



## President's Message

Donna Hobkirk, President

### *When it rains, it pours....*

You all know the saying; and oh how appropriate it describes my life the last couple of months. I wouldn't define it as 50 Cent does in his lyrics, but more along the lines of GoEnglish.com.

"*When it rains, it pours* means that once something happens after a long pause, it happens in large amounts. Example: "It looks like everyone in our department is sick again, and all at the same time." Reply: "**When it rains, it pours.**"

Unfortunately, it poured so hard that I was unable to attend our annual meeting. I would like to take this time to thank our Vice President, Robert Poulsen, for filling in for me; allowing me to put my family first. In addition, I would like to give Robert special kudos for what I hear was a great meeting. I hate that I missed it!

The entire Board of Directors should also be commended for their time and dedicated work that makes our Society function so well. And I would be remiss, if I didn't say thanks and congrats to Susan and all of our instructors for another successful training session.

Your board is already working toward next year. If there are any issues, ideas or questions regarding SDP, please contact me or any of the Officers any time.

Donna

## **2008 SDP Annual Meeting Recap**

Robert Poulsen, CDP, Program Chair

Our annual meeting was held in beautiful Greenville, South Carolina. Our invited speakers certainly didn't let us down. We mixed discussion of the Society's future with some insightful presentations on a range of topics, and topped it off with pleasant socializing with a touch of Southern charm.

**Dr. Steve Schroeder** got us started with an interactive presentation of Change, and how it is affecting members of the Society. It got both old and new members to think about how a strong Society can contribute to safe passage through the inevitable professional transitions we face.

**Sean Bird** and **Natasha Kuehl**, from Deloitte's Charlotte office, presented an auditor's perspective on depreciation. The count-down is starting for implementation of International Financial Accounting Standards. Those who rely on SFAS 71 to produce external financials have even greater changes coming.

**The Honorable David Wright** of the South Carolina Public Service Commission related an inspiring story of personal triumph, as well as a story about rabbits chasing a bull and how that became HIS problem. We all have a better idea of the scope of public service.

Next up were our friends at the IRS, **Kendrick Flint** and **Rick Nixon**. These guys are part of a large contingent at the IRS who must value assets involved in acquisitions or tax disputes. There seemed to be a lot of synergies in their work and the Society's that should be further developed.

**Dr. Susan Jensen** led a discussion of training

## SDP BOARD OF DIRECTORS

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and certification. I've noted elsewhere in this newsletter the great ideas that were surfaced.

**Mike Plunkett** and **Jim Heslin** talked about the basics of asset/depreciation accounting systems. There were quite a few nuggets in their presentation, for example the widespread underreporting of cost of removal and concurrent overcapitalization of construction. Perhaps it is worth a look in every utility.

**Jerry Weinert**, assisted by **Steve Barreca**, presented the cost and income approaches to property valuation.

**Dr. Larry Vanston** provided an update on Technology Futures' forecast of changes in demand for telecommunications services. Access Line losses are expected to steepen while consumers will benefit from significantly higher bandwidth capabilities.

**Dr. John Lacey** went over the current accounting landscape. International Financial Reporting Standards will likely be a dominant topic in coming Society meetings, due to questions regarding group accounting and SFAS 71.

**Rod Daniel**, the Society's Executive Secretary, did a marvelous job of arranging the meeting facilities, documents, food, and social gatherings. Monday evening's soiree at the Cherrydale house at Furman University was particularly pleasant.

We must also thank the very generous sponsorship of the meeting and training by **BCRI, PowerPlan Consultants, Gannett Fleming, Alliance Consultants** and **AUS Consultants**. Their financial support is critical to the ability of the Society to have high quality annual meetings and associated social events while keeping the cost to individual attendees very reasonable.

It was a pleasure to arrange this year's slate of presenters. If you've ever organized a meeting, you understand that getting potential speakers to commit is the major challenge. However, experts seem very willing to come to speak to the Society of Depreciation Professionals. Mike Plunkett will have the pleasure of arranging the program in 2009, when the Society gathers again in Albuquerque. If you have any ideas regarding potential speakers, contact him at [mplunkett@pwrplan.com](mailto:mplunkett@pwrplan.com).

## Message from Robert Poulsen

Fellow Society Members,

We had a great time in Greenville, didn't we? Pictures should be showing up on the SDP website soon.

As promised, I want to use a little space in this newsletter to report back to you on the comments recorded during our group discussion on the future direction of the Society. There were some great ideas expressed.

**What's the best way to increase membership?** The tables suggested that the scope should be narrowed to define why membership should be increased – money, numbers or attendance? Some suggestions made for increasing membership:

- Investigate other industries needs
- Advertising: Public Utilities Fortnightly
- Offer better discounts on training, such as a larger discount for multiple attendees from the same company.
- Making the conference more affordable
- Heavy focus on training
- Increase public visibility – targeted mailings to commissions and utilities
- Need to increase public awareness through mailings and attendance at other organizations
- Become aware of needs in all industries
- Be a technical arm for formal studies within the Society and/or collect data in data warehouse for member use
- Know our customer – provide sponsorships at other organizations – have a table or booth at other organizations conferences
- Approach CMAs, CPAs, accounting firms, etc.
- Market in Canada

Become known to different firm associations

Look at big issues to gain knowledge and experience i.e. IFRS – mass to unit accounting. Be a knowledge base for these issues.

Next year, Canada goes to IFRS.

Provide links to websites – CMA, CPA firms.

**What should the Society be doing 5 years from now?** Use better ways to share information: use website – educate & enable learning through orders, cases, etc. Provide training material, manual current cases, etc. Form industry specific topics, groups, etc. at annual meeting – use break out sessions and panel discussions. Make goals stronger – expand scope of society to include valuations around acquisitions and mergers. Discuss Impairment Analysis – don't be stuck in just depreciation. Provide an opportunity to expand knowledge. Diversify utilities and training. Offer a depreciation accounting Q&A blog on website.

**What would be the best presenter topic for next year's meeting?** IFRS. Elimination of SFAS 71. International Standards vs FAS 143. International Standards says legal and constructive obligation while FAS just says legal.

**What would work as a Society sponsored charity event?** Some form of knowledge sharing. Raise money and donate, perhaps through a golf tournament. Donate time to support a local event. Support a food bank.

**Do the Society's goals need to be updated in any way?** Capture a Rest of World view. Promote recertification. Include Asset Management, Valuation, and Finance. Share information on what people are using for lives.

We also discussed **training** in some detail, and lots of ideas were floated to improve that program: Make training more known to

valuation professionals. (Suggest annual Wichita conference representation and direct contact with accounting firms.) Develop a current issues class, perhaps one that could be suitcased. Add speakers on IFRS. Develop computer-based training. Offer discounts for multiple attendees from the same firm. Chunk out the training into 2 hour Netmeetings. Expand subjects to Cost Allocation and rate of return training. Consider offering 1-2 depr courses twice a year in different parts of country.

Finally, I asked everyone to complete a survey. Should the Society attempt to address issues facing the profession? For example, some of this year’s presenters are attempting to address the “theme” of industry trying to minimize costs for asset accounting and depreciation analysis.

### 2008 SDP Survey Results

1. Interaction at meetings	Avg
a. I don't want to interact with other meeting attendees at all	4.3
b. I like informal discussions during breaks and social events	2.2
c. I like to participate in break out sessions for my industry	1.9
d. I like to have plenty of time for questions with presenters	2.9
e. The Society should hold more facilitated Discussion Sessions	2.4

### 2008 SDP Survey Results

2. Should the Society attempt to address issues facing the profession? For example, some of this year’s presenters are attempting to address the “theme” of industry trying to minimize costs for asset accounting and depreciation analysis.

Yes	100%
No	0%

3. Please give some background on your answer to question 2. How is your viewpoint going to affect those who may be considering new or continuing membership in the Society?

### 2008 SDP Survey Results

4. Potential Topics	more	neutral	less
a. Accounting	34	15	0
b. Statistical Mortality Analysis	24	20	5
c. Technology Substitution	22	19	8
d. Valuation	27	19	3
e. Specific Industry Issues	36	12	1
f. External (SEC) Reporting	18	19	12
g. Tax Depreciation	11	22	16
h. Rate of Return Regulation	22	20	7
g. Professional Development	22	24	3
h. Change Management	14	22	13
i. Career/Networking	18	26	5
j. Ethics	12	33	4
k. Society Leadership Developme	19	28	2
l. Vendor presentations	11	25	13
m. Other	3	45	1

### 2008 SDP Survey Results

5. What additional information would you like to see on the Society’s website?

a. Member Biographies	6
b. Member email addresses	26
c. Blog	44

Other ideas?

### 2008 SDP Survey Results

6. Should the Society add a charitable group activity to the annual meeting? Think in terms of directing a nominal amount of personal funds and/or time to the host community as a group.
- |                  |     |
|------------------|-----|
| a. Not necessary | 46% |
| b. Keep it small | 38% |
| c. Great Idea!   | 17% |



### 2008 SDP Survey Results

8. Rank order of relative importance of attributes of the annual meeting:
- |          |     |
|----------|-----|
| Location | 3.3 |
| Agenda   | 2.5 |
| Training | 2.5 |
| Cost     | 3.0 |
| Contacts | 3.4 |



### 2008 SDP Survey Results

7. What topics do you think the Society's Executive Board should be focused on, besides the annual meeting and training?
- |  |     |
|--|-----|
| a. Increasing membership                   | 76% |
| b. Enhancing reputation                    | 76% |
| c. Strengthening the Society's credentials | 76% |
| d. Developing and executing a plan         | 71% |



The survey results and comments on the topics raised certainly give us a start on what the Board and committees will be working on in coming months. I want to make a personal appeal to you to get involved! If you'd like to help shape the Society this year, drop Rod Daniel a note at [sdp@his.com](mailto:sdp@his.com) or contact me at [robert.poulsen@embarq.com](mailto:robert.poulsen@embarq.com). We'll get you on a committee. Current standing committees include Certification, Testing, Administration, Coordinating, Ethics and Standards, Homepage, Journal, Membership, Newsletter, Program, and Current Issues. They can all use more input, and the board may also create additional committees. I welcome your thoughts on how to start some sustained progress on issues most important to you. Let's see what progress we can make by the time we gather again in Albuquerque!

***Mark your calendars for a very special conference and training location!***

2009 Annual Conference and Training

October 4 – 9, 2009

Albuquerque Hotel, Albuquerque NM

[www.itsatrip.org](http://www.itsatrip.org)

[www.hotelabq.com](http://www.hotelabq.com)

[www.balloonfiesta.com](http://www.balloonfiesta.com)

### Thanks to These Contributing Members

#### SDP Sustaining Members

AUS Consultants  
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#### Individual Patron

Dr. Susan Jensen, CDP.

#### SDP Friends

John Lamparello

### SDP 2008 TRAINING

*Susan Jensen, Ph.D., CDP*

The SDP's superb training gives you essential information and practice in the field of depreciation: from **life and salvage analysis to depreciation systems to preparing and defending depreciation studies**. You'll find courses for all levels of experience – from courses for trainees new to the field to courses for those responsible for preparing depreciation studies. Additionally, the training covers almost all of the areas on the test that must be passed in order to become a **Certified Depreciation Professional**.

Over 60 trainees benefited from the SDP training immediately following the 2008 Annual Meeting in Greenville, South Carolina. Here are some typical comments from trainees: *“Good information, well presented & entertaining as well”; “Made complex subject very understandable”; “Used many practical examples, very efficient in teaching”; “Had a wonderful time attending the SDP AGM and training in SC...we find our membership very valuable. We are very excited about returning next year.”*

The 2008 trainees chose from three concurrent courses: (1) an **overview of depreciation basics**, (2) an in-depth study of **life and net salvage analysis**, and (3) a higher-level course focusing on **preparing and defending a depreciation study**. This higher-level course is intended for depreciation professionals who prepare depreciation studies as well as for managers seeking an overview of the depreciation study process.

The trainees received hands-on experience in the calculations that underpin a depreciation study. Additionally, ample opportunity was provided during class and at informal evening receptions to ask questions of the expert instructors and network with fellow attendees from utilities, State and Federal commissions, and consulting firms. Because the Society is a member of the National Registry of CPE Sponsors, each trainee received up to 22 CPE credits.

You won't want to miss our training following the SDP Annual Meeting at the **2009 Hot Air Balloon Festival in Albuquerque, New Mexico**. In response to your requests, this training will feature our new **Valuation** course. Please check our website <http://www.depr.org/training.htm> for info about our 2009 training as it develops. We welcome your suggestions for future SDP training courses ([drsdjensen@aol.com](mailto:drsdjensen@aol.com), [sdp@his.com](mailto:sdp@his.com)) and look forward to seeing you in Albuquerque!

## **Certified Depreciation Professional (CDP) Certification**

*Susan Jensen, Ph.D., CDP*

The CDP credential identifies you as having expertise in the field of depreciation. It has proven to be a valuable credential whether you are seeking a promotion or testifying in a rate case.

Join the over 30 CDPs by passing the CDP test and meeting the other CDP requirements <http://www.depr.org/certification.htm>. You may take the test at an SDP Annual Meeting or by appointment in Washington, DC or Albuquerque, NM. The test fee entitles you to take the test twice -- once to see what is on the test and a second time to become certified.

To retain the CDP designation, every 5 years all you need do is submit evidence of professional growth. This evidence can be through continuing education and/or participation in professional activities, such as attending the SDP meetings, serving on SDP committees, writing an article for the SDP Journal, or retaking the CDP test <http://www.depr.org/certification.htm>.

Applications for Certification and Recertification are available on the SDP web site <http://www.depr.org/certification.htm>. CDPs are encouraged to maintain the necessary records needed for recertification and submit

recertification applications well in advance of CDP expiration dates. Feel free to contact us ([drsdjensen@aol.com](mailto:drsdjensen@aol.com), [sdp@his.com](mailto:sdp@his.com)) if you have any questions about certification or your CDP expiration date.

## **Web Page News**

For those who don't already know, Lou Walters, who has maintained the Society's web page for many years, has retired from Verizon. Lou did an outstanding job. Our new web master is Mike Sanders. He's an experienced website administrator who works for the Surface Transportation Board. Mike is closely coordinating with Rod Daniel and the Society's Board to get the right content out for public viewing, along with expanding items reserved for Society members. The Board previewed the new site during the Greenville gathering, and we're very pleased that Mike has produced a modernized web site for the Society. The new site will have the same familiar address of [www.depr.org](http://www.depr.org). You'll find better page to page navigation, and over time we'll get even more content. There was much interest expressed during the annual meeting about leveraging the website for more applications, and the Board will work with Mike to develop those concepts.

## **Depreciation of Land and Land Rights**

John S. Ferguson, CDP

It is generally recognized that land is not depreciable, because it is not consumed in the process of providing goods or services, so has an indefinite life. Uniform Systems of Accounts specify this and call for recording gains or losses upon disposal of land. However, there are circumstances where land is depreciable, which for electric utilities include sites utilized for coal piles, ash disposal, and nuclear reactors.

It is generally recognized that land rights are depreciable, because they exhibit loss in service value, which is the regulatory definition of depreciation. Land rights allow land owned by someone else to be utilized in some specified fashion. For utilities, such rights are typically rights-of-way and easements that allow placement of facilities or access to facilities, and flowage rights that allow flooding. The right is commonly granted through an agreement between the parties, but for residential developments is commonly through deed restrictions.

Once the need for placement, access, or flooding ceases, the right also ceases, sometimes automatically and sometimes through recording a quit-claim deed. However, such rights can be transferred when the related facilities are sold. Therefore, any capitalized acquisition cost is retired without any compensation when the right ceases, which causes the loss in service value that makes land rights depreciable.

While recognition that land rights are depreciable is nothing new, not recognizing depreciation was once fairly common, because land rights were not allowed to be depreciated for federal income tax purposes. However, this situation changed quite some time ago. For tax purposes, rights-of-way and easements are treated as intangibles that can be depreciated under certain circumstances. Revenue Ruling

55-729 allows rights-of-way and easements for reservoirs and hydro projects to be amortized for tax purposes, if it is possible to make a reasonable determination of their life. Revenue Ruling 65-264 states that oil and gas pipeline rights-of-way and easements can be depreciated when useful lives can be factually determined with reasonable accuracy. Revenue Ruling 72-403 provides similar guidance for electric transmission and distribution rights-of-way and easements, stating that a life of 84 years is acceptable for transmission and 46 years for distribution. These acceptable lives are the averages of ranges of 67 -100 years for transmission and 41 - 50 years for distribution found acceptable by 1969 court cases.

Uniform Systems of Accounts classify land rights as tangible property, even though they do not have an observable presence. It may be practical for accounting, construction, or operating records to link land rights to the related physical facilities for location-type property, but is unlikely to be practical, and is probably impossible, to provide such a link for mass-type property. If not linked through identifying with a location, retirements of land rights can be expected to go unreported. The concept known as General Plant Amortization, whereby the recording of retirements is based on attained age, rather than on field reporting, is useful for dealing with this situation.

It is not unusual for the investment in land rights applicable to mass property to be comprised solely of document filing fees that are small relative to the investment in the related physical facilities. This situation, combined with the likelihood that retirements of the rights will not be recorded, suggests that such rights be treated as a construction overhead instead of being recorded as separate assets.

**SOCIETY OF DEPRECIATION PROFESSIONALS**

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

**INVOICE**

**MEMBERSHIP DUES JANUARY 1, 2009 – DECEMBER 31, 2009**

Name \_\_\_\_\_

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

Address \_\_\_\_\_

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

**Dues:**

Member		\$75	\$ _____	New ___	Renewal ___
Sustaining Member	@	\$750	\$ _____	New ___	Renewal ___
Business Patron	@	\$300	\$ _____	New ___	Renewal ___
Individual Patron	@	\$200	\$ _____	New ___	Renewal ___
Friends Donation	@	\$100	\$ _____	New ___	Renewal ___

