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Licking Valley Rural Electric

Case No. 2016-00174

October 31, 2015

**Depreciation Expense**

Depreciation is computed on a composite basis. The ending plant balance is multiplied by rates that are within RUS approved guidelines. Depreciation rates and procedures follow RUS Bulletin 183-1. Licking Valley has had a depreciation study performed as of December 31, 2004 and was submitted and approved by this Commission in Case No. 2005-00187.

Depreciation on transportation equipment is charged to a clearing account. Transportation costs are then cleared to various accounts based on time used for each vehicle from the daily time sheets of employees driving the vehicles.

Items of general plant that are fully-depreciated have been removed from the calculation in order to determine the normalized depreciation cost. These amounts have been separated on the right had column of the normalized calculation.

Licking Valley Rural Electric  
 Case No. 2016-00174  
 October 31, 2015  
 Depreciation Adjustment

9	Normalized depreciation accrual:		
10	Distribution plant	2,092,053	
11	General plant	353,496	
12	Less charged to clearing	(217,988)	2,227,561
13		<u>                    </u>	
14	Test year depreciation accrual:		
15	Distribution plant	2,059,864	
16	General plant	344,514	
17	Less charged to clearing	(214,732)	2,189,646
18		<u>                    </u>	<u>37,915</u>
19			<u>                    </u>
20	Transportation clearing:		
21	Normalized	217,988	
22	Test year	214,732	
23		<u>                    </u>	<u>3,256</u>
24		<u>                    </u>	

The allocation of the increase in depreciation on transportation equipment is based on actual test year transportation clearing.

	<u>Account</u>	<u>%</u>	<u>Amount</u>
30	Construction and retirement WIP	34%	\$1,121
31	Others	1%	38
32	Distribution - operations	15%	490
33	Distribution - maintenance	27%	876
34	Consumer accounts	7%	225
35	Consumer service and information	6%	186
36	Sales	0%	0
37	Administrative and general	10%	319
38			<u>                    </u>
39	Total	100%	<u>\$3,256</u>
40			<u>                    </u>

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Licking Valley Rural Electric  
Case No. 2016-00174  
October 31, 2015

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Account Number	Description	Test Year Balance	Rate	Normalized Expense	Test Year Accrual	Exclude Items Fully Depreciated
<b>Distribution plant:</b>						
362	Station equipment	31,442	6.67%	2,097	2,097	
364	Poles, towers & fixtures	22,591,216	3.93%	887,835	871,315	
365	Overhead conductors & devices	19,204,291	2.50%	480,107	471,143	
367	Underground conductor & devices	598,232	2.50%	14,956	14,772	
368	Line transformers	8,546,043	2.50%	213,651	211,839	
369	Services	5,912,174	3.43%	202,788	200,182	
370	Meters	3,061,193	6.67%	204,182	204,764	
371	Installations on customer premises	2,210,675	3.91%	86,437	83,752	
		<u>62,155,266</u>		<u>2,092,053</u>	<u>2,059,864</u>	
<b>General plant:</b>						
389	Land	50,569				
390	Structures and improvements	1,537,689	3.00%	43,395	42,049	91,187
391	Office furn and eqt	791,572	6.00%	40,854	39,954	110,672
392	Transportation	2,135,619	15.00%	217,988	214,732	682,368
393	Stores	62,927	6.00%	3,776	3,700	
394	Tools, shop and garage	97,528	10.00%	9,753	9,328	
395	Laboratory	157,535	6.00%	8,710	7,510	12,368
396	Power operated	180,972	11.00%	16,184	15,084	33,845
397	Communications	268,186	6.00%	4,301	3,701	196,503
398	Miscellaneous	108,225	8.00%	8,536	8,456	1,525
		<u>5,390,822</u>		<u>353,496</u>	<u>344,514</u>	
	Total electric plant	<u>\$ 67,546,088</u>		<u>\$ 2,445,549</u>	<u>\$ 2,404,378</u>	

Items that are fully depreciated are removed from the ending balance to compute test year depreciation.

Licking Valley Rural Electric  
Case No. 2016-00174  
October 31, 2015

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<b>Changes in electric plant:</b>		<u>Begin</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>End</u> <u>Balance</u>
362	Station equipment	31,442	0	0	31,442
364	Poles, towers and fixtures	21,806,447	1,042,980	258,211	22,591,216
365	Overhead conductor and devices	18,487,173	997,420	280,302	19,204,291
367	Underground conductor and devices	583,531	17,786	3,085	598,232
368	Line transformers	8,401,110	159,507	14,574	8,546,043
369	Services	5,760,255	165,790	13,871	5,912,174
370	Meters	3,078,633	134,643	152,083	3,061,193
371	Security lights	2,073,320	159,691	22,336	2,210,675
	Subtotal distribution plant	<u>60,221,911</u>	<u>2,677,817</u>	<u>744,462</u>	<u>62,155,266</u>
389	Land	50,569	0		50,569
390	Structures and improvements	1,537,689	0		1,537,689
391	Office furn and eqt	728,625	70,596	7,649	791,572
392	Transportation	2,105,928	61,663	31,972	2,135,619
393	Stores	62,927	0		62,927
394	Tools, shop and garage	90,148	7,380		97,528
395	Laboratory	127,724	29,811		157,535
396	Power operated	179,901	1,071		180,972
397	Communication	268,186	0		268,186
398	Miscellaneous	106,732	1,493		108,225
	Subtotal general plant	<u>5,258,429</u>	<u>172,014</u>	<u>39,621</u>	<u>5,390,822</u>
	Total electric plant in service	<u><u>65,480,340</u></u>	<u><u>2,849,831</u></u>	<u><u>784,083</u></u>	<u><u>67,546,088</u></u>

Licking Valley Rural Electric  
Case No. 2016-00174  
October 31, 2015

Exhibit 3  
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**Changes in reserve for depreciation:**

	<u>Begin</u> <u>Balance</u>	<u>Accrual</u>	<u>Original</u> <u>Cost</u>	<u>Removal</u> <u>Cost</u>	<u>Gain/Loss</u> <u>Salvage</u>	<u>Net</u> <u>Charge</u>	<u>End</u> <u>Balance</u>
Distribution plant	20,273,677	2,059,864	744,462	466,337	(527)	1,211,326	21,122,215
Land							
Structures and improvements	846,687	42,049	0			0	888,736
Office furn and eqt	483,142	39,954	7,649			7,649	515,447
Transportation	1,935,167	214,732	31,972		1,096	30,876	2,119,023
Stores	70,270	3,700	0			0	73,970
Tools, shop and garage	96,815	9,328	0			0	106,143
Laboratory	116,151	7,510	0			0	123,661
Power operated	143,501	15,084	0			0	158,585
Communication	257,798	3,701	0			0	261,499
Other tangible	49,798	8,456	0			0	58,254
Subtotal general plant	3,999,329	344,514	39,621	0	1,096	38,525	4,305,318
Retirement WIP	129,748			56,487		56,487	186,235
Total accumulated depreciation	24,143,258	2,404,378	784,083	409,850	569	1,193,364	25,241,298

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Licking Valley Rural Electric  
Case No. 2016-00174  
Depreciation Guideline Curve  
October 31, 2015

<u>Year Ended</u>	<u>Distribution Plant in Service</u>	<u>Accumulated Deprec for Distribution</u>	<u>Reserve Ratio</u>	<u>Ratio of Current Distribution Plant to Distribution Plant 10 Years Prior</u>
2015	62,538,141	21,122,215	33.77%	1.43
2014	60,570,137	20,273,677	33.47%	1.44
2013	58,287,823	19,019,230	32.63%	1.44
2012	56,238,673	17,886,532	31.80%	1.47
2011	54,846,532	16,213,836	29.56%	1.54
2005	43,603,955	11,218,868	25.73%	
2004	42,010,357	10,305,018	24.53%	
2003	40,466,424	9,228,622	22.81%	
2002	38,296,948	8,119,238	21.20%	
2001	35,659,079	6,937,971	19.46%	