2004 Membership Dues (\$40)	\$ _____
Certified Depreciation Prof Exam (\$100)	\$ _____
Guest Fee (Includes recep & luncheons) (\$50)	\$ _____
<b>* Late Fee After August 5 (\$20)</b>	\$ _____
Total:	\$ _____

<b>Location:</b>	Snow King Resort 400 E. Snow King Ave. Jackson Hole WY 83001
Reservations:	800-522-KING (5464)
<b>Room Rates:</b>	\$130 Single; \$140 Double
Request special rates for Society of Deprec. Prof.	
Hotel reservation deadline: <b>August 7, 2003</b>	
<b>Return this form to:</b>	SDP, 5505 Connecticut Ave, NW #280 Washington, DC 20015

Check (payable in US dollars to: Society of Depreciation Professionals)

Visa/MasterCard/AmEx Card # \_\_\_\_\_

Exp. \_\_\_\_\_ Signature \_\_\_\_\_

**SDP EXPANDED TRAINING: BASICS COURSE**

SDP is pleased to offer *Expanded Training: Basics Course* immediately following the upcoming SDP Annual Meeting. This course, to be offered Sept. 9-12, will be comprised of the segments listed below. The expert trainers are listed in parentheses.

<b>PLANT AND DEPRECIATION ACCOUNTING (Pat Lee, CDP)</b>	
	Plant Assets
	Plant Accounting Units
	Work Orders
	Components of Construction Costs
	Accounting for Retirements
	Software
	Capital Leases
	Depreciation Accounting
	Accumulated Provision for Depreciation
	Journal Entries
	Asset Retirement Obligations (SFAS 143)
	Pending Accounting Pronouncements (AICPA SOP)
<b>DATA REQUIREMENTS FOR A DEPRECIATION STUDY (John Wiedmayer, CDP)</b>	
	Available Plant Accounting Data
	Critical Review of Annual Accounting Data
	Dealing with Special Data Problems
	Coding Data to Limit the Effect of Unusual Transactions
<b>SIMULATION LIFE ANALYSIS (Susan Jensen, Ph.D.; John Ferguson, P.E., CDP)</b>	
	Data Requirements
	SPR Model – Balances and Retirements Methods
	Statistical Aging (STAGE) Model
	Computed Mortality Model
	Turnover Models
<b>ACTUARIAL LIFE ANALYSIS (Bill Stout, P.E.)</b>	
	Retirement and Survivor Curves
	Average Service Life, Average Remaining Life, Probable Life
	Original Group Method
	Multiple Original Group Method
	Understanding the Data Matrix
	Retirement Rate Method

	Selection of Experience and Placement Bands
	Curve Fitting
	Forecasting Service Life
<b>DEPRECIATION MODELS (John Wiedmayer, CDP; Dale Urban, CDP)</b>	
	Depreciation Concepts
	Observed Depreciation
	Time v. Units of Production
	Unit v. Group Depreciation
	Depreciation Methods
	Group Depreciation Procedures
	Average Life Procedure
	Equal Life Group Procedure
	Broad Group v. Vintage Group Model
	Whole Life v. Remaining Life Techniques
	Theoretical Reserve (Calculated Accumulated Depreciation)
	Reserve Calculations for Asset Retirement Obligations
<b>SALVAGE AND COST OF REMOVAL ANALYSIS (John Ferguson, P.E., CDP)</b>	
	Impact of SFAS 143 and AICPA SOP
	Use in Developing Depreciation Rate
	Relationship to Types of Property
	Data and Treatment of Third-Party Reimbursements
	Sensitivity to Age of Retirements
	Influence of Accounting Practices
<b>TECHNOLOGY FORECASTING (Steve Barreca, P.E., CDP; Tony Flesch)</b>	
	Traditional Mortality Forecasting
	Technology Forecasting
	Fisher-Pry Substitution Model
	Technology Substitution
	Quantifying Technology Obsolescence
	Combining Forces of Mortality
	Pearl Curves
	Gompertz Adoption

In future years, we plan to offer not only the **Basics Course** but also expanded versions of each of the segments of the **Basics Course** on a rotating basis.

As shown below, we have priced this **Basics Course** at a discount to enable our members to take advantage of this excellent training opportunity.

<b>FEE FOR BASICS COURSE</b> <i>(includes continental breakfast each morning and lunch Weds &amp; Thurs)</i>	
\$700	Nonmembers
\$500	SDP members
\$400	Each additional SDP member from the same company/commission
\$400	SDP members employed by a State/Federal Commission

We will begin Tuesday at 1 PM and end by noon Friday so you can return home or enjoy a relaxing weekend in Jackson Hole.



Snow King Resort