

1 Q. Why is depreciation expense declining in 2006 relative to 2005 and  
2 increasing approximately \$3.3 million in 2007 over 2006? Provide the  
3 depreciation expense and loss on disposal separately by year for the period  
4 2005 to 2007 forecast. (Finance and Accounting Evidence, Schedule I, page  
5 1 of 10, line 10)

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8 A. Depreciation expense is increasing in 2006 relative to 2005 and again in  
9 2007 over 2006. Depreciation expense will tend to increase over time due to  
10 expansion of the system, the addition of relatively short-lived assets, and the  
11 increasing cost of replacement assets. Contributing to the increase in 2007  
12 are the new Energy Management System (\$1.2 million) VHF radio system  
13 (\$0.4 million) and feasibility studies (\$0.5 million). Loss on disposal of assets  
14 varies from year to year and is forecast based on the asset replacements  
15 anticipated in the capital program.

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	(\$ millions)		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
18 Depreciation Expense	\$ 35.5	\$ 36.3	\$ 39.1
19 Loss on Disposal	<u>\$ 3.3</u>	<u>\$ 1.2</u>	<u>\$ 1.7</u>
20 <b>Total</b>	<u>\$ 38.8</u>	<u>\$ 37.5</u>	<u>\$ 40.8</u>

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