

1 **Q. In reference to the Financial Advisor's 2003 Report, page 12, does the \$17.2 million**
2 **decrease in accumulated depreciation resulting from the adoption of the half year**
3 **rule and the Gannett Fleming Study get added to rate base, and, if so, will there not**
4 **be extra revenue required to provide a return on this amount, thus negating some of**
5 **the benefits of the reduction in depreciation expense?**
6

7 A. The \$17.2 million variance between the Company's recorded accumulated depreciation
8 and the accrued depreciation as calculated by Gannett Fleming is effectively added to rate
9 base as the accumulated reserve variance is amortized to income. Amortization of the
10 reserve variance decreases depreciation expense in each year which results in a decrease
11 in accumulated depreciation and a corresponding increase in rate base.
12

13 The increase in rate base will result in an increase in revenue requirement equal to the
14 return on the increase. For example, in the 2003 test year the increase in rate base is
15 approximately \$2,897,000 which results in an increase in return on rate base of
16 approximately \$305,600 at 10.55%. The net reduction in revenue requirement for the
17 2003 test year is approximately \$5,487,800 (\$5,793,400 - \$305,600).