



## **President's Message**

Donna Hobkirk, President

As we approach the holiday season, I realize how thankful I am for all the great relationships I have in my life. While I reflect on these relationships, it is clear how both personal and professional relationships impact our lives. Our loved ones are the ones who make our lives complete while our professional relationships help guide us through changing business times in our drive for continued success. My wish for you this Holiday Season is that you too will feel thankful for the relationships you've built both personally and professionally throughout this past year.

As our lives become busier and the Society group larger, it becomes increasingly difficult to build meaningful relationships. Therefore, I would like to challenge each and every one of us to make it a goal to meet someone new and build a relationship with a fellow Society member in '09'.

This year has passed very quickly, and my time as Society President is drawing to a close. Since this is my last President's message, I wish to express my appreciation to the Board of Directors, Committee Chairs and other volunteers for the unselfish contribution of their time and energy. I'd also like to thank all Society members for allowing me to serve as this great organization's president this past year.

I look forward to seeing each of you in Albuquerque!

Happy holidays and best wishes for a prosperous and cheer-filled 2009!

Donna

## **New SDP Officers Assume Duties January 1, 2009.**

At the SDP Annual Meeting in Greenville, South Carolina, the following officers were elected to lead the Society through 2009. The officers are:

Robert Poulsen, President  
Michael Plunkett, Vice President  
Robert Welsh, Treasurer  
Brian Caldwell, Secretary  
Curtis McElwee, Director at Large  
John Johnson, Director at Large  
Donna Hobkirk, Past President

We wish this new Board of Directors much success in 2009.

## **Time to Renew Your Membership**

It is time to renew your membership for 2009. If you have not already done so, please take a minute and complete the membership renewal form at the back of this newsletter. You can mail, email or fax the form to the SDP office, and payments can be made by check or credit card.

The cost of membership has not increased for many years. This year, the Board of Directors determined that rising costs required an increase in dues to adequately provide services to the membership. Membership dues remain a bargain at \$75 per year. You will see increased membership services during the coming year. Among the first changes to be made is the new look of the Society's web page: [www.depr.org](http://www.depr.org). We hope you will visit the web page regularly. Watch for more changes and increased communications during the coming year.

## SDP BOARD OF DIRECTORS

### Officers

President .....	<b>Donna Hobkirk</b> TECO – Peoples Gas (813)228-4247
Vice-President .....	<b>Robert Poulsen</b> Embarq (913)345-7602
Treasurer .....	<b>Brian Caldwell</b> Entergy Services, Inc (501) 377-5677
Secretary .....	<b>Mike Plunkett</b> PowerPlan Consultants (770)937-3023
At-Large Director.....	<b>Curtis McElwee</b> Sierra Pacific Power Company and Nevada Power Company (775)834-6281
At-Large Director .....	<b>John Johnson</b> Atmos Energy Corporation (972)855-3127
Past President	<b>Dane Watson</b> Alliance Consulting Group (214) 473-6771

### Committee Chairs

Certification and Testing .....	<b>Steve Barreca</b> BCRI, Inc. (205) 943-6710
Coordinating.....	<b>Steve Barreca</b> BCRI, Inc. (205) 943-6710
Current Issues .....	<b>John Ferguson</b> Ferguson Associates (972) 699-8214
Depr. Education & Training.....	<b>Susan Jensen</b> Surface Transportation Board (202) 565-1536
Ethics and Standards.....	<b>Robert Welsh</b> Welsh Group, LLC (703) 450-0845
Journal .....	<b>Anthony Flesch</b> Verizon (972) 718-5934
Membership	<b>Vacant</b>
Newsletter .....	<b>Mike Plunkett</b> PowerPlan Consultants (770)937-3023
Program .....	<b>Robert Poulsen</b> Embarq (913)345-7602
Web Page.....	<b>Vacant</b>

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## **2009 Training Courses Provide Unique Educational Opportunities**

Susan Jensen, Ph.D., CDP

Make your plans now to attend the 2009 depreciation training classes immediately following the SDP Annual Meeting, **October 6-9, 2009, in Albuquerque, NM.** Courses will include (1) a **basic overview of depreciation**, (2) an in-depth study of **life and net salvage analysis**, and (3) a higher level overview course focusing on **preparing and defending a depreciation study**. This higher level course is for depreciation professionals involved in preparing depreciation studies as well as managers wanting to know more about the work for which they are responsible.

And in 2009 we are offering a **NEW COURSE**: an **OVERVIEW OF VALUATION**. We anticipate this course to be very popular given the interest SDP members have expressed in such a course so be sure to register early.

All courses provide hands-on experience in performing the calculations that underpin a depreciation study. Additionally, ample opportunity is 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 student will receive up to 22 CPE credits.

Please visit our website [www.depr.org](http://www.depr.org) for up-to-the-minute info as it is available. *We may need to limit class size so early registration is advised.*



### **Thanks to These Contributing Members**

#### **SDP Sustaining Members**

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#### **Individual Patron**

Dr. Susan Jensen, CDP.

#### **SDP Friends**

John Lamparello

### **Top Ten Reasons to Plan Early to Attend the 2009 SDP Annual Meeting and Training: October 4-9, 2009 Albuquerque, New Mexico**

#### **Reason # 10: Albuquerque's Cultural Diversity**

Albuquerque has been called one of the most culturally diverse cities in the United States, as people from almost every ethnicity and background call Albuquerque home. The city is influenced by cultures from around the world. These cultures make up an eclectic array of restaurants, art galleries, museums, festivals and attractions throughout the area. Visitors to Albuquerque can learn more about the Hispanic and Native American cultures by visiting the cultural centers.

#### **Hispanic Culture**

Hispanic people are the largest single ethnic group in New Mexico. The Hispanic influence is visible in architecture, art, music, clothing and cuisine. Many place names, as well as family names, are in Spanish. To learn more about the area's Hispanic culture visit the National Hispanic Cultural Center of New Mexico. For more information call 505.246.2261 or visit [www.nhccnm.org](http://www.nhccnm.org).

#### **Native American Culture**

New Mexico is home to 19 Indian Pueblos-

Acoma, Cochiti, Isleta, Jemez, Laguna, Nambe, Picuris, Pojoaque, Sandia, San Felipe, San Ildefonso, San Juan, Santa Ana, Santa Clara, Santo Domingo, Taos, Tesuque, Zia and Zuni. Most are within an hour's drive of the city and some pueblos welcome visitors. There are three reservations located in New Mexico: the Navajo Reservation, Jicarilla Apache Reservation and the Mescalero Apache Reservation. If you are interested in finding out more about the Indians of New Mexico, visit the Indian Pueblo Cultural Center or visit their web site at [www.indianpueblo.org](http://www.indianpueblo.org). The cultural center has a museum and gallery that provide a glimpse of Native American life in New Mexico. The center is a must-see before visiting a local pueblo.



**Reason # 9: New Mexico Cuisine**

Albuquerque has an abundance of culinary choices for every palette and pocketbook. Albuquerque offers thousands of dining options from the quaint and casual atmosphere to the elegant ambiance of one of our finer restaurants – the choices are limitless! Albuquerque's ethnic restaurants are plentiful and range from Native American to Italian to Mexican to Mediterranean to Asian to American and are sure to include all your favorites.

While dining in Albuquerque you'll experience the flavors of the Southwest with traditional New Mexican food and the famous red and green chile. When you eat in a New Mexican restaurant you'll be asked "Red, Green or Christmas?" What the server is asking is if you would like red or green chile on your dish or a combination, called "Christmas." Locals tend to put chile on any dish whether it is hot or cold – it is served with breakfast, lunch and dinner.

**Reason # 8: Scenic Beauty**

Albuquerque's roads lead to some of the most breathtaking scenery and attractions in New Mexico. The towering Sandia Mountains are a dramatic backdrop for Petroglyph National Monument and Coronado State Monument on the west side. Get back to nature and walk along the cottonwood-lined river at the Rio Grande Nature Center or take a drive along the Sandia

Crest National Scenic Byway to the summit of the Sandia Mountains and catch a sunrise or sunset, it's like nothing you've ever seen before. While you are there you won't want to miss taking a ride on the world's longest aerial tram, the Sandia Peak Aerial Tramway. For more information visit [www.sandiapeak.com](http://www.sandiapeak.com). Some of the views are man-made. Albuquerque is so serious about its public art that even bus riders can sit on a blue tiled sculpture while waiting for the next bus. Whatever you choose to do, you'll appreciate the city's scenic beauty - it is simply stunning.

**Reason # 7: Family Fun – Bring the Kids**

Albuquerque is a great place to spend a day or a week with your family – the SDP Conference and Training is your opportunity! Here are some of the numerous family-friendly activities and attractions:

**Rio Grande Zoo** – Offers visitors more than 1,000 animals including such animals as the Victorian Koalas, the endangered Mexican wolf and naked mole rats. Visit

[www.cabq.gov/biopark/zoo/](http://www.cabq.gov/biopark/zoo/).

**Albuquerque Aquarium** – Experience the marine habitats of the Gulf of Mexico, complete with a 285,000 gallon shark tank. Visit

[www.cabq.gov/biopark/aquarium/](http://www.cabq.gov/biopark/aquarium/).

**Rio Grande Botanical Gardens** – A state-of-the-art glass conservatory filters heat producing

UV rays and blooms year round - with xeric species in the Desert Pavilion and aromatic species in the Mediterranean Pavilion. You also won't want to miss the Children's Fantasy Garden complete with a 14-foot high topiary dragon that guards the castle gates; visitors get a larger-than-life perspective of plants, gardening and horticulture. In the warmer months, the PNM Butterfly Pavillion is home to a conservatory with several hundred North American butterflies and thousands of nectar plants. The BioPark opened a Heritage Farm in September 2004 complete with agricultural crops and farm animals native to the 1920s and 1930s in the Rio Grande Valley. Visit [www.cabq.gov/biopark/garden](http://www.cabq.gov/biopark/garden).



#### Reason # 6: **Cruising Historic Route 66**

Driving down Albuquerque's well-preserved, 18-mile historic stretch of Route 66 will give you a taste of America's original "Main Street." Albuquerque's Central Avenue follows the path of Route 66 and will bring you back into the days of neon decorating roadside motels and gas stations. Route 66 was the nation's first "interstate" built in 1926 and ran for more than 2,400 miles between Chicago and Santa Monica. Today New Mexico has the longest intact stretch of the historic highway and the

largest inventory of relevant roadside architecture. New Mexico's portion of the route is part of a national scenic and historic byway.

Route 66 was originally marked by roadside mom and pop businesses – gas stations, motels, kitschy attractions, restaurants and small cafes, where they offered gas, food and lodging in one stop. Many of these favorites still exist. While cruising the strip, check out some of Albuquerque's Route 66 attractions including the Historic Nob Hill district, a residential and commercial district made up of art deco style buildings housing boutiques, art galleries and restaurants. The University of New Mexico, founded in 1889, is the state's largest university, which features Pueblo Revival architecture, relaxing ponds, garden and several museums. The District, Albuquerque's downtown area, has restaurants, upscale retail shops, a 14-screen movie theater and dynamic arts and music scenes. The KiMo Theatre (1927) Pueblo deco and Art Gallery, which recently underwent extensive renovation, was originally built to house vaudeville acts. Historic Old Town, the center of the original Villa of Albuquerque, Old Town's quaint streets now house a variety of Southwestern shops, restaurants and art galleries.



**Reason # 5: Visit Santa Fe**

A short drive north of Albuquerque takes you through beautiful Indian pueblos and ultimately to Santa Fe, the City Different. Santa Fe is a world apart from other cities, with the second largest art market in the United States, and a collection of some of the best restaurants in the States.

**Reason # 4: A Great Conference Hotel**

The 2009 SDP Annual Meeting and Training will be held at the Hotel Albuquerque at Old Town [www.hhandr.com/albuquerque.php](http://www.hhandr.com/albuquerque.php). Hotel Albuquerque at Old Town exemplifies "Albuquerque Style," a unique blend of New Mexico's Pueblo, Spanish Territorial and Western cultural influences." Hotel Albuquerque is a landmark hotel nestled in the heart of the historic Old Town Plaza and museum district with its 400 year history and more than 200 shops, restaurants, and galleries to explore. Hotel Albuquerque is also a convenient starting point for further exploration of all that Albuquerque and central New Mexico has to offer.

**Reason # 3. *The Albuquerque International Balloon Fiesta!!!***

The Albuquerque International Balloon Fiesta [www.balloonfiesta.com](http://www.balloonfiesta.com) began modestly as a small gathering of 13 balloons in 1972, but over the years has grown to become hands-down the largest balloon event in the world. Held each year during the first week in October, the Balloon Fiesta brings more than 700 balloons, over 1,000 pilots and tens of thousands of spectators to the city.

Today, the nine-day celebration includes the weekend and Wednesday mass ascensions, Balloon Glow, and the Special Shape Rodeo and Special Shape Glowdeo where more than 90 uniquely shaped balloons participate. The Balloon Fiesta is one of the most photographed events in the world. Part of the event's draw is the opportunity for spectators to mingle with the pilots and chase crews amongst the inflating balloons on the launch field. One of the reasons why Albuquerque is host to such a large gathering of balloons is the areas excellent flying conditions. The "Albuquerque Box," effect often allows balloonists to take off and land right back at the Balloon Fiesta Park. Prevailing lower winds blow south for takeoff, with northern moving winds a few hundred feet up, creating the "Box."

*The SDP Conference and Training will coincide with the Albuquerque International Balloon Fiesta, and consequently, every hotel will sell out. It is very important that you make your reservations early. Once the hotel is full, we may not be able to assist in finding additional rooms. Please consider making your hotel reservations now, even if you are not certain*

*that you will be able to attend. You can always cancel the reservations if your plans change.*



#### Reason # 2: **Depreciation Training Classes**

Once again this year, depreciation training classes of the highest caliber will be offered Tuesday – Friday, October 6-9. See the separate article in this newsletter for more details on course offerings in 2009. Also, visit the SDP web site at [www.depr.org](http://www.depr.org) for more details on the classes as those details become available.



#### Reason # 1: **The Only Annual Conference Dedicated Specifically to Depreciation Issues**

The Society of Depreciation Professionals Annual Meeting provides depreciation professionals a unique opportunity to meet, discuss current trends and network with others in the field. Our attendees include state and federal regulators, industry professionals and consultants. All are leaders in the field of depreciation. This is the best opportunity to expand your connections in depreciation and to stay on top of changes in the industry. Please visit the SDP web site at [www.depr.org](http://www.depr.org) for more details on the Annual Meeting program as the agenda is developed.



#### **2009 Annual Meeting and Training**

**Albuquerque NM**

**October 4-9, 2009**

**Hotel Albuquerque at Old Town**

**For hotel reservations, call 505-843-6300**

**Watch the SDP web site ([www.depr.org](http://www.depr.org)) for developing agendas and registration materials.**

## Data Requirements for Equal Life Group (ELG) Depreciation Rates – Part One

John S. Ferguson, CDP

I have observed those opposing ELG rates to assert that lack of aged data precludes the use of ELG depreciation rates, which I consider to be a myth. There are two aspects to this myth, that aged life analysis data are required and that aged salvage and cost of removal analysis data are required. The life analysis aspect is addressed here, and the salvage and cost of removal aspect will be addressed in a future Newsletter.

My January 6, 1983 Public Utilities Fortnightly article, *The Methodology and Mythology of Equal Life Group Depreciation*, addresses these and several other ELG myths. The only ELG objection I have heard that is not a myth is that at the time of first implementation an ELG rate will result in higher depreciation than will an equivalent average life group (ALG) rate. This situation is a consequence of ELG eliminating the deferral inherent in the ALG assumption that every item is retired at an age equal to the average life of the group. The existence of a survivor curve demonstrates that this ALG assumption is false. However, I have observed this objection to be attractive to jurisdictions that emphasize the near-term in their decisions.

A whole life ELG depreciation rate begins higher than the equivalent (and constant) ALG rate, decreases as the property group ages, and eventually becomes lower than the ALG rate. When retirement dispersion exists, the crossing point is at an age less than the average life by an amount that depends upon the width and skewness of the retirement dispersion pattern. For example, my 1983 Fortnightly article shows that the crossing point for the Iowa L5 pattern is at an age 20% less than the average life. The age difference is larger for wider patterns.

The data required to calculate an ELG depreciation rate excluding net salvage are a survivor curve and the age distribution of the surviving property group for which the rate is to be utilized. A whole life ELG rate is calculated by (1) using the survivor curve to calculate the composite depreciation rate for each surviving vintage of the property group to which an ELG rate is to be applied, and (2) applying these vintage composite rates to the age distribution of the surviving property in order to calculate a composite rate for the property group. A remaining life ELG rate can be calculated by (1) using the survivor curve to calculate the composite remaining life for each surviving vintage of the property group, (2) applying these vintage remaining lives to the age distribution of the surviving property in order to calculate a composite remaining life for the property group, and (3) incorporating the composite remaining life so calculated into the remaining life rate formula. A remaining life rate can also be calculated by deriving the composite remaining life from a theoretical reserve calculation and utilizing it in the formula that calculates a remaining life rate by adjusting the whole life rate for the calculated reserve difference amortized over the remaining life.

Prior to the development in 1922 of what is now known as the simulated plant record (SPR) method of life analysis, the Traditional Turnover methods were required. These methods either provide the average life without any indication of the inherent dispersion pattern or require a dispersion pattern to be assumed to calculate the average life. The lack of a solid foundation for the dispersion pattern led to calculations, such as ELG, that utilize the dispersion pattern directly being iffy. SPR provides an indication of both the average life and dispersion pattern, so calculations that utilize the pattern directly are no longer iffy. However, this myth being easily refuted does not prevent it from being the basis for rejection of ELG depreciation rates. For example, the Texas PUC has rejected ELG for property

groups for which the simulated plant record (SPR) method of life analysis is utilized by electric utilities, and I presume still does. The Texas Railroad Commission does not impose this limitation on gas utilities.

As is evident from this discussion, the life analysis data required for an ELG calculation are identical to the data required to calculate an ALG remaining life rate and to test the adequacy of the book reserve when a whole life ALG rate is utilized. The retirement dispersion pattern is not utilized directly in the calculation of an ALG whole life rate, but is used directly in the theoretical reserve calculation. However, the pattern is inherent in the ALG rate

calculation, because it is what the causes there to be an average and because modern life analysis methods disclose both the average life and the pattern. In addition to not imposing anything unique for rate calculation purposes, ELG imposes nothing unique concerning life analyses methods and accounting practices. Therefore, if survivor curves and age distributions of survivors are deemed to be suitable for ALG calculation purposes, they are also suitable for ELG calculation purposes.



**SOCIETY OF DEPRECIATION PROFESSIONALS**

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505/867-9513 505/867-0917 fax sdp@his.com

**Membership Invoice**

Date \_\_\_\_\_

**Annual Membership Fee - \$75.00**

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How did you hear of us? \_\_\_\_\_

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