

1 **Q. [Account 361] – Please provide a detailed explanation and all corresponding**
2 **justification for the appreciable increase in negative net salvage for Accounts**
3 **361.12, .13, and .15 – Overhead Conductors-Aluminum for the years 2005 through**
4 **2009 as set forth on page B-12 of the Gannett Fleming study. The response should**
5 **include all workpapers, assumptions, considerations, and all material reviewed**
6 **and/or relied upon in sufficient detail to permit verification of the reasonableness of**
7 **the response.**

8
9 **A.** The net salvage ratio represents the ratio of net salvage amount, or the cost of removal
10 less gross salvage, to the original installed cost. For Accounts 361.12, .13, and .15 –
11 Overhead Conductors-Aluminum on page B-12 of the Gannett Fleming study the net
12 salvage ratio is the ratio of the net salvage amount to regular retirements expressed as a
13 percentage.

14
15 Based on the information provided on page B-12 for accounts 361.12, 361.13 and 361.15,
16 for the period 2006 to 2009 it is observed that the cost of removal for these accounts has
17 trended significantly higher while gross salvage amounts have trended lower.¹

18
19 These trends in removal costs and gross salvage are primarily due to inflationary
20 pressures and higher average lives. Annual fluctuations in the net salvage ratios are
21 expected based on inflation and yearly variations in the age and retirement cost of the
22 plant being retired.² This can be observed in the variance from year to year of the data
23 presented on page B-12.

24
25 While an increase in the removal costs for these accounts could be justified based on
26 recent activity, the net salvage percentage for these accounts was maintained at 30
27 percent for the 2010 Depreciation Study consistent with the 2005 Depreciation Study.³

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29 The Company has no workpapers, or material that was reviewed and/or relied upon to
30 permit verification of the reasonableness of this response. The summary of book value
31 presented on B-12 are actual costs incurred resulting in the simple calculation of the net
32 salvage ratio.

¹ See Volume 3, *Expert Evidence and Studies, 2010 Depreciation Study, page B-12.*

² For 2004 to 2009, the average age of conductor retired over the period was 34 years. By comparison, the average age of conductor retired in 2004 was 27 years. Higher average age values have associated lower original installation cost, resulting in more negative net salvage ratios.

³ See Volume 3, *Expert Evidence and Studies, 2010 Depreciation Study, page III-6.*