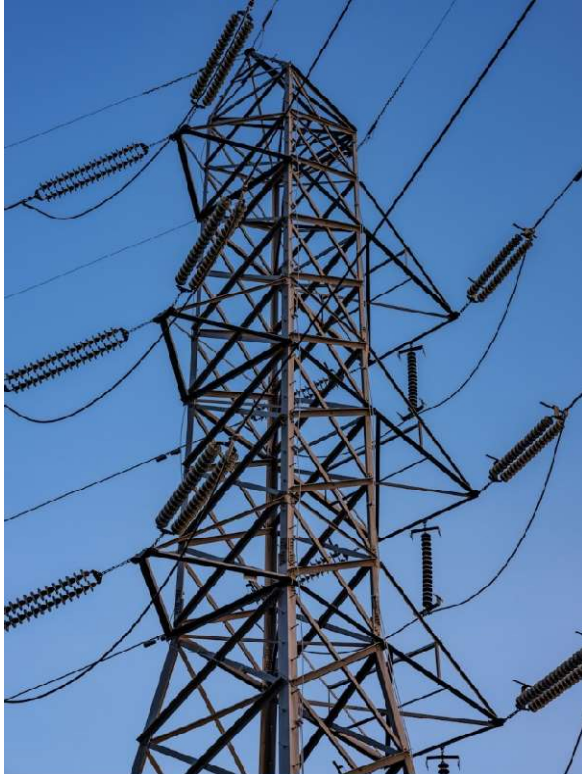


# Capital Recovery In Regulated Utilities: Needs Attention

By Branko Terzic



*Photo by Julien Maculan*

Today the practice of depreciation analysis for regulated electric and natural gas utilities is almost exclusively devoted to the estimation of economic service lives and net salvage for regulated utility assets.

Depreciation, also called capital recovery, is a major annual expense for regulated utilities. To review the significance of depreciation we can look at the Edison Electric Institute's annual Financial Review which presents a consolidated balance sheet and income statement for the 44 member companies. I have reprinted some of the numbers from the EEI report in the table below. Note that:

**The annual depreciation reported in 2023 by EEI companies is \$64 Billion.**

**The annual operation maintenance expense reported in 2023 is \$100 Billion.**

How many people at any electric utility are monitoring the annual operation and maintenance expenses?

I don't know the number but having been the CEO of a gas utility I think a good answer would be "Many."

Ask the same question about how many employees are monitoring the depreciation expense in any company or at a public service commission and the most applicable answer is "None or few." The Society of Depreciation Professionals (SDP) records confirm this as there are less than 50 Certified Depreciation Professionals (CDP) in the entirety of the United States and Canada! In the US alone there are \$1.5 Trillion in assets to be monitored! The low number of trained professionals means some states and provinces with regulated electric and gas utilities have no one certified.

The SDP has a program which provides for experience verification and testing to qualify for the designation of Certified Depreciation Professional. More information is provided below.

### **EI 2023 Financial Review**

<b>Income Statement (\$ Millions)</b>	<b>2023</b>
<b>Total Operating Revenues</b>	\$411,173
Operations and Maintenance Expense	\$100,349
Depreciation	\$64,404
Taxes (Not income)	\$23,518
Earnings	\$61,265
Dividends Paid, Common Stock	\$32,980

### **Balance Sheet (\$Millions)**

Utility Plant (Net)	\$1,507,915
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Total Capitalization	\$1,455,785
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The EEI notes that member company regulated assets were 84% of total assets.

### **Introducing the Society of Depreciation Professionals**

This week the Society of Depreciation Professionals (SDP) met in Milwaukee Wisconsin for their annual meeting and professional training and certification examinations September 14-20, 2024. The SDP was formed in 1987 by depreciation experts working for utilities, public service commissions, academia and as independent consultants.

I convened the February 1987 organizational meeting of the SDP after calling for the establishment of a professional society for depreciation at the annual seminar on regulation held the summer of 1986 at the 26<sup>th</sup> Iowa State Regulatory Conference on Public Utility Valuation and the Rate Making Process. The model for the SDP was that of the recently established Society of Rate of Return Analysis renamed later the Society of Utility Regulatory Financial Analysts (SURFA). The SDP from its inception was established by regulators and the industry. The first two elected officers were The Honorable Rush W. Dozier, Jr. Vice Chairman on the Kentucky Public Service Commission as President, and the Honorable Branko Terzic, recent Commissioner on the Wisconsin Public Service Commission as First Vice President.

One of the drivers for the establishment of the SDP was a crisis in the regulated telephone industry where there was a failure by regulators and managements to recognize the rapid replacement of analog with digital equipment central offices and consumer equipment. This failure led to massive cases of stranded investment. Another factor was the switch in public utility regulation from the use of fair value to original cost as the basis of rate base. This switch diminished the need for engineers trained in valuation and depreciation.

This in turn led to the demise of valuation and depreciation analysis programs at the university level. I am not aware of any university which today offers courses in depreciation analysis. Today only the SDP offers extensive training and certification in depreciation analysis.

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*The Honorable Branko Terzic is a former Commissioner on the U.S. Federal Energy Regulatory Commission and State of Wisconsin Public Service Commission, in addition he served as Chairman of the United Nations Economic Commission for Europe ( UNECE) Ad Hoc Group of Experts on Cleaner Electricity. He hold a BS Engineering and honorary Doctor of Sciences in Engineering (h.c.) both from the University of Wisconsin- Milwaukee.*