



NEWSLETTER

8100 Wyoming Boulevard NE # 228, Albuquerque, NM 87113 Volume 18, Issue 2 Summer 2006

President's Message

Bob Welsh, CDP



Bob Welsh, President

Society of Depreciation Professionals

Last week I attended my daughter's graduation and last month my son's graduation. As with all parents that go through this spring ritual, it is time of mixed emotions; pride in their accomplishments, sadness for losing that little girl or boy you have watched grow up, and excitement for the next chapter in their lives. As

with all graduations, there were the commencement speakers who provided the words of wisdom to the new graduates. But, what struck me about both speakers; both accomplished and from quite different backgrounds, were their comments about not remembering who their commencement speaker was and what they said. When I think back about my own four commencement speakers I can recall only one name and that his speech was incredibly boring to me at the time.

What does this have to do with the Society? Well, this year we celebrate our 20th anniversary. Over that time, we have grown up and have much to be proud of. Our membership is over 200 with many active members. Our annual meetings are well attended and our training has been growing and second to none. Our certification program is respected and sets

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Revisions to the SDP Constitution and Bylaws

When I accepted the position of Vice President in September, 2004 I was surprised to find out that my term really didn't start at the annual meeting when I was elected, rather it started January 1 of 2005. Although I was ready to go, the rules put the new team on hold for months. As I solicited advice from the Society greybeards about planning the annual meeting in San Antonio, they all said start early. I took their advice and started early but it seemed funny since I really didn't formally have the position. As the year progressed, I sounded out other members about changing the rules to bring the terms in line with the annual meeting and decided I would try to fix it when I was President. Unfortunately, I did not read the fine print in the Constitution early enough. The process takes a long time and I had missed the deadlines for the San Antonio meeting. Since I still believe some changes would be beneficial, I am going to try for Long Beach. However, even with complete agreement by the membership on the changes, they won't be effective until the Fall of 2007.

I currently plan on recommending four changes. The first change would align the terms of office with the annual meeting. The second change would add a third Director at Large. The third and fourth changes would revise the current methods used to change the Constitution and By-Laws. The changes would shorten the process time and add an electronic voting option. Before I started the approval process outlined in Article IX, Section 1, I thought I would introduce the changes to the membership and solicit comments. If you have thoughts on these changes –pro or con , or other changes I would appreciate hearing from you. You can contact me at 703-450-0845 or Rnwelsh@Welshgroup.com. Thanks for your input.

SDP EXECUTIVE BOARD**Officers**

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President's Message*Continued from Page 1*

the standard in depreciation. However, how many of us remember or even know the early days of our society? We are fortunate we still have some active founding members and this year's anniversary is a fitting time to remember our past. Jerry Weinert, a founding member, has agreed to review our history at the annual meeting. I am looking forward to his talk and sure all of us will benefit from it. If you have some information about our history you would like to share, I am sure Jerry would like to hear from you.

In keeping with our past success, Dane Watson and his team is putting together a great annual meeting program which I am sure you will enjoy. I highly encourage all members to come to Long Beach this year and help us celebrate our birthday. In addition to a great program we have scheduled our Monday night reception on the Queen Mary. The reception will provide a great opportunity to tour this grand old ship and you may even want to stay for dinner at one of it's many restaurants. Please see Dane's article on the annual meeting and register early to ensure a room at the Westin Long Beach.

Susan Jensen and her team of instructors are preparing another great training seminar. No matter what your level of expertise, whether you are looking to expand your knowledge or just refresh it, we have a training class for you. Please see Susan's article for details. SDP Instructors are among the most knowledgeable depreciation experts in the country and consistently receive high evaluations from prior attendees. I encourage you to come to the annual meeting and then stay for the training.

I would also encourage you to read the article on updating the Society's Constitution and By-Laws. If you have any comments on the changes or recommendations for other changes please let me know. And lastly, I would like to thank all members who have been working behind the scenes to keep our Society working and making it a better value for all of us. We have a lot to be proud of and it is all the result of members like you. I strongly encourage you to take an active role in the Society and help make it even better when we celebrate our next major milestone.

Society of Depreciation Professionals
MEETING, TRAINING, & CDP EXAM REGISTRATION FORM

20th Annual Meeting, September 17-22, 2006
Westin Long Beach in Long Beach, CA 90802
Early Registration Deadline: August 15, 2006*

2006 SDP ANNUAL MEETING REGISTRATION

The Annual Meeting will begin with a welcome reception Sun. evening, Sept. 17th, and end by noon Tues., Sept. 19th

	SDP Member	Nonmember	
Attendee	\$295	\$345	\$ _____
Guest (Includes evening receptions Sun. & Mon.)	\$ 50	\$ 50	\$ _____

SDP MEMBERSHIP

2006 Dues	\$ 50	\$ 50	\$ _____
2007 Dues	\$ 50	\$ 50	\$ _____

SDP TRAINING REGISTRATION

The SDP Training will begin at 1:30 PM Tues, Sept. 19th, and end by noon Fri, Sept. 22nd

*Select **ONE** of the following three courses. Trainees may earn up to 22 CPEs per course. Please note that some courses have prerequisites. **Space is limited so early registration is advisable.***

___ **“Basic Depreciation”**

___ **“Life and Net Salvage Analysis”** (*Prerequisite: prior attendance in “Basic Depreciation” course or permission from Dr. Susan Jensen, Susan.Jensen@STB.DOT.GOV*)

___ **“Preparing and Defending a Depreciation Study”** (*Prerequisites: prior attendance in “Basic Depreciation” course AND “Life Analysis” course OR permission from Dr. Susan Jensen*)

(Use lower rate if you are also registering for the Annual Meeting)

	SDP Member	Nonmember	
First registrant from a company	\$795 / \$695	\$895 / \$825	\$ _____
Each additional registrant from same company	\$695 / \$625	\$895 / \$825	\$ _____
Registrant from State/Federal Commission	\$695 / \$625	\$895 / \$825	\$ _____
Guest fee (Includes evening receptions Tues, Weds, Thurs.)	\$50	\$50	\$ _____

CDP EXAM REGISTRATION

Certified Depreciation Professional Exam (Please specify exam session: ___ Weds. 8:00 AM or ___ Fri. 1:00 PM)	\$100	\$100	\$ _____
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LATE FEE

* Late Fee after August 15th	\$ 25	\$ 25	\$ _____
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TOTAL (Annual Meeting, Membership, Training, CDP Exam, Late Fee)			\$ _____
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PAYMENT

Name: _____

Title: _____ Company: _____

Address/City/State/Zip/Country: _____

Phone: _____ FAX: _____ E-mail: _____

 Check (payable in US dollars to: Society of Depreciation Professionals) Visa/MasterCard/AmEx Card # _____

Exp. _____ Signature _____

 Please check here if you need special assistance. Someone from the Society will contact you Please identify any special dietary requirements _____**HOTEL INFORMATION**

Location: The Westin Long Beach
333 East Ocean Boulevard
Long Beach, CA 90802

For room reservations, call 800 WESTIN1 or call the hotel directly (562/436-3000) and request the Society of Depreciation Professionals rate: \$149.00 (add \$20 for each additional person).

Hotel reservation deadline: Room availability at the conference rate is guaranteed until **August 15th**. After August 15th rooms will be available at the conference rate only if space is available at the hotel.

Return this form to:

SDP
8100-M4 Wyoming Blvd NE #228
Albuquerque NM 87113
Tel: 505/867-9513
Fax: 505/867-0917, sdp@his.com

Cancellations prior to August 15, 2006 will receive a refund, minus a \$50 processing fee. After August 15, 2006, any fees paid for an individual who cannot attend the annual meeting or training will be applied to the 2007 annual meeting or training. For more information regarding refund, complaint and program cancellation policies, please contact our offices at 505/867-9513.

The Society of Depreciation Professionals is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Nashville, TN 37219-2417. Website:

www.nasba.org

2006 SDP Annual Meeting

Dane Watson, PE, CDP

As you may have heard, this year the SDP will hold a landmark meeting. The Society will be having its 20th Annual meeting to further the Depreciation Profession. We have come a long way since the Society was formed 20 years ago. I hope everyone will join us in the celebration of our 20th birthday.

This year's meeting will be held in Long Beach California at the Weston Long Beach Hotel on September 17th through 19th with optional training following for the rest of the week. Some of the speakers for our meeting are still being firmed up, but our agenda is shown below. A major theme this year will be how we as deprecation professionals can better deal with the natural disasters that have struck North America in recent times. In addition, we will plan for time to share experience and knowledge in your specific industries in break out sessions and in informal receptions. A separate break out session for Canadian issues was a popular addition last year and will be continued this year. On the more entertaining side, we will spend some time walking through the last 20 years of the Society and will spend part of our Monday evening in a reception on the famous ship, the Queen Mary.

We will provide more details of the meeting on the web site as they become available. I hope you will begin making your plans to attend now.

Topics for the 2006 SDP Meeting

Overview of the California Energy Market
 The New Orleans Experience
 Business Interruption/Continuity
 Energy Company FIN 47 Impact
 Disasters and the Depreciation Study – Panel
 Railroad Issues
 Accounting Update
 Wall Street's view of Utilities
 SPD; 20 Years of History
 Open Forum
 Concurrent Industry Breakouts
 Energy
 Telecom
 Canadian Issues
 Tour of the Queen Mary and Reception



Westin Long Beach

SDP 2006 Training

Susan Jensen, CDP

The SDP is pleased to offer the following three concurrent courses immediately following the 2006 Annual Meeting. The courses range from a **basic overview of common depreciation topics** to an **in-depth study of life and net salvage analysis** to an **overview course intended for managers as well as depreciation professionals**. Choose the course that best fits your background and needs. *Past trainees are welcome to retake courses they have previously enrolled in because, as you will see below, we are constantly adding new segments to meet your needs.*

“Basic Depreciation”

This hugely popular course provides an introduction to *Plant and Depreciation Accounting, Data Requirements and Collection, Simulation Life Analysis, Actuarial Life Analysis, Life Cycle Analysis, Technology Forecasting, Gross Salvage and Cost of Removal Analysis, and Depreciation Models*.

“Life and Net Salvage Analysis”

This course includes an in-depth study of the most popular life analysis models — *Actuarial Analysis, Simulation Analysis (e.g., SPR, Computed Mortality), Life Cycle Analysis, and Technology Forecasting*. And **new this year**, we are including a segment on **Gross Salvage and Cost of Removal**, which will include a discussion of *Age Sensitivity, Future Trends, Calculating Factors, Analyzing Interim Adds/Retirements, and Decommissioning*. The **prerequisite** for this course is the **Basic Depreciation** course **OR permission from Dr.**

Thanks to These Contributing Members

SDP Sustaining Members

AUS Consultants
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Dr. Susan Jensen, CDP

SDP Friends

John Lamparello

Susan Jensen based on your qualifying experience, depreciation related courses (e.g., DPI), or objectives.

“Preparing and Defending a Depreciation Study”

After *A Review of Life Analysis and Depreciation Models*, this course includes classes in *Net Salvage, Choosing Life and Salvage Estimates, Developing a Depreciation Rate, Preparing a Depreciation Study Report, and Witnessing Techniques*. And **new this year**, we are including a class on ***Evaluation of a Depreciation Study*** to provide insight in “getting behind the numbers”. This course is intended not only for depreciation professionals involved in preparing depreciation studies but also for managers wanting to know more about the projects for which they are responsible. The prerequisites for this course are the Basic Depreciation AND Life Analysis courses OR permission from *Dr. Susan Jensen* based on your qualifying experience, depreciation related courses, or objectives (e.g., manager’s need for an overview of the depreciation process).

All courses begin at 1:00 PM Tuesday, September 19th, and end by noon Friday, September 22nd. Ample opportunity will be provided during class and at informal evening receptions to talk with the expert instructors and network with fellow attendees from utilities, State and Federal commissions, and consulting firms.

Space is limited so be sure to register early! You will receive up to 22 CPE credits for each course. The course fee includes a continental breakfast each morning and evening receptions Tuesday, Wednesday, and Thursday.

Detailed information about the courses is available on our website at www.depr.org by clicking on the “Training” button. You may also

contact us at sdp@his.com or 505-867-9513 (voice) and 505-867-0917 (fax). We look forward to hearing from you and seeing you in September!

HMS Queen Mary Greets SDP Conference Attendees

Rod Daniel

By all measures HMS Queen Mary was truly “titanic.” Bigger, faster and more powerful than her predecessor the Titanic, Queen Mary lived a long life that included 1,001 successful Atlantic crossings. Built at the John Brown shipyard on the Clyde, Scotland, in 1937, the Queen Mary held the record for the fastest-ever North Atlantic crossing, and for three years she carried the rich and famous across the Atlantic in great luxury.

Now Queen Mary rests in the Long Beach harbor, converted into a hotel and tourist attraction. Guides' voices echo in the now-empty engine room, where 27 boilers once generated 160,000 horsepower. On the dining room wall, a map tracked the position of the Queen Mary and her sister ship the Queen Elizabeth as passengers anticipated their passing in mid-ocean.

While not so big and sleek as today's mega-cruise liners, the Queen Mary is an elegant reminder of a bygone era. The Monday evening reception at the Society's Annual Meeting will be held in an elegant party room on board the Queen Mary. Guests will be able to wander around the ship and explore nautical history and the glorious past of the Queen Mary first hand.

A Depreciation Study as a Four-Step Effort

By John S. Ferguson, CDP

A book depreciation study is the process by which property mortality characteristics – life, retirement dispersion pattern, and salvage and cost

of removal factors – are determined for purposes of calculating depreciation rates and testing the adequacy of the existing book reserve. I view such a study as involving four steps, which I define as Data Collection, Analysis, Evaluation and Calculation. Life and retirement dispersion can be described as representing the flow of amounts through property records and salvage and cost of removal can be described as representing the flow of amounts through book reserve records.

The Data Collection, Analysis and Calculation steps are essentially clerical efforts. However, Analysis and Calculation require specialized computer programs to effectively carry out, and typically utilize historical data. Historical data are a convenience – not a necessity – and their use results in the Analysis step measuring history.

Evaluation is the process of determining whether history is a reasonable indication of the future, and requires a level of expertise well beyond that needed for the other three steps. This step makes use of data and sources of information beyond those needed for the other steps. How analyses are conducted is likely to be different for a study that emphasizes Evaluation (understanding history) than for a study that emphasizes the measurement of history. For example, analyses are more likely to be conducted in a manner that discloses trends for a study that emphasizes understanding history, and the simulated plant record (SPR) balances method of life analysis is likely to be utilized for a study that emphasizes measurement of history and the SPR retirements method is likely to be utilized for a study that emphasizes understanding history.

It has been my experience that studies emphasizing understanding history result in higher depreciation rates than do studies emphasizing measurement of history, because – on average – history is a misleading indication of the future, especially for salvage and cost of removal. The higher level of expertise and additional effort for studies emphasizing

understanding history makes them cost more and take longer.

The emphasis of a depreciation study is a matter of management policy, and management can be expected to consider the regulatory environment when deciding upon the emphasis for a particular study. For example, a regulatory environment in which the studies of applicants tend to receive little consideration can be expected to result in studies that emphasize the measurement of history. For such studies, computers do the thinking and anyone having the needed software can conduct one.

I prefer conducting studies that emphasize understanding history, because they are interesting and I find them to be a continual learning process. For such studies, the issues in regulatory proceedings tend to be different from the issues for studies that emphasize the measurement of history. With Evaluation, the issues tend to be the bases for determining whether history is a misleading indication of the future and for the responses thereto. Without Evaluation, the issues tend to be what the computer is doing. Society members may be interested in Figure 2 of my article, *The Depreciation Study*, in the 2002-2003 Journal of the Society, as it lists several attributes of depreciation studies that emphasize understanding history versus studies that merely measure history.

SDP Journal News

By Tony Flesch

The SDP Journal needs your article in order to continue to be a viable resource for our members. Please consider contributing an article for the 2006-2007 edition of the Journal. Some of the benefits of submitting an article include: 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!

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Writing an article is not as hard as you think, it just requires some motivation and dedication. Article guidelines are listed on Page 5 of the 2004-2005 Journal, and also on the SDP web page. The deadline for articles for the next edition has been extended to November 15, 2006 - So, don't delay – commit today! 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. Thanks!

New Members

Rod Daniel

The Society extends a warm welcome to our new members.

- Craig Brown, Black & Veatch, Overland Park, KS
- Lynn Lowe, Telesat Canada, Gloucester, ON Canada
- Barbara Heavener, Entergy Services, Inc, Little Rock, AR
- Rebecca Henning, We-Energies, Milwaukee, WI
- Janice Hicks-Gesner, NB Power Distribution and Customer Service, Fredericton, NB Canada
- Ann Hizon, Nicor, Naperville, IL
- Jessica Matushek, Commonwealth Telephone Company, Dallas, PA
- Jerome Mueller, Qwest, Littleton, CO
- Robert Pontau, Utility Shared Services Company, New Gloucester ME
- Angie Thiele-Bolitho, Telesat Canada, Gloucester, Ontario

Member Challenge

By Chris Harris

A condominium owners association in southwest Virginia has just learned that it must conduct a capital reserve study every five years to ensure that they will have an adequate amount of cash in their accounts when items need to be replaced. Two years ago the Association had vinyl siding installed on their building at a cost of \$40,000. The Association has not started reserving cash for the eventual replacement of this recent capital addition but now realizes that it must start reserving cash for the eventual replacement of the vinyl siding.

Assume that the vinyl siding can be replaced at the same cost when adjusted for a 2% annual inflation rate and that their reserve account will yield a 4% annual rate of return on all deposits. They are hoping that the new siding will have a service life of 22 years.

The manufacturer of the vinyl siding stated their product has an average service life of 25 years but that the service life could vary by product lot by plus or minus 8 years. The original bylaws of the association stated that the board would borrow amounts in excess of \$2400 adjusted by the CPI from 1990 to the time of the expenditure (ie incur new debt) and that amounts less than the CPI adjusted \$2400 would be levied by special assessment against each owner.

What is the least amount of cash that the association should reserve on an annual basis during the remaining life of the vinyl siding with a 90% level of confidence that they will not have to incur new debt at the end of the expected service life?

Submit your “study” to Chris.Pat.Harris@Mindspring.com by July 30, 2006. Win a \$50 gift certificate to the “Outback Steakhouse”.

The winner, along with their solution (space permitting), will be published in the next edition of the newsletter.

Society of Depreciation Professionals
8100 - M4 Wyoming Blvd NE #228
Albuquerque, NM 87113

SOCIETY OF DEPRECIATION PROFESSIONALS

8100 - M4 Wyoming Blvd NE #228 Albuquerque, NM 87113

INVOICE

MEMBERSHIP DUES JANUARY 1, 2006 – DECEMBER 31, 2006

Name _____

Professional Affiliation _____

Address _____

Telephone _____ FAX _____ E-Mail _____

Dues:

Member		\$50	\$ _____	New _____	Renewal _____
Sustaining Member	@	\$750	\$ _____	New _____	Renewal _____
Business Member	@	\$300	\$ _____	New _____	Renewal _____
Patron Donation	@	\$200	\$ _____	New _____	Renewal _____
Friends Donation	@	\$100	\$ _____	New _____	Renewal _____