

1 **Q. On page 55 of the Finance and Accounting Evidence by Barry Perry it states that**
2 **the mid-year convention for book depreciation, or similar derivations thereof, are**
3 **widely used by other utilities. Please provide evidence to support this statement.**
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5 A. There is a preponderance of accounting and depreciation literature that refers to the mid-
6 year or half-year convention. This convention is based on industry experience that plant
7 is added and removed on a relatively constant basis throughout the year. That is, plant
8 additions have a relatively equal probability of being installed in January as they do in
9 December. Depreciation accruals begin once assets are placed in service. In order to
10 streamline the depreciation calculation for book purposes the mid-year convention has
11 been widely adopted based on the assumption that all plant added during the calendar
12 year was installed, on average, on July 1. Thus, at year-end, a half-year of depreciation
13 should have been recorded for all plant added during the calendar year. The same
14 assumption holds true for plant retirements. This is what is known as the mid-year or
15 half-year convention.
16

17 Rather than calculating the specific depreciation amount for each of the thousands of
18 property units that are added annually, it is accounting convention to assume that all plant
19 was installed at mid-year. This assumption or accounting convention greatly reduces the
20 voluminous calculations that would have been required otherwise with relatively no loss
21 in accuracy related to the calculation of depreciation.
22

23 The following is a list of references that refer to the mid-year or half-year convention:
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25 California Public Utilities Commission. (1961). *Determination of Straight-line*
26 *Remaining Life Accruals. Standard Practice U-4.* San Francisco, CA, California Public
27 Utilities Commission, Utilities Division. Revised Edition.
28

29 American Gas Association Depreciation Committee and Edison Electric Institute
30 Depreciation Accounting Committee. (1975). *An Introduction to Depreciation of Public*
31 *Utility Plant and Plant of Other Industries.* Arlington, VA, American Gas Association –
32 Edison Electric Institute.
33

34 Meigs, Walter B., and Meigs, Robert F. (1979). *Financial Accounting*, Third Edition.
35 New York, NY, McGraw-Hill Book Company.