

1 **Q. Please confirm that the inadequate accumulation of the reserve over time referred to**
2 **in PUB-CA-6 was directly related to the failure to adequately record depreciation**
3 **expense, and therefore to adequately recover in the revenue requirement the related**
4 **write-off of the assets of the utility.**

5
6 **A.** Confirmation or denial cannot be made based on the wording of the question. The
7 questions link the recording of depreciation expense with the adequate recovery in revenue
8 requirements. The two situations can be, and often are, different. A utility can often over or
9 under recover any particular expense as it charges customers base rates over time. It is
10 when the total relationship between revenues received and the level of return, taxes,
11 depreciation, and other expenses become out of balance to a significant enough extent to
12 warrant a rate change that a utility seeks rate relief. Such situations of over or under
13 recovery do not change the need to maintain proper and accurate books and records of
14 capital recovery through the depreciation process. Therefore, there is an inadequate level
15 of recording depreciation expense, however, not an inadequate recovery.