

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF OWEN ELECTRIC)
COOPERATIVE, INC., FOR APPROVAL TO ADOPT) CASE NO.
NEW DEPRECIATION RATES) 97-055

O R D E R

On February 7, 1997, Owen Electric Cooperative, Inc. ("Owen Electric") filed its application for approval to adopt new depreciation rates. Included with its application was a study entitled, "Service Life and Salvage Study and Recommended Depreciation Accrual Rates as of December 31, 1995." This study recommended changes in service life, net salvage, and survivor curve shapes for its various distribution plant accounts. These changes would result in a composite depreciation rate of 4.65 percent. Based upon plant account balances as of December 31, 1995, this would increase annual depreciation accruals from \$2,940,628 to \$3,304,655, which is an increase of \$364,027. After consideration of the existing annual amortization of the reserve deficiency in the amount of \$205,474, the net increase in annual depreciation expense is \$158,553.

The study indicated that average service lives were based upon informed judgment which incorporated analyses of historical service life data, a review of operating policies, and a general knowledge of service lives experienced in the electric industry. As is common in the industry, Owen Electric did not maintain vintage accounting records which

would have provided precise information on the age of the investments in its plant accounts. Instead, aged data was simulated through a statistical procedure. The study also estimated that as of December 31, 1995, calculated accrued depreciation should be \$21,815,406 whereas the book accumulated depreciation was only \$13,925,731. The study proposed that the depreciation reserve deficiency be recovered over the remaining life of the plant determined in the study.

Additional information was requested by Order dated April 15, 1997 and responses were filed on May 2, 1997. An informal conference was held on July 31, 1997. Issues discussed at the conference were primarily related to anomalous results in Account 364, "Poles, Towers, and Fixtures" and Account 369, "Services". The best fit curve shapes projected a 27-year average service life for Account 364 and 22 years for Account 369. This differed dramatically from the average service lives reflected in previously approved¹ depreciation rates. These rates reflected an average service life of 43 years for Account 364 and 34 years for Account 369. Owen Electric rejected the estimated service lives resulting from its newest study, and instead selected service lives of 44 years and 36 years for Accounts 364 and 369, respectively.

At the informal conference,² Commission staff expressed interest in the possible reasons for the study's anomalous results for Accounts 364 and 369. Staff suggested that inaccurate results could be caused by problems with the historical data used to simulate

¹ Order dated December 7, 1992 in Case No. 92-530, In the Matter of the Application of Owen Electric Cooperative, Inc. for Changes in its Utility Plant Depreciation Accounts.

² Informal conference memorandum dated August 4, 1997.

aged data. Staff inquired if Owen Electric would soon be in a position to maintain vintage accounting data, in view of the increasing use of computerized records. Owen Electric acknowledged that computerized mapping and record keeping would make vintage accounting more feasible, but indicated that as of yet, it did not have that capability.

As described above, there are two major issues in this proceeding. The first issue relates to the recovery of the \$7,889,675 deficiency in depreciation accruals. In Case No. 92-530, the Commission approved the amortization of the deficiency over 28.5 years at a rate of \$205,474 per year for accounting purposes. In this proceeding, Owen Electric has requested that the deficiency be amortized over the remaining life of the plant accounts, which range from 21.71 to 37.53 years. Based on the reasonableness of the studies performed the Commission will approve the depreciation rates as proposed by Owen Electric for accounting purposes.

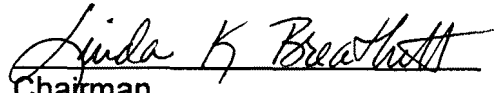
The second issue relates to the anomalous results for Accounts 364 and 369. Owen Electric used sound judgment in overriding the study's results with more reasonable estimates. Overall, the depreciation rates reflected are consistent with depreciation rates in recently filed studies. Consequently, the depreciation rates as proposed appear reasonable. However, it also appears to be a general trend for electric utilities to gain more sophisticated data processing techniques, one of which is the convergence of engineering information with accounting data. Engineering information usually contains aged data, such as construction dates, which could be used to improve the accuracy of future depreciation studies. In the past, manually extracting this data would have been too costly to consider. The current trend towards maintaining computerized engineering and accounting records may allow automated extraction of the necessary data, provided that the databases are

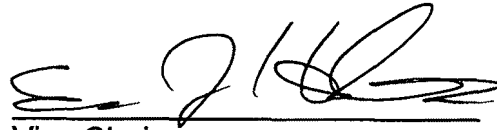
constructed properly. Therefore, the Commission encourages Owen Electric to consider the possibility of being able to extract vintage information as it develops its computerized systems.

IT IS THEREFORE ORDERED that the depreciation rates, as reflected in Owen Electric's depreciation study filed in this proceeding, are approved for accounting purposes.

Done at Frankfort, Kentucky, this 14th day of October, 1997.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director