A. This account includes original investment of $530,085 for the test period ending June 30, 2006. For the depreciation study period ending December 31, 2005, the original investment is $530,085 and the book reserve is $450,460 (84.98%). The assets included in this account are the installed underground conduit and tunnels used for housing transmission cables and wires. The company proposed a life parameter of 75-R3 for this account. The current life parameter is 60-R2. My review of the company study shows that the company proposal is reasonable. The derived CRL based on the recommended life parameter is CRL is 33.65 years.

The company proposes to retain the current net salvage value of negative 5% estimate for this account. My analysis of the company's historical salvage data, using the modified traditional approach indicates that negative 3% FNS is more appropriate for this account. See Appendix–C.

For the test period ending June 30, 2006, the current depreciation rate for the account is 0.94% and the annual expense is $4,983. The company recommended depreciation rate is 0.59% and the annual accrual is $3,127. My recommended rate is 0.54% with an annual accrual of $2,862. My recommendation results in a reduction of $2,120 to the current annual accrual amount and a reduction of $265 to the company proposed accrual. I recommend approval of a 0.54% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 358, Underground Conductors and Devices?

A. This account includes original investment of $15,555,333 as of the test period ending June 30, 2006. For the depreciation study period ending December 31, 2005, the original

investment is $15,555,985 and the book reserve is $5,922,906 (38.07%). The assets included in this account are the installed underground conductors and devices used for transmission purposes. The company proposed life parameter is 50-R3. The currently approved life parameter is 40-R2. Based on my review of the company's actuarial study, I concur with the company proposal. The derived CRL is 37.22 years.

The current net salvage value for this account is 0%. The company proposes to retain the current 0% net salvage value for this account. My analysis of the company data shows that 0.0% net salvage value is appropriate for this account. See Appendix-C.

For the test period ending June 30, 2006, the current depreciation rate for the account is 2.14% and the annual expense is $332,884. The recommended depreciation rate is 1.66% and the calculated annual expense is $258,219. The recommended rate results in a reduction of $74,666 to the current annual accrual amount. I recommend approval of a 1.66% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

R. What is your analysis for Account No. 359, Roads and Trails?

A. This account includes original investment of $404,248 as of the test period ending June 30, 2006. For the depreciation study period ending December 31, 2005, the original investment is $404,247 and the book reserve is $185,385 (45.86%). The assets included in this account are the roads and trails owned by the company. The company proposed life parameter is 65-R4. The currently approved life parameter is 55-R4. Based on my review of the company's actuarial study, I concur with the company proposal. The derived CRL is 47.06 years.

The current net salvage value for this account is 0%. The company proposes to retain the current 0% net salvage value for this account. My analysis of the company data shows that 0.0% net salvage value is appropriate for this account. See Appendix-C.

For the test period ending June 30, 2006, the current depreciation rate for the account is 1.48% and the annual expense is $5,983. The recommended depreciation rate is 1.15% and the calculated annual expense is $4,649. The recommended rate results in a reduction of $1,334 to the current annual accrual amount. I recommend approval of a 1.15% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

2. DISTRIBUTION PLANT ACCOUNTS

Q. Please provide your analysis for the distribution plant accounts.

A. My analysis for distribution plant account category includes twelve (12) accounts. Table-8 shown below provides a summary of company and staff proposed life parameters, and net salvage values used in determining the depreciation rates. For the test period ending June 30, 2006, the original investment for the total distribution plant assets is $1,539,777,184. For the test period, ending June 30, 2006, the current total annual depreciation accrual for the distribution plant is $52,897,209. The company proposed annual depreciation accrual is $50,067,326, which is a decrease of $2,829,883 (5.3%) to the current annual accrual. Based on my review of the company filed depreciation study, I propose an annual depreciation accrual of $38,684,188, which is a decrease of

$14,213,021 (26.9%) to the current accrual and a decrease of $11,383,138 to the company proposed depreciation expense. The following paragraphs show a detailed depreciation analysis for each FERC account category of the distribution plant category.

Table-8 - Summary of Life Parameter and Net Salvage Values - Distribution Plant

Account No.	Account Description	Current Curve	Current Net Salv. %	Comp. Prop Curve	Comp. Prop Net Salv. %	Staff Prop Curve	Staff Prop. Net Salv. %
360.1	Land Rights / Rights of way	50 R4.0	0	60 R5.0	0	60 R5.0	0
361	Structures and Improvement	55 R3.0	-4	60 R2.5	21	**64 R2.5**	**14**
362	Station Equip	60 R1.0	16	55 R1.0	28	**61 L0.5**	**16**
364	Poles, Towers and Fixtures	43 S 0.5	-62	39 S-.5	-48	**42 L0.5**	**-26**
365	Overhead Conductors and Devices	48 R0.5	-81	50 R0.5	-88	**54 R0.5**	**-41**
366	Underground Conduit	62 R2.5	-75	60 R3.0	-56	**62 L4**	**-23**
367	Underground Conductors and Devices	50 R2.0	-36	50 R1.0	-35	**53 R2.0**	**-16**
368	Line Transformers	37 R1.5	-17	40 S0.0	-13	40 S0.0	-7
369	Services	30 SC.0	-38	35 SC.0	-41	35 SC.0	-25
370	Meters	25 R0.5	-15	22 R0.5	-15	22 R0.5	-11
371	Installation on Customer Premises	15 R0.5	-12	20 R0.5	-12	**35 L0**	**-5**
373	Street Lighting and Signal Systems	30 SC.0	-32	33 SC.0	-30	**35 SC**	**-17**

Q. What is your analysis for Account No. 360 Land Rights?

A. For the test period ending June 30, 2006, this account includes original investment of $749,769. For the depreciation study period ending December 31, 2005, the original investment amount is $693,803 and the book reserve is 291,386 (42.0%). The assets included in this account are the cost of land and land rights used in connection with distribution operations. The current life parameter for the account is 50-R4. The company proposed 60-R5 for the life parameter. Based on the information included in the company's actuarial study, I concur with the company proposed life parameter

The company proposed to retain the current net salvage value of 0%, because there is insufficient net salvage history for the account and land rights intrinsically have no removal costs (removal costs are attributed to the property on the land). I concur with the company proposal.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 1.89% and $14,171 respectively. The recommended depreciation rate is 1.44% and the calculated annual expense is $10,797, which reduces the current annual accrual amount by $3,374. I recommend approval of a 1.44% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 361, Structures and Improvement?

A. For the test period ending June 30, 2006, this account includes original investment of $6,239,370. For the depreciation study period ending December 31, 2005, the original investment amount is $6,239,370 and the book reserve is $2,380,720 (38.16%). The assets included in this account are the in-place structures and improvements used in

connection with distribution operations. The current life parameter for the account is 55-R3; the company proposed life parameter is 60-R2.5, and the Cities proposed life parameter is 64 R2.5. My review of the company's actuarial study and the Cities witness Nancy Hughes testimony indicates that the life parameter of 64-R2.5 is appropriate for this account. The derived CRL, from the Cities analysis, using the recommended life parameter, is 46.48 years.

The company proposed net salvage value of positive 21% for this account is not reasonable. My analysis of the company filed historical data (see Appendix C), using the modified traditional method, reduces the net salvage value to positive 14%. I recommend approving the 14% net salvage value because it appropriately adjusts the inflation rate as discussed earlier in my testimony.

For the test period, the current depreciation rate and the annual expense for the account are 1.8% and $112,309. The company proposed depreciation rate is 0.96% and the annual accrual is $59,898, and my recommended depreciation rate is 1.03% with an annual accrual of $64,266. My recommended depreciation rate decreases the annual accrual by $48,043 from the currently approved rate and increases the accrual amount by $4,368 from the company proposed rate. I recommend approval of a 1.03% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 362, Station Equipment?

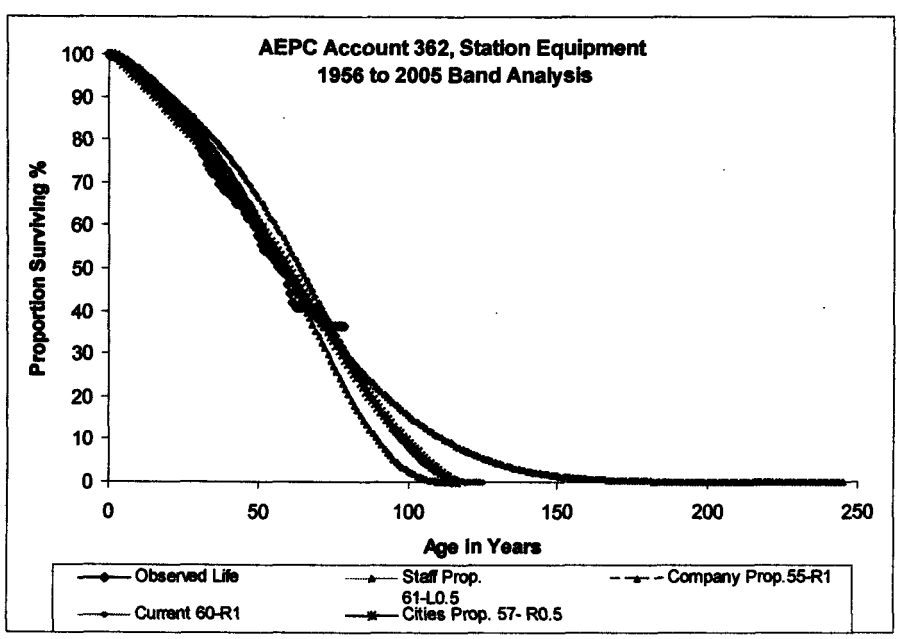
A. For the test period ending June 30, 2006, this account includes original investment of $140,489,324. For the depreciation study period ending December 31, 2005, the original

investment amount is $130,409,776 and the book reserve is $22,739,421 (17.44%). The assets included in this account are the installed station equipment, including transformer bank etc., which are used for the purpose of changing the characteristics of electricity in connection with its distribution. The company proposed a life parameter of 60-R1 and a positive 28% net salvage value. The current life parameter and net salvage value are 45-R2 and positive 16%. The Cities recommended life parameter is 57 R0.5. I recommend 61-L0.5 for the life parameter.

Figure-3, below shows the plot of the stub curve for the observed data for the account, the current life parameter, the company proposed life parameter, the Cities proposed life parameter and my recommended life parameter for the experience band 1956-2005.

A visual inspection of the curve plots, in Figure-3 below, show that my recommended life parameter of 61-L0.5 conforms better.

Figure-3 (Graph for Account 362)



I have also calculated the GFI and the CI values to statistically test the goodness of fit of my proposed curve shape to the stub curve of the observed data. Table-9, below shows the GFI and the CI values for the life parameters shown in Figure-3.

Table -9

	GFI	CI
60-R1	44.49	13.74
55-R1	42.08	14.52
57-R0.5	26.15	23.37
61-L0.5	18.16	33.65

As noted previously, lower GFI values and higher CI values indicate a better fit for a life parameter. The values in Table 9 show that my proposed life parameter of 61-L0.5 conforms better than the other proposed parameters. Also, I have included the curve plots and the statistical test results for the 1976-2005 and 1996-2005 experience band in Appendix-A, for this account. Those values indicate that for two out of the three experience bands my proposed life parameter conforms better.

I independently calculated the CRL, based on my recommended life parameter, by using the average life procedure as explained earlier in my testimony. The calculated CRL is 50.84 years. Please see Appendix-B for the detailed calculation of the CRL for this account.

The company proposed net salvage value of positive 28% for this account is not reasonable. My analysis of the company filed historical salvage data, using the modified traditional approach for inflation correction, yields a net salvage value of positive 16%. See Appendix-C. I recommend approving my recommended net salvage value because it is consistent with the preferred methodology.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 1.36% and $1,910,655. The company proposed depreciation rate is 1.24% and the annual accrual amount is $1,742,068 and my recommended depreciation rate is 1.31% with an annual accrual of $1,840,410. My recommendation decreases the annual accrual by $70,245 from the currently approved rate and increases the accrual by $98,343 from the company proposed rate. I recommend approval of a 1.31% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 364, Poles, Towers and Fixtures?

A. For the test period ending June 30, 2006, this account includes original investment of $349,333,065. For the depreciation study period ending December 31, 2005, the original investment amount is $342,745,032 and the book reserve is $123,950,013 (36.16%). The assets included in this account are the installed poles, towers, and appurtenant fixtures used for supporting overhead distribution conductors and service wires. The company proposed a 39-S0.5 for the life parameter and a negative 48% net salvage value. The current life parameter and net salvage value are 43-S0.5 and negative 62%. The Cities proposed life parameter is 41-S0.5. I recommend a 42-L0.5 for the life parameter and a negative 26% for net salvage value.

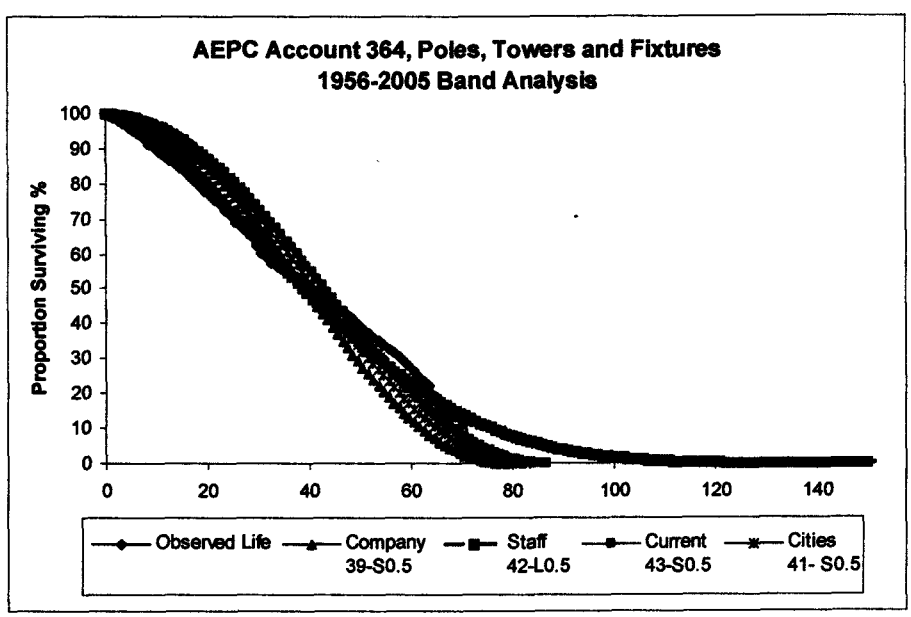
The company used the actuarial method of analysis to determine the life parameter. My review of the company filed data indicates that the company proposed life parameter is not the best fit. Figure-4 below shows the plot of the stub curve for the observed life included in the company study, the current, the company proposed and my

recommended life parameters for the experience band 1956-2005. I also examined the GFI and CI values for these parameters. The calculated GFI and the CI values are shown in Table-6 below. As noted previously, lower GFI values and higher CI values indicate a better fit for a life parameter. The values in Table-10 show that my proposed life parameter of 42-L0.5 conforms better. Also, I have examined the curve plots and the statistical tests for 1976-2005 and 1996-2005 experience bands, which confirm that 42-L0.5 is a better fit. See Appendix-A.

Table-10 (Acct 364)

Life Parameter	GFI	CI
43-S0.5	61.23	7.54
39-S0.5	72.87	6.34
41 S0.5	62.50	7.39
42-L0.5	37.53	12.30

Figure-4 (Graph for Account 364)



The derived CRL based on my recommended life parameter is 33.28. See Appendix-B for the detailed calculation of the CRL based on average life procedure for this account. The company proposed CRL is 30.44.

The company proposed net salvage value of negative 48% is unreasonable. My analysis of the company filed salvage history using the modified traditional method for inflation correction yields a negative salvage value of 26%.

For the test period ending June 30, 2006, the current depreciation rate for the account is 3.67% and the calculated annual accrual is $12,820,523. The company proposed depreciation rate is 3.67% and the annual accrual is $12,820,523 and my recommended depreciation rate is 2.7% with an annual accrual of $9,431,993. My recommendation decreases the annual accrual by $3,338,531 from the currently approved rate and the company proposed rate. I recommend approval of a 2.7% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 365, Overhead Conductors and Devices?

A. For the test period ending June 30, 2006, this account includes original investment of $270,738,998. For the depreciation study period ending December 31, 2005, the original investment amount is $259,878,208 and the book reserve is $96,070,955 (36.97%). The assets included in this account are the installed overhead conductors and devices used for distribution purposes. The company proposed 50-R0.5 for the life parameter and a negative 88% for the net salvage value. The current life parameter and net salvage value are 48-R0.5 and negative 81%. The Cities proposed 54-R0.5 for the life parameter. I

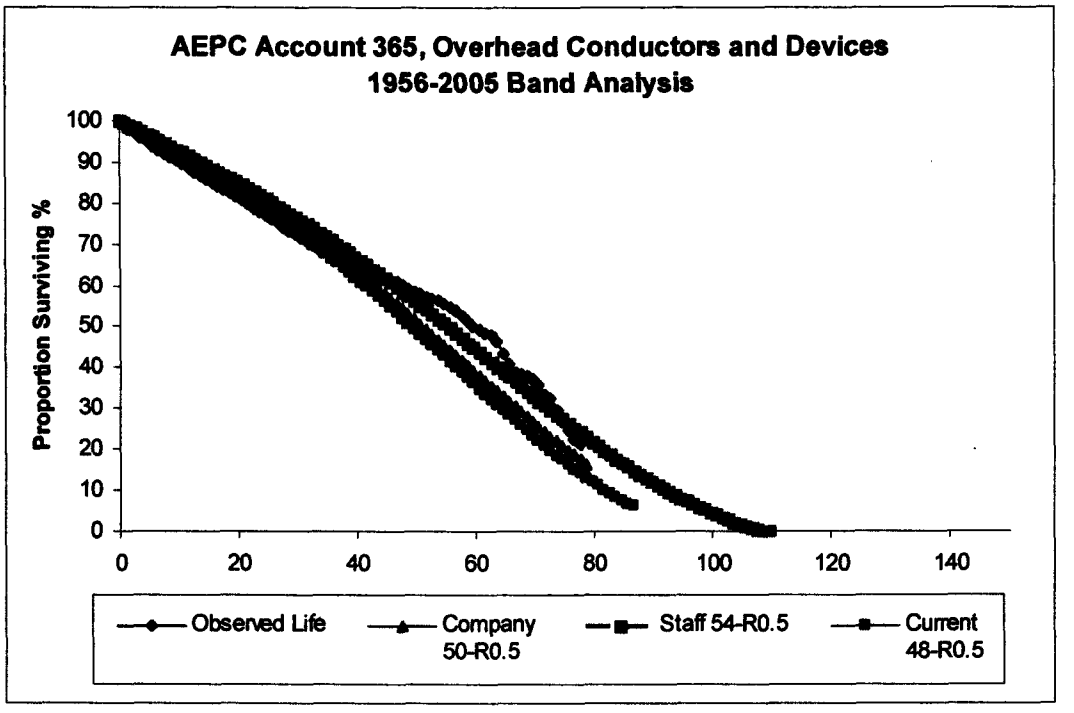
recommend 54-R0.5 for the life parameter and a negative 43% for the net salvage value. My analysis of the company filed study indicates that the company proposed life parameter is not the best fit.

The company used the actuarial method of analysis to determine the life parameter. I have used the same method to examine the suitableness of my proposed life parameter. Figure-5 below shows the plot of the stub curve for the observed life included in the company study for the experience band 1956-2005, along with the current, the company proposed and my recommended life parameters. The calculated GFI and the CI values are shown in Table-11 below. The lower GFI and higher CI values show that my proposed life parameter of 54-R0.5 conforms better. Also, I have examined the curve plots and the statistical tests for 1976-2005 and 1996-2005 experience bands, which confirm that 54-R0.5 is a better fit. See Appendix-A.

Table – 11 (Acct 365)

Life Parameter	GFI	CI
48-R0.5	70.50	8.24
50-R0.5	53.26	10.91
54-R0.5	30.47	19.07

Figure -5 (Graph for Account 365)



The derived CRL based on my recommended life parameter is 44.80 years. Please see Appendix-B for the detailed calculation of the CRL based on average life procedure. The company proposed CRL is 40.83.

The company proposed net salvage value of negative 88% is unreasonable. My analysis of the company filed historical net salvage data (see Appendix-C), using the modified traditional approach for inflation correction, indicates that negative 41% is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate for the account is 3.67% and the calculated annual accrual is $9,936,121. The company proposed depreciation rate is 3.7% and the annual accrual is $10,017,343 and my recommended depreciation rate is 2.32% with an annual accrual of $6,281,145. My

recommendation decreases the annual accrual by $3,654,976 from the currently approved rate and reduces the accrual by $3,736,198 from the company proposed rate. I recommend approval of a 2.32% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 366, Underground Conduit?

A. For the test period ending June 30, 2006, this account includes original investment of $27,684,272. For the depreciation study period ending December 31, 2005, the original investment amount is $25,116,007 and the book reserve is $8,627,357 (34.35%). The assets included in this account are the installed underground conduits and tunnels used for housing distribution cables and wires. The company proposed a 60-R3 for the life parameter and a negative 56% net salvage value. The current life parameter and net salvage value are 62-R2.5 and negative 75%. I recommend a life parameter of 62-L4 and net salvage value of negative 23% for the account. My analysis of the company filed study indicates that the company proposed life parameter is not the best fit.

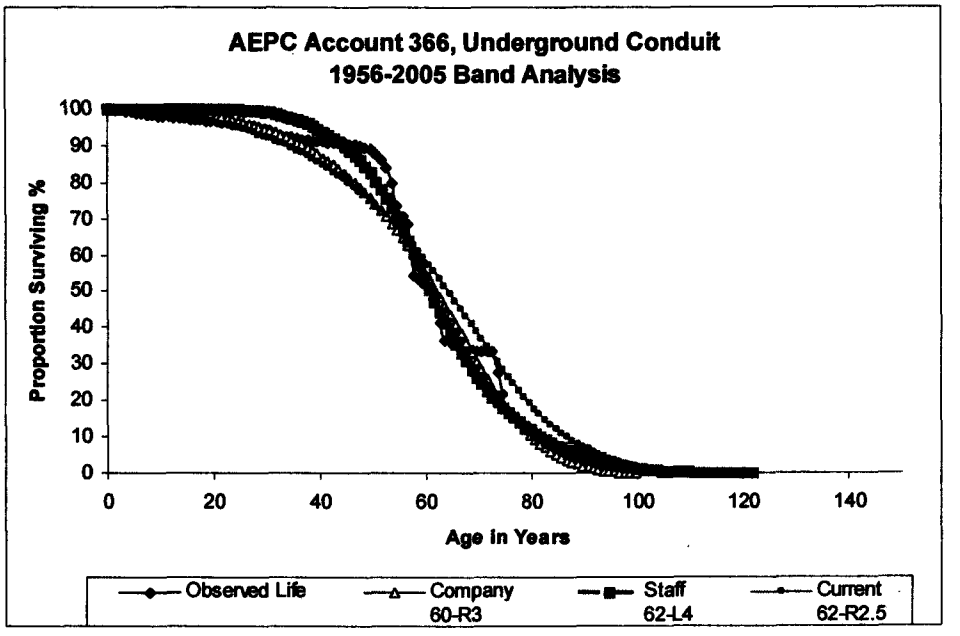
The company used the actuarial method of analysis to determine the life parameter. I have used the same method to examine the suitableness of my proposed life parameter. Figure-6 below shows the plot of the stub curve for the observed life included in the company study for the experience band 1956-2005, along with the current, the company proposed and my recommended life parameters. The calculated GFI and the CI values are shown in Table-12 below. The lower GFI and higher CI values show that my proposed life parameter of 62-L4.0 conforms better. Also, I have examined the curve

plots and the statistical tests for 1976-2005 and 1996-2005 experience bands, which confirm that 62-L4 is a better fit. See Appendix-A.

Table – 12 (Acct 366)

Life Parameter	GFI	CI
62-R2.5	56.75	12.32
60-R3	47.88	14.60
62-L4	38.84	18.00

Figure -6 (Graph for Account 366)



The derived CRL based on my recommended life parameter is 49.87 years. Please see Appendix-B for the detailed calculation of the CRL based on average life procedure. The company proposed CRL is 48.46.

The company proposed net salvage value of negative 56% is not reasonable. My analysis of the company filed historical net salvage data (see Appendix-C), using the

modified traditional approach for inflation correction, indicates that negative 23% is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate for the account is 2.7% and the calculated annual accrual is $747,475. The company proposed depreciation rate is 2.51% and the annual accrual is $694,875 and my recommended depreciation rate is 1.78% with an annual accrual of $492,780. My recommendation decreases the annual accrual by $254,695 from the currently approved rate and reduces the accrual by $202,095 from the company proposed rate. I recommend approval of a 1.78% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 367, Underground Conductors?

A. For the test period ending June 30, 2006, this account includes original investment of $136,246,027. For the depreciation study period ending December 31, 2005, the original investment amount is $128,912,463 and the book reserve is $31,888,248 (24.74%). The assets included in this account are the installed underground conductors and devices used for distribution purposes. The company proposed a 50-R1 for the life parameter and a negative 35% net salvage value. The current life parameter and net salvage value are 50-R2 and negative 36%. I recommend a life parameter of 53-R2 and net salvage value of negative 16% for the account. My analysis of the company filed study indicates that the company proposed life parameter is not the best fit.

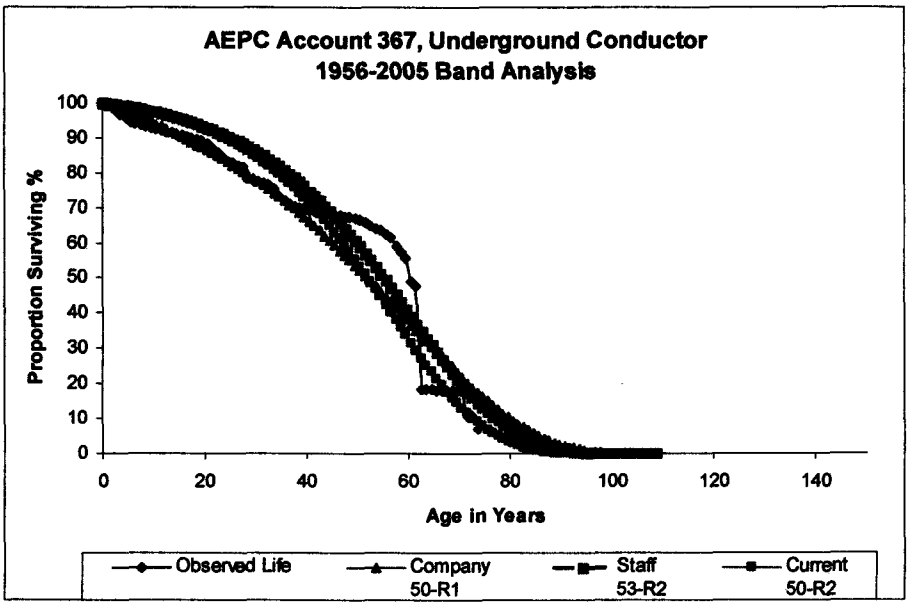
The company used the actuarial method of analysis to determine the life parameter. I have used the same method to examine the suitableness of my proposed life

parameter. Figure-7 below shows the plot of the stub curve for the observed life included in the company study for the experience band 1956-2005, along with the current, the company proposed and my recommended life parameters. The calculated GFI and the CI values are shown in Table-13 below. The lower GFI and higher CI values show that my proposed life parameter of 53-R2.0 conforms better. Also, I have examined the curve plots and the statistical tests for 1976-2005 and 1996-2005 experience bands, which confirm that 53-R2 is a better fit. See Appendix-A.

Table – 13 (Acct 367)

Life Parameter	GFI	CI
50-R2	75.79	7.80
50-R1	71.77	8.24
53-R2	65.81	8.99

Figure -7 (Graph for Account 367)



The derived CRL based on my recommended life parameter is 43.81 years. Please see Appendix-B for the detailed calculation of the CRL based on average life procedure. The company proposed CRL is 42.38.

The company proposed net salvage value of negative 35% is unreasonable. My analysis of the company filed historical net salvage data (see Appendix-C), using the modified traditional approach for inflation correction, indicates that negative 16% is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate for the account is 2.66% and the calculated annual accrual is $3,624,475. The company proposed depreciation rate is 2.6% and the annual accrual is $3,542,397 and my recommended depreciation rate is 2.08% with an annual accrual of $2,833,917. My recommendation decreases the annual accrual by $790,227 from the currently approved rate and reduces the accrual by $708,479 from the company proposed rate. I recommend approval of a 2.08% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 368, Line Transformers?

A. For the test period ending June 30, 2006, this account includes original investment of $312,192,834. For the depreciation study period ending December 31, 2005, the original investment amount is $303,338,815 and the book reserve is $111,599,750 (36.79%). The assets included in this account are the installed overhead and underground distribution line transformers and pole type and underground voltage regulators owned by the utility,

for use in transforming electricity to the voltage at which it is to be used by the customer, whether actually in service or held in reserve. The company proposed 40-S0 for the life parameter and a negative 13% for net salvage value. The Cities proposed 40-S0.5 for the life parameter. The current life parameter and net salvage value are 37-R1.5 and negative 17%. Based on my review of the company filed actuarial study, and the curve plot and the statistical test as shown below, I concur with the company proposed life parameter. The derived CRL from the TCC's depreciation model, for the recommended life parameter is 29.92 years.

Figure -8 (Graph for Account 368)

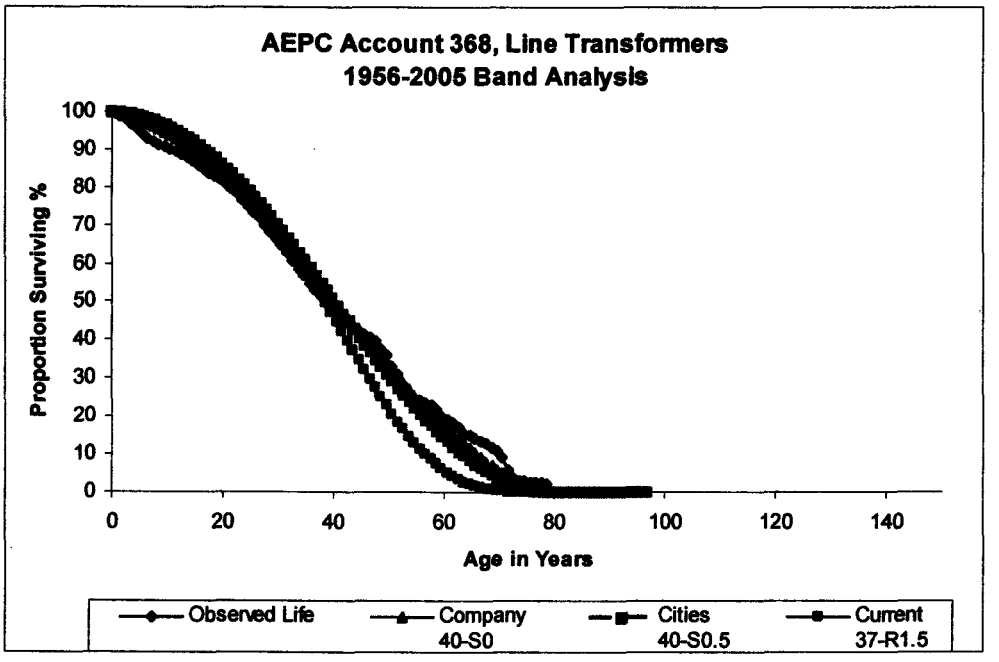


Table – 14 (Acct 368)

Life Parameter	GFI	CI
37-R1.5	6.87	6.10
40-S0	2.37	17.66
40S0.5	3.96	10.58

I disagree with the company proposed net salvage parameter of negative 13%, because my analysis of the company filed historical data, using the modified traditional procedure to correct the inflation rate, indicates that negative 7% is appropriate for this account. See Appendix C.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 3.02% and $9,428,224. The company proposed depreciation rate is 2.55% and the annual accrual is $7,960,917 and my recommended depreciation rate is 2.35% with an annual accrual of $7,336,532. My recommendation decreases the annual accrual by $2,091,692 from the currently approved rate and reduces the accrual by $624,386 from the company proposed rate. I recommend approval of a 2.35% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 369, Services?

Q. For the test period ending June 30, 2006, this account includes original investment of $113,332,958. For the depreciation study period ending December 31, 2005, the original investment amount is $107,962,192 and the book reserve is $43,079,093 (39.9%). The assets included in this account are the installed overhead and underground conductors leading from a point where wires leave the last pole of the overhead system or the

distribution box or manhole, or the top of the pole of the distribution line, to the point of connection with the customer's outlet or wiring, and the conduit used for underground service conductors. The company proposed 35-SC for the life parameter and a negative 41% for net salvage value. The current life and net salvage parameters are 30-SC and negative 38%. Based on my review of the company filed actuarial study, I concur with the company proposed life parameter. The derived CRL from the TCC's depreciation model, for the recommended life parameter is 26.41 years.

I disagree with the company proposed net salvage value of negative 41%, because my analysis of the company filed historical data, using the modified traditional procedure to correct the inflation rate, indicates that negative 25% is appropriate for this account. See Appendix C.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 4.38% and $4,963,984. The company proposed depreciation rate is 3.83% and the annual accrual is $4,340,652 and my recommended depreciation rate is 3.22% with an annual accrual of $3,649,321. My recommendation decreases the annual accrual by $1,314,662 from the currently approved rate and reduces the accrual by $691,331 from the company proposed rate. I recommend approval of a 3.22% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 370, Meters?

Q. For the test period ending June 30, 2006, this account includes original investment of $82,915,999. For the depreciation study period ending December 31, 2005, the original investment amount is $70,668,038 and the book reserve is $17,381,098 (24.6%). The assets included in this account are the installed meters and devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve. The company proposed 22-R0.5 for the life parameter and a negative 15% for net salvage value. The current life and net salvage value parameters are 25-R0.5 and negative 15%. Based on my review of the company filed actuarial study, I concur with the company proposed life parameter. The derived CRL from the TCC's depreciation model, for the recommended life parameter is 16.26 years.

I disagree with the company proposed net salvage value of negative 15%, because my analysis of the company filed historical data, using the modified traditional procedure to correct the inflation rate, indicates that negative 11% is appropriate for this account. See Appendix C.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 4.43% and $3,673,179. The company proposed depreciation rate is 5.56% and the annual accrual is $4,610,130 and my recommended depreciation rate is 5.31% with an annual accrual of $4,402,840. My recommendation increases the annual accrual by $729,661 from the currently approved rate and reduces the accrual by $207,290 from the company proposed rate. I recommend approval of a 5.31% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 371, Installation on Customer Premises?

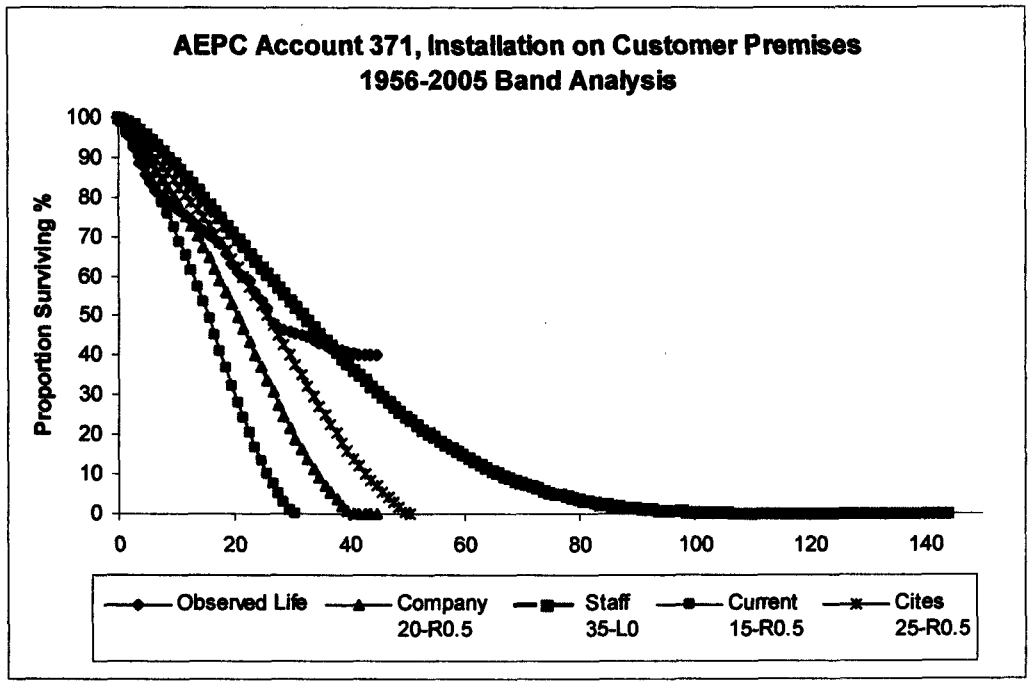
A. For the test period ending June 30, 2006, this account includes original investment of $51,877,201. For the depreciation study period ending December 31, 2005, the original investment amount is $51,788,519 and the book reserve is $25,652,489 (49.53%). This account consists of company owned equipment not included in other accounts and installed at the customer premises. The company proposed 20-R0.5 for the life parameter and a negative 15% for net salvage value. The current life and net salvage value parameters are 15-R0.5 and negative 12%. The Cities proposed 25 R0.5 for the life parameter. I recommend a life parameter of 35-L0 and net salvage value of negative 5% for the account. My analysis of the company filed study indicates that the company proposed life parameter is not the best fit.

The company used the actuarial method of analysis to determine the life parameter. I have used the same method to examine the suitableness of my proposed life parameter. Figure-9 below shows the plot of the stub curve for the observed life included in the company study for the experience band 1956-2005, along with the current, the company proposed and my recommended life parameters. The calculated GFI and the CI values are shown in Table-15 below. The lower GFI and higher CI values show that my proposed life parameter of 35-L0 conforms better. Also, I have examined the curve plots and the statistical tests for 1976-2005 and 1996-2005 experience bands, which confirm that 35-L0 is a better fit. See Appendix-A.

Table – 15 (Acct 371)

Life Parameter	GFI	CI
15-R0.5	217.91	1.92
20-R0.5	154.34	2.71
25-R0.5	90.69	4.61
35-L0	51.69	8.08

Figure -9 (Graph for Account 371)



The derived CRL based on my recommended life parameter is 28.55 years. Please see Appendix-B for the detailed calculation of the CRL based on average life procedure. The company proposed CRL is 13.18.

The company proposed net salvage value of negative 12% is not reasonable. My analysis of the company filed historical net salvage data (see Appendix-C), using the

modified traditional approach for inflation correction, indicates that negative 5% is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate for the account is 7.02% and the calculated annual accrual is $3,641,780. The company proposed depreciation rate is 4.74% and the annual accrual is $2,458,979 and my recommended depreciation rate is 1.94% with an annual accrual of $1,006,418. My recommendation decreases the annual accrual by $2,635,362 from the currently approved rate and reduces the accrual by $1,452,562 from the company proposed rate. I recommend approval of a 1.94% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for account No. 373, Street Lighting and Signal Systems?

A. For the test period ending June 30, 2006, this account includes original investment of $47,977,368. For the depreciation study period ending December 31, 2005, the original investment amount is $45,858,182 and the book reserve is $16,618,593 (36.24%). This account includes distribution streetlights, conductor, conduit, luminaire, and standards. The company proposed 33-SC for the life parameter and a negative 30% for net salvage value. The current life and net salvage value parameters are 30-SC and negative 32%. The Cities proposed life parameter is 35-SC. Based on the information provided in the Cities witness Nancy Hughes's testimony I agree with the Cities proposed life parameter of 35-SC for this account. The calculated CRL for the account is 29.09 years.

I disagree with the company proposed net salvage value of negative 30%. My analysis of the company filed historical net salvage data (see Appendix-C), using the modified traditional approach for inflation correction, indicates that negative 17% is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate for the account is 4.22% and the calculated annual accrual is $2,024,645. The company proposed depreciation rate is 3.77% and the annual accrual is $1,808,747 and my recommended depreciation rate is 2.78% with an annual accrual of $1,333,771. My recommendation decreases the annual accrual by $690,874 from the currently approved rate and reduces the accrual by $474,976 from the company proposed rate. I recommend approval of a 2.78% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

3. GENERAL PLANT ACCOUNTS

Q. Please provide your analysis for the general plant assets.

A. My analysis for general plant assets include nine (9) accounts. A summary table shown below (Table-16) provides information on the company and staff proposed life parameters and net salvage values. For the test period, ending June, 30, 2006, the original investment for the total general plant assets is $170,263,167. The current total annual depreciation accrual, based on the current depreciation rates, for the general plant accounts is $6,369,637. The company has proposed, for the test period ending June 30,

2006, an annual depreciation expense for the total general plant assets at $6,308,012, which is a decrease of approximately 1%. Based on my review of the company filed depreciation study, I recommend annual depreciation accrual of $6,205,751, which is a decrease of $163,886 (2.6%) to the current annual accrual for the total general plant. My recommendation decreases the company proposed depreciation expense by $102,262 for the total general plant. The following paragraphs show a detailed depreciation analysis for each FERC account category of the distribution plant.

Table-16 Summary of Life and Salvage Values- General Plant

Account No.	Account Description	Current Curve	Current Net Salv. %	Comp. Prop Curve	Comp. Prop. Net Salv. %	Staff Prop Curve	Staff Prop. Net Salv %
390	Structures and Improvement	40-S1	25	40 R0.5	19	40 R0.5	21
391	Office Furniture and Equipment	15-SQ	1	15 SQ.0	2	15 SQ.0	2
392	Transportation Equipment						
393	Stores Equipment.	22-SQ	-1	22 SQ.0	0	22 SQ.0	0
394	Tools Shop and Garage Equipment	35-SQ	1	35 SQ.0	0	35 SQ.0	0
395	Laboratory Equipment	33-SQ	0	33 SQ.0	0	33 SQ.0	0
396	Power Operated Equipment	15-SQ	10	15 SQ.0	3	15 SQ.0	3
397	Communications Equipment	20-SQ	0	20 SQ.0	0	20 SQ.0	1
398	Miscellaneous Equipment	20-SQ	3	20 SQ.0	-2	20 SQ.0	-1

Q. What is your analysis for Account No. 390 Structures and Improvement?

A. For the test period ending June 30, 2006, this account includes original investment of $67,220,680. For the depreciation study period ending December 31, 2005, the original

investment amount is $67,545,783 and the book reserve is $31,929,351 (47.27%). The assets included in this account are the in-place structures and improvements used for utility purposes, the cost of which is not includible in other structures and improvements accounts. The company proposed 40-R0.5 for the life parameter and a positive 19% net salvage value. The current life and net salvage value parameters are 40-S1.0 and 25%, respectively. My review of the company filed study indicates that the company proposal for the life parameter is reasonable. I concur with the company proposal for ARO for the removal and disposal of asbestos in general buildings. I recommend using the company proposed gross salvage value of 23% because the company has deleted its 1999 and 2005 retirement and salvage data in its projected future gross salvage value. However, I recommend modifying the company proposed cost of removal of 4% to reflect the inflation adjustment. The company proposed 4% cost of removal does not include the 2% ARO amount. Applying the inflation adjustment as shown in Appendix-C results in a net salvage value of 21%.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 1.83% and $1,230,138. The company proposed depreciation rate is 1.1% and the annual accrual is $739,427. I recommend a depreciation rate of 1.04% with an annual accrual of $699,095. My recommendation decreases the annual accrual by $531,043 from the currently approved rate and by $40,332 from the company proposed rate. I recommend approval of a 1.04% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 391 Office Furniture and Equipment?

A. For the test period ending June 30, 2006, this account includes original investment of $22,038,718. For the depreciation study period ending December 31, 2005, the original investment amount is $14,409,356 and the book reserve is $11,818,014 (82.02%). This account consists of furniture and fixtures such as desks, tables, chairs, and cabinets. The company proposed a 15-SQ curve for the life parameter and 2% net salvage value. The current life parameter and net salvage value are 15-SQ and 1% respectively. Based on my review of the company study, I concur with the company proposed life parameter and net salvage value.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 6.39% and $1,408,274. The company proposed depreciation rate is 2.77% and the annual accrual is $610,472, which is reduction of $797,802 to the current accrual. I recommend approving the company proposed depreciation rate of 2.77% for this account.

Q. What is your analysis for account No. 392, Transportation Equipment?

For the test period ending June 30, 2006, this account includes original investment of $146,849. The company has not conducted a life and salvage study for this account. The company proposes to continue using the current depreciation rate of 13.33% for this account. I concur with the proposal.

Q. What is your analysis for Account No. 393, Stores Equipment?

For the test period ending June 30, 2006, this account includes original investment of $1,010,389. For the depreciation study period ending December 31, 2005, the original investment amount is $1,013,478 and the book reserve is $430,804 (42.51%). The assets included in this account are the equipment used for the receiving, shipping, handling, and storage of materials and supplies. I recommend approving the company proposed life parameter of 22-SQ and 0% net salvage value for this account. The current life parameter and net salvage value are 22-SQ and negative 1%.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 4.35% and $43,952. The recommended depreciation rate is 8.52% and the annual accrual is $86,085. My recommendation increases the annual accrual by $42,133 from the currently approved rate. I recommend approval of a 8.52% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value.

Q. What is your analysis for Account No. 394, Tools, Shop, and Garage Equipment?

A. For the test period ending June 30, 2006, this account includes original investment of $10,490,206. For the depreciation study period ending December 31, 2005, the original investment amount is $10,421,402 and the book reserve is $1,374,450 (13.19%). The assets included in this account are tools, implements, and equipment used in construction, repair work, general shops and garages that are not specifically provided for or includible in other accounts. The company proposed 35-SQ for the life parameter and 0% net salvage value for this account. I concur with the company proposal.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 2.78% and $291,628. The company proposed depreciation rate is 3.31% and the annual accrual is $347,226, which results in an increase of $55,598 to the currently approved rate. I recommend approval of a 3.31% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value.

Q. What is your analysis for Account No. 395, Laboratory Equipment?

For the test period ending June 30, 2006, this account includes original investment of $0. For the depreciation study period ending December 31, 2005, the original investment amount is $69,495 and the book reserve is $58,330 (83.93%). The assets included in this account are the installed laboratory equipment used for general laboratory purposes and not specifically provided for or includible in other departmental or functional plant accounts. The company proposes to use the current life and net salvage parameters of 33-SQ and 0% to calculate the depreciation rate. I concur with the company proposed depreciation rate of 0.54% for this account on going forward basis..

Q. What is your analysis for Account No. 396, Power Operated Equipment?

A. For the test period ending June 30, 2006, this account includes original investment of $407,324. For the depreciation study period ending December 31, 2005, the original investment amount is $407,324 and the book reserve is $348,247 (85.5%). This account consists of power-operated equipment such as bulldozers, forklifts, pile drivers, and tractors. The company proposes to retain the current life parameter of 15 SQ for the

account. I agree with the company proposal. The current net salvage value for the account is positive 10%. Based on the salvage study shown in Appendix-C, I agree with the company proposed 3% net salvage value for this account. I recommend approving the company proposed depreciation rate of 0.94%.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 5.34% and $21,751. The recommended depreciation rate is 0.94% and the annual accrual amount is $3,829. My recommendation decreases the annual accrual by $17,922 from the currently approved rate.

Q. What is your analysis for Account No. 397, Communications Equipment?

A. For the test period ending June 30, 2006, this account includes original investment of $67,699,826. For the depreciation study period ending December 31, 2005, the original investment amount is $66,292,413 and the book reserve is $19,508,983 (29.43%). This account consists of assorted communication equipment such as antennas, tower, fiber optic cable, microwave equipment, and mobile radio equipment. The company proposed life parameter of 20-SQ and 0% net salvage value for this account. The current life parameter and net salvage value for the account are 20-SQ and 0% respectively. Based on my review of the company filed study, I concur with the company proposal for life parameter. However, my analysis of the historical salvage data, see Appendix-C, using the modified traditional approach indicates a net salvage value of positive 1% for this account. In my net salvage analysis, I have calculated the annual average gross salvage and cost of removal percentage to be used in calculating the total amount for the

remaining life of the asset, without including the 1994 transaction as explained by the company in its study.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 4.87% and $3,296,982. The company proposed depreciation rate is 6.49% and the annual accrual amount is $4,393,719. My proposed depreciation rate and annual accrual amounts are 6.4% and $4,332,789. My recommendation increases the annual accrual by $1,035,807 from the currently approved rate, and decreases by $60,930 from the company proposed rate. I recommend approval of a 6.40% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

Q. What is your analysis for Account No. 398, Miscellaneous Equipment?

A. For the test period ending June 30, 2006, this account includes original investment of $1,249,175. For the depreciation study period ending December 31, 2005, the original investment amount is $1,069,735 and the book reserve is $22,770 (2.13%). This account consists of miscellaneous equipment used by the utility in providing its services and not included in other accounts. The current life parameter and net salvage value are 20-SQ and 3%. The company proposes 20-SQ for the life parameter and negative 2% for net salvage value. Based on my review of the company filed study, I concur with the company proposed life parameter. My review of the historical salvage data, see Appendix-C, using the modified traditional approach for inflation adjustment indicates that negative 1% net salvage value is appropriate for this account.

For the test period ending June 30, 2006, the current depreciation rate and the annual expense for the account are 4.59% and $57,337. The recommended depreciation rate is 8.54% and the annual accrual amount is $106,680. My recommendation increases the annual accrual by $49,342 from the currently approved rate, and decreases the company proposed annual accrual by $999. I recommend approval of a 8.54% depreciation rate for this account, because it is based on reasonable life parameter and net salvage value as discussed above.

VI. Comparison of Proposed Depreciation Rates.

Q. Please provide a comparison of depreciation rates.

A. Table-17 below shows the following for each account category for comparison purposes; Currently approved depreciation rate, Company proposed depreciation rate, Staff proposed depreciation rate, and the Cities proposed depreciation rate.

Table-17 List of Proposed Depreciation Rates

Account No.	Description	Current Dep. Rate	Company Proposed Dep. Rate	Staff Proposed Dep. Rate	Cities Proposed Dep. Rate[21]
Transmission Plant					
350	Rights-of-Way	1.23%	1.02%	1.02%	1.02%
352	Structures and Improvements	1.69%	1.33%	1.30%	1.33%
353	Station Equipment	1.45%	1.38%	1.36%	1.38%
354	Towers and Fixtures	1.39%	0.80%	0.68%	0.80%
355	Poles and Fixtures	2.06%	2.21%	1.50%	2.18%
356	Overhead Conductor	1.77%	1.52%	1.20%	1.52%
357	Underground Conduit	0.94%	0.59%	0.54%	0.59%
358	Underground	2.14%	1.66%	1.66%	1.66%

[21] The source for the data is Cities witness Nancy Heller Hughes's testimony attachment Schedule-1 filed in this docket.

Account No.	Description	Current Dep. Rate	Company Proposed Dep. Rate	Staff Proposed Dep. Rate	Cities Proposed Dep. Rate[21]
	Conductor and Devices				
359	Roads and Trails	1.48%	1.15%	1.15%	1.15%
Distribution Plant					
360.1	Rights-of-Way	1.89%	1.44%	1.44%	1.44%
361	Structures and Improvements	1.80%	0.96%	1.03%	0.88%
362	Station Equipment	1.36%	1.24%	1.31%	1.15%
364	Poles, Towers, and Fixtures	3.67%	3.67%	2.70%	3.45%
365	Overhead Conductor and Devices	3.67%	3.70%	2.32%	3.37%
366	Underground Conduit	2.70%	2.51%	1.78%	2.51%
367	Underground Conductor	2.66%	2.60%	2.08%	2.60%
368	Line Transformers	3.02%	2.55%	2.35%	2.43%
369	Services	4.38%	3.83%	3.22%	3.83%
370	Meters	4.43%	5.56%	5.31%	5.56%
371	Installation on Customer Premises	7.02%	4.74%	1.94%	3.46%
373	Street Lighting and Signal Systems	4.22%	3.77%	2.78%	3.22%
General Plant					
390	Structures and Improvements	1.83%	1.10%	1.04%	1.17%
391	Office Furniture and Equipment	6.39%	2.77%	2.77%	2.77%
392	Transportation Equipment	13.33%	13.33%	13.33%	N/A
393	Stores Equipment	4.35%	8.52%	8.52%	8.52%
394	Tool, Shop, and Garage Equipment	2.78%	3.31%	3.31%	3.31%
395	Laboratory Equipment	2.98%	0.58%	0.58%	0.58%
396	Power Operated Equipment	5.34%	0.94%	0.94%	0.94%
397	Communication Equipment	4.87%	6.49%	6.40%	6.49%
398	Miscellaneous Equipment	4.59%	8.62%	8.54%	8.62%

VII. SUMMARY AND CONCLUSION

Q. Please summarize your conclusions and recommendations.

A. After a thorough review of the company filed depreciation study, the company provided life table data, and historical net salvage data, the current rate and parameters; I have recommended reasonable life and net salvage parameters and the resulting remaining life depreciation rates for all account categories. My recommended depreciation rates for all of TCC's FERC accounts are shown in Exhibit-NVS-1. My recommended life parameters and net salvage values are shown in Exhibit-NVS-3. My recommended annual depreciation accrual for all of TCC' FERC accounts for the test period ending June 30, 2006 are shown in Exhibit-NVS-2. This information should be used in establishing TCC' rates in this proceeding.

Q Does this conclude your testimony?

A. Yes, it does.