Reconciliation of Depreciation Expense - January - August 2003

Depreciation expense as of the end of August 2003 is more under budget than it is expected to be by year-end due to the difference in timing between when depreciation on new assets coming in service and retirements are budgeted, and when they are recorded on an actual basis. Total depreciation expense, including the depreciation on new assets, and net of the effect of retirements, is budgeted evenly throughout the year for administrative ease.

Actual depreciation expense on new assets, and reductions in depreciation expense relative to retirements, is not recorded until after capital projects are completed and plant records created - the bulk of which does not happen until the very end of the year. This approach ensures that all costs relative to a project have been captured prior to the creation of an asset record and that rework and subsequent adjustments are avoided.

Please refer to the attached schedule for a reconciliation of depreciation expense to the end of August. The original budget has been adjusted to include the amortization of deferred PUB costs which were inadvertently omitted. The 2003 depreciation on the 2003 capital budget is forecast to be $1,046,000. Of this, $697,000 would be budgeted in Jan-Aug, but practically none would be recorded on an actual basis yet. The remaining decline of $114,000 is due to the additional retirements in 2002, which translates into lower depreciation expense in 2003. The $319,000 total reduction in depreciation expense by year-end reflects the increased retirements that are expected in 2003 but have not yet been reflected in the actual accounting entries.

Depreciation Expense: January - August 2003

($ thousands)

Original Budget, per PUB-187 NLH	$	21,857
Add: amortization of PUB costs ($603 x 8/12)		402
Adjusted original budget		22,259
Actual depreciation expense, per PUB-187 NLH		21,448
Difference to be explained	$	811
Difference on 2003 Capital Budget ($1,046 x 8/12)	$	697
Difference due to impact of additional retirements	$	114