

Q. On page 56, Table 14 of the Finance and Accounting Evidence by Barry Perry it indicates that the annual depreciation rate for transportation has decreased by 1.4 % from 1996 Study – 2002 Study. Why such a significant change? Please provide the approximate effect on depreciation expense by year for this category due to the decrease in depreciation rate? Please provide fleet maintenance costs by year for the same period.

A. The depreciation rate listed for Transportation is a composite rate. There are six depreciable categories that comprise Transportation:

1. Passenger Sedans and Station Wagons;
2. Pick-Up Trucks and Window Vans;
3. Large Trucks with Hydraulic Derricks – Cab and Chassis;
4. Large Trucks with Hydraulic Derricks – Equipment;
5. Large Trucks with Line and Stake Bodies; and,
6. Miscellaneous.

The reason for the depreciation rate decrease is that the estimated service lives for several of the categories increased by one year. The current estimated service lives for each of the six depreciable categories are presented in Schedule 1 of the depreciation study report filed in conjunction with the Company's 2003 General Rate Application. The service lives, survivor curves and net salvage percents estimated in 1996 are presented in Schedule 1 of the depreciation study report submitted to the Board in 1996.

Based on the original cost of Transportation assets in service as of December 31, 2001 of approximately \$20.7 million (as shown under Account 378 on page III-9 of the depreciation study report filed with the Company's 2003 General Rate Application), the estimated impact on (decrease in) annual depreciation expense due to the decrease in the composite annual depreciation rate for Transportation assets may be determined as follows:

Estimated annual depreciation expense, based on composite rate determined in 1996 depreciation study report:

$$\$20,700,000 \times 10.84\% = \$2,243,880$$

Estimated annual depreciation expense, based on composite rate determined in 2002 depreciation study report:

$$\$20,700,000 \times 9.44\% = \$1,954,080$$

Estimated Reduction in Annual Depreciation Expense \$ 289,800

- 1 Please refer to the Company's response to Request for Information CA-559 for
- 2 information with respect to the Company's vehicle operating and maintenance expenses
- 3 for the period 1998 to forecast 2004.