Exhibit No.:
Issues: Depreciation
Witness: Ronald E. White
Sponsoring Party: Aquila Networks-MPS & L&P
Case No.: ER-

FILED[4]
APR 29 2004
Missouri Public Service Commission

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Ronald E. White

Exhibit No. 99
Case No(s). ER-2004-0034
Date 2/23/04 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**
**DIRECT TESTIMONY OF DR. RONALD E. WHITE**
**ON BEHALF OF AQUILA, INC.**
**D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P**
**CASE NO. ER-_____**

Q. Would you please state your name and business address?

A. My name is Ronald E. White. My business address is 17595 S. Tamiami Trail, Suite 212, Fort Myers, Florida 33908.

Q. What is your occupation?

A. I am an Executive Vice President and Senior Consultant of Foster Associates, Inc.

## QUALIFICATIONS

Q. Would you briefly describe your educational training and professional background?

A. I received a B.S. degree (1965) in Engineering Operations and an M.S. degree (1968) and Ph.D. (1977) in Engineering Valuation from Iowa State University. I have taught graduate and undergraduate courses in industrial engineering, engineering economics, and engineering valuation at Iowa State University and previously served on the faculty for Depreciation Programs for public utility Commissions, companies, and consultants, sponsored by Depreciation Programs, Inc., in cooperation with Western Michigan University. I also conduct courses in depreciation and public utility economics for clients of the firm.

I have prepared and presented a number of papers to professional organizations, committees, and conferences and have published several articles on matters relating to depreciation, valuation and economics. I am a past member of the Board of Directors of the Iowa State Regulatory Conference and an affiliate member of the joint American Gas Associa-

tion (A.G.A.) – Edison Electric Institute (EEI) Depreciation Accounting Committee, where I previously served as chairman of a standing committee on capital recovery and its effect on corporate economics. I am also a member of the American Economic Association, the Financial Management Association, the Midwest Finance Association, the Electric Cooperatives Accounting Association (ECAA), and a founding member of the Society of Depreciation Professionals.

Q. What is your professional experience?

A. I joined the firm of Foster Associates in 1979, as a specialist in depreciation, the economics of capital investment decisions, and cost of capital studies for ratemaking applications. Before joining Foster Associates, I was employed by Northern States Power Company (1968-1979) in various assignments related to finance and treasury activities. As Manager of the Corporate Economics Department, I was responsible for book depreciation studies, studies involving staff assistance from the Corporate Economics Department in evaluating the economics of capital investment decisions, and the development and execution of innovative forms of project financing. As Assistant Treasurer at Northern States, I was responsible for bank relations, cash requirements planning, and short-term borrowings and investments.

Q. Have you previously testified before a regulatory body?

A. Yes. I have testified in numerous proceedings before administrative and judicial bodies in Alabama, Arizona, California, Colorado, Delaware, Hawaii, Idaho, Illinois, Iowa, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nevada, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Vermont, Virginia, Wisconsin, and the

District of Columbia. I have also testified before the Federal Energy Regulatory Commission, the Federal Power Commission, the Alberta Energy Board, the Ontario Energy Board, and the Securities and Exchange Commission. I have sponsored position statements before the Federal Communication Commission and numerous local franchising authorities in matters relating to the regulation of telephone and cable television. A more detailed description of my professional qualifications is contained in attached Schedule REW–1.

## PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. Foster Associates was engaged by Aquila Networks ("Aquila" or "Company") to conduct depreciation studies for its electric, industrial steam and common utility properties operated by Aquila Networks—MPS and Aquila Networks—SJLP. The engagement also included a 2003 Depreciation Rate Study of Aquila Corporate Assets shared with other business units, including MPS and SJLP. The purpose of my testimony is to sponsor the studies conducted by Foster Associates for MPS, SJLP and Corporate Assets operations.

## DEVELOPMENT OF DEPRECIATION RATES

Q. Would you please explain why depreciation studies are needed for accounting and ratemaking purposes?

A. The goal of depreciation accounting is to charge to operations a reasonable estimate of the cost of the service potential of an asset (or group of assets) consumed during an accounting interval. A number of depreciation systems have been developed to achieve this objective, most of which employ time as the apportionment base.

Implementation of a time-based (or age-life system) of depreciation accounting requires the estimation of several parameters or statistics related to a plant account. The average service life of a vintage, for example, is a statistic that will not be known with certainty until all units from the original placement have been retired from service. A vintage average service life, therefore, must be estimated initially and periodically revised as indications of the eventual average service life become more certain. Future net salvage rates and projection curves, which describe the expected distribution of retirements over time, are also estimated parameters of a depreciation system that are subject to future revisions. Depreciation studies should be conducted periodically to assess the continuing reasonableness of parameters and accrual rates derived from prior estimates.

The need for periodic depreciation studies is also a derivative of the ratemaking process which establishes prices for utility services based on costs. Absent regulation, deficient or excessive depreciation rates will produce no adverse consequence other than a systematic over or understatement of the accounting measurement of earnings. While a continuance of such practices may not comport with the goals of depreciation accounting, the achievement of capital recovery is not dependent upon either the amount or the timing of depreciation expense for an unregulated firm. In the case of a regulated utility, however, recovery of investor-supplied capital is dependent upon allowed revenues, which are in turn dependent upon approved levels of depreciation expense. Periodic reviews of depreciation rates are, therefore, essential to the achievement of timely capital recovery for a regulated utility.

It is also important to recognize that revenue associated with depreciation is a significant source of internally generated funds used to finance plant replacements and new capacity

additions. It can be shown that given the same financing requirements and the same dividend payout ratio, an increase in internal cash generation will accelerate per-share growth in earnings, dividends, and book value over the business life of a firm. Financial theory provides that the marginal cost of external financing will be reduced by these enhanced measurements of financial performance. This is not to suggest that internal cash generation should be substituted for the goals of depreciation accounting. However, the potential for realizing a reduction in the marginal cost of external financing provides an added incentive for conducting periodic depreciation studies and adopting proper depreciation rates.

Q. What are the principal activities involved in conducting a depreciation study?

A. The first step in conducting a depreciation study is the collection of plant accounting data needed to conduct a statistical analysis of past retirement experience. Data are also collected to permit an analysis of the relationship between retirements and realized gross salvage and removal expense. The data collection phase should include a verification of the accuracy of the plant accounting records and a reconciliation of the assembled data to the official plant records of the company.

The next step in a depreciation study is the estimation of service life statistics from an analysis of past retirement experience. The term *life analysis* is used to describe the activities undertaken in this step to obtain a mathematical description of the forces of retirement acting upon a plant category. The mathematical expressions used to describe these forces are known as survival functions or survivor curves.

Life indications obtained from an analysis of past retirement experience are blended with expectations about the future to obtain an appropriate projection life curve. This step,

called *life estimation*, is concerned with predicting the expected remaining life of property units still exposed to the forces of retirement. The amount of weight given to the analysis of historical data will depend upon the extent to which past retirement experience is considered descriptive of the future.

An estimate of the net salvage rate applicable to future retirements is usually obtained from an analysis of the gross salvage and removal expense realized in the past. An analysis of past experience (including an examination of trends over time) provides a baseline for estimating future salvage and cost of removal. Consideration, however, should be given to events that may cause deviations from the net salvage realized in the past. Among the factors which should be considered are the age of plant retirements; the portion of retirements that will be reused; changes in the method of removing plant; the type of plant to be retired in the future; inflation expectations; the shape of the projection life curve; and economic conditions that may warrant greater or lesser weight to be given to the net salvage observed in the past.

A comprehensive depreciation study will also include an analysis of the adequacy of the recorded depreciation reserve. The purpose of such an analysis is to compare the current balance in the recorded reserve with the balance required to achieve the goals and objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized exactly as predicted. The difference between the required (or theoretical) reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to extinguish the reserve imbalance.

Although reserve records are typically maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices and procedures. Differences between the theoretical reserve and the recorded reserve will arise as a normal occurrence when service lives, dispersion patterns and salvage estimates are adjusted in the course of depreciation reviews. Differences will also arise due to plant accounting activity such as transfers and adjustments, which require an identification of reserves at a different level from that maintained in the accounting system. It is appropriate, therefore, and consistent with group depreciation theory, to periodically redistribute recorded reserves among primary accounts based on the most recent estimates of retirement dispersion and salvage. A redistribution of the recorded reserve will provide an initial reserve balance for each primary account consistent with the estimates of retirement dispersion selected to describe mortality characteristics of the accounts and establish a baseline against which future comparisons can be made. Finally, parameters estimated from service life and net salvage studies are integrated into an appropriate formulation of an accrual rate based upon a selected depreciation system. Three elements are needed to describe a depreciation system. These elements (*i.e.*, method, procedure and technique) can be visualized as three dimensions of a cube in which each face describes a variety of sub-elements that can be combined to form a system. A depreciation system is therefore formed by selecting a sub-element from each face such that the system contains one method, one procedure and one technique. The sub-elements commonly used in constructing a depreciation system are shown in Table 1.

| METHODS | PROCEDURES | TECHNIQUES |
|---|---|---|
| Retirement | Total Company | Whole-Life |
| *Compound-Interest* | *Broad Group* | *Remaining-Life* |
| Sinking-Fund | Vintage Group | Probable-Life |
| Straight-Line | Equal-Life Group | |
| Declining Balance | Unit Summation | |
| Sum-of-Years'-Digits | Item | |
| Expensing | | |
| Unit-of-Production | | |
| Net Revenue | | |

TABLE 1. ELEMENTS OF A DEPRECIATION SYSTEM

## 2002 MPS DEPRECIATION RATE STUDY

Q. Did Aquila provide Foster Associates plant accounting data for conducting the 2002 MPS depreciation study?

A. Yes, they did. The database used in the 2002 study was compiled from two sources. Detailed accounting transactions were extracted from these sources and assigned transaction codes which identify the nature of the accounting activity. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The first data source was an electronic file historically provided to the Missouri Commission to conduct independent analyses. While the file included vintage years since inception through 1997, it did not provide a distinction between additions, transfers, and adjustments. The file, therefore, was recreated by the Company using a legacy system database to provide the appropriate distinctions. A translation program was then used by

Foster Associates to create a database in a format compatible with the software used to conduct the depreciation study.

The second source of data was the current CPR system installed by Aquila in 1998. The database obtained from this system included activity year transactions over the period 1998-2001 and the age distribution of surviving plant at December 31, 2001. Age distributions at December 31, 2001 were used in conjunction with activity year transactions to reverse the transaction flow and generate an age distribution at December 31, 1997. The resulting age distributions were then compared to the age distributions generated by the Commission database. Differences were coded as vintage adjustments in 1997 to interconnect and provide continuity between the two databases. Care was taken in creating the Foster Associates database to ensure a proper mapping of the legacy system account structure to the current CPR account structure. No attempt, however, was made to reconcile the Foster Associates database to the historical Commission database because of the treatment of adjusting transactions in the Commission database.

The accuracy and completeness of the assembled database was verified by Foster Associates for activity years 1998 through 2001 by comparing the beginning plant balance, additions, retirements, transfers and adjustments, and the ending plant balance derived for each activity year to the official plant records of the Company. Age distributions of surviving plant at December 31, 2001 were reconciled to the CPR.

Q. Did Foster Associates conduct a statistical life analysis for MPS electric and common operations?

A. Yes, we did. As discussed in Schedule REW–2, all plant accounts were analyzed using a technique in which first, second and third degree polynomials were fitted to a set of ob-

served retirement ratios. The resulting function can be expressed as a survivorship function, which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data. Service life indications derived from the statistical analyses were blended with informed judgment and expectations about the future to obtain an appropriate projection life curve for each plant category.

Plant classified in the Steam and Other Production functions were identified by location and treated as life-span categories in the 2002 study. The life-span method requires the selection of a coterminous retirement date for all plant additions to a specific facility. A composite depreciation rate was calculated for each facility using the technique of harmonic weighting of the expected life span of each vintage addition. The resulting accrual rate was adjusted for interim retirements anticipated prior to the terminal retirement date of the facility.

Q. Did Foster Associates conduct a net salvage analysis for MPS electric and common operations?

A. Yes, we did. A traditional, historical analysis using a five-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in the study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate. Cost of removal and salvage opinions obtained from MPS operating personnel were blended with judgment and historical net salvage indications in developing estimates of the future.

The average net salvage rate for an account was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate.

Consideration was also given in the 2002 MPS depreciation study to the cost of dismantling the Sibley Generating Station and the Jeffery Energy Center. The projected cost of dismantling these facilities was derived from an estimated cost of $50 per kW, denominated in 2001 dollars. This cost estimate is intended to serve as a placeholder pending authorization by the Commission to include removal expense in the accrual for depreciation and completion of a detailed dismantling cost study. While Foster Associates does not claim expertise in developing demolition cost estimates, $50 per kW is well within the range of estimates reported in industry surveys and in testimony presented by independent demolition experts. It is also consistent with costs incurred by Aquila in dismantling other generating facilities.

A distinction was also made in the 2002 MPS depreciation study between interim and final (or terminal) net salvage. Interim net salvage is associated with plant retirements and replacements prior to the terminal date at which all plant comprising an integrated facility (*e.g.*, a generating station) will be retired from service. Final net salvage is the net cost (*i.e.*, salvage less cost of removal) incurred in dismantling the entire facility. An interim net salvage rate of -10 percent applied to estimated interim retirements was added to the estimated dismantlement cost to obtain the total future net salvage associated with each generating station.

Q. Did Foster Associates conduct an analysis of the recorded depreciation reserve for MPS electric and common operations?

A. Yes, we did. Statement C (page 19) of Schedule REW–2 provides a comparison of the computed and recorded reserves for MPS on December 31, 2001. The recorded reserve was $464,379,209 or 43.0 percent of the depreciable plant investment. The corresponding computed reserve is $427,919,935 or 39.6 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of ($36,459,274) will be amortized over the composite weighted-average remaining life of each rate category.

Q. Is Foster Associates recommending a rebalancing of depreciation reserves for MPS?

A. Yes, we are. A redistribution of recorded reserves is appropriate for MPS. Although recorded reserves have been maintained by primary account (and locations within primary accounts), these reserves were largely ignored in the development of the presently prescribed whole-life accrual rates. Present electric and common rates were established by negotiations and compromise in Formal Case No. ER-2001-672 and EC-2002-265 pursuant to a Stipulation and Agreement dated February 5, 2002. Parameters were not specified and reserve ratios were not considered in the settled rates.

This failure to address prior reserve imbalances produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to develop an initial reserve balance for each primary account consistent with the age distributions and estimates of retirement dispersion developed in this study. Reserves were also realigned in the 2002 study to reflect implementation of the vintage group procedure.

A redistribution of the recorded reserve was achieved for MPS by multiplying the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed re-

serves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Q. Would you please describe the depreciation system currently approved by the Commission for MPS?

A. MPS is presently using a depreciation system composed of the straight-line method, broad group procedure, whole-life technique. The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. The formulation of an account depreciation accrual rate using the straight-line method, broad group procedure, whole-life technique is given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage\ Rate}{Average\ Life}.$$

Q. Is Foster Associates recommending a change in the depreciation system for MPS?

A. Yes, we are. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage group procedure combined with the remaining life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, consideration is given to the realized life of each vintage when average service lives and remaining lives are derived using the vintage group procedure. The vintage group procedure distinguishes average service lives among vintages and composite life statistics are computed for each plant account. The formulation of an account accrual rate using the straight-line method, vintage group procedure, remaining-life technique is given by:

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ Life}.$$

Q. What is the relationship between a whole-life rate and a remaining-life rate?

A. The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances caused largely by imprecise estimates of service life statistics and net salvage rates. A reserve imbalance is measured as the difference between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. A remaining-life rate is the sum of two components: a) a whole-life rate; and b) an amortization of any reserve imbalance over the composite weighted average remaining life of a rate category. In other words, a remaining-life accrual rate is equivalent to

$$Accrual\,Rate = \frac{1.0 - Average\,Net\,Savage\,Rate}{Average\,Life} + \frac{Computed\,Reserve - Recorded\,Reserve}{Remaining\,Life}$$

where both the computed reserve and the recorded reserve are expressed as ratios to the plant in service.

Unlike the currently prescribed whole-life rates in which reserve imbalances are addressed by the presence of compensating deviations in the estimated average service life of each vintage, the remaining-life technique provides a systematic amortization of these imbalances over the composite weighted average remaining life of a rate category. A permanent excess or deficiency will be created in the depreciation reserve by a continued application of the whole-life technique if service life deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated by an application of the remaining-life technique.

Q. Would you please summarize the depreciation rates and accruals Foster Associates recommended for MPS in the 2002 study?

A. Table 2 provides a summary of the changes in annual rates and accruals for MPS resulting from adoption of the parameters and depreciation system recommended in the 2002 study.

| | Accrual Rate | | | 2002 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| Function | Present | Proposed | Difference | Present | Proposed | Difference |
| Steam Production | 2.75% | 4.28% | 1.53% | $9,583,823 | $14,910,910 | $5,327,087 |
| Other Production | 3.46% | 4.05% | 0.59% | 1,023,877 | 1,199,677 | 175,800 |
| Transmission | 1.99% | 2.04% | 0.05% | 3,008,839 | 3,087,251 | 78,412 |
| Distribution | 2.79% | 3.16% | 0.37% | 14,139,774 | 16,015,491 | 1,875,717 |
| General Plant | 5.06% | 4.20% | -0.86% | 1,274,665 | 1,059,085 | -215,580 |
| Common Plant | 4.90% | 3.06% | -1.84% | 933,983 | 582,784 | -351,199 |
| Total Utility | 2.78% | 3.41% | 0.63% | $29,964,961 | $36,855,198 | $6,890,237 |

TABLE 2. 2002 MPS DEPRECIATION STUDY RATES AND ACCRUALS

Foster Associates recommended primary account depreciation rates equivalent to a composite rate of 3.41 percent. Depreciation expense is presently accrued at an equivalent composite rate of 2.78 percent. The recommended change in the composite depreciation rate is, therefore, an increase of 0.63 percentage points.

A continued application of rates currently prescribed would provide annualized depreciation expense of $29,964,961 compared to an annualized expense of $36,855,198 using the rates developed in the 2002 study. The proposed 2002 expense increase is $6,890,237. Of this increase, ($1,928,876) represents amortization of a ($36,459,274) reserve imbalance. The remaining portion of the increase is attributable to changes in service life and net salvage parameters.

## 2002 SJLP DEPRECIATION RATE STUDY

Q. Did Aquila provide Foster Associates plant accounting data for conducting the 2002 SJLP depreciation study?

A. Yes, they did. The database used in the 2002 study was compiled from two sources.

Detailed accounting transactions were extracted from these sources and assigned transaction codes which identify the nature of the accounting activity. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The first data source was an electronic file used by SJLP in conducting its 1998 depreciation rate study. The legacy database was updated by SJLP to include activity years 1998 through 2000. The earliest activity year in the updated file was 1980. An electronic worksheet was used by Foster Associates to create a coded database in a format compatible with the software used to conduct the 2002 depreciation study.

The second source of data was the current CPR system installed by Aquila in 1998. The database obtained from this system included activity year transactions for calendar year 2001 and the age distribution of surviving plant at December 31, 2001. Plant transactions for 2001 were added to the legacy database to generate age distributions at December 31, 2001. The resulting age distributions were then compared to the age distributions extracted from the current CPR. Differences were coded as vintage adjustments in 2001 to interconnect and provide continuity between the two databases. Care was taken in creating the Foster Associates database to ensure a proper mapping of the legacy system account structure to the current CPR account structure.

The accuracy and completeness of the assembled database was verified by Foster Associates for activity year 2001 by comparing additions, retirements, transfers and adjust-

ments, and the ending plant balance derived for 2001 to the official plant records of the Company. The legacy database contains adjustments for depreciation study purposes which prevents reconciling the database to the official plant records for activity years prior to 2001.

Q. Did Foster Associates conduct a statistical life analysis for SJLP electric, industrial steam and common operations?

A. Yes, we did. As discussed in Schedule REW–3, all plant accounts were analyzed using a technique in which first, second and third degree polynomials were fitted to a set of observed retirement ratios. The resulting function can be expressed as a survivorship function, which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data. Service life indications derived from the statistical analyses were blended with informed judgment and expectations about the future to obtain an appropriate projection life curve for each plant category.

Plant classified in the Steam Production, Industrial Steam and Other Production functions were identified by location and treated as life-span categories in the 2002 study. The life-span method requires the selection of a coterminous retirement date for all plant additions to a specific facility. A composite depreciation rate was calculated for each facility using the technique of harmonic weighting of the expected life span of each vintage addition. The resulting accrual rate was adjusted for interim retirements anticipated prior to the terminal retirement date of the facility.

Q. Did Foster Associates conduct a net salvage analysis for SJLP operations?

A. Yes, we did. A traditional, historical analysis using a five-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in the study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate. Cost of removal and salvage opinions obtained from SJLP operating personnel were blended with judgment and historical net salvage indications in developing estimates of the future.

The average net salvage rate for an account was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate.

Consideration was also given in the 2002 SJLP depreciation study to the cost of dismantling the Lake Road and Iatan generating stations. The projected cost of dismantling these facilities was derived from an estimated cost of $50 per kW, denominated in 2001 dollars. This cost estimate is intended to serve as a placeholder pending completion of a detailed dismantling cost study. While Foster Associates does not claim expertise in developing demolition cost estimates, $50 per kW is well within the range of estimates reported in industry surveys and in testimony presented by independent demolition experts. It is also consistent with costs incurred by Aquila in dismantling other generating facilities.

A distinction was also made in the 2002 SJLP depreciation study between interim and final (or terminal) net salvage. Interim net salvage is associated with plant retirements and replacements prior to the terminal date at which all plant comprising an integrated facility (*e.g.*, a generating station) will be retired from service. Final net salvage is the net cost (*i.e.*, salvage less cost of removal) incurred in dismantling the entire facility. An interim

net salvage rate of -10 percent applied to estimated interim retirements was added to the estimated dismantlement cost to obtain the total future net salvage associated with each generating station.

Q. Did Foster Associates conduct an analysis of the recorded depreciation reserve for SJLP operations?

A. Yes, we did. Statement C (page 21) of Schedule REW–3 provides a comparison of the computed and recorded reserves for SJLP electric and common operations on December 31, 2001. The recorded reserve was $190,145,285 or 55.9 percent of the depreciable plant investment. The corresponding computed reserve is $164,429,414 or 48.3 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of ($25,715,871) will be amortized over the composite weighted-average remaining life of each rate category.

Q. Is Foster Associates recommending a rebalancing of depreciation reserves for SJLP?

A. Yes, we are. A redistribution of recorded reserves is appropriate for SJLP. Although recorded reserves have been maintained by primary account (and locations within primary accounts), these reserves were largely ignored in the development of the presently prescribed whole-life accrual rates. Present electric and common rates were established pursuant to a Stipulation Agreement in Formal Case No. ER-99-247 Dated August 17, 1999. The failure to address prior reserve imbalances in the currently prescribed rates produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to develop an initial reserve balance for each primary account consistent with the age distributions and estimates of retirement dispersion devel-

oped in this study. Reserves were also realigned in the 2002 study to reflect implementation of the vintage group procedure.

A redistribution of the recorded reserve was achieved for SJLP by multiplying the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Q. Would you please describe the depreciation system currently approved by the Commission for SJLP?

A. SJLP is presently using a depreciation system composed of the straight-line method, broad group procedure, whole-life technique. The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. The formulation of an account depreciation accrual rate using the straight-line method, broad group procedure, whole-life technique is given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage\ Rate}{Average\ Life}.$$

Q. Is Foster Associates recommending a change in the depreciation system for SJLP?

A. Yes, we are. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage group procedure combined with the remaining life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, consideration is given to the realized life of each vintage when average service lives and remaining lives are derived using

the vintage group procedure. The vintage group procedure distinguishes average service lives among vintages and composite life statistics are computed for each plant account. The formulation of an account accrual rate using the straight-line method, vintage group procedure, remaining-life technique is given by:

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Q. What is the relationship between a whole-life rate and a remaining-life rate?

A. The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances caused largely by imprecise estimates of service life statistics and net salvage rates. A reserve imbalance is measured as the difference between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. A remaining-life rate is the sum of two components: a) a whole-life rate; and b) an amortization of any reserve imbalance over the composite weighted average remaining life of a rate category. In other words, a remaining-life accrual rate is equivalent to

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Savage\ Rate}{Average\ Life} + \frac{Computed\ Reserve - Recorded\ Reserve}{Remaining\ Life}$$

where both the computed reserve and the recorded reserve are expressed as ratios to the plant in service.

Unlike the currently prescribed whole-life rates in which reserve imbalances are addressed by the presence of compensating deviations in the estimated average service life of each vintage, the remaining-life technique provides a systematic amortization of these imbalances over the composite weighted average remaining life of a rate category. A permanent excess or deficiency will be created in the depreciation reserve by a continued

application of the whole-life technique if service life deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated by an application of the remaining-life technique.

Q. Would you please summarize the depreciation rates and accruals Foster Associates recommended for SJLP electric and common operations in the 2002 study?

A. Table 3 provides a summary of the changes in annual rates and accruals for SJLP electric and common operations resulting from adoption of the parameters and depreciation system recommended in the 2002 study.

| | Accrual Rate | | | 2002 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| Function | Present | Proposed | Difference | Present | Proposed | Difference |
| Steam Production | 3.84% | 4.56% | 0.72% | $5,106,031 | $6,069,973 | $963,942 |
| Other Production | 3.83% | 1.37% | -2.46% | 620,501 | 222,546 | -397,955 |
| Transmission | 2.89% | 1.59% | -1.30% | 721,231 | 396,668 | -324,563 |
| Distribution | 3.43% | 2.72% | -0.71% | 4,689,115 | 3,716,828 | -972,287 |
| General Plant | 4.36% | 2.26% | -2.10% | 34,547 | 17,891 | -16,656 |
| Common Plant | 5.13% | 2.95% | -2.18% | 1,457,454 | 837,671 | -619,783 |
| *Total Utility* | 3.71% | 3.31% | -0.40% | $12,628,879 | $11,261,577 | $-1,367,302 |

TABLE 3. 2002 SJLP DEPRECIATION STUDY RATES AND ACCRUALS

Foster Associates recommended primary account depreciation rates for electric and common operations equivalent to a composite rate of 3.31 percent. Depreciation expense is presently accrued at an equivalent composite rate of 3.71 percent. The recommended change in the composite depreciation rate is, therefore, a decrease of 0.40 percentage points.

A continued application of rates currently prescribed would provide annualized depreciation expense of $12,628,879 compared to an annualized expense of $11,261,577 using the rates developed in the 2002 study. The proposed 2002 expense decrease is $1,367,302. Of this decrease, ($1,327,488) represents amortization of a ($25,715,871) re-

serve imbalance. The remaining portion of the increase is attributable to changes in service life and net salvage parameters.

## 2003 Aquila Corporate Assets Depreciation Rate Study

Q. Did Aquila provide Foster Associates plant accounting data for conducting the 2003 Corporate Assets depreciation study?

A. Yes, they did. The database used in the 2003 study was compiled from the current CPR system installed by Aquila in 1998. The database was provided to Foster Associates in an electronic format containing activity year transactions over the period 1999 through September 30, 2002. Forecasted plant additions and depreciation accruals were provided over the period October 1 through December 31, 2002.

Transaction codes are used to describe the nature of the detailed accounting activity extracted from the CPR. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The database was initially constructed to provide a reverse calculation of the historical arrangement over the period 1998–2002 for each account. Age distributions of plant exposed to retirement at the beginning of each activity year were obtained by adding (or subtracting) transaction amounts to the coded age distribution of surviving plant at the end of 2002. Plant additions for each activity year and age distributions of surviving plant at the beginning of 1999 derived from these transactions were subsequently coded and

added to the database. The age distribution of surviving plant at the end of 2002 was then removed from the database. This conversion of the database from a reverse construction to a forward construction of the historical arrangement was made to facilitate maintaining the database for future depreciation studies. Future activity-year transactions (including plant additions) can now be appended to the database without removing or adjusting prior coded transactions.

The accuracy and completeness of the assembled data base was verified by Foster Associates for activity years 1999 through September 30, 2002 by comparing the beginning plant balance, additions, retirements, transfers and adjustments, and the ending plant balance derived for each activity year to the official plant records of the Company. Forecasted plant and reserve activity could not be reconciled to any official plant records of the Company.

Q. Did Foster Associates conduct a statistical life analysis for Corporate Assets operations?

A. Yes, we did. As discussed in Schedule REW–4, all plant accounts were analyzed using a technique in which first, second and third degree polynomials were fitted to a set of observed retirement ratios. The resulting function can be expressed in terms of a survivorship function, which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data. Service life indications derived from the statistical analyses were blended with informed judgment and expectations about the future to obtain an appropriate projection life curve for each plant category.

Without exception, service life indications were indeterminate from a statistical analysis of the available activity years. Much of the plant activity over the period 1999–2002 consisted of transfers, adjustments, and several large retirements associated with the formation of the Corporate Assets business unit. Service life indications were generally much shorter than either experience or the anticipated future use of the assets would suggest. Absent meaningful indications from the analysis of historical retirement activity, the service-life statistics recommended in this study were based largely on judgment and a consideration of the parameters approved for similar assets managed by other Aquila business units.

Q. Did Foster Associates conduct a net salvage analysis for Corporate Assets operations?

A. Yes, we did. A traditional, historical analysis using a five-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in the study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate. Cost of removal and salvage opinions obtained from Aquila operating personnel were blended with judgment and historical net salvage indications in developing estimates of the future. Account 390001 (Structures and Improvements) is the only account for which net salvage has been recorded. Salvage proceeds resulted from the sale of infrastructure improvements on developable land. Foster Associates was advised by Aquila that any future interim salvage from Corporate Assets will, most likely, be offset by removal expense. Accordingly, a future net salvage rate of zero percent is recommended for all Corporate Asset accounts.

The average net salvage rate for Account 390001was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate.

Q. Did Foster Associates conduct an analysis of the recorded depreciation reserve for Corporate Assets operations?

A. Yes, we did. Statement C (page 19) of Schedule REW–4 provides a comparison of the computed and recorded reserves forecasted for Corporate Assets – MPS on December 31, 2002. The recorded reserve is $2,051,206, or 3.9 percent of the depreciable plant investment. The corresponding computed reserve is $14,280,435 or 27.1 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of $12,229,229 will be amortized over the composite weighted-average remaining life of each rate category.

Statement C (page 26) of Schedule REW–4 provides a comparison of the computed and recorded reserves forecasted for Corporate Assets – SJLP on December 31, 2002. The recorded reserve is $697,985, or 4.1 percent of the depreciable plant investment. The corresponding computed reserve is $4,718,586 or 27.6 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of $4,020,601 will be amortized over the composite weighted-average remaining life of each rate category.

Q. Is Foster Associates recommending a rebalancing of depreciation reserves for Corporate Assets?

A. Yes, we are. A redistribution of recorded reserves is appropriate for Corporate Assets. Although recorded reserves have been maintained by primary account, these reserves

were largely ignored in the development of the currently used whole-life accrual rates. Depreciation rates currently used for Corporate Assets allocated to Missouri were approved by the Missouri Public Service Commission pursuant to a Stipulation and Agreement in consolidated Case Nos. ER-2001-672 and EC-2002-265 (Agreement dated February 5, 2002). The rates adopted for Corporate Assets were established by negotiations and compromise without specifying the projection curve and reserve ratios contemplated in the settled rates.

The failure to address prior reserve imbalances produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to develop an initial reserve balance for each primary account consistent with the age distributions and estimates of retirement dispersion developed in this study. Reserves should also be realigned in this study to reflect implementation of the vintage group procedure.[1]

A redistribution of the recorded reserve was achieved for Corporate Assets by multiplying the calculated reserve for each primary account within the general function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within the general function is, therefore, equal to the function total recorded depreciation reserve before redistribution.

Q. Would you please describe the depreciation system currently approved by the Commission for Corporate Assets?

A. Aquila is presently using a depreciation system composed of the straight-line method,

[1]Depreciation reserves allocated to Missouri are adjusted for differences in the accrual rates prescribed in Missouri and those currently used for all other jurisdictions and non-regulated business units. The reserve adjustment is the cumulative difference in accruals resulting from the application of unique depreciation rates in Missouri. Reserve adjustments are shown on Statement C of Schedule REW–4.

broad group procedure, whole-life technique. The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. The formulation of an account depreciation accrual rate using the straight-line method, broad group procedure, whole-life technique is given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage\ Rate}{Average\ Life}.$$

Q. Is Foster Associates recommending a change in the depreciation system for Corporate Assets?

A. Yes, we are. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage group procedure combined with the remaining life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, consideration is given to the realized life of each vintage when average service lives and remaining lives are derived using the vintage group procedure. The vintage group procedure distinguishes average service lives among vintages and composite life statistics are computed for each plant account. The formulation of an account accrual rate using the straight-line method, vintage group procedure, remaining-life technique is given by:

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ Life}.$$

Q. What is the relationship between a whole-life rate and a remaining-life rate?

A. The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances caused largely by imprecise estimates of service life statistics and net salvage rates. A reserve imbalance is measured as the differ-

ence between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. A remaining-life rate is the sum of two components: a) a whole-life rate; and b) an amortization of any reserve imbalance over the composite weighted average remaining life of a rate category. In other words, a remaining-life accrual rate is equivalent to

$$Accrual\,Rate = \frac{1.0 - Average\,Net\,Savage\,Rate}{Average\,Life} + \frac{Computed\,Reserve - Recorded\,Reserve}{Remaining\,Life}$$

where both the computed reserve and the recorded reserve are expressed as ratios to the plant in service.

Unlike the currently prescribed whole-life rates in which reserve imbalances are addressed by the presence of compensating deviations in the estimated average service life of each vintage, the remaining-life technique provides a systematic amortization of these imbalances over the composite weighted average remaining life of a rate category. A permanent excess or deficiency will be created in the depreciation reserve by a continued application of the whole-life technique if service life deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated by an application of the remaining-life technique.

Q. Would you please summarize the depreciation rates and accruals Foster Associates recommended for Corporate Assets in the 2003 study?

A. Table 4 provides a summary of the changes in annual depreciation rates and accruals applicable to Corporate Assets devoted to MPS operations.

| | Accrual Rate | | | 2003 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| Function | Present | Proposed | Difference | Present | Proposed | Difference |
| General Plant | 1.39% | 11.86% | 10.47% | $732,797 | $6,256,676 | $5,523,879 |

TABLE 4. 2003 CORPORATE ASSETS – MPS RATES AND ACCRUALS

The composite accrual rate recommended for MPS operations is 11.86 percent. The current equivalent rate is 1.39 percent. The recommended change in the composite rate is an increase of 10.47 percentage points.

A continued application of rates currently adopted for MPS would provide annualized depreciation expense of $732,797 compared to an annualized expense of $6,256,676 using the rates developed in this study. The proposed expense increase is $5,523,879. Of this increase, $1,985,795 represents amortization of a $12,229,229 reserve imbalance. The remaining portion of the increase is attributable to recommended changes in service life parameters.

Table 5 provides a summary of the changes in annual depreciation rates and accruals applicable to Corporate Assets devoted to SJLP operations.

| | Accrual Rate | | | 2003 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| Function | Present | Proposed | Difference | Present | Proposed | Difference |
| General Plant | 1.41% | 11.97% | 10.56% | $241,203 | $2,046,124 | $1,804,921 |

TABLE 5. 2003 CORPORATE ASSETS – SJLP RATES AND ACCRUALS

The composite accrual rate recommended for SJLP operations is 11.97 percent. The current equivalent rate is 1.41 percent. The recommended change in the composite rate is an increase of 10.56 percentage points.

A continued application of rates currently adopted for SJLP would provide annualized depreciation expense of $241,203 compared to an annualized expense of $2,046,124 using the rates developed in this study. The proposed expense increase is $1,804,921. Of this increase, $663,511 represents amortization of a $4,020,601 reserve imbalance. The

remaining portion of the increase is attributable to recommended changes in service life parameters.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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# Ronald E. White, Ph.D.

**Education**

1961 - 1964 Valparaiso University
Major: Electrical Engineering

1965 Iowa State University
B.S., Engineering Operations

1968 Iowa State University
M.S., Engineering Valuation
Thesis: The Multivariate Normal Distribution and the Simulated Plant Record Method of Life Analysis

1977 Iowa State University
Ph.D., Engineering Valuation
Minor: Economics
Dissertation: A Comparative Analysis of Various Estimates of the Hazard Rate Associated With the Service Life of Industrial Property

**Employment**

1996 - Present Foster Associates, Inc.
Executive Vice President

1988 - 1996 Foster Associates, Inc.
Senior Vice President

1979 - 1988 Foster Associates, Inc.
Vice President

1978 - 1979 Northern States Power Company
Assistant Treasurer

1974 - 1978 Northern States Power Company
Manager, Corporate Economics

1972 - 1974 Northern States Power Company
Corporate Economist

1970 - 1972 Iowa State University
Graduate Student and Instructor

1968 - 1970 Northern States Power Company
Valuation Engineer

1965 - 1968 Iowa State University
Graduate Student and Teaching Assistant

**Publications**

*A New Set of Generalized Survivor Tables*, Journal of the Society of Depreciation Professionals, October, 1992.

*The Theory and Practice of Depreciation Accounting Under Public Utility Regulation*, Journal of the Society of Depreciation Professionals, December, 1989.

*Standards for Depreciation Accounting Under Regulated Competition*, paper presented at The Institute for Study of Regulation, Rate Symposium, February, 1985.

*The Economics of Price-Level Depreciation,* paper presented at the Iowa State University Regulatory Conference, May, 1981.

*Depreciation and the Discount Rate for Capital Investment Decisions,* paper presented at the National Communications Forum - National Electronics Conference, October 1979.

*A Computerized Method for Generating a Life Table From the 'h-System' of Survival Functions,* paper presented at the American Gas Association - Edison Electric Institute Depreciation Accounting Committee Meeting, December, 1975.

*The Problem With AFDC is ...,* paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, May, 1973.

*The Simulated Plant-Record Method of Life Analysis,* paper presented at the Missouri Public Service Commission Regulatory Information Systems Conference, May, 1971.

*Simulated Plant-Record Survivor Analysis Program (User's Manual),* special report published by Engineering Research Institute, Iowa State University, February, 1971.

*A Test Procedure for the Simulated Plant-Record Method of Life Analysis,* Journal of the American Statistical Association, September, 1970.

*Modeling the Behavior of Property Records,* paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, May, 1970.

*A Technique for Simulating the Retirement Experience of Limited-Life Industrial Property,* paper presented at the National Conference of Electric and Gas Utility Accountants, May, 1969.

*How Dependable are Simulated Plant-Record Estimates?,* paper presented at the Iowa State University Conference on Public Utility Valuation and the Rate Making Process, April, 1968.

**Expert Opinion**

Alabama Public Service Commission, Docket No. 18488, General Telephone Company of the Southeast; testimony concerning engineering economy study techniques.

Alabama Public Service Commission, Docket No. 20208, General Telephone Company of the South; testimony concerning the equal-life group procedure and remaining-life technique.

Alberta Energy and Utilities Board, Application No. 1250392, Aquila Networks Canada; rebuttal testimony supporting proposed depreciation rates.

Alberta Energy and Utilities Board, Case No. RE95081, Edmonton Power Inc.; rebuttal evidence concerning appropriate depreciation rates.

Alberta Energy and Utilities Board, 1999/2000 General Tariff Application, Edmonton Power Inc.; direct and rebuttal evidence concerning appropriate depreciation rates.

Arizona Corporation Commission, Docket No. T-01051B-97-0689, U S West Communications, Inc.; testimony concerning appropriate depreciation rates.

Arizona Corporation Commission, Docket No. G-1032A-02-0598, Citizens Communications Company; testimony supporting proposed depreciation rates.

Arizona State Board of Equalization, Docket No. 6302-07-2, Arizona Public Service Company; testimony concerning valuation and assessment of contributions in aid of construction.

California Public Utilities Commission, Case Nos. A.92-06-040, 92-06-042, GTE California Incorporated; rebuttal testimony supporting depreciation study techniques.

Public Utilities Commission of the State of Colorado, Application No. 36883-Reopened. U S WEST Communications; testimony concerning equal-life group procedure.

Delaware Public Service Commission, Docket No. 81-8, Diamond State Telephone Company; testimony concerning the amortization of inside wiring.

Delaware Public Service Commission, Docket No. 82-32, Diamond State Telephone Company; testimony concerning the equal-life group procedure and remaining-life technique.

Public Service Commission of the District of Columbia, Formal Case No. 842, District of Columbia Natural Gas; testimony concerning depreciation rates.

Public Service Commission of the District of Columbia, Formal Case No. 1016, Washington Gas Light Company - District of Columbia; testimony supporting proposed depreciation rates.

Federal Communications Commission, Prescription of Revised Depreciation Rates for AT&T Communications; statement concerning depreciation, regulation and competition.

Federal Communications Commission, Petition for Modification of FCC Depreciation Prescription Practices for AT&T; statement concerning alignment of depreciation expense used for financial reporting and regulatory purposes.

Federal Communications Commission, Docket No. 99-117, Bell Atlantic; affidavit concerning revenue requirement and capital recovery implications of omitted plant retirements.

Federal Energy Regulatory Commission, Docket No. ER95-267-000, New England Power Company; testimony supporting proposed depreciation rates.

Federal Energy Regulatory Commission, Docket No. RP89-248, Mississippi River Transmission Corporation; rebuttal testimony concerning appropriateness of net salvage component in depreciation rates.

Federal Energy Regulatory Commission, Docket No. ER91-565, New England Power Company; testimony supporting proposed depreciation rates.

Federal Energy Regulatory Commission, Docket No. ER78-291, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Federal Energy Regulatory Commission, Docket Nos. RP80-97 and

RP81-54, Tennessee Gas Pipeline Company; testimony concerning offshore plant depreciation rates.

Federal Power Commission, Docket No. E-8252, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Federal Power Commission, Docket No. E-9148, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Federal Power Commission, Docket No. ER76-818, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Federal Power Commission, Docket No. RP74-80, *Northern* Natural Gas Company; testimony concerning depreciation expense.

Public Utilities Commission of the State of Hawaii, Docket No. 00-0309, The Gas Company; testimony supporting proposed depreciation rates.

Public Utilities Commission of the State of Hawaii, Docket No. 94-0298, GTE Hawaiian Telephone Company Incorporated; testimony concerning the need for shortened service lives and disclosure of asset impairment losses.

Idaho Public Utilities Commission, Case No. U-1002-59, General Telephone Company of the Northwest, Inc.; testimony concerning the remaining-life technique and the equal-life group procedure.

*Illinois* Commerce Commission, Docket No. 94-0481, Citizens Utilities Company of Illinois; rebuttal testimony concerning applications of the Simulated Plant-Record method of life analysis.

Iowa State Commerce Commission, Docket No. RPU 82-47, North Central Public Service Company; testimony on depreciation rates.

Iowa State Commerce Commission, Docket No. RPU 84-34, General Telephone Company of the Midwest; testimony concerning the remaining-life technique and the equal-life group procedure.

Iowa State Utilities Board, Docket No. DPU-86-2, Northwestern Bell Telephone Company; testimony concerning capital recovery in competition.

Iowa State Utilities Board, Docket No. RPU-84-7, Northwestern Bell Telephone Company; testimony concerning the deduction of a reserve deficiency from the rate base.

Iowa State Utilities Board, Docket No. DPU-88-6, U S WEST Communications; testimony concerning depreciation subject to refund.

Iowa State Utilities Board, Docket No. RPU-90-9, Central Telephone Company of Iowa; testimony concerning depreciation rates.

Iowa State Utilities Board, Docket No. RPU-93-9, U S WEST Communications; testimony concerning principles of depreciation accounting and abandonment of FASB 71.

Iowa State Utilities Board, Docket No. DPU-96-1, U S WEST Communications; testimony concerning principles of depreciation accounting and abandonment of FASB 71.

Kentucky Public Service Commission, Case No. 97-224, Jackson Purchase Electric Cooperative Corporation; rebuttal testimony supporting proposed depreciation rates.

Maryland Public Service Commission, Case No. 8485, Baltimore Gas and Electric Company; testimony supporting proposed depreciation rates.

Maryland Public Service Commission, Case No. 7689, Washington Gas Light Company; testimony concerning life analysis and net salvage.

Maryland Public Service Commission, Case No. 8960, Washington Gas Light Company; testimony supporting proposed depreciation rates.

Massachusetts Department of Public Utilities, Case No. DPU 91-52, Massachusetts Electric Company; testimony supporting proposed depreciation rates which include a net salvage component.

Michigan Public Service Commission, Case No. U-13393, Aquila Networks – MGU; testimony supporting proposed depreciation rates.

Michigan Public Service Commission, Case No. U-12395, Michigan Gas Utilities; testimony supporting proposed depreciation rates including amortization accounting and redistribution of recorded reserves.

Michigan Public Service Commission, Case No. U-6587, General Telephone Company of Michigan; testimony concerning use of a theoretical depreciation reserve with the remaining-life technique.

Michigan Public Service Commission, Case No. U-7134, General Telephone Company of Michigan; testimony concerning the equal-life group depreciation procedure.

Minnesota District Court. In Re: Northern States Power Company v. Ronald G. Blank, *et. al.* File No. 394126; testimony concerning depreciation and engineering economics.

Minnesota Public Service Commission, Docket No. E-611, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Minnesota Public Service Commission, Docket No. E-1086, Northern States Power Company; testimony concerning depreciation rates.

Minnesota Public Service Commission, Docket No. G-1015, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Public Service Commission of the State of Missouri, Case No. ER-2001-672, Missouri Public Service, a division of Utilicorp United Inc.; surrebuttal testimony regarding computation of income tax expense.

Public Service Commission of the State of Missouri, Case No. TO-82-3, Southwestern Bell Telephone Company; rebuttal testimony concerning the remaining-life technique and the equal-life group procedure.

Public Service Commission of the State of Missouri, Case No. GO-97-79, Laclede Gas Company; rebuttal testimony concerning adequacy of database for conducting depreciation studies.

Public Service Commission of the State of Missouri, Case No. GR-99-315, Laclede Gas Company; rebuttal testimony concerning treatment of net salvage in development of depreciation rates.

Public Service Commission of the State of Montana, Docket No. 88.2.5, *Mountain State Telephone and Telegraph Company; rebuttal testimony* concerning the equal-life group procedure and amortization of reserve imbalances.

Montana Public Service Commission, Docket No. D95.9.128, The Montana Power Company; testimony supporting proposed depreciation rates.

Public Service Commission of Nevada, Docket No. 92-7002, Central Telephone Company-Nevada; testimony supporting proposed depreciation rates.

Public Service Commission of Nevada, Docket No. 91-5054, Central *Telephone Company-Nevada; testimony supporting proposed* depreciation rates.

New Hampshire Public Utilities Commission, Docket No. DR95-169, Granite State Electric Company; testimony supporting proposed net salvage rates.

New Jersey Board of Public Utilities, Docket No. GR 87060552, New Jersey Natural Gas Company; testimony concerning depreciation rates.

New Jersey Board of Regulatory Commissioners, Docket No. GR93040114J, New Jersey Natural Gas Company; testimony concerning depreciation rates.

North Carolina Utilities Commission, Docket No. E-7, SUB 487, Duke *Power Company; rebuttal testimony ong proposed depreciation rates.*

North Carolina Utilities Commission, Docket No. P-19, SUB 207, General Telephone Company of the South; rebuttal testimony concerning the equal-life group depreciation procedure.

*North Dakota Public Service Commission, Case No. 8860, Northern* States Power Company; testimony concerning general financial requirements.

North Dakota Public Service Commission, Case No. 9634, Northern States Power Company; testimony concerning rate of return and general financial requirements.

North Dakota Public Service Commission, Case No. 9666, Northern States Power Company; testimony concerning rate of return and general financial requirements.

North Dakota Public Service Commission, Case No. 9741, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Ontario Energy Board, E.B.R.O. 385, Tecumseh Gas Storage Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 388, Union Gas Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 456, Union Gas Limited; testimony concerning depreciation rates.

Ontario Energy Board, E.B.R.O. 476-03, Union Gas Limited; testimony concerning depreciation rates.

Public Utilities Commission of Ohio, Case No. 81-383-TP-AIR, General

Telephone Company of Ohio; testimony in support of the remaining-life technique.

Public Utilities Commission of Ohio, Case No. 82-886-TP-AIR, General Telephone Company of Ohio; testimony concerning the remaining-life technique and the equal-life group procedure.

Public Utilities Commission of Ohio, Case No. 84-1026-TP-AIR, General Telephone Company of Ohio; testimony in support of the equal-life group procedure and the remaining-life technique.

Public Utilities Commission of Ohio, Case No. 81-1433, The Ohio Bell Telephone Company; testimony concerning the remaining-life technique and the equal-life group procedure.

Public Utilities Commission of Ohio, Case No. 83-300-TP-AIR, The Ohio Bell Telephone Company; testimony concerning straight-line age-life depreciation.

Public Utilities Commission of Ohio, Case No. 84-1435-TP-AIR, The Ohio Bell Telephone Company; testimony in support of test period depreciation expense.

Public Utilities Commission of Oregon, Docket No. UM 204, GTE of the Northwest; testimony concerning the theory and practice of depreciation accounting under public utility regulation.

Public Utilities Commission of Oregon, Docket No. UM 840, GTE Northwest Incorporated; rebuttal testimony concerning principles of capital recovery.

Pennsylvania Public Utility Commission, Docket No. R-80061235, The Bell Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-811512, General Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-811819, The Bell Telephone Company of Pennsylvania; testimony concerning the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. R-822109, General Telephone Company of Pennsylvania; testimony in support of the remaining-life technique.

Pennsylvania Public Utility Commission, Docket No. R-850229, General Telephone Company of Pennsylvania; testimony in support of the remaining-life technique and the proper depreciation reserve to be used with an original cost rate base.

Pennsylvania Public Utility Commission, Docket No. C-860923, The Bell Telephone Company of Pennsylvania; testimony concerning capital recovery under competition.

Rhode Island Public Utilities Commission, Docket No. 2290, The Narragansett Electric Company; testimony supporting proposed net salvage rates and depreciation rates.

South Carolina Public Service Commission, Docket No. 91-216-E, Duke Power Company; testimony supporting proposed depreciation rates.

Public Utilities Commission of the State of South Dakota, Case No. F-3062, Northern States Power Company; testimony concerning general financial requirements and measurements of financial performance.

Public Utilities Commission of the State of South Dakota, Case No. F-3188, Northern States Power Company; testimony concerning rate of return and general financial requirements.

Securities and Exchange Commission, File No. 3-5749, Northern States Power Company; testimony concerning the financial and ratemaking implications of an affiliation with Lake Superior District Power Company.

Tennessee Public Service Commission, Docket No. 89-11041, United Inter-Mountain Telephone Company; testimony concerning depreciation principles and capital recovery under competition.

State of Vermont Public Service Board, Docket No. 6596, Citizens Communications Company – Vermont Electric Division, testimony supporting recommended depreciation rates.

Commonwealth of Virginia State Corporation Commission, Case No. PUE-2002-00364, Washington Gas Light Company; testimony supporting proposed depreciation rates.

Public Service Commission of Wisconsin, Docket No. 2180-DT-3, General Telephone Company of Wisconsin; testimony concerning the equal-life group depreciation procedure.

**Other Consulting Activities**

Moran Towing Corporation. In Re: Barge TEXAS-97 CIV. 2272 (ADS) and Tug HEIDE MORAN – 97 CIV. 1947 (ADS), United States District Court, Southern District of New York.

John Reigle, et al. v. Baltimore Gas & Electric Co., et al., Case No. C-2001-73230-CN, Circuit Court for Anne Arundel County, Maryland.

BellSouth Telecommunications, Inc. v. Citizens Utilities Company d/b/a/ Louisiana Gas Service Company, CA No. 95-2207, United States District Court, Eastern District of Louisiana.

Affidavit on behalf of Continental Cablevision, Inc. and its operating cable television systems regarding basic broadcast tier and equipment and installation cost-of-service rate justification.

Office of Chief Counsel, Internal Revenue Service. In Re: Kansas City Southern Railway Co., et. al. Docket Nos. 971-72, 974-72, and 4788-73.

Office of Chief Counsel, Internal Revenue Service. In Re: Northern Pacific Railway Co., Docket No. 4489-69.

United States Department of Justice. In Re: Burlington Northern Inc. v. United States, Ct. Cl. No. 30-72.

**Faculty**

Depreciation Programs for public utility commissions, companies, and consultants, sponsored by Depreciation Programs, Inc., in cooperation with Western Michigan University. (1980 - 1999)

United States Telephone Association (USTA), Depreciation Training Seminar, November 1999.

Depreciation Advocacy Workshop, a three-day team-training workshop on preparation, presentation, and defense of contested depreciation issues, sponsored by Gilbert Associates, Inc., October, 1979.

Corporate Economics Course, Employee Education Program, Northern States Power Company. (1968 - 1979)

Perspectives of Top Financial Executives, Course No. 5-300, University of Minnesota, September, 1978.

Depreciation Programs for public utility commissions, companies, and consultants, jointly sponsored by Western Michigan University and Michigan Technological University, 1973.

**Professional Associations**

Advisory Committee to the Institute for Study of Regulation, sponsored by the American University and The University of Missouri-Columbia.

American Economic Association.

American Gas Association - Edison Electric Institute Depreciation Accounting Committee.

Board of Directors, Iowa State Regulatory Conference.

Edison Electric Institute, Energy Analysis Division, Economic Advisory Committee, 1976-1980.

Financial Management Association.

The Institute of Electrical and Electronics Engineers, Inc., Power Engineering Society, Engineering and Planning Economics Working Group.

Midwest Finance Association.

Society of Depreciation Professionals (Founding Member and Chairman, Policy Committee

**Moderator**

Depreciation Open Forum, Iowa State University Regulatory Conference, May 1991.

The Quantification of Risk and Uncertainty in Engineering Economic Studies, Iowa State University Regulatory Conference, May 1989.

Plant Replacement Decisions with Added Revenue from New Service Offerings, Iowa State University Regulatory Conference, May 1988.

Economic Depreciation, Iowa State University Regulatory Conference, May 1987.

Opposing Views on the Use of Customer Discount Rates in Revenue Requirement Comparisons, Iowa State University Regulatory Conference, May 1986.

Cost of Capital Consequences of Depreciation Policy, Iowa State University Regulatory Conference, May 1985.

Concepts of Economic Depreciation, Iowa State University Regulatory Conference, May 1984.

Ratemaking Treatment of Large Capacity Additions, Iowa State University Regulatory Conference, May 1983.

The Economics of Excess Capacity, Iowa State University Regulatory Conference, May 1982.

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Schedule REW–2

# 2002 Depreciation Rate Study

*Aquila Networks—MPS*
*(Electric and Common)*

Revised June 9, 2003

Prepared by
Foster Associates, Inc.

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# EXECUTIVE SUMMARY

## INTRODUCTION

This report presents the findings and recommendations developed in a 2002 Depreciation Rate Study for utility plant owned by Aquila Networks – MPS (Electric and Common). Work on the study, conducted by Foster Associates, Inc., commenced in October 2001 and progressed through mid-September 2002, at which time the project was completed.

Foster Associates, Inc. is a public utility economic consulting firm headquartered in Bethesda, Maryland offering economic research and consulting services on issues and problems arising from governmental regulation of business. The areas of specialization supported by our Fort Myers office include property life forecasting, technological forecasting, depreciation estimation, and valuation of industrial property.

Foster Associates has undertaken numerous depreciation engagements for both public and privately owned corporations including detailed statistical life studies, analyses of required net salvage rates, and the selection of depreciation systems that will most nearly achieve the goals of depreciation accounting under the constraints of either government regulation or competitive market pricing. Foster Associates is widely recognized for industry leadership in the development of depreciation systems, life analysis techniques and computer software for conducting depreciation and valuation studies.

Depreciation rates currently used by MPS were approved by the Missouri Public Service Commission (Commission) pursuant to a Stipulation and Agreement in Formal Case No. ER-2001-672 and EC-2002-265 dated February 5, 2002.[1] With the exception of General Plant Account 391001 (Office Furniture and Equipment), average service lives used to derive the settled depreciation rates were included in an appendix attached to the Stipulation and Agreement.

In addition to specifying depreciation rates, the settlement Agreement provided that "UtiliCorp shall book for its MPS electric operations, now and in the future, current levels of net salvage costs as an expense, and not against accrued depreciation reserve." The agreement further provides that "... in the next general rate increase case or complaint case in which MPS's retail electric rates are under review, the Parties shall be free to contest how future net salvage costs should be booked." The parties further agreed that "On or before August 1, 2002, [Aquila

[1]Depreciation rates used by MPS prior to the 2002 Agreement were prescribed by the Commission in Case No. ER-97-394. Service life and net salvage statistics (e.g., projection life, projection curve, remaining life and future net salvage rates) used to derive the approved depreciation rates were not identified in either the Order or other documents related to the case. Parameters contained in a set of schedules captioned "Staff Recommended Depreciation Rates" did not produce either the Staff recommended rates or the prescribed rates transmitted to the Missouri Public Service Commission by correspondence dated May 1, 1998.

would] file with the Commission its next depreciation study for its MPS electric operations, provide to the Staff its work papers for that study, and supply the underlying data for that study to the Staff in Gannett Fleming format."

A 2002 Depreciation Rate Study for MPS electric and common was provided to the Commission Staff on September 30, 2002 in accordance with the settlement Agreement and subsequent approval for an extension of time. This report is identical to the filed study with the exception of the reported present rate for Common Utility Account 393000 (Stores Equipment), Account 394000 (Tools, Shop and Garage Equipment) and Account 395000 (Laboratory Equipment). Additionally, this report provides a correction to the computation of future net salvage rates for Steam Production plant. The whole-life and amortization components of the proposed remaining-life accrual rates are also provided in this report.

The principal findings and recommendations of the MPS Depreciation Rate Study are summarized in the Statements section of this report. Statement A provides a comparative summary of present and proposed annual depreciation rates for each rate category. Statement B provides a comparison of present and proposed annual depreciation accruals. Statement C provides a comparison of the computed, recorded and redistributed depreciation reserves for each rate category. Statement D provides a summary of the components used to obtain a weighted-average net salvage rate for each plant account. Statement E provides a computation of the estimated future net salvage rate for steam production facilities. Statement F provides a comparative summary of present and proposed parameters and statistics including projection life, projection curve, average service life, and average remaining life.

## SCOPE OF STUDY

The principal activities undertaken in the current study included:

- Collection of plant and net salvage data;
- Reconciliation of data to the official records of the Company;
- Discussions with MPS plant accounting personnel;
- On-site plant inspections;
- Estimation of projection lives and retirement dispersion patterns;
- Analysis of gross salvage and removal expense;
- Analysis and redistribution of recorded depreciation reserves; and
- Development of recommended accrual rates for each rate category.

## DEPRECIATION SYSTEM

A depreciation rate is formed by combining the elements of a depreciation system. A depreciation system is composed of a method, a procedure and a tech-

nique. A depreciation method (*e.g.*, straight-line) describes the component of the system that determines the acceleration or deceleration of depreciation accruals in relation to either time or use. A depreciation procedure (*e.g.*, vintage group) identifies the level of grouping or sub-grouping of assets within a plant category. The level of grouping specifies the weighting used to obtain composite life statistics for an account. A depreciation technique (*e.g.*, remaining-life) describes the life statistic used in the system.

MPS is presently using a depreciation system composed of the straight-line method, broad group procedure, whole-life technique for all plant categories. Depreciation rates proposed in this study are derived from a system composed of the straight-line method, vintage group procedure, whole-life technique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique.

The matching and expense recognition principles of accounting provide that the cost of an asset (or group of assets) should be allocated to operations over an estimate of the economic life of the asset in proportion to the consumption of service potential. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage-group procedure combined with the remaining-life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, the vintage group procedure distinguishes average service lives among vintages and provides cost apportionment over the estimated weighted-average remaining life or average life of a rate category.

The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. It is highly unlikely, therefore, that compensating deviations (*i.e.*, over and underestimates of average service life) will be created among vintages to achieve cost allocation over the average service life of each vintage. The level of asset grouping identified in the vintage group procedure is the plant in service from each vintage. The average service life (or remaining life) is estimated for each vintage and composite life statistics are computed for each plant account. It is more likely, therefore, that compensating deviations will be created with a vintage group procedure than with a broad group procedure.

The dependency of both the broad group procedure and the vintage group procedure on compensating deviations in the estimate of service lives is attributable to the use of the whole-life technique. A permanent excess or deficiency will be created in the depreciation reserve by a continued application of the whole-life technique if these deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated, however, by an application of the re-

maining-life technique.

The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances. A reserve imbalance is the difference between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. The remaining-life technique provides a systematic amortization of these differences over the composite weighted average remaining life of a rate category.

Although the emergence of economic factors such as bypass and incentive forms of regulation may ultimately encourage abandonment of the straight-line method, no attempt was made in the current study to address these concerns.

## PROPOSED DEPRECIATION RATES

Table 1 provides a summary of the changes in annual rates and accruals resulting from adoption of the parameters and depreciation system recommended in this study.

*Rates and Accruals*

| Function | Accrual Rate | | | 2002 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| | Present | Proposed | Difference | Present | Proposed | Difference |
| Steam Production | 2.75% | 4.28% | 1.53% | $9,583,823 | $14,910,910 | $5,327,087 |
| Other Production | 3.46% | 4.05% | 0.59% | 1,023,877 | 1,199,677 | 175,800 |
| Transmission | 1.99% | 2.04% | 0.05% | 3,008,839 | 3,087,251 | 78,412 |
| Distribution | 2.79% | 3.16% | 0.37% | 14,139,774 | 16,015,491 | 1,875,717 |
| General Plant | 5.06% | 4.20% | -0.86% | 1,274,665 | 1,059,085 | -215,580 |
| Common Plant | 4.90% | 3.06% | -1.84% | 933,983 | 582,784 | -351,199 |
| Total Utility | 2.78% | 3.41% | 0.63% | $29,964,961 | $36,855,198 | $6,890,237 |

TABLE 1. PRESENT AND PROPOSED RATES AND ACCRUALS

Foster Associates is recommending primary account depreciation rates equivalent to a composite rate of 3.41 percent. Depreciation expense is presently accrued at an equivalent composite rate of 2.78 percent. The recommended change in the composite depreciation rate is, therefore, an increase of 0.63 percentage points.

A continued application of rates currently prescribed would provide annualized depreciation expense of $29,964,961 compared to an annualized expense of $36,855,198 using the rates developed in this study. The proposed expense increase is $6,890,237. Of this increase, ($1,928,876) represents amortization of a ($36,459,274) reserve imbalance. The remaining portion of the increase is attributable to recommended changes in service life and net salvage parameters.

Of the 57 primary accounts included in the 2002 study, Foster Associates is recommending rate reductions for 30 accounts and rate increases 27 accounts.

# STUDY PROCEDURE

## INTRODUCTION

The purpose of a depreciation study is to analyze the mortality characteristics, net salvage rates and adequacy of the depreciation accrual and recorded depreciation reserve for each rate category. This study provides the foundation and documentation for recommended changes in the depreciation accrual rates used by Aquila for its MPS (Electric and Common) operations. The proposed rates are subject to approval by the Missouri Public Service Commission.

## SCOPE

The steps involved in conducting a depreciation study can be grouped into five major tasks:

- Data Collection;
- Life Analysis and Estimation;
- Net Salvage Analysis;
- Depreciation Reserve Analysis; and
- Development of Accrual Rates.

The scope of the 2002 study for MPS included a consideration of each of these tasks as described below.

## DATA COLLECTION

The minimum database required to conduct a statistical life study consists of a history of vintage year additions and unaged activity year retirements, transfers and adjustments. These data must be appropriately adjusted for transfers, sales and other plant activity that would otherwise bias the measured service life of normal retirements. The age distribution of surviving plant for unaged data can be estimated by distributing the plant in service at the beginning of the study year to prior vintages in proportion to the theoretical amount surviving from a projection or survivor curve identified in the life study. The statistical methods of life analysis used to examine unaged plant data are known as *semi-actuarial techniques.*

A far more extensive database is required to apply the statistical methods of life analysis known as *actuarial techniques.* Plant data used in an actuarial life study most often include the age distribution of surviving plant at the beginning of the study year and the vintage year, activity year, and dollar amounts associated with normal retirements, reimbursed retirements, sales, abnormal retirements, transfers, corrections, and extraordinary adjustments over a series of prior activity years. An actuarial database may include the age distribution of surviving plant at the beginning of the earliest activity year, rather than at the beginning of the study year. Plant additions, however, must be included in a database containing an opening age distribution to derive aged survivors at the beginning of the

study year. All activity year transactions with vintage year identification are coded and stored in a data file. The data are processed by a computer program and transaction summary reports are created in a format reconcilable to the Company's official plant records. The availability of such detailed information is dependent upon an accounting system that supports aged property records. The Continuing Property Record (CPR) system used by Aquila for MPS assets provides aged transactions for all plant accounts.

The database used in the 2002 study was compiled from two sources. Detailed accounting transactions were extracted from these sources and assigned transaction codes which identify the nature of the accounting activity. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The first data source was an electronic file historically provided to the Missouri Commission to conduct independent analyses. While the file included vintage years since inception through 1997, it did not provide a distinction between additions, transfers, and adjustments. The file, therefore, was recreated by the Company using a legacy system database to provide the appropriate distinctions. A translation program was then used by Foster Associates to create a database in a format compatible with the software used to conduct the depreciation study.

The second source of data was the current CPR system installed by Aquila in 1998. The database obtained from this system included activity year transactions over the period 1998-2001 and the age distribution of surviving plant at December 31, 2001. Age distributions at December 31, 2001 were used in conjunction with activity year transactions to reverse the transaction flow and generate an age distribution at December 31, 1997. The resulting age distributions were then compared to the age distributions generated by the Commission database. Differences were coded as vintage adjustments in 1997 to interconnect and provide continuity between the two databases. Care was taken in creating the Foster Associates database to ensure a proper mapping of the legacy system account structure to the current CPR account structure. No attempt, however, was made to reconcile the Foster Associates database to the historical Commission database because of the treatment of adjusting transactions in the Commission database.

The accuracy and completeness of the assembled data base was verified by Foster Associates for activity years 1998 through 2001 by comparing the beginning plant balance, additions, retirements, transfers and adjustments, and the ending plant balance derived for each activity year to the official plant records of the

Company. Age distributions of surviving plant at December 31, 2001 were reconciled to the CPR.

## LIFE ANALYSIS AND ESTIMATION

Life analysis and life estimation are terms used to describe a two-step procedure for estimating the mortality characteristics of a plant category. The first step (*i.e.*, life analysis) is largely mechanical and primarily concerned with history. Statistical techniques are used in this step to obtain a mathematical description of the forces of retirement acting upon a plant category and an estimate of service life known as the *projection life* of the account. The mathematical expressions used to describe these life characteristics are known as *survival functions* or *survivor curves*.

The second step (*i.e.*, life estimation) is concerned with predicting the expected remaining life of property units still exposed to the forces of retirement. It is a process of blending the results of the life analysis with informed judgment (including expectations about the future) to obtain an appropriate projection life and curve. The amount of weight given to the life analysis will depend upon the extent to which past retirement experience is considered descriptive of the future.

The analytical methods used in a life analysis are broadly classified as actuarial and semi-actuarial techniques. Actuarial techniques can be applied to plant accounting records that reveal the age of a plant asset at the time of its retirement from service. Stated differently, each property unit must be identifiable by date of installation and age at retirement. Semi-actuarial techniques can be used to derive service life and dispersion estimates when age identification of retirements is not maintained or readily available.

An actuarial life analysis program designed and developed by Foster Associates was used in this study. The first step in an actuarial analysis involves a systematic treatment of the available data for the purpose of constructing an observed life table. A complete life table contains the life history of a group of property units installed during the same accounting period and various probability relationships derived from the data. A life table is arranged by age-intervals (usually defined as one year) and shows the number of units (or dollars) entering and leaving each age-interval and probability relationships associated with this activity. A life table minimally shows the age of each survivor and the age of each retirement from a group of units installed in a given accounting year.

A life table can be constructed in any one of at least five alternative methods. The annual-rate or retirement-rate method was used in this study. The mechanics of the annual-rate method require the calculation of a series of ratios obtained by dividing the number of units (or dollars) surviving at the beginning of an age interval into the number of units (or dollars) retired during the same interval. This

ratio (or set of ratios) is commonly referred to as retirement ratios. The cumulative proportion surviving is obtained by multiplying the retirement ratio for each age interval by the proportion of the original group surviving at the beginning of that age interval and subtracting this product from the proportion surviving at the beginning of the same interval. The annual-rate method is applied to multiple groups or vintages by combining the retirements and/or survivors of like ages for each vintage included in the analysis.

The second step in an actuarial analysis involves graduating or smoothing the observed life table and fitting the smoothed series to a family of survival functions. The functions used in this study are the Iowa-type curves which are mathematically described in terms of the Pearson frequency curve family. The observed life table was smoothed by a weighted least-squares procedure in which first, second and third degree polynomials were fitted to the observed retirement ratios. The resulting function can be expressed in terms of a survivorship function which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data.

The set of computer programs used in this analysis provides multiple rolling-band and shrinking-band analyses of an account. Observation bands are defined for a "retirement era" which restricts the analysis to the retirement activity of all vintages represented by survivors at the beginning of a selected era. In a rolling-band analysis, a year of retirement experience is added to each successive retirement band and the earliest year from the preceding band is dropped. A shrinking-band analysis begins with the total retirement experience available and the earliest year from the preceding band is dropped for each successive band. Rolling and shrinking band analyses are used to detect the emergence of trends in the behavior of the dispersion and average service life.

Options available in the actuarial life analysis program include the width and location of both placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated. The program also provides tabular and graphics output as an aid in the analysis and optionally produces data output files used in the calculation of depreciation accruals.

While actuarial and semi-actuarial statistical methods are well suited to an analysis of plant categories containing a large number of homogeneous units (*e.g.*, poles and conductors), the concept of retirement dispersion is inappropriate for

plant categories composed of major items of plant that will most likely be retired as a single unit. Plant retirements from an integrated system prior to the retirement of the entire facility are more properly viewed as interim retirements that will be replaced in order to maintain the integrity of the system. Additionally, plant facilities may be added to the existing system (*i.e.*, interim additions) in order to expand or enhance its productive capacity without extending the service life of the present system. A proper depreciation rate can be developed for an integrated system using a life-span method.

The life-span method requires the selection of a coterminous retirement date for all plant additions to a specific facility. A composite depreciation rate is calculated for the facility using the technique of harmonic weighting of the expected life span of each vintage addition. The resulting accrual rate must be adjusted for interim retirements to the extent that such retirements can be reasonably expected. Absent this adjustment, the depreciation accumulated over the life span of the facility will be deficient by an amount equal to a portion of the interim retirements. Properly implemented, the life-span method does not include plant additions or replacements of interim retirements until such activity is reported. All plant accounts classified in the Steam and Other Production functions were identified by location and treated as life-span categories in this study.

## NET SALVAGE ANALYSIS

Depreciation rates designed to achieve the goals and objectives of depreciation accounting will include a parameter for future net salvage and a variable for average net salvage which reflects both realized and future net salvage rates.

An estimate of the net salvage rate applicable to future retirements is most often obtained from an analysis of gross salvage and removal expense realized in the past. An analysis of past experience (including an examination of trends over time) provides an appropriate basis for estimating future salvage and cost of removal. However, consideration should also be given to events that may cause deviations from net salvage realized in the past. Among the factors that should be considered are the age of plant retirements; the portion of retirements likely to be reused; changes in the method of removing plant; the type of plant to be retired in the future; inflation expectations; the shape of the projection life curve; and economic conditions that may warrant greater or lesser weight to be given to the net salvage observed in the past.

Special consideration should also be given to the treatment of insurance proceeds and other forms of third-party reimbursements credited to the depreciation reserve. A properly conducted net salvage study will exclude such activity from the estimate of future parameters and include the activity in the computation of realized and average net salvage rates.

A traditional, historical analysis using a five-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in this study to a) estimate a realized net salvage rate; b) detect the emergence of historical trends; and c) establish a basis for estimating a future net salvage rate. Cost of removal and salvage opinions obtained from Company engineers were blended with judgment and historical net salvage indications in developing estimates of the future.

Consideration was also given in the 2002 MPS depreciation study to the cost of dismantling the Sibley Generating Station and the Jeffery Energy Center. The projected cost of dismantling these facilities was derived, as shown in Table 2, from an estimated cost of $50 per kW, denominated in 2001 dollars. This cost estimate is intended to serve as a placeholder pending completion of a detailed dismantling cost study. The Company is prepared to undertake a dismantling cost study upon receipt of authorization by the Commission to include removal expense in the accrual for depreciation.

| Plant | Capacity (MW) | Cost per kW | 2001 Cost | Inflation Rate | AYFR | Dismantlement Cost |
|---|---|---|---|---|---|---|
| Jeffrey | 172.0 | $50.00 | $8,600,000 | 1.50% | 2022 | $11,756,697 |
| Sibley | 512.2 | 50.00 | 25,610,000 | 1.50% | 2015 | 31,545,264 |

**Table 2. Dismantlement Cost**

The average net salvage rate for an account was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate. The computation of the estimated average net salvage rate for each rate category is shown in Statement D. Future net salvage rates estimated for Jeffrey and Sibley are shown in Statement E.

## DEPRECIATION RESERVE ANALYSIS

The purpose of a depreciation reserve analysis is to compare the current level of the recorded reserve with the level required to achieve the goals or objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized as predicted. The difference between the required depreciation reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to eliminate the reserve imbalance.

Unlike a recorded reserve which represents the net amount of depreciation expense charged to previous periods of operations, a theoretical reserve is a measure of the implied reserve requirement at the beginning of a study year if the timing of future retirements and net salvage is in exact conformance with a survivor curve chosen to predict the probable life of plant units still exposed to the

forces of retirement. Stated differently, a theoretical depreciation reserve is the difference between the recorded cost of plant presently in service and the sum of the depreciation expense and net salvage that will be charged in the future if plant retirements are distributed over time according to a specified retirement frequency distribution.

The survivor curve used in the calculation of a theoretical depreciation reserve is intended to describe forces of retirement that will be operative in the future. However, retirements caused by forces such as accidents, physical deterioration and changing technology seldom, if ever, remain stable over time. It is unlikely, therefore, that a probability or retirement frequency distribution can be identified that will accurately describe the age of plant retirements over the complete life cycle of a vintage. It is for this reason that depreciation rates should be reviewed periodically and adjusted for observed or expected changes in the parameters chosen to describe the underlying forces of mortality.

Although reserve records are commonly maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices. If statistical life studies have not been conducted or retirement dispersion has been ignored in setting depreciation rates, it is likely that some accounts will be over-depreciated and other accounts will be under-depreciated relative to a calculated theoretical reserve. Differences between the theoretical reserve and the recorded reserve also will arise as a normal occurrence when service lives, dispersion patterns and net salvage estimates are adjusted in the course of depreciation reviews. It is appropriate, therefore, and consistent with group depreciation theory to periodically redistribute or rebalance the total recorded reserve among the various primary accounts based upon the most recent estimates of retirement dispersion and net salvage rates.

A redistribution of recorded reserves is appropriate for MPS at this time. Although recorded reserves have been maintained by primary account (and locations within primary accounts), these reserves were largely ignored in the development of the presently prescribed whole-life accrual rates. The present rates were established by negotiations and compromise without specifying the projection curve and reserve ratios contemplated in the settled rates. This failure to address prior reserve imbalances produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to develop an initial reserve balance for each primary account consistent with the age distributions and estimates of retirement dispersion developed in this study. Reserves should also be realigned in this study to reflect implementation of the vintage group procedure.

A redistribution of the recorded reserve was achieved for MPS by multiply-

ing the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Statement C provides a comparison of the computed and recorded reserves for MPS on December 31, 2001. The recorded reserve was $464,379,209, or 43.0 percent of the depreciable plant investment. The corresponding computed reserve is $427,919,935 or 39.6 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of ($36,459,274) will be amortized over the composite weighted-average remaining life of each rate category.

## DEVELOPMENT OF ACCRUAL RATES

The goal or objective of depreciation accounting is cost allocation over the economic life of an asset in proportion to the consumption of service potential. Ideally, the cost of an asset—which represents the cost of obtaining a bundle of service units—should be allocated to future periods of operation in proportion to the amount of service potential expended during an accounting interval. The service potential of an asset is the present value of future net revenue (*i.e.*, revenue less expenses exclusive of depreciation and other non-cash expenses) or cash inflows attributable to the use of that asset alone.

Cost allocation in proportion to the consumption of service potential is often approximated by the use of depreciation methods employing time rather than net revenue as the apportionment base. Examples of time-based methods include sinking-fund, straight-line, declining balance, and sum-of-the-years' digits. The advantage of using a time-based method is that it does not require an estimate of the remaining amount of service capacity an asset will provide or the amount of capacity actually consumed during an accounting interval. Using a time-based allocation method, however, does not change the goal of depreciation accounting. If it is predictable that the net revenue pattern of an asset will either decrease or increase over time, then an accelerated or decelerated time-based method should be used to approximate the rate at which service potential is actually consumed.

The time period over which the cost of an asset will be allocated to operations is determined by the combination of a procedure and a technique. A depreciation procedure describes the level of grouping or sub-grouping of assets within a plant category. The broad group, vintage group, equal-life group, and item or unit are a few of the more widely used procedures. A depreciation technique describes the life statistic used in a depreciation system. The whole- life and remaining-life (or expectancy) are the most common techniques.

Depreciation rates recommended in this study were developed using a system composed of the straight-line method, vintage group procedure, whole-life tech-

nique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique. It is the opinion of Foster Associates that this system will remain appropriate for MPS, provided depreciation studies are conducted periodically and parameters are routinely adjusted to reflect changing operating conditions.

# STATEMENTS

## INTRODUCTION

This section provides a comparative summary of depreciation rates, annual depreciation accruals, recorded and computed depreciation reserves, and present and proposed service life statistics recommended for MPS electric and common operations. The content of these statements is briefly described below.

- Statement A provides a comparative summary of present and proposed annual depreciation rates using the vintage group procedure, whole-life technique with amortization of reserve imbalances.
- Statement B provides a comparison of the present and proposed annualized 2002 depreciation accruals based upon the rates developed in Statement A.
- Statement C provides a comparison of the recorded, computed and redistributed reserves for each rate category at December 31, 2001.
- Statement D provides a summary of the components used to obtain a weighted average net salvage rate for each rate category.
- Statement E provides a computation of the estimated future net salvage rate for steam production facilities.
- Statement F provides a comparative summary of present and proposed parameters including projection life, projection curve, average service life, and average remaining life.

Present depreciation accruals shown on Statement B are the product of the plant investment (Column B) and the present depreciation rates (Column D) shown on Statement A. These are the effective rates used by the Company for the mix of investments recorded on December 31, 2001. Similarly, proposed depreciation accruals shown on Statement B are the product of the plant investment and the proposed depreciation rates (Column I) shown on Statement A. Proposed accrual rates shown on Statement A are given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage}{Average\ Life} + \frac{Computed\ Reserve - Recorded\ Reserve}{Remaining\ Life}$$

where *Average Net Salvage*, *Computed Reserve* and *Recorded Reserve* are expressed in percent. This formulation of the accrual rate is equivalent to

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ Life}.$$

## AQUILA NETWORKS - MPS (ELECTRIC and COMMON)

Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| **STEAM PRODUCTION** | | | | | | | | |
| 311000 Structures and Improvements | | | 3.23% | 27.86 | -13.2% | 4.06% | -0.20% | 3.86% |
| 312000 Boiler Plant Equipment | | | 2.48% | 26.27 | -15.4% | 4.39% | -0.19% | 4.20% |
| 314000 Turbogenerator Units | | | 2.85% | 22.96 | -14.0% | 4.97% | -0.12% | 4.85% |
| 315000 Accessory Electric Equipment | | | 3.46% | 26.37 | -13.6% | 4.31% | -0.18% | 4.13% |
| 316000 Misc. Power Plant Equipment | | | 3.13% | 28.35 | -13.7% | 4.01% | -0.21% | 3.80% |
| **Total Steam Production Plant** | | | 2.75% | 25.73 | -14.6% | 4.45% | -0.17% | 4.28% |
| **OTHER PRODUCTION** | | | | | | | | |
| 341000 Structures and Improvements | 40.20 | | 2.49% | 23.25 | -4.9% | 4.51% | -1.17% | 3.34% |
| 342000 Fuel Holders and Accessories | 32.70 | | 3.06% | 21.81 | -4.9% | 4.81% | -1.23% | 3.58% |
| 343000 Prime Movers | 24.10 | | 4.15% | 19.46 | -5.8% | 5.44% | -0.66% | 4.78% |
| 343100 Wind Turbines | 24.10 | | 4.15% | 23.45 | -5.0% | 4.48% | -0.26% | 4.22% |
| 344000 Generators | 32.00 | | 3.13% | 23.43 | -6.4% | 4.54% | -1.15% | 3.39% |
| 345000 Accessory Electric Equipment | 31.30 | | 3.19% | 21.58 | -5.4% | 4.88% | -1.18% | 3.70% |
| 346000 Misc. Power Plant Equipment | 36.40 | | 2.75% | 13.66 | | 7.32% | -0.19% | 7.13% |
| **Total Other Production Plant** | | | 3.46% | 21.15 | -5.7% | 5.00% | -0.95% | 4.05% |
| **TRANSMISSION PLANT** | | | | | | | | |
| 352000 Structures and Improvements | 45.00 | | 2.22% | 60.36 | -10.2% | 1.83% | -0.23% | 1.60% |
| 353000 Station Equipment | 50.00 | | 2.00% | 60.17 | -4.8% | 1.74% | -0.11% | 1.63% |
| 354000 Towers and Fixtures | 55.00 | | 1.82% | 53.92 | | 1.85% | -0.50% | 1.35% |
| 355000 Poles and Fixtures | 48.00 | | 2.08% | 55.05 | -60.1% | 2.91% | -0.20% | 2.71% |
| 356000 Overhead Conductors and Devices | 54.00 | | 1.85% | 59.92 | -40.2% | 2.34% | -0.22% | 2.12% |
| 358000 Underground Conductors and Devices | 32.00 | | 3.13% | 60.27 | -20.0% | 1.99% | -0.30% | 1.69% |
| **Total Transmission Plant** | | | 1.99% | 58.41 | -28.8% | 2.21% | -0.17% | 2.04% |
| **DISTRIBUTION PLANT** | | | | | | | | |
| 361000 Structures and Improvements | 43.00 | | 2.33% | 60.04 | -9.7% | 1.83% | -0.01% | 1.82% |
| 362000 Station Equipment | 44.00 | | 2.27% | 54.62 | -3.4% | 1.89% | | 1.89% |
| 364000 Poles, Towers and Fixtures | 40.00 | | 2.50% | 43.16 | -75.3% | 4.06% | -0.03% | 4.03% |
| 365000 Overhead Conductors and Devices | 50.00 | | 2.00% | 54.82 | -30.0% | 2.37% | -0.01% | 2.36% |
| 366000 Underground Conduit | 55.00 | | 1.82% | 54.91 | -10.0% | 2.00% | | 2.00% |
| 367000 Underground Conductors and Devices | 37.00 | | 2.70% | 44.91 | -20.1% | 2.67% | -0.01% | 2.66% |
| 368000 Line Transformers | 29.00 | | 3.45% | 30.02 | -14.9% | 3.83% | -0.03% | 3.80% |
| 369001 Overhead Services | 48.00 | | 2.08% | 55.07 | -154.7% | 4.63% | -0.05% | 4.58% |
| 369002 Underground Services | 28.00 | | 3.57% | 35.05 | -15.0% | 3.28% | -0.02% | 3.26% |
| 370001 Meters | 40.00 | | 2.50% | 50.18 | -5.1% | 2.09% | -0.01% | 2.08% |
| 370002 Load Research Meters | 10.00 | | 10.00% | 12.16 | | 8.22% | -0.27% | 7.95% |
| 371000 Installations on Customers' Premises | 20.00 | | 5.00% | 24.97 | -30.4% | 5.22% | -0.03% | 5.19% |
| 373000 Street Lighting and Signal Systems | 27.00 | | 3.70% | 30.36 | -9.5% | 3.61% | -0.02% | 3.59% |
| **Total Distribution Plant** | | | 2.79% | 40.73 | -29.7% | 3.16% | -0.02% | 3.16% |
| **GENERAL PLANT** | | | | | | | | |
| 390001 Structures and Improvements | 45.00 | | 2.22% | 40.26 | -22.7% | 3.05% | -0.31% | 2.74% |
| 391001 Office Furniture and Equipment | | | 3.60% | 18.17 | -0.1% | 5.51% | -0.75% | 4.76% |
| 391200 Computer Hardware | 10.00 | | 10.00% | 5.99 | -0.1% | 16.71% | -3.61% | 13.10% |
| 391300 Computer Software | 10.00 | | 10.00% | 6.02 | | 16.61% | -8.28% | 8.33% |
| 392000 Transportation Equipment | | | 10.06% | 13.46 | 10.0% | 6.69% | -1.31% | 5.38% |
| 393000 Stores Equipment | 18.00 | | 5.56% | 26.25 | | 3.81% | -0.72% | 3.09% |
| 394000 Tools, Shop and Garage Equipment | 16.00 | | 6.25% | 23.37 | -1.0% | 4.32% | -0.53% | 3.79% |
| 395000 Laboratory Equipment | 25.00 | | 4.00% | 27.98 | 0.7% | 3.55% | -0.61% | 2.94% |
| 396000 Power Operated Equipment | | | 6.67% | 14.65 | 0.1% | 6.82% | -1.40% | 5.42% |
| 397000 Communication Equipment | 16.00 | | 6.25% | 26.50 | -0.2% | 3.78% | -0.70% | 3.08% |
| 398000 Miscellaneous Equipment | 20.00 | | 5.00% | 22.41 | 3.4% | 4.31% | -1.08% | 3.23% |
| **Total General Plant** | | | 5.06% | 20.99 | -7.8% | 5.14% | -0.94% | 4.20% |
| **TOTAL ELECTRIC UTILITY** | | | 2.74% | 34.71 | -23.5% | 3.56% | -0.14% | 3.42% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)** Statement A

*Comparison of Present and Proposed Accrual Rates*
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| **COMMON UTILITY** | | | | | | | | |
| 390001 Structures and Improvements | 45.00 | | 2.22% | 39.73 | -12.9% | 2.84% | -0.40% | 2.44% |
| 391001 Office Furniture and Equipment | 13.00 | | 7.69% | 19.72 | 5.1% | 4.81% | -0.93% | 3.88% |
| 391200 Computer Hardware | 9.00 | | | 10.04 | 6.7% | 9.29% | -1.64% | 7.65% |
| 392000 Transportation Equipment | | | 6.45% | 11.23 | 9.3% | 8.08% | -4.95% | 3.13% |
| 393000 Stores Equipment | 18.00 | | 5.56% | 15.91 | | 6.29% | -1.96% | 4.33% |
| 394000 Tools, Shop and Garage Equipment | | | 6.25% | 15.77 | | 6.34% | -3.15% | 3.19% |
| 395000 Laboratory Equipment | 25.00 | | 4.00% | 15.20 | | 6.58% | -2.18% | 4.40% |
| 396000 Power Operated Equipment | | | 6.67% | 13.11 | 5.2% | 7.23% | -2.64% | 4.59% |
| 397000 Communication Equipment | 20.00 | | 5.00% | 26.31 | | 3.80% | -0.97% | 2.83% |
| 398000 Miscellaneous Equipment | 18.00 | | 5.56% | 24.79 | | 4.03% | -1.02% | 3.01% |
| **Total Common Utility** | | | 4.90% | 17.58 | 4.1% | 5.46% | -2.40% | 3.06% |
| ***TOTAL ELECTRIC AND COMMON PLANT*** | | | 2.78% | 34.02 | -22.2% | 3.59% | -0.18% | 3.41% |
| **STEAM PRODUCTION** | | | | | | | | |
| **Jeffery** | | | | | | | | |
| 311000 Structures and Improvements | 31.00 | | 3.23% | 38.39 | -12.4% | 2.93% | -0.59% | 2.34% |
| 312000 Boiler Plant Equipment | 38.80 | | 2.58% | 37.25 | -12.1% | 3.01% | -0.57% | 2.44% |
| 314000 Turbogenerator Units | 27.00 | | 3.70% | 31.75 | -11.6% | 3.51% | -0.45% | 3.06% |
| 315000 Accessory Electric Equipment | 28.90 | | 3.46% | 44.07 | -13.3% | 2.57% | -0.66% | 1.91% |
| 316000 Misc. Power Plant Equipment | 32.00 | | 3.13% | 28.17 | -14.5% | 4.06% | -0.28% | 3.78% |
| **Total Jeffery** | | | 2.94% | 36.53 | -12.1% | 3.07% | -0.56% | 2.51% |
| **Sibley** | | | | | | | | |
| 311000 Structures and Improvements | 31.00 | | 3.23% | 24.68 | -13.5% | 4.60% | -0.02% | 4.58% |
| 312000 Boiler Plant Equipment | 41.20 | | 2.43% | 23.36 | -16.9% | 5.00% | -0.02% | 4.98% |
| 314000 Turbogenerator Units | 38.50 | | 2.60% | 21.28 | -14.7% | 5.39% | -0.02% | 5.37% |
| 315000 Accessory Electric Equipment | 28.90 | | 3.46% | 23.29 | -13.6% | 4.88% | -0.02% | 4.86% |
| 316000 Misc. Power Plant Equipment | 32.00 | | 3.13% | 28.72 | -11.6% | 3.89% | -0.03% | 3.86% |
| **Total Sibley** | | | 2.67% | 23.04 | -15.6% | 5.02% | -0.02% | 5.00% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)** Statement B

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/01 Plant Investment | 2002 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | Present | Proposed | | | Difference |
| | | | Whole-Life | Amortization | Total | |
| A | B | C | D | E | F=D+E | G=F-C |
| **STEAM PRODUCTION** | | | | | | |
| 311000 Structures and Improvements | $56,771,294 | $1,833,713 | $2,307,069 | ($115,256) | $2,191,813 | $358,100 |
| 312000 Boiler Plant Equipment | 191,046,861 | 4,729,960 | 8,391,230 | (359,121) | 8,032,109 | 3,302,149 |
| 314000 Turbogenerator Units | 74,708,709 | 2,128,386 | 3,708,976 | (87,635) | 3,621,341 | 1,492,955 |
| 315000 Accessory Electric Equipment | 23,897,737 | 826,862 | 1,029,448 | (42,669) | 986,779 | 159,917 |
| 316000 Misc. Power Plant Equipment | 2,073,533 | 64,902 | 83,148 | (4,280) | 78,868 | 13,966 |
| **Total Steam Production Plant** | $348,498,134 | $9,583,823 | $15,519,871 | ($608,961) | $14,910,910 | $5,327,087 |
| **OTHER PRODUCTION** | | | | | | |
| 341000 Structures and Improvements | $2,133,946 | $53,135 | $96,241 | ($24,967) | $71,274 | $18,139 |
| 342000 Fuel Holders and Accessories | 1,286,981 | 39,382 | 61,904 | (15,830) | 46,074 | 6,692 |
| 343000 Prime Movers | 10,957,158 | 454,722 | 596,069 | (72,317) | 523,752 | 69,030 |
| 343100 Wind Turbines | 179,373 | 7,444 | 8,036 | (466) | 7,570 | 126 |
| 344000 Generators | 11,133,659 | 348,484 | 505,468 | (128,037) | 377,431 | 28,947 |
| 345000 Accessory Electric Equipment | 3,049,611 | 97,283 | 148,821 | (35,985) | 112,836 | 15,553 |
| 346000 Misc. Power Plant Equipment | 851,895 | 23,427 | 62,359 | (1,619) | 60,740 | 37,313 |
| **Total Other Production Plant** | $29,592,622 | $1,023,877 | $1,478,898 | ($279,221) | $1,199,677 | $175,800 |
| **TRANSMISSION PLANT** | | | | | | |
| 352000 Structures and Improvements | $2,641,211 | $58,635 | $48,334 | ($6,075) | $42,259 | ($16,376) |
| 353000 Station Equipment | 70,387,348 | 1,407,747 | 1,224,740 | (77,426) | 1,147,314 | (260,433) |
| 354000 Towers and Fixtures | 332,143 | 6,045 | 6,145 | (1,661) | 4,484 | (1,561) |
| 355000 Poles and Fixtures | 40,942,159 | 851,597 | 1,191,417 | (81,885) | 1,109,532 | 257,935 |
| 356000 Overhead Conductors and Devices | 36,918,960 | 683,001 | 863,904 | (81,222) | 782,682 | 99,681 |
| 358000 Underground Conductors and Devices | 57,959 | 1,614 | 1,153 | (173) | 980 | (634) |
| **Total Transmission Plant** | $151,279,780 | $3,008,839 | $3,335,693 | ($248,442) | $3,087,251 | $78,412 |
| **DISTRIBUTION PLANT** | | | | | | |
| 361000 Structures and Improvements | $3,354,806 | $78,167 | $61,393 | ($336) | $61,057 | ($17,110) |
| 362000 Station Equipment | 56,207,405 | 1,275,908 | 1,062,320 | | 1,062,320 | (213,588) |
| 364000 Poles, Towers and Fixtures | 96,704,253 | 2,417,606 | 3,926,193 | (29,012) | 3,897,181 | 1,479,575 |
| 365000 Overhead Conductors and Devices | 59,931,318 | 1,198,626 | 1,420,372 | (5,993) | 1,414,379 | 215,753 |
| 366000 Underground Conduit | 22,660,951 | 412,429 | 453,219 | | 453,219 | 40,790 |
| 367000 Underground Conductors and Devices | 66,527,910 | 1,796,254 | 1,776,295 | (6,653) | 1,769,642 | (26,612) |
| 368000 Line Transformers | 99,095,931 | 3,418,810 | 3,795,374 | (29,729) | 3,765,645 | 346,835 |
| 369001 Overhead Services | 11,774,224 | 244,904 | 545,147 | (5,888) | 539,259 | 294,355 |
| 369002 Underground Services | 36,748,862 | 1,311,934 | 1,205,363 | (7,350) | 1,198,013 | (113,921) |
| 370001 Meters | 21,420,615 | 535,515 | 447,691 | (2,142) | 445,549 | (89,966) |
| 370002 Load Research Meters | 2,045,596 | 204,560 | 168,148 | (5,523) | 162,625 | (41,935) |
| 371000 Installations on Customers' Premises | 11,384,984 | 569,249 | 594,296 | (3,415) | 590,881 | 21,632 |
| 373000 Street Lighting and Signal Systems | 18,265,202 | 675,812 | 659,374 | (3,653) | 655,721 | (20,091) |
| **Total Distribution Plant** | $506,122,057 | $14,139,774 | $16,115,185 | ($99,694) | $18,015,491 | $1,875,717 |
| **GENERAL PLANT** | | | | | | |
| 390001 Structures and Improvements | $8,627,571 | $191,532 | $263,141 | ($26,746) | $236,395 | $44,863 |
| 391001 Office Furniture and Equipment | 843,885 | 30,380 | 46,498 | (6,329) | 40,169 | 9,789 |
| 391200 Computer Hardware | 1,981,733 | 198,173 | 331,148 | (71,541) | 259,607 | 61,434 |
| 391300 Computer Software | 247,261 | 24,726 | 41,070 | (20,473) | 20,597 | (4,129) |
| 392000 Transportation Equipment | 466,243 | 46,904 | 31,192 | (6,108) | 25,084 | (21,820) |
| 393000 Stores Equipment | 98,332 | 5,467 | 3,746 | (708) | 3,038 | (2,429) |
| 394000 Tools, Shop and Garage Equipment | 2,467,415 | 154,213 | 106,592 | (13,077) | 93,515 | (60,698) |
| 395000 Laboratory Equipment | 1,805,261 | 72,210 | 64,087 | (11,012) | 53,075 | (19,135) |
| 396000 Power Operated Equipment | 2,563,837 | 172,342 | 176,218 | (36,174) | 140,044 | (32,298) |
| 397000 Communication Equipment | 5,962,555 | 372,660 | 225,385 | (41,738) | 183,647 | (189,013) |
| 398000 Miscellaneous Equipment | 121,170 | 6,058 | 5,222 | (1,308) | 3,914 | (2,144) |
| **Total General Plant** | $25,205,262 | $1,274,665 | $1,294,299 | ($235,214) | $1,059,085 | ($215,580) |
| **TOTAL ELECTRIC UTILITY** | $1,060,697,855 | $29,030,978 | $37,743,946 | ($1,471,532) | $36,272,414 | $7,241,436 |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)** Statement B

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/01 Plant Investment | 2002 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | Present | Proposed | | | Difference |
| | | | Whole-Life | Amortization | Total | |
| A | B | C | D | E | F=D+E | G=F-C |
| ***COMMON UTILITY*** | | | | | | |
| 390001 Structures and Improvements | $6,228,235 | $138,267 | $176,882 | ($24,913) | $151,969 | $13,702 |
| 391001 Office Furniture and Equipment | 1,241,962 | 95,507 | 59,738 | (11,550) | 48,188 | (47,319) |
| 391200 Computer Hardware | 150,782 | | 14,008 | (2,473) | 11,535 | 11,535 |
| 392000 Transportation Equipment | 7,043,398 | 454,299 | 569,107 | (348,649) | 220,458 | (233,841) |
| 393000 Stores Equipment | 14,724 | 819 | 926 | (288) | 638 | (181) |
| 394000 Tools, Shop and Garage Equipment | 141,872 | 8,867 | 8,995 | (4,469) | 4,526 | (4,341) |
| 395000 *Laboratory Equipment* | 17,867 | 715 | 1,176 | (390) | 786 | 71 |
| 396000 Power Operated Equipment | 1,408,853 | 93,971 | 101,860 | (37,194) | 64,666 | (29,305) |
| 397000 Communication Equipment | 2,755,152 | 137,758 | 104,696 | (26,725) | 77,971 | (59,787) |
| 398000 Miscellaneous Equipment | 67,991 | 3,780 | 2,740 | (693) | 2,047 | (1,733) |
| **Total Common Utility** | $19,070,836 | $933,983 | $1,040,128 | ($457,344) | $582,784 | ($351,199) |
| **TOTAL ELECTRIC AND COMMON PLANT** | $1,079,768,690 | $29,964,961 | $38,784,074 | ($1,928,876) | $36,855,198 | $6,890,237 |
| **STEAM PRODUCTION** | | | | | | |
| ***Jeffery*** | | | | | | |
| 311000 Structures and Improvements | $18,228,211 | $588,771 | $534,087 | ($107,547) | $426,540 | ($162,231) |
| 312000 Boiler Plant Equipment | 58,347,427 | 1,505,364 | 1,756,258 | (332,581) | 1,423,677 | (81,687) |
| 314000 Turbogenerator Units | 16,905,473 | 625,502 | 593,382 | (76,075) | 517,307 | (108,195) |
| 315000 Accessory Electric Equipment | 5,920,401 | 204,846 | 152,154 | (39,074) | 113,080 | (91,766) |
| 316000 Misc. Power Plant Equipment | 1,462,927 | 45,790 | 59,395 | (4,096) | 55,299 | 9,509 |
| **Total Jeffery** | $100,864,440 | $2,970,273 | $3,095,276 | ($559,373) | $2,535,903 | ($434,370) |
| ***Sibley*** | | | | | | |
| 311000 Structures and Improvements | $38,543,083 | $1,244,942 | $1,772,982 | ($7,709) | $1,765,273 | $520,331 |
| 312000 Boiler Plant Equipment | 132,699,434 | 3,224,596 | 6,634,972 | (26,540) | 6,608,432 | 3,383,836 |
| 314000 Turbogenerator Units | 57,803,236 | 1,502,884 | 3,115,594 | (11,560) | 3,104,034 | 1,601,150 |
| 315000 Accessory Electric Equipment | 17,977,336 | 622,016 | 877,294 | (3,595) | 873,699 | 251,683 |
| 316000 Misc. Power Plant Equipment | 610,605 | 19,112 | 23,753 | (184) | 23,569 | 4,457 |
| **Total Sibley** | $247,633,694 | $6,613,550 | $12,424,595 | ($49,588) | $12,375,007 | $5,761,457 |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|
| A | B | C | D=C/B | E | F=E/B | G | H=G/B |
| **STEAM PRODUCTION** | | | | | | | |
| 311000 Structures and Improvements | $56,771,294 | $35,001,923 | 61.65% | $29,875,420 | 52.62% | $32,105,373 | 56.55% |
| 312000 Boiler Plant Equipment | 191,046,861 | 105,193,764 | 55.06% | 98,838,542 | 51.74% | 105,789,131 | 55.37% |
| 314000 Turbogenerator Units | 74,706,709 | 35,347,618 | 47.31% | 34,160,676 | 45.73% | 35,835,598 | 47.97% |
| 315000 Accessory Electric Equipment | 23,897,737 | 12,278,699 | 51.38% | 13,153,028 | 55.04% | 13,983,311 | 58.51% |
| 316000 Misc. Power Plant Equipment | 2,073,533 | 753,911 | 36.36% | 774,025 | 37.33% | 862,502 | 41.60% |
| **Total Steam Production Plant** | $348,498,134 | $188,575,916 | 54.11% | $176,801,692 | 50.73% | $188,575,916 | 54.11% |
| **OTHER PRODUCTION** | | | | | | | |
| 341000 Structures and Improvements | $2,133,946 | $952,953 | 44.66% | $720,383 | 33.76% | $1,113,635 | 52.19% |
| 342000 Fuel Holders and Accessories | 1,286,981 | 985,824 | 76.60% | 430,255 | 33.43% | 665,129 | 51.68% |
| 343000 Prime Movers | 10,957,158 | 2,990,982 | 27.30% | 2,086,714 | 19.04% | 3,225,839 | 29.44% |
| 343100 Wind Turbines | 179,373 | 20,756 | 11.57% | 17,910 | 9.99% | 27,688 | 15.44% |
| 344000 Generators | 11,133,659 | 5,939,906 | 53.35% | 3,706,914 | 33.29% | 5,730,498 | 51.47% |
| 345000 Accessory Electric Equipment | 3,049,611 | 1,492,284 | 48.93% | 985,751 | 32.32% | 1,523,867 | 49.97% |
| 346000 Misc. Power Plant Equipment | 851,895 | (36,277) | -4.26% | 38,666 | 4.54% | 59,773 | 7.02% |
| **Total Other Production Plant** | $29,592,622 | $12,346,428 | 41.72% | $7,986,593 | 26.99% | $12,346,428 | 41.72% |
| **TRANSMISSION PLANT** | | | | | | | |
| 352000 Structures and Improvements | $2,641,211 | $1,060,357 | 40.15% | $934,543 | 35.38% | $1,181,646 | 44.74% |
| 353000 Station Equipment | 70,387,348 | 23,303,271 | 33.11% | 14,570,310 | 20.70% | 18,422,848 | 26.17% |
| 354000 Towers and Fixtures | 332,143 | 265,873 | 80.05% | 168,597 | 50.76% | 213,176 | 64.18% |
| 355000 Poles and Fixtures | 40,942,159 | 13,674,165 | 33.40% | 13,390,228 | 32.71% | 16,930,741 | 41.35% |
| 356000 Overhead Conductors and Devices | 36,918,960 | 15,581,196 | 42.20% | 13,557,318 | 36.72% | 17,142,011 | 46.43% |
| 358000 Underground Conductors and Devices | 57,959 | 37,602 | 64.88% | 25,341 | 43.72% | 32,042 | 55.28% |
| **Total Transmission Plant** | $151,279,780 | $53,922,464 | 35.64% | $42,646,337 | 28.19% | $53,922,464 | 35.64% |
| **DISTRIBUTION PLANT** | | | | | | | |
| 361000 Structures and Improvements | $3,354,806 | $955,391 | 28.48% | $841,241 | 25.08% | $854,957 | 25.48% |
| 362000 Station Equipment | 56,207,405 | 16,606,811 | 29.55% | 8,943,543 | 15.91% | 9,089,369 | 16.17% |
| 364000 Poles, Towers and Fixtures | 96,704,253 | 45,902,961 | 47.47% | 57,094,608 | 59.04% | 58,025,547 | 60.00% |
| 365000 Overhead Conductors and Devices | 59,931,318 | 23,158,544 | 38.64% | 19,470,572 | 32.49% | 19,788,044 | 33.02% |
| 366000 Underground Conduit | 22,660,951 | 4,350,642 | 19.20% | 4,094,736 | 18.07% | 4,161,502 | 18.36% |
| 367000 Underground Conductors and Devices | 66,527,910 | 18,350,441 | 27.58% | 17,457,747 | 26.24% | 17,742,399 | 26.67% |
| 368000 Line Transformers | 99,095,931 | 31,934,540 | 32.23% | 37,344,840 | 37.69% | 37,953,755 | 38.30% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account | Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|---|
| A | | B | C | D=C/B | E | F=E/B | G | H=G/B |
| 369001 | *Overhead Services* | 11,774,224 | 9,420,248 | 80.01% | 10,261,583 | 87.15% | 10,428,901 | 88.57% |
| 369002 | Underground Services | 36,748,862 | 15,010,918 | 40.85% | 12,539,697 | 34.12% | 12,744,159 | 34.68% |
| 370001 | Meters | 21,420,615 | 10,142,768 | 47.35% | 6,798,002 | 31.74% | 6,908,844 | 32.25% |
| 370002 | *Load Research Meters* | 2,045,596 | 1,081,366 | 52.86% | 1,374,384 | 67.19% | 1,396,794 | 68.28% |
| 371000 | Installations on Customers' Premises | 11,384,984 | 4,968,709 | 43.64% | 4,330,379 | 38.04% | 4,400,987 | 38.66% |
| 373000 | Street Lighting and Signal Systems | 18,265,202 | 6,237,359 | 34.15% | 4,551,230 | 24.92% | 4,625,439 | 25.32% |
| | **Total Distribution Plant** | $506,122,057 | $188,120,697 | 37.17% | $185,102,562 | 36.57% | $188,120,697 | 37.17% |
| | **GENERAL PLANT** | | | | | | | |
| 390001 | Structures and Improvements | $8,627,571 | $847,289 | 9.82% | $2,227,881 | 25.82% | $2,964,354 | 34.36% |
| 391001 | Office Furniture and Equipment | 843,885 | 90,631 | 10.74% | 246,484 | 29.21% | 327,965 | 38.86% |
| 391200 | *Computer Hardware* | 1,981,733 | 108,350 | 5.47% | 782,894 | 39.51% | 1,041,696 | 52.56% |
| 391300 | Computer Software | 247,261 | 45,720 | 18.49% | 148,685 | 60.13% | 197,837 | 80.01% |
| 392000 | Transportation Equipment | 466,243 | 262,289 | 56.26% | 155,876 | 33.43% | 207,405 | 44.48% |
| 393000 | *Stores Equipment* | 98,332 | 61,831 | 62.88% | 35,774 | 36.38% | 47,600 | 48.41% |
| 394000 | Tools, Shop and Garage Equipment | 2,467,415 | 2,105,229 | 85.32% | 667,395 | 27.05% | 888,017 | 35.99% |
| 395000 | Laboratory Equipment | 1,805,261 | 920,506 | 50.99% | 619,361 | 34.31% | 824,104 | 45.65% |
| 396000 | Power Operated Equipment | 2,583,837 | 1,119,345 | 43.32% | 991,036 | 38.36% | 1,318,645 | 51.03% |
| 397000 | Communication Equipment | 5,962,555 | 5,091,471 | 85.39% | 2,147,906 | 36.02% | 2,857,942 | 47.93% |
| 398000 | Miscellaneous Equipment | 121,170 | 92,462 | 76.31% | 52,277 | 43.14% | 69,558 | 57.41% |
| | **Total General Plant** | $25,205,262 | $10,745,122 | 42.63% | $8,075,570 | 32.04% | $10,745,122 | 42.63% |
| | **TOTAL ELECTRIC UTILITY** | $1,060,697,855 | $453,710,626 | 42.77% | $420,612,754 | 39.65% | $453,710,626 | 42.77% |
| | **COMMON UTILITY** | | | | | | | |
| 390001 | Structures and Improvements | $6,228,235 | $1,038,051 | 16.67% | $1,606,946 | 25.80% | $2,346,162 | 37.67% |
| 391001 | Office Furniture and Equipment | 1,241,962 | 900,971 | 72.54% | 349,091 | 28.11% | 509,677 | 41.04% |
| 391200 | Computer Hardware | 150,782 | 102,362 | 67.89% | 41,909 | 27.79% | 61,188 | 40.58% |
| 392000 | *Transportation Equipment* | 7,043,398 | 6,093,508 | 86.51% | 3,619,880 | 51.39% | 5,285,074 | 75.04% |
| 393000 | Stores Equipment | 14,724 | 4,337 | 29.45% | 5,941 | 40.35% | 8,674 | 58.91% |
| 394000 | Tools, Shop and Garage Equipment | 141,872 | 115,570 | 81.46% | 73,680 | 51.93% | 107,574 | 75.82% |
| 395000 | Laboratory Equipment | 17,867 | 6,203 | 34.72% | 7,488 | 41.91% | 10,932 | 61.19% |
| 396000 | Power Operated Equipment | 1,408,853 | 1,104,358 | 78.39% | 592,679 | 42.07% | 865,319 | 61.42% |
| 397000 | Communication Equipment | 2,755,152 | 1,247,278 | 45.27% | 985,404 | 35.77% | 1,438,703 | 52.22% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|
| A | B | C | D=C/B | E | F=E/B | G | H=G/B |
| 398000 Miscellaneous Equipment | 67,991 | 55,945 | 82.28% | 24,163 | 35.54% | 35,278 | 51.89% |
| **Total Common Utility** | $19,070,836 | $10,668,583 | 55.94% | $7,307,181 | 38.32% | $10,668,583 | 55.94% |
| **TOTAL ELECTRIC AND COMMON PLANT** | $1,079,768,690 | $464,379,209 | 43.01% | $427,919,935 | 39.63% | $464,379,209 | 43.01% |
| **STEAM PRODUCTION** | | | | | | | |
| **Jeffery** | | | | | | | |
| 311000 Structures and Improvements | $18,228,211 | $12,530,615 | 68.74% | $9,804,859 | 53.79% | $11,940,941 | 65.51% |
| 312000 Boiler Plant Equipment | 58,347,427 | 38,461,008 | 65.92% | 30,435,506 | 52.16% | 37,066,171 | 63.53% |
| 314000 Turbogenerator Units | 16,905,473 | 7,346,698 | 43.46% | 7,107,295 | 42.04% | 8,655,687 | 51.20% |
| 315000 Accessory Electric Equipment | 5,920,401 | 3,827,584 | 64.65% | 3,606,137 | 60.91% | 4,391,768 | 74.18% |
| 316000 Misc. Power Plant Equipment | 1,462,927 | 373,430 | 25.53% | 398,049 | 27.21% | 484,767 | 33.14% |
| **Total Jeffery** | $100,864,440 | $62,539,334 | 62.00% | $51,351,846 | 50.91% | $62,539,334 | 62.00% |
| **Sibley** | | | | | | | |
| 311000 Structures and Improvements | $38,543,083 | $22,471,308 | 58.30% | $20,070,561 | 52.07% | $20,164,432 | 52.32% |
| 312000 Boiler Plant Equipment | 132,699,434 | 66,732,757 | 50.29% | 68,403,036 | 51.55% | 68,722,961 | 51.79% |
| 314000 Turbogenerator Units | 57,803,236 | 28,000,921 | 48.44% | 27,053,381 | 46.80% | 27,179,911 | 47.02% |
| 315000 Accessory Electric Equipment | 17,977,336 | 8,451,115 | 47.01% | 9,546,891 | 53.11% | 9,591,543 | 53.35% |
| 316000 Misc. Power Plant Equipment | 610,605 | 380,481 | 62.31% | 375,976 | 61.57% | 377,735 | 61.86% |
| **Total Sibley** | $247,633,694 | $126,036,582 | 50.90% | $125,449,846 | 50.66% | $126,036,582 | 50.90% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | Rate |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| **STEAM PRODUCTION** | | | | | | | | | |
| 311000 *Structures and Improvements* | $58,048,792 | $1,277,498 | $56,771,294 | -30.2% | -12.8% | ($386,223) | ($7,272,986) | ($7,659,209) | -13.2% |
| 312000 Boiler Plant Equipment | 207,059,261 | 16,012,400 | 191,046,861 | -46.7% | -12.8% | (7,484,214) | (24,502,012) | (31,986,226) | -15.4% |
| 314000 Turbogenerator Units | 80,669,566 | 5,960,857 | 74,708,709 | -27.5% | -12.9% | (1,640,052) | (9,634,692) | (11,274,744) | -14.0% |
| 315000 Accessory Electric Equipment | 27,616,282 | 3,718,545 | 23,897,737 | -17.9% | -12.9% | (665,561) | (3,077,320) | (3,742,881) | -13.6% |
| 316000 Misc. Power Plant Equipment | 2,207,371 | 133,838 | 2,073,533 | -32.0% | -12.5% | (42,846) | (258,466) | (301,312) | -13.7% |
| **Total Steam Production Plant** | $375,601,272 | $27,103,138 | $348,498,134 | -37.7% | -12.8% | ($10,218,895) | ($44,745,476) | ($54,964,371) | -14.6% |
| **OTHER PRODUCTION** | | | | | | | | | |
| 341000 *Structures and Improvements* | $2,203,565 | $69,619 | $2,133,946 | -3.2% | -5.0% | ($2,228) | ($106,697) | ($108,925) | -4.9% |
| 342000 Fuel Holders and Accessories | 1,303,230 | 16,249 | 1,286,981 | | -5.0% | | (64,349) | (64,349) | -4.9% |
| 343000 Prime Movers | 11,648,304 | 691,146 | 10,957,158 | -19.0% | -5.0% | (131,318) | (547,858) | (679,176) | -5.8% |
| 343100 Wind Turbines | 179,373 | 0 | 179,373 | | -5.0% | | (8,969) | (8,969) | -5.0% |
| 344000 Generators | 11,237,975 | 104,316 | 11,133,659 | -153.3% | -5.0% | (159,917) | (556,683) | (716,600) | -6.4% |
| 345000 Accessory Electric Equipment | 3,201,841 | 152,230 | 3,049,611 | -13.3% | -5.0% | (20,247) | (152,481) | (172,727) | -5.4% |
| 346000 Misc. Power Plant Equipment | 858,839 | 6,944 | 851,895 | | | | | | |
| ***Total Other Production Plant*** | $30,633,127 | $1,040,505 | $29,592,622 | -30.1% | -4.9% | ($313,709) | ($1,437,036) | ($1,750,746) | -5.7% |
| **TRANSMISSION PLANT** | | | | | | | | | |
| 352000 Structures and Improvements | $2,659,222 | $18,011 | $2,641,211 | -34.8% | -10.0% | ($6,268) | ($264,121) | ($270,389) | -10.2% |
| 353000 Station Equipment | 75,293,911 | 4,906,563 | 70,387,348 | -2.4% | -5.0% | (117,758) | (3,519,367) | (3,637,125) | -4.8% |
| 354000 Towers and Fixtures | 352,679 | 20,536 | 332,143 | | | | | | |
| 355000 Poles and Fixtures | 45,026,505 | 4,084,347 | 40,942,159 | -61.5% | -60.0% | (2,511,873) | (24,565,295) | (27,077,168) | -60.1% |
| 356000 Overhead Conductors and Devices | 39,269,966 | 2,351,006 | 36,918,960 | -43.8% | -40.0% | (1,029,740) | (14,767,584) | (15,797,325) | -40.2% |
| 358000 Underground Conductors and Devices | 57,959 | 0 | 57,959 | -43.8% | -20.0% | (0) | (11,592) | (11,592) | -20.0% |
| **Total Transmission Plant** | $162,660,242 | $11,380,462 | $151,279,780 | -32.2% | -28.5% | ($3,665,639) | ($43,127,960) | ($46,793,599) | -28.8% |
| **DISTRIBUTION PLANT** | | | | | | | | | |
| 361000 Structures and Improvements | $3,412,602 | $57,796 | $3,354,806 | 5.7% | -10.0% | $3,294 | ($335,481) | ($332,186) | -9.7% |
| 362000 *Station Equipment* | 66,033,075 | 9,825,670 | 56,207,405 | 6.0% | -5.0% | 589,540 | (2,810,370) | (2,220,830) | -3.4% |
| 364000 Poles, Towers and Fixtures | 103,436,941 | 6,732,688 | 96,704,253 | -79.3% | -75.0% | (5,339,021) | (72,528,190) | (77,867,211) | -75.3% |
| 365000 Overhead Conductors and Devices | 65,587,497 | 5,656,179 | 59,931,318 | -30.4% | -30.0% | (1,719,478) | (17,979,395) | (19,698,874) | -30.0% |
| 366000 Underground Conduit | 23,050,038 | 389,087 | 22,660,951 | -11.9% | -10.0% | (46,301) | (2,266,095) | (2,312,396) | -10.0% |
| 367000 Underground Conductors and Devices | 68,207,048 | 1,679,138 | 66,527,910 | -22.1% | -20.0% | (371,089) | (13,305,582) | (13,676,671) | -20.1% |
| 368000 Line Transformers | 116,104,683 | 17,008,752 | 99,095,931 | -14.1% | -15.0% | (2,398,234) | (14,864,390) | (17,262,624) | -14.9% |
| 369001 Overhead Services | 12,311,437 | 537,213 | 11,774,224 | -256.7% | -150.0% | (1,379,027) | (17,661,335) | (19,040,362) | -154.7% |
| 369002 Underground Services | 37,066,430 | 317,568 | 36,748,862 | -16.3% | -15.0% | (51,764) | (5,512,329) | (5,564,093) | -15.0% |
| 370001 Meters | 23,892,314 | 2,471,699 | 21,420,615 | -6.1% | -5.0% | (150,774) | (1,071,031) | (1,221,804) | -5.1% |
| 370002 Load Research Meters | 2,330,669 | 285,073 | 2,045,596 | | | | | | |
| 371000 Installations on Customers' Premises | 13,229,102 | 1,844,118 | 11,384,984 | -32.7% | -30.0% | (603,027) | (3,415,495) | (4,018,522) | -30.4% |
| 373000 Street Lighting and Signal Systems | 22,592,596 | 4,327,394 | 18,265,202 | -7.5% | -10.0% | (324,555) | (1,826,520) | (2,151,075) | -9.5% |
| **Total Distribution Plant** | $557,254,432 | $51,132,375 | $506,122,057 | -23.1% | -30.3% | ($11,790,435) | ($153,576,214) | ($165,366,649) | -29.7% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | Rate |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| **GENERAL PLANT** | | | | | | | | | |
| 390001 Structures and Improvements | $10,546,238 | $1,918,667 | $8,627,571 | -80.0% | -10.0% | ($1,534,934) | ($862,757) | ($2,397,691) | -22.7% |
| 391001 Office Furniture and Equipment | 896,224 | 52,339 | 843,885 | -1.1% | | (576) | | (576) | -0.1% |
| 391200 Computer Hardware | 2,687,874 | 706,141 | 1,981,733 | -0.2% | | (1,412) | | (1,412) | -0.1% |
| 391300 Computer Software | 281,626 | 34,365 | 247,261 | | | | | | |
| 392000 Transportation Equipment | 528,409 | 62,166 | 466,243 | 9.9% | 10.0% | 6,154 | 46,624 | 52,779 | 10.0% |
| 393000 Stores Equipment | 167,968 | 69,636 | 98,332 | | | | | | |
| 394000 Tools, Shop and Garage Equipment | 3,939,517 | 1,472,102 | 2,467,415 | -2.6% | | (38,275) | | (38,275) | -1.0% |
| 395000 Laboratory Equipment | 2,171,042 | 365,781 | 1,805,261 | 3.9% | | 14,265 | | 14,265 | 0.7% |
| 396000 Power Operated Equipment | 2,744,137 | 160,300 | 2,583,837 | 1.9% | | 3,046 | | 3,046 | 0.1% |
| 397000 Communication Equipment | 6,163,194 | 200,639 | 5,962,555 | -5.0% | | (10,032) | | (10,032) | -0.2% |
| 398000 Miscellaneous Equipment | 174,502 | 53,332 | 121,170 | 11.1% | | 5,920 | | 5,920 | 3.4% |
| **Total General Plant** | $30,300,731 | $5,095,469 | $25,205,262 | -30.5% | -3.2% | ($1,555,843) | ($816,133) | ($2,371,976) | -7.8% |
| **TOTAL ELECTRIC UTILITY** | $1,156,449,804 | $95,751,949 | $1,060,697,855 | -28.8% | -23.0% | ($27,544,522) | ($243,702,818) | ($271,247,340) | -23.5% |
| **COMMON UTILITY** | | | | | | | | | |
| 390001 Structures and Improvements | $8,312,673 | $2,084,438 | $6,228,235 | -21.6% | -10.0% | ($450,239) | ($622,824) | ($1,073,062) | -12.9% |
| 391001 Office Furniture and Equipment | 3,339,154 | 2,097,192 | 1,241,962 | 5.1% | 5.0% | 106,957 | 62,098 | 169,055 | 5.1% |
| 391200 Computer Hardware | 8,166,963 | 8,016,181 | 150,782 | 6.8% | | 545,100 | | 545,100 | 6.7% |
| 392000 Transportation Equipment | 23,980,265 | 16,936,867 | 7,043,398 | 9.0% | 10.0% | 1,524,318 | 704,340 | 2,228,658 | 9.3% |
| 393000 Stores Equipment | 67,573 | 52,849 | 14,724 | | | | | | |
| 394000 Tools, Shop and Garage Equipment | 141,872 | (0) | 141,872 | | | | | | |
| 395000 Laboratory Equipment | 17,867 | 0 | 17,867 | | | | | | |
| 396000 Power Operated Equipment | 5,498,919 | 4,090,066 | 1,408,853 | 5.3% | 5.0% | 216,773 | 70,443 | 287,216 | 5.2% |
| 397000 Communication Equipment | 3,513,182 | 758,030 | 2,755,152 | -0.1% | | (758) | | (758) | |
| 398000 Miscellaneous Equipment | 122,561 | 54,570 | 67,991 | | | | | | |
| **Total Common Utility** | $53,161,029 | $34,090,193 | $19,070,836 | 5.7% | 1.1% | $1,942,152 | $214,057 | $2,156,209 | 4.1% |
| **TOTAL ELECTRIC AND COMMON PLANT** | $1,209,610,833 | $129,842,143 | $1,079,768,690 | -19.7% | -22.6% | ($25,602,370) | ($243,488,761) | ($269,091,131) | -22.2% |
| **STEAM PRODUCTION** | | | | | | | | | |
| **Jeffery** | | | | | | | | | |
| 311000 Structures and Improvements | $18,294,813 | $66,602 | $18,228,211 | -78.1% | -12.2% | ($52,016) | ($2,223,842) | ($2,275,858) | -12.4% |
| 312000 Boiler Plant Equipment | 61,847,146 | 3,499,719 | 58,347,427 | -9.7% | -12.2% | (339,473) | (7,118,386) | (7,457,859) | -12.1% |
| 314000 Turbogenerator Units | 19,922,487 | 3,017,014 | 16,905,473 | -8.5% | -12.2% | (256,446) | (2,062,468) | (2,318,914) | -11.6% |
| 315000 Accessory Electric Equipment | 6,030,471 | 110,070 | 5,920,401 | -70.3% | -12.2% | (77,379) | (722,289) | (799,668) | -13.3% |
| 316000 Misc. Power Plant Equipment | 1,532,517 | 69,590 | 1,462,927 | -63.6% | -12.2% | (44,259) | (178,477) | (222,736) | -14.5% |
| **Total Jeffery** | $107,627,434 | $6,762,994 | $100,864,440 | -11.4% | -12.2% | ($769,573) | ($12,305,462) | ($13,075,035) | -12.1% |
| **Sibley** | | | | | | | | | |
| 311000 Structures and Improvements | $39,753,979 | $1,210,896 | $38,543,083 | -27.6% | -13.1% | ($334,207) | ($5,049,144) | ($5,383,351) | -13.5% |
| 312000 Boiler Plant Equipment | 145,212,115 | 12,512,681 | 132,699,434 | -57.1% | -13.1% | (7,144,741) | (17,383,626) | (24,528,367) | -16.9% |
| 314000 Turbogenerator Units | 60,747,079 | 2,943,843 | 57,803,236 | -47.0% | -13.1% | (1,383,606) | (7,572,224) | (8,955,830) | -14.7% |
| 315000 Accessory Electric Equipment | 21,585,811 | 3,608,475 | 17,977,336 | -16.3% | -13.1% | (588,181) | (2,355,031) | (2,943,212) | -13.6% |
| 316000 Misc. Power Plant Equipment | 674,854 | 64,249 | 610,605 | 2.2% | -13.1% | 1,413 | (79,989) | (78,576) | -11.6% |
| **Total Sibley** | $267,973,838 | $20,340,144 | $247,633,694 | -46.5% | -13.1% | ($9,449,322) | ($32,440,014) | ($41,889,336) | -15.6% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**

Statement E

Future Net Salvage

*Steam Production*

| Account Description | Derived Additions | 12/31/01 Plant Investment | Interiim Retirements | | Interim Net Salvage | | | | Future Rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Realized | | Future | | |
| | | | Historical | Future | Rate | Amount | Rate | Amount | |
| A | B | C | D=B-C | E | F | G=D*F | H | I=E*H | J=I/C |
| **STEAM PRODUCTION** | | | | | | | | | |
| **Jeffery** | | | | | | | | | |
| 311000 Structures and Improvements | $18,294,813 | $18,228,211 | $66,602 | $959,264 | -78.1% | ($52,016) | -10.0% | ($95,926) | |
| 312000 Boiler Plant Equipment | 61,847,146 | 58,347,427 | 3,499,719 | 3,065,639 | -9.7% | (339,473) | -10.0% | (306,564) | |
| 314000 Turbogenerator Units | 19,922,487 | 16,905,473 | 3,017,014 | 877,162 | -8.5% | (256,446) | -10.0% | (87,716) | |
| 315000 Accessory Electric Equipment | 6,030,471 | 5,920,401 | 110,070 | 310,685 | -70.3% | (77,379) | -10.0% | (31,069) | |
| 316000 Misc. Power Plant Equipment | 1,532,517 | 1,462,927 | 69,590 | 78,695 | -63.6% | (44,259) | -10.0% | (7,870) | |
| **Interim Net Salvage** | $107,627,434 | $100,864,440 | $6,762,994 | $5,291,445 | -11.4% | ($769,573) | -10.0% | ($529,145) | -0.5% |
| **Dismantlement Cost** | | | | | | | | (11,756,697) | -11.7% |
| **Total Jeffery** | | $100,864,440 | | | | | | ($12,285,842) | -12.2% |
| ***Sibley*** | | | | | | | | | |
| 311000 Structures and Improvements | $39,753,979 | $38,543,083 | $1,210,896 | $1,307,786 | -27.6% | ($334,207) | -10.0% | ($130,779) | |
| 312000 Boiler Plant Equipment | 145,212,115 | 132,699,434 | 12,512,681 | 4,138,613 | -57.1% | (7,144,741) | -10.0% | (413,861) | |
| 314000 Turbogenerator Units | 60,747,079 | 57,803,236 | 2,943,843 | 1,803,227 | -47.0% | (1,383,606) | -10.0% | (180,323) | |
| 315000 Accessory Electric Equipment | 21,585,811 | 17,977,336 | 3,608,475 | 564,168 | -16.3% | (588,181) | -10.0% | (56,417) | |
| 316000 Misc. Power Plant Equipment | 674,854 | 610,605 | 64,249 | 20,914 | 2.2% | 1,413 | -10.0% | (2,091) | |
| **Interim Net Salvage** | $267,973,838 | $247,633,694 | $20,340,144 | $7,834,708 | -46.5% | ($9,449,322) | -10.0% | ($783,471) | -0.3% |
| **Dismantlement Cost** | | | | | | | | (31,545,264) | -12.7% |
| **Total Sibley** | | $247,633,694 | | | | | | ($32,328,735) | -13.1% |
| **Total Steam Production Plant** | $375,601,272 | $348,498,134 | $27,103,138 | $13,126,153 | -37.7% | ($10,218,895) | -10.0% | ($44,614,577) | -12.8% |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)** Statement F

Proposed Parameters
Vintage Group Procedure

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| **STEAM PRODUCTION** | | | | | | | | | | | | |
| 311000 Structures and Improvements | | | | | | | | 200-SC | 27.86 | 11.25 | -13.2 | |
| 312000 Boiler Plant Equipment | | | | | | | | 200-SC | 26.27 | 10.61 | -15.4 | |
| 314000 Turbogenerator Units | | | | | | | | 200-SC | 22.96 | 10.73 | -14.0 | |
| 315000 Accessory Electric Equipment | | | | | | | | 200-SC | 26.37 | 10.05 | -13.6 | |
| 316000 Misc. Power Plant Equipment | | | | | | | | 200-SC | 28.35 | 15.36 | -13.7 | |
| **Total Steam Production Plant** | | | | | | | | | 25.73 | 13.73 | -14.6 | -12.8 |
| **OTHER PRODUCTION** | | | | | | | | | | | | |
| 341000 Structures and Improvements | 40.20 | | 40.20 | | | | 2018 | 100-SC | 23.25 | 15.79 | -4.9 | -5.0 |
| 342000 Fuel Holders and Accessories | 32.70 | | 32.70 | | | | 2017 | 100-SC | 21.81 | 14.88 | -4.9 | -5.0 |
| 343000 Prime Movers | 24.10 | | 24.10 | | | | 2018 | 100-SC | 19.46 | 15.81 | -5.8 | -5.0 |
| 343100 Wind Turbines | 24.10 | | 24.10 | | | | 2024 | 100-SC | 23.45 | 21.22 | -5.0 | -5.0 |
| 344000 Generators | 32.00 | | 32.00 | | | | 2018 | 100-SC | 23.43 | 15.79 | -6.4 | -5.0 |
| 345000 Accessory Electric Equipment | 31.30 | | 31.30 | | | | 2017 | 100-SC | 21.58 | 14.88 | -5.4 | -5.0 |
| 346000 Misc. Power Plant Equipment | 36.40 | | 36.40 | | | | 2015 | 100-SC | 13.66 | 13.04 | | |
| **Total Other Production Plant** | | | | | | | | | 21.15 | 15.57 | -5.7 | -4.9 |
| **TRANSMISSION PLANT** | | | | | | | | | | | | |
| 352000 Structures and Improvements | 45.00 | | 45.00 | | | | 60.00 | S2 | 60.36 | 40.87 | -10.2 | -10.0 |
| 353000 Station Equipment | 50.00 | | 50.00 | | | | 60.00 | S0 | 60.17 | 48.40 | -4.8 | -5.0 |
| 354000 Towers and Fixtures | 55.00 | | 55.00 | | | | 55.00 | R4 | 53.92 | 26.55 | | |
| 355000 Poles and Fixtures | 48.00 | | 48.00 | | | | 55.00 | L1.5 | 55.05 | 43.77 | -60.1 | -60.0 |
| 356000 Overhead Conductors and Devices | 54.00 | | 54.00 | | | | 60.00 | S1.5 | 59.92 | 44.14 | -40.2 | -40.0 |
| 358000 Underground Conductors and Devices | 32.00 | | 32.00 | | | | 60.00 | S1.5 | 60.27 | 38.31 | -20.0 | -20.0 |
| **Total Transmission Plant** | | | | | | | | | 58.41 | 45.50 | -28.8 | -28.5 |
| **DISTRIBUTION PLANT** | | | | | | | | | | | | |
| 361000 Structures and Improvements | 43.00 | | 43.00 | | | | 60.00 | S2 | 60.04 | 46.48 | -9.7 | -10.0 |
| 362000 Station Equipment | 44.00 | | 44.00 | | | | 55.00 | R0.5 | 54.62 | 47.06 | -3.4 | -5.0 |
| 364000 Poles, Towers and Fixtures | 40.00 | | 40.00 | | | | 43.00 | S3 | 43.16 | 28.55 | -75.3 | -75.0 |
| 365000 Overhead Conductors and Devices | 50.00 | | 50.00 | | | | 55.00 | S1 | 54.82 | 41.12 | -30.0 | -30.0 |
| 366000 Underground Conduit | 55.00 | | 55.00 | | | | 55.00 | R4 | 54.91 | 45.89 | -10.0 | -10.0 |
| 367000 Underground Conductors and Devices | 37.00 | | 37.00 | | | | 45.00 | S2 | 44.91 | 35.06 | -20.1 | -20.0 |
| 368000 Line Transformers | 29.00 | | 29.00 | | | | 30.00 | S1.5 | 30.02 | 20.20 | -14.9 | -15.0 |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**
Proposed Parameters
Vintage Group Procedure

Statement F

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| 369001 Overhead Services | 48.00 | | 48.00 | | | | 55.00 | S3 | 55.07 | 35.21 | -154.7 | -150.0 |
| 369002 Underground Services | 28.00 | | 28.00 | | | | 35.00 | R4 | 35.05 | 24.65 | -15.0 | -15.0 |
| 370001 Meters | 40.00 | | 40.00 | | | | 50.00 | S1 | 50.18 | 34.98 | -5.1 | -5.0 |
| 370002 Load Research Meters | 10.00 | | 10.00 | | | | 12.00 | R4 | 12.16 | 3.99 | | |
| 371000 Installations on Customers' Premises | 20.00 | | 20.00 | | | | 25.00 | S1 | 24.97 | 17.61 | -30.4 | -30.0 |
| 373000 Street Lighting and Signal Systems | 27.00 | | 27.00 | | | | 30.00 | L0.5 | 30.36 | 23.59 | -9.5 | -10.0 |
| **Total Distribution Plant** | | | | | | | | | 40.73 | 29.43 | -29.7 | -30.3 |
| **GENERAL PLANT** | | | | | | | | | | | | |
| 390001 Structures and Improvements | 45.00 | | 45.00 | | | | 40.00 | R2.5 | 40.26 | 27.62 | -22.7 | -10.0 |
| 391001 Office Furniture and Equipment | | | | | | | 18.00 | S2 | 18.17 | 12.85 | -0.1 | |
| 391200 Computer Hardware | 10.00 | | 10.00 | | | | 6.00 | L1.5 | 5.99 | 3.62 | -0.1 | |
| 391300 Computer Software | 10.00 | | 10.00 | | | | 6.00 | R5 | 6.02 | 2.40 | | |
| 392000 Transportation Equipment | | | | | | | 13.00 | S3 | 13.46 | 8.46 | 10.0 | 10.0 |
| 393000 Stores Equipment | 18.00 | | 18.00 | | | | 25.00 | L0.5 | 26.25 | 16.70 | | |
| 394000 Tools, Shop and Garage Equipment | 16.00 | | 16.00 | | | | 23.00 | L0 | 23.37 | 16.88 | -1.0 | |
| 395000 Laboratory Equipment | 25.00 | | 25.00 | | | | 28.00 | S1.5 | 27.98 | 18.51 | 0.7 | |
| 396000 Power Operated Equipment | | | | | | | 13.00 | L1 | 14.65 | 9.04 | 0.1 | |
| 397000 Communication Equipment | 16.00 | | 16.00 | | | | 26.00 | L1.5 | 26.50 | 16.92 | -0.2 | |
| 398000 Miscellaneous Equipment | 20.00 | | 20.00 | | | | 22.00 | S1.5 | 22.41 | 13.19 | 3.4 | |
| **Total General Plant** | | | | | | | | | 20.99 | 14.41 | -7.8 | -3.2 |
| ***TOTAL ELECTRIC UTILITY*** | | | | | | | | | 34.71 | 23.46 | -23.5 | -23.0 |
| **COMMON UTILITY** | | | | | | | | | | | | |
| 390001 Structures and Improvements | 45.00 | | 45.00 | | | | 40.00 | S0.5 | 39.73 | 29.63 | -12.9 | -10.0 |
| 391001 Office Furniture and Equipment | 13.00 | | 13.00 | | | | 20.00 | L0 | 19.72 | 13.90 | 5.1 | 5.0 |
| 391200 Computer Hardware | 9.00 | | 9.00 | | | | 10.00 | R2.5 | 10.04 | 7.77 | 6.7 | |
| 392000 Transportation Equipment | | | | | | | 11.00 | L2 | 11.23 | 4.78 | 9.3 | 10.0 |
| 393000 Stores Equipment | 18.00 | | 18.00 | | | | 10.00 | O4 | 15.91 | 9.49 | | |
| 394000 Tools, Shop and Garage Equipment | | | | | | | 15.00 | S3 | 15.77 | 7.58 | | |
| 395000 Laboratory Equipment | 25.00 | | 25.00 | | | | 15.00 | S3 | 15.20 | 8.83 | | |
| 396000 Power Operated Equipment | | | | | | | 13.00 | L1 | 13.11 | 7.32 | 5.2 | 5.0 |
| 397000 Communication Equipment | 20.00 | | 20.00 | | | | 26.00 | L1.5 | 26.31 | 16.90 | | |

**AQUILA NETWORKS - MPS (ELECTRIC and COMMON)**

Statement F

Proposed Parameters
Vintage Group Procedure

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| 398000 Miscellaneous Equipment | 18.00 | | 18.00 | | | | 23.00 | L0 | 24.79 | 15.98 | | |
| **Total Common Utility** | | | | | | | | | 17.58 | 14.06 | 4.1 | 1.1 |
| **TOTAL ELECTRIC AND COMMON PLANT** | | | | | | | | | 34.02 | 23.32 | -22.2 | -22.6 |
| **STEAM PRODUCTION** | | | | | | | | | | | | |
| **Jeffery** | | | | | | | | | | | | |
| 311000 Structures and Improvements | 31.00 | | 31.00 | | | | 2022 | 200-SC | 38.39 | 19.95 | -12.4 | -12.2 |
| 312000 Boiler Plant Equipment | 38.80 | | 38.80 | | | | 2022 | 200-SC | 37.25 | 19.95 | -12.1 | -12.2 |
| 314000 Turbogenerator Units | 27.00 | | 27.00 | | | | 2022 | 200-SC | 31.75 | 19.96 | -11.6 | -12.2 |
| 315000 Accessory Electric Equipment | 28.90 | | 28.90 | | | | 2022 | 200-SC | 44.07 | 19.95 | -13.3 | -12.2 |
| 316000 Misc. Power Plant Equipment | 32.00 | | 32.00 | | | | 2023 | 200-SC | 28.17 | 20.91 | -14.5 | -12.2 |
| **Total Jeffery** | | | | | | | | | 36.53 | 19.97 | -12.1 | -12.2 |
| **Sibley** | | | | | | | | | | | | |
| 311000 Structures and Improvements | 31.00 | | 31.00 | | | | 2015 | 200-SC | 24.68 | 13.27 | -13.5 | -13.1 |
| 312000 Boiler Plant Equipment | 41.20 | | 41.20 | | | | 2014 | 200-SC | 23.36 | 12.30 | -16.9 | -13.1 |
| 314000 Turbogenerator Units | 38.50 | | 38.50 | | | | 2014 | 200-SC | 21.28 | 12.30 | -14.7 | -13.1 |
| 315000 Accessory Electric Equipment | 28.90 | | 28.90 | | | | 2014 | 200-SC | 23.29 | 12.30 | -13.6 | -13.1 |
| 316000 Misc. Power Plant Equipment | 32.00 | | 32.00 | | | | 2015 | 200-SC | 28.72 | 13.26 | -11.6 | -13.1 |
| **Total Sibley** | | | | | | | | | 23.04 | 12.45 | -15.6 | -13.1 |

# ANALYSIS

## INTRODUCTION

This section provides an explanation of the supporting schedules developed in the MPS electric and common depreciation study to estimate appropriate projection curves, projection lives and statistics for each rate category. The form and content of the schedules developed for an account depend upon the method of analysis adopted for the category.

This section also includes an example of the supporting schedules developed for Account 368000 – Line Transformers as an illustration. Documentation for all other plant accounts is contained in the study work papers. The supporting schedules developed in the MPS study include:

Schedule A – Generation Arrangement;

Schedule B – Age Distribution;

Schedule C – Unadjusted Plant History;

Schedule D – Adjusted Plant History;

Schedule E – Actuarial Life Analysis;

Schedule F – Graphics Analysis;

Schedule G – Historical Net Salvage Analysis; and

Schedule H – Average Year of Final Retirement.

The format and content of these schedules are briefly described below.

## SCHEDULE A – GENERATION ARRANGEMENT

The purpose of this schedule is to obtain appropriate weighted-average life statistics for a rate category. The weighted-average remaining-life is the sum of Column H divided by the sum of Column I. The weighted average life is the sum of Column C divided by the sum of Column I.

It should be noted that the generation arrangement does not include parameters for net salvage. Computed Net Plant (Column H) and Accruals (Column I) must be adjusted for net salvage to obtain a correct measurement of theoretical reserves and annualized depreciation accruals.

The following table provides a description of each column in the generation arrangement.

*Generation Arrangement*

| Column | Title | Description |
|---|---|---|
| A | Vintage | Vintage or placement year of surviving plant. |
| B | Age | Age of surviving plant at beginning of study year. |
| C | Surviving Plant | Actual dollar amount of surviving plant. |
| D | Average Life | Estimated average life of each vintage. This statistic is the sum of the realized life and the unrealized life, which is the product of the remaining life (Column E) and the theoretical proportion surviving. |
| E | Remaining Life | Estimated remaining life of each vintage. |
| F | Net Plant Ratio | Theoretical net plant ratio of each vintage. |
| G | Allocation Factor | A pivotal ratio which determines the amortization period of the difference between the recorded and computed reserve. |
| H | Computed Net Plant | Plant in service less theoretical reserve for each vintage. |
| I | Accrual | Ratio of computed net plant (Column H) and remaining life (Column E). |

TABLE 3. GENERATION ARRANGEMENT

## SCHEDULE B – AGE DISTRIBUTION

This schedule provides the age distribution and realized life of surviving plant shown in Column C of the Generation Arrangement (Schedule A). The format of the schedule depends upon the availability of either aged or unaged data. Derived additions for vintage years older than the earliest activity year in an account for unaged data are obtained from the age distribution of surviving plant at the beginning of the earliest activity year. The amount surviving from these vintages is shown in Column D. The realized life (Column G) is derived from the dollar years of service provided by a vintage over the period of years the vintage has been in service. Plant additions for vintages older than the earliest activity year in an account are represented by the opening balances shown in Column D.

The computed proportion surviving (Column D) for unaged is derived from a computed mortality analysis. The average service life displayed in the title block is the life statistic derived for the most recent activity year, given the derived age distribution at the start of the year and the specified retirement dispersion. The realized life (Column F) is obtained by finding the slope of an SC retirement dispersion, which connects the computed survivors of a vintage (Column E) to the recorded vintage addition (Column B). The realized life is the area bounded by the SC dispersion, the computed proportion surviving and the age of the vintage.

### SCHEDULE C – UNADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Activity year totals for unaged data are obtained from a transaction file without vintage identification. Information displayed in the unadjusted plant history is consistent with regulated investments reported internally by the Company.

### SCHEDULE D – ADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company with sales, transfers, and adjustments appropriately aged for depreciation study purposes. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Ageing of adjusting transactions is achieved using transaction codes that identify an adjusting year associated with the dollar amount of a transaction. Adjusting transactions processed in the adjusted plant history are not aged in the Company's records nor in the unadjusted plant history.

### SCHEDULE E – ACTUARIAL LIFE ANALYSIS

These schedules provide a summary of the dispersion and life indications obtained from an actuarial life analysis for a specified placement band. The observation band (Column A) is specified to produce either a rolling-band or a shrinking-band analysis depending upon the movement of the end points of the band. The degree of censoring (or point of truncation) of the observed life table is shown in Column B for each observation band. The estimated average service life, best fitting Iowa dispersion, and a statistical measure of the goodness of fit are shown for each degree polynomial (First, Second, and Third) fitted to the estimated hazard rates. Options available in the analysis include the width and location of both the placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated.

The estimated average service lives (Columns C, F, and I) are flagged with an asterisk if negative hazard rates are indicated by the fitted polynomial. All negative hazard rates are set equal to zero in the calculation of the graduated survivor curve. The Conformance Index (Columns E, H, and K) is the square root of the mean sum-of-squared differences between the graduated survivor curve and

the best fitting Iowa curve. A Conformance Index of zero would indicate a perfect fit.

### SCHEDULE F – GRAPHICS ANALYSIS

This schedule provides a graphics plot of a) the observed proportion surviving for a selected placement and observation band; b) the statistically best fitting Iowa dispersion and derived average service life; and c) the projection curve and projection life selected to describe future forces of mortality.

### SCHEDULE G – HISTORICAL NET SALVAGE ANALYSIS

This schedule provides a moving average analysis of the ratio of realized net salvage (Column I) to the associated retirements (Column B). The schedule also provides a moving average analysis of the components of net salvage related to retirements. The ratio of gross salvage to retirements is shown in Column D and the ratio of cost of removal to retirements is shown in Column G.

### SCHEDULE H – AVERAGE YEAR OF FINAL RETIREMENT

This schedule provides a computation of the weighted average year of final retirement for major structure categories. Direct dollar weighting is used to obtain a composite year of final retirement for plant investments classified in service at the beginning of the study year.

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**
**Account: 368000 Line Transformers**

**Dispersion: 30 - S1.5**
**Procedure: Vintage Group**

Generation Arrangement

| | December 31, 2001 | | | | Net | | | |
|---|---|---|---|---|---|---|---|---|
| Vintage | Age | Surviving Plant | Avg. Life | Rem. Life | Plant Ratio | Alloc. Factor | Computed Net Plant | Accrual |
| A | B | C | D | E | F | G | H=C*F*G | I=H/E |
| 2001 | 0.5 | 6,296,036 | 29.98 | 29.50 | 0.9839 | 1.0000 | 6,194,537 | 209,983 |
| 2000 | 1.5 | 6,349,347 | 29.99 | 28.50 | 0.9503 | 1.0000 | 6,033,689 | 211,683 |
| 1999 | 2.5 | 5,554,521 | 29.99 | 27.51 | 0.9173 | 1.0000 | 5,095,166 | 185,184 |
| 1998 | 3.5 | 4,910,115 | 30.00 | 26.53 | 0.8846 | 1.0000 | 4,343,371 | 163,685 |
| 1997 | 4.5 | 5,818,558 | 29.99 | 25.57 | 0.8525 | 1.0000 | 4,960,199 | 193,992 |
| 1996 | 5.5 | 4,820,472 | 30.00 | 24.62 | 0.8206 | 1.0000 | 3,955,473 | 160,666 |
| 1995 | 6.5 | 4,308,150 | 29.99 | 23.69 | 0.7898 | 1.0000 | 3,402,747 | 143,653 |
| 1994 | 7.5 | 4,773,138 | 29.95 | 22.77 | 0.7605 | 1.0000 | 3,629,834 | 159,380 |
| 1993 | 8.5 | 4,644,683 | 30.00 | 21.88 | 0.7294 | 1.0000 | 3,388,023 | 154,813 |
| 1992 | 9.5 | 4,068,426 | 30.03 | 21.02 | 0.6998 | 1.0000 | 2,847,144 | 135,467 |
| 1991 | 10.5 | 4,137,192 | 30.05 | 20.17 | 0.6713 | 1.0000 | 2,777,212 | 137,662 |
| 1990 | 11.5 | 3,315,171 | 30.10 | 19.36 | 0.6432 | 1.0000 | 2,132,234 | 110,155 |
| 1989 | 12.5 | 3,294,547 | 29.96 | 18.56 | 0.6197 | 1.0000 | 2,041,784 | 109,981 |
| 1988 | 13.5 | 3,873,835 | 29.91 | 17.80 | 0.5951 | 1.0000 | 2,305,494 | 129,527 |
| 1987 | 14.5 | 3,795,414 | 29.98 | 17.06 | 0.5691 | 1.0000 | 2,159,878 | 126,600 |
| 1986 | 15.5 | 2,906,913 | 29.35 | 16.35 | 0.5570 | 1.0000 | 1,619,120 | 99,039 |
| 1985 | 16.5 | 2,120,603 | 29.42 | 15.66 | 0.5323 | 1.0000 | 1,128,777 | 72,071 |
| 1984 | 17.5 | 1,619,751 | 29.46 | 15.00 | 0.5093 | 1.0000 | 824,937 | 54,988 |
| 1983 | 18.5 | 1,531,402 | 29.27 | 14.37 | 0.4908 | 1.0000 | 751,662 | 52,318 |
| 1982 | 19.5 | 1,223,824 | 29.53 | 13.76 | 0.4659 | 1.0000 | 570,158 | 41,446 |
| 1981 | 20.5 | 1,532,303 | 30.05 | 13.17 | 0.4383 | 1.0000 | 671,636 | 50,995 |
| 1980 | 21.5 | 1,626,882 | 30.11 | 12.61 | 0.4187 | 1.0000 | 681,214 | 54,032 |
| 1979 | 22.5 | 1,549,741 | 30.52 | 12.07 | 0.3954 | 1.0000 | 612,794 | 50,785 |
| 1978 | 23.5 | 2,386,191 | 30.60 | 11.55 | 0.3774 | 1.0000 | 900,483 | 77,985 |
| 1977 | 24.5 | 1,659,393 | 30.66 | 11.05 | 0.3603 | 1.0000 | 597,917 | 54,123 |
| 1976 | 25.5 | 1,483,526 | 30.12 | 10.57 | 0.3508 | 1.0000 | 520,466 | 49,252 |
| 1975 | 26.5 | 698,361 | 30.31 | 10.11 | 0.3334 | 1.0000 | 232,831 | 23,039 |
| 1974 | 27.5 | 1,043,505 | 29.72 | 9.66 | 0.3251 | 1.0000 | 339,233 | 35,109 |
| 1973 | 28.5 | 2,226,835 | 31.19 | 9.23 | 0.2960 | 1.0000 | 659,252 | 71,387 |
| 1972 | 29.5 | 1,161,010 | 30.84 | 8.82 | 0.2861 | 1.0000 | 332,178 | 37,647 |
| 1971 | 30.5 | 914,451 | 28.24 | 8.43 | 0.2984 | 1.0000 | 272,899 | 32,385 |
| 1970 | 31.5 | 687,385 | 29.31 | 8.04 | 0.2744 | 1.0000 | 188,651 | 23,452 |
| 1966 | 35.5 | 1,755,125 | 31.12 | 6.64 | 0.2133 | 1.0000 | 374,305 | 56,394 |
| 1964 | 37.5 | 754 | 20.27 | 6.00 | 0.2959 | 1.0000 | 223 | 37 |
| 1963 | 38.5 | 108 | 32.55 | 5.69 | 0.1749 | 1.0000 | 19 | 3 |
| 1962 | 39.5 | 1,098 | 27.04 | 5.39 | 0.1995 | 1.0000 | 219 | 41 |
| 1961 | 40.5 | 670,850 | 32.14 | 5.10 | 0.1588 | 1.0000 | 106,526 | 20,871 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**
**Account: 368000 Line Transformers**

**Dispersion: 30 - S1.5**
**Procedure: Vintage Group**

**Generation Arrangement**

| Vintage | December 31, 2001 Age | Surviving Plant | Avg. Life | Rem. Life | Net Plant Ratio | Alloc. Factor | Computed Net Plant | Accrual |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H=C*F*G | I=H/E |
| 1960 | 41.5 | 454 | 28.95 | 4.82 | 0.1665 | 1.0000 | 76 | 16 |
| 1958 | 43.5 | 256,693 | 30.07 | 4.27 | 0.1421 | 1.0000 | 36,467 | 8,538 |
| 1957 | 44.5 | 6,740 | 35.78 | 4.00 | 0.1119 | 1.0000 | 754 | 188 |
| 1955 | 46.5 | 27,688 | 27.35 | 3.48 | 0.1274 | 1.0000 | 3,527 | 1,012 |
| 1953 | 48.5 | 25,806 | 26.48 | 2.97 | 0.1123 | 1.0000 | 2,898 | 975 |
| 1951 | 50.5 | 3,713 | 42.81 | 2.47 | 0.0578 | 1.0000 | 215 | 87 |
| 1950 | 51.5 | 9,179 | 28.12 | 2.22 | 0.0791 | 1.0000 | 726 | 326 |
| 1946 | 55.5 | 5,784 | 29.33 | 1.23 | 0.0420 | 1.0000 | 243 | 197 |
| 1941 | 60.5 | 64 | 28.54 | | | 1.0000 | | |
| 1937 | 64.5 | 9 | 29.95 | | | 1.0000 | | |
| 1933 | 68.5 | 188 | 33.31 | | | 1.0000 | | |
| Total | 11.7 | $99,095,931 | 30.02 | 20.20 | 0.6731 | 1.0000 | $66,697,189 | $3,301,170 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

**Age Distribution**

| Vintage | Age as of 12/31/2001 | Derived Additions | 1961 Opening Balance | Experience to 12/31/2001 | | |
|---|---|---|---|---|---|---|
| | | | | Amount Surviving | Proportion Surviving | Realized Life |
| A | B | C | D | E | F=E/(C+D) | G |
| 2001 | 0.5 | 6,520,987 | | 6,296,036 | 0.9655 | 0.4836 |
| 2000 | 1.5 | 6,382,756 | | 6,349,347 | 0.9948 | 1.4946 |
| 1999 | 2.5 | 5,585,691 | | 5,554,521 | 0.9944 | 2.4942 |
| 1998 | 3.5 | 4,920,067 | | 4,910,115 | 0.9980 | 3.4961 |
| 1997 | 4.5 | 5,851,108 | | 5,818,558 | 0.9944 | 4.4907 |
| 1996 | 5.5 | 4,831,157 | | 4,820,472 | 0.9978 | 5.4963 |
| 1995 | 6.5 | 4,330,899 | | 4,308,150 | 0.9947 | 6.4773 |
| 1994 | 7.5 | 4,835,097 | | 4,773,138 | 0.9872 | 7.4263 |
| 1993 | 8.5 | 4,681,743 | | 4,644,683 | 0.9921 | 8.4665 |
| 1992 | 9.5 | 4,099,521 | | 4,068,426 | 0.9924 | 9.4783 |
| 1991 | 10.5 | 4,179,819 | | 4,137,192 | 0.9898 | 10.4730 |
| 1990 | 11.5 | 3,334,973 | | 3,315,171 | 0.9941 | 11.4815 |
| 1989 | 12.5 | 3,420,528 | | 3,294,547 | 0.9632 | 12.2979 |
| 1988 | 13.5 | 4,065,009 | | 3,873,835 | 0.9530 | 13.1949 |
| 1987 | 14.5 | 4,024,075 | | 3,795,414 | 0.9432 | 14.1990 |
| 1986 | 15.5 | 3,232,692 | | 2,906,913 | 0.8992 | 14.4876 |
| 1985 | 16.5 | 2,372,525 | | 2,120,603 | 0.8938 | 15.4604 |
| 1984 | 17.5 | 1,785,413 | | 1,619,751 | 0.9072 | 16.3748 |
| 1983 | 18.5 | 1,727,537 | | 1,531,402 | 0.8865 | 17.0509 |
| 1982 | 19.5 | 1,416,692 | | 1,223,824 | 0.8639 | 18.1468 |
| 1981 | 20.5 | 1,688,134 | | 1,532,303 | 0.9077 | 19.4817 |
| 1980 | 21.5 | 1,832,754 | | 1,626,882 | 0.8877 | 20.3318 |
| 1979 | 22.5 | 1,674,876 | | 1,549,741 | 0.9253 | 21.4993 |
| 1978 | 23.5 | 2,658,389 | | 2,386,191 | 0.8976 | 22.3141 |
| 1977 | 24.5 | 1,912,410 | | 1,659,393 | 0.8677 | 23.0779 |
| 1976 | 25.5 | 1,886,419 | | 1,483,526 | 0.7864 | 23.2093 |
| 1975 | 26.5 | 1,099,370 | | 698,361 | 0.6352 | 24.0380 |
| 1974 | 27.5 | 1,737,517 | | 1,043,505 | 0.6006 | 24.0510 |
| 1973 | 28.5 | 2,963,303 | | 2,226,835 | 0.7515 | 26.0929 |
| 1972 | 29.5 | 1,919,747 | | 1,161,010 | 0.6048 | 26.2731 |
| 1971 | 30.5 | 1,677,705 | | 914,451 | 0.5451 | 24.1705 |
| 1970 | 31.5 | 1,322,446 | | 687,385 | 0.5198 | 25.7089 |
| 1968 | 33.5 | 805 | | | 0.0000 | 11.0000 |
| 1967 | 34.5 | 481,178 | | | 0.0000 | 18.7791 |
| 1966 | 35.5 | 2,766,752 | | 1,755,125 | 0.6344 | 29.0403 |
| 1965 | 36.5 | 387,257 | | | 0.0000 | 25.0978 |
| 1964 | 37.5 | 46,831 | | 754 | 0.0161 | 18.7551 |
| 1963 | 38.5 | 420,556 | | 108 | 0.0003 | 31.2677 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

**Age Distribution**

| Vintage | Age as of 12/31/2001 | Derived Additions | 1961 Opening Balance | Experience to 12/31/2001 | | |
|---|---|---|---|---|---|---|
| | | | | Amount Surviving | Proportion Surviving | Realized Life |
| A | B | C | D | E | F=E/(C+D) | G |
| 1962 | 39.5 | 595,365 | | 1,098 | 0.0018 | 25.9701 |
| 1961 | 40.5 | 1,773,202 | | 670,850 | 0.3783 | 31.2606 |
| 1960 | 41.5 | | 13,333 | 454 | 0.0340 | 28.2272 |
| 1959 | 42.5 | | 87 | | 0.0000 | 18.0000 |
| 1958 | 43.5 | | 1,495,123 | 256,693 | 0.1717 | 29.6026 |
| 1957 | 44.5 | | 16,449 | 6,740 | 0.4098 | 35.4169 |
| 1955 | 46.5 | | 1,529,017 | 27,688 | 0.0181 | 27.1339 |
| 1953 | 48.5 | | 749,419 | 25,806 | 0.0344 | 26.3652 |
| 1952 | 49.5 | | 1,417 | | 0.0000 | 41.7706 |
| 1951 | 50.5 | | 10,796 | 3,713 | 0.3439 | 42.7532 |
| 1950 | 51.5 | | 800,705 | 9,179 | 0.0115 | 28.0890 |
| 1946 | 55.5 | | 506,756 | 5,784 | 0.0114 | 29.3298 |
| 1944 | 57.5 | | 892 | | 0.0000 | 41.5818 |
| 1941 | 60.5 | | 265,056 | 64 | 0.0002 | 28.5401 |
| 1937 | 64.5 | | 92,468 | 9 | 0.0001 | 29.9513 |
| 1934 | 67.5 | | 4,126 | | 0.0000 | 50.1105 |
| 1933 | 68.5 | | 36,292 | 188 | 0.0052 | 33.3052 |
| 1932 | 69.5 | | 116,702 | | 0.0000 | 33.1050 |
| 1924 | 77.5 | | 22,738 | | 0.0000 | 46.1766 |
| Total | | $110,443,306 | $5,661,376 | $99,095,931 | 0.8535 | |

# AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

**Adjusted Plant History**

| Year | Beginning Balance | Additions | Retirements | Sales, Transfers & Adjustments | Ending Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1962 | 5,620,336 | 614,285 | 39,357 | (14,648) | 6,180,616 |
| 1963 | 6,180,616 | 430,715 | 51,864 | 1,013 | 6,560,480 |
| 1964 | 6,560,480 | 669,639 | 66,142 | 224,274 | 7,388,251 |
| 1965 | 7,388,251 | 729,250 | 141,843 | (337) | 7,975,321 |
| 1966 | 7,975,321 | 837,168 | 134,391 | 38,394 | 8,716,491 |
| 1967 | 8,716,491 | 796,736 | 120,377 | (3,192) | 9,389,658 |
| 1968 | 9,389,658 | 769,303 | 172,991 | 4,274 | 9,990,244 |
| 1969 | 9,990,244 | 1,170,186 | 184,149 | (4,659) | 10,971,622 |
| 1970 | 10,971,622 | 1,424,021 | 195,902 | (9,021) | 12,190,720 |
| 1971 | 12,190,720 | 1,548,524 | 118,359 | | 13,620,885 |
| 1972 | 13,620,885 | 3,139,846 | 190,665 | | 16,570,066 |
| 1973 | 16,570,066 | 2,996,356 | 248,019 | (700) | 19,317,703 |
| 1974 | 19,317,703 | 1,698,568 | 360,413 | 22,826 | 20,678,684 |
| 1975 | 20,678,684 | 1,203,435 | 314,793 | 6,930 | 21,574,256 |
| 1976 | 21,574,256 | 1,888,192 | 795,165 | (244,091) | 22,423,192 |
| 1977 | 22,423,192 | 1,901,041 | 283,643 | (1,033,456) | 23,007,134 |
| 1978 | 23,007,134 | 2,608,998 | 329,810 | 11,150 | 25,297,472 |
| 1979 | 25,297,472 | 1,682,677 | 332,185 | 23,727 | 26,671,691 |
| 1980 | 26,671,691 | 1,979,261 | 622,757 | 4,301 | 28,032,496 |
| 1981 | 28,032,496 | 1,676,206 | 287,904 | (1,095) | 29,419,703 |
| 1982 | 29,419,703 | 1,371,991 | 307,397 | 63,975 | 30,548,272 |
| 1983 | 30,548,272 | 1,730,128 | 262,521 | 5,693 | 32,021,572 |
| 1984 | 32,021,572 | 1,800,332 | 461,346 | (29,157) | 33,331,401 |
| 1985 | 33,331,401 | 2,449,950 | 240,716 | 23,398 | 35,564,033 |
| 1986 | 35,564,033 | 3,348,176 | 639,594 | 40,485 | 38,313,100 |
| 1987 | 38,313,100 | 3,874,335 | 558,762 | 94,802 | 41,723,475 |
| 1988 | 41,723,475 | 4,516,985 | 1,155,749 | (652) | 45,084,059 |
| 1989 | 45,084,059 | 3,418,959 | 502,817 | | 48,000,201 |
| 1990 | 48,000,201 | 2,690,609 | 1,023,043 | | 49,667,767 |
| 1991 | 49,667,767 | 4,157,696 | 348,671 | | 53,476,792 |
| 1992 | 53,476,792 | 4,100,628 | 1,043,275 | | 56,534,145 |
| 1993 | 56,534,145 | 5,066,190 | 762,622 | 516 | 60,838,230 |
| 1994 | 60,838,230 | 4,785,609 | 563,069 | | 65,060,769 |
| 1995 | 65,060,769 | 4,335,084 | 389,323 | | 69,006,531 |
| 1996 | 69,006,531 | 4,835,553 | 863,545 | (385,599) | 72,592,939 |
| 1997 | 72,592,939 | 5,842,598 | 260,983 | 89,158 | 78,263,712 |
| 1998 | 78,263,712 | 3,495,457 | 408,757 | | 81,350,412 |
| 1999 | 81,350,412 | 5,964,319 | 135,131 | | 87,179,600 |
| 2000 | 87,179,600 | 6,749,701 | 1,340,192 | 703,508 | 93,292,617 |
| 2001 | 93,292,617 | 6,520,987 | 679,025 | (24,471) | 99,110,108 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

**Adjusted Plant History**

| Year | Beginning Balance | Additions | Retirements | Sales, Transfers & Adjustments | Ending Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1962 | 5,620,336 | 614,285 | 39,357 | (14,648) | 6,180,616 |
| 1963 | 6,180,616 | 430,715 | 51,864 | 1,013 | 6,560,480 |
| 1964 | 6,560,480 | 669,639 | 66,142 | 224,274 | 7,388,251 |
| 1965 | 7,388,251 | 729,250 | 141,843 | (337) | 7,975,321 |
| 1966 | 7,975,321 | 837,168 | 134,391 | 38,394 | 8,716,491 |
| 1967 | 8,716,491 | 796,736 | 120,377 | (3,192) | 9,389,658 |
| 1968 | 9,389,658 | 769,303 | 172,991 | 4,274 | 9,990,244 |
| 1969 | 9,990,244 | 1,170,186 | 184,149 | (4,659) | 10,971,622 |
| 1970 | 10,971,622 | 1,424,021 | 195,902 | (9,021) | 12,190,720 |
| 1971 | 12,190,720 | 1,548,524 | 118,359 | | 13,620,885 |
| 1972 | 13,620,885 | 3,139,846 | 190,665 | | 16,570,066 |
| 1973 | 16,570,066 | 2,996,356 | 248,019 | (700) | 19,317,703 |
| 1974 | 19,317,703 | 1,698,568 | 360,413 | 22,826 | 20,678,684 |
| 1975 | 20,678,684 | 1,203,435 | 314,793 | 6,930 | 21,574,256 |
| 1976 | 21,574,256 | 1,888,192 | 795,165 | (244,091) | 22,423,192 |
| 1977 | 22,423,192 | 1,901,041 | 283,643 | (1,033,456) | 23,007,134 |
| 1978 | 23,007,134 | 2,608,998 | 329,810 | 11,150 | 25,297,472 |
| 1979 | 25,297,472 | 1,682,677 | 332,185 | 23,727 | 26,671,691 |
| 1980 | 26,671,691 | 1,979,261 | 622,757 | 4,301 | 28,032,496 |
| 1981 | 28,032,496 | 1,676,206 | 287,904 | (1,095) | 29,419,703 |
| 1982 | 29,419,703 | 1,371,991 | 307,397 | 63,975 | 30,548,272 |
| 1983 | 30,548,272 | 1,730,128 | 262,521 | 5,693 | 32,021,572 |
| 1984 | 32,021,572 | 1,800,332 | 461,346 | (29,157) | 33,331,401 |
| 1985 | 33,331,401 | 2,449,950 | 240,716 | 23,398 | 35,564,033 |
| 1986 | 35,564,033 | 3,348,176 | 639,594 | 40,485 | 38,313,100 |
| 1987 | 38,313,100 | 3,874,335 | 558,762 | 94,802 | 41,723,475 |
| 1988 | 41,723,475 | 4,516,985 | 1,155,749 | (652) | 45,084,059 |
| 1989 | 45,084,059 | 3,418,959 | 502,817 | | 48,000,201 |
| 1990 | 48,000,201 | 2,690,609 | 1,023,043 | | 49,667,767 |
| 1991 | 49,667,767 | 4,157,696 | 348,671 | | 53,476,792 |
| 1992 | 53,476,792 | 4,100,628 | 1,043,275 | | 56,534,145 |
| 1993 | 56,534,145 | 5,066,190 | 762,622 | 516 | 60,838,230 |
| 1994 | 60,838,230 | 4,785,609 | 563,069 | | 65,060,769 |
| 1995 | 65,060,769 | 4,335,084 | 389,323 | | 69,006,531 |
| 1996 | 69,006,531 | 4,835,553 | 863,545 | (385,599) | 72,592,939 |
| 1997 | 72,592,939 | 5,842,598 | 260,983 | 89,158 | 78,263,712 |
| 1998 | 78,263,712 | 3,495,457 | 408,757 | | 81,350,412 |
| 1999 | 81,350,412 | 5,964,319 | 135,131 | | 87,179,600 |
| 2000 | 87,179,600 | 6,749,701 | 1,340,192 | 703,508 | 93,292,617 |
| 2001 | 93,292,617 | 6,520,987 | 679,025 | (24,471) | 99,110,108 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

T-Cut: None
Placement Band: 1924-2001
Hazard Function: Proportion Retired
Weighting: Exposures

**Rolling Band Life Analysis**

| Observation Band | Censoring | First Degree | | | Second Degree | | | Third Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index |
| A | B | C | D | E | F | G | H | I | J | K |
| 1961-1965 | 8.1 | 28.0 | L2 * | 0.77 | 27.2 | S2 | 1.04 | 27.4 | S2 | 1.28 |
| 1962-1966 | 7.0 | 28.1 | L2 * | 0.69 | 26.9 | S2 | 1.00 | 27.0 | R2.5 | 0.86 |
| 1963-1967 | 3.4 | 27.2 | L2 * | 0.69 | 26.2 | S2 | 1.07 | 26.4 | R2.5 | 0.74 |
| 1964-1968 | 2.5 | 26.4 | L2 * | 0.71 | 25.5 | S2 | 1.21 | 25.6 | R2.5 | 1.05 |
| 1965-1969 | 1.9 | 25.7 | L2 * | 0.72 | 24.9 | S2 | 1.30 | 25.0 | R2.5 | 1.23 |
| 1966-1970 | 1.1 | 25.7 | L2 * | 0.71 | 25.0 | S2 | 0.96 | 25.0 | S2 | 0.95 |
| 1967-1971 | 0.7 | 26.7 | L2 * | 0.72 | 25.8 | S2 | 0.75 | 25.8 | S2 | 0.80 |
| 1968-1972 | 0.6 | 27.0 | L2 * | 0.83 | 26.1 | S2 | 0.78 | 26.1 | S2 | 0.70 |
| 1969-1973 | 0.6 | 26.4 | L2 * | 0.75 | 26.0 | S2 | 0.50 | 26.0 | S2 * | 0.99 |
| 1970-1974 | 1.0 | 25.9 | L2 * | 0.97 | 25.6 | S1.5 | 0.92 | 25.7 | S2 | 0.89 |
| 1971-1975 | 1.3 | 25.7 | L2 * | 1.00 | 25.5 | S1.5 | 0.69 | 25.7 | S2 | 1.01 |
| 1972-1976 | 0.9 | 22.5 | L2 * | 0.96 | 22.8 | S1.5 | 0.63 | 23.0 | S1.5 * | 0.60 |
| 1973-1977 | 1.4 | 22.9 | L1.5 * | 1.02 | 23.1 | S1 | 0.79 | 23.5 | S1.5 * | 0.74 |
| 1974-1978 | 2.4 | 23.7 | L1.5 * | 0.79 | 23.6 | S1 | 0.86 | 24.7 | L2 * | 1.49 |
| 1975-1979 | 2.2 | 24.4 | L1.5 * | 1.01 | 24.3 | S1 | 0.68 | 25.1 | S1.5 * | 1.50 |
| 1976-1980 | 2.4 | 23.8 | L2 * | 0.96 | 23.8 | S1 | 0.72 | 24.2 | S1.5 * | 1.17 |
| 1977-1981 | 1.6 | 26.9 | L2 * | 0.94 | 26.4 | S1.5 | 0.69 | 27.7 | L3 * | 1.90 |
| 1978-1982 | 0.0 | 27.3 | L2 * | 0.77 | 26.9 | S1.5 | 0.37 | 28.4 | L3 * | 2.21 |
| 1979-1983 | 0.0 | 28.4 | L2 * | 0.72 | 27.8 | S1.5 * | 0.49 | 29.2 | L3 * | 2.12 |
| 1980-1984 | 0.6 | 29.0 | L2 * | 0.75 | 28.2 | S1.5 | 0.40 | 30.4 | L3 * | 3.08 |
| 1981-1985 | 0.3 | 32.7 | L2 * | 0.82 | 31.1 | S1.5 * | 0.45 | 35.7 | L2 * | 5.17 |
| 1982-1986 | 2.2 | 32.8 | L1.5 * | 0.91 | 31.0 | S1 | 0.95 | 39.1 | L1.5 * | 8.46 |
| 1983-1987 | 0.5 | 32.3 | L1.5 * | 0.95 | 30.6 | S1 | 0.95 | 39.2 | L1.5 * | 9.00 |
| 1984-1988 | 0.2 | 29.7 | L1.5 * | 0.56 | 28.0 | S1 | 1.13 | 30.1 | L2 * | 2.56 |
| 1985-1989 | 0.0 | 31.1 | L1.5 * | 0.46 | 28.9 | R1.5 | 1.06 | 31.4 | L2 * | 2.87 |
| 1986-1990 | 0.0 | 28.6 | L1.5 * | 0.54 | 27.1 | R2 | 1.24 | 27.0 | R2 * | 0.99 |
| 1987-1991 | 0.0 | 30.1 | L1.5 * | 0.69 | 28.4 | R2 | 0.93 | 28.4 | S1.5 * | 0.99 |
| 1988-1992 | 0.0 | 29.0 | L1.5 * | 1.04 | 27.8 | R2 | 1.19 | 27.8 | R2.5 | 1.67 |
| 1989-1993 | 0.2 | 30.2 | L2 * | 0.77 | 29.1 | R2.5 | 1.17 | 29.0 | S2 * | 1.48 |
| 1990-1994 | 0.2 | 30.1 | L2 * | 0.69 | 29.4 | S2 * | 1.55 | 29.1 | S2 * | 1.81 |
| 1991-1995 | 0.5 | 33.3 | L2 * | 0.70 | 31.5 | S2 * | 1.36 | 31.4 | S2 * | 1.47 |
| 1992-1996 | 0.1 | 32.5 | L2 * | 0.72 | 31.0 | S2 * | 1.49 | 30.9 | S2 * | 1.59 |
| 1993-1997 | 1.1 | 37.2 | L2 * | 0.90 | 33.9 | S2 * | 1.32 | 33.9 | S2 * | 1.29 |
| 1994-1998 | 11.8 | 41.3 | L1.5 * | 0.95 | 36.6 | S2 | 0.76 | 36.8 | S2 * | 0.74 |
| 1995-1999 | 33.9 | 48.5 | L1.5 * | 0.49 | 41.4 | S2 | 0.87 | 42.0 | S1.5 | 0.98 |
| 1996-2000 | 2.5 | 40.7 | L2 * | 0.99 | 36.8 | S2 | 1.38 | 36.7 | R3 | 1.37 |
| 1997-2001 | 0.2 | 43.9 | L2 * | 0.97 | 38.9 | S2 * | 1.78 | 38.6 | R3 | 0.98 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

T-Cut: None

Placement Band: 1924-2001

*Hazard Function: Proportion Retired*

Weighting: Exposures

***Shrinking Band Life Analysis***

| Observation Band | Censoring | First Degree | | | Second Degree | | | Third Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index |
| A | B | C | D | E | F | G | H | I | J | K |
| 1961-2001 | 0.9 | 33.4 | L1.5 * | 0.93 | 31.6 | S1.5 | 0.71 | 31.6 | S1.5 | 0.82 |
| 1964-2001 | 0.9 | 33.4 | L1.5 * | 0.92 | 31.6 | S1.5 | 0.71 | 31.6 | S1.5 | 0.81 |
| 1967-2001 | 0.9 | 33.5 | L1.5 * | 0.91 | 31.7 | S1.5 | 0.72 | 31.7 | S1.5 | 0.82 |
| 1970-2001 | 0.9 | 33.7 | L1.5 * | 0.91 | 31.8 | S1.5 | 0.74 | 31.9 | S1.5 | 0.83 |
| 1973-2001 | 0.9 | 33.8 | L1.5 * | 0.90 | 31.9 | S1.5 | 0.78 | 32.0 | S1.5 | 0.86 |
| 1976-2001 | 0.9 | 34.3 | L1.5 * | 0.91 | 32.2 | S1.5 | 0.90 | 32.3 | S1.5 | 0.92 |
| 1979-2001 | 0.8 | 34.9 | L1.5 * | 1.01 | 32.7 | S1.5 | 1.20 | 32.7 | S1.5 | 1.17 |
| 1982-2001 | 0.7 | 35.7 | L1.5 * | 1.00 | 33.1 | S2 | 1.19 | 33.2 | S2 | 1.19 |
| 1985-2001 | 0.8 | 35.9 | L1.5 * | 1.00 | 33.3 | S2 | 1.12 | 33.4 | S2 | 1.09 |
| 1988-2001 | 0.5 | 36.4 | L1.5 * | 1.05 | 33.7 | S2 | 1.00 | 33.7 | S2 | 0.97 |
| 1991-2001 | 0.5 | 38.4 | L2 * | 0.91 | 35.4 | S2 | 0.90 | 35.4 | S2 | 0.92 |
| 1994-2001 | 0.8 | 41.2 | L2 * | 0.96 | 37.1 | S2 * | 1.32 | 37.0 | S2 | 1.48 |
| 1997-2001 | 0.2 | 43.9 | L2 * | 0.97 | 38.9 | S2 * | 1.78 | 38.6 | R3 | 0.98 |
| 2000-2001 | 0.0 | 35.9 | L2 * | 0.69 | 34.7 | S3 * | 1.58 | 34.9 | R3 | 0.92 |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

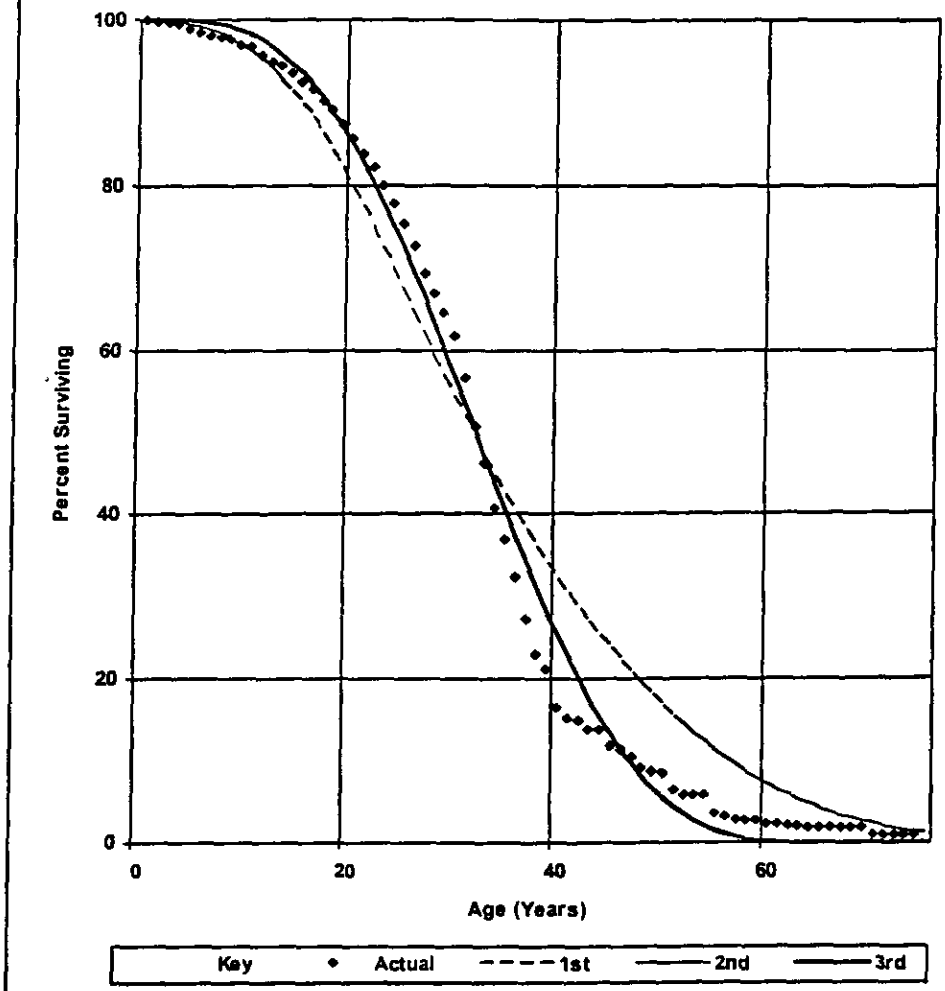
T-Cut: None

Placement Band: 1924-2001 Observation Band: 1961-2001

Hazard Function: Proportion Retired

*Weighting: Exposures*

**Graphics Analysis** 1st: 33.4-L1.5 2nd: 31.6-S1.5 3rd: 31.6-S1.5



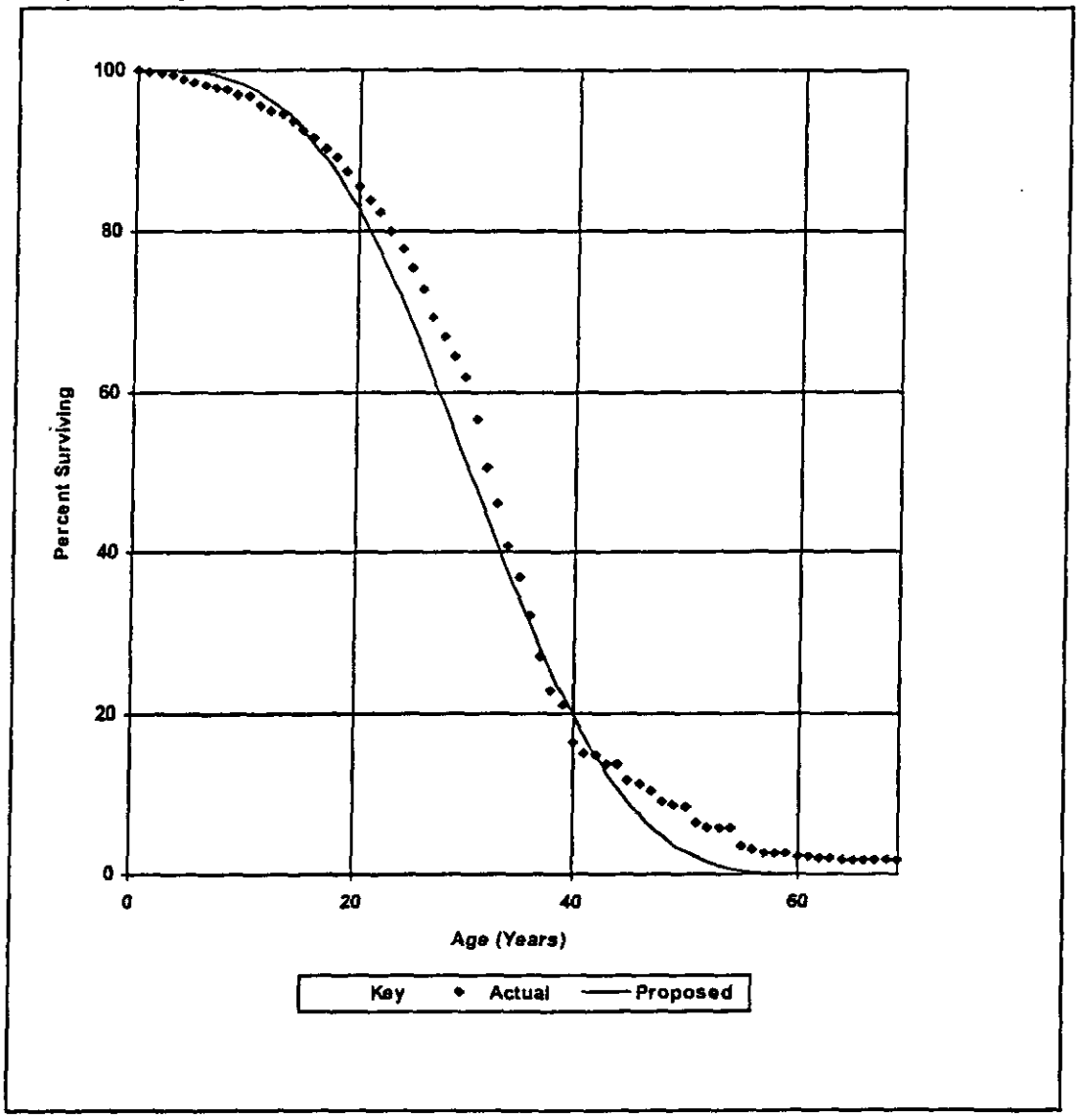
## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368000 Line Transformers**

T-Cut: None
Placement Band: 1924-2001
Observation Band: 1961-2001
30.0-S1.5

**Proposed Projection Life Curve**



## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368.00 Line Transformers**

**Unadjusted Net Salvage History**

| | | Gross Salvage | | | Cost of Retiring | | | Net Salvage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Retirements | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. |
| A | B | C | D=C/B | E | F | G=F/B | H | I=C-F | J=I/B | K |
| 1985 | 240,716 | 41,774 | 17.4 | 17.4 | 111,216 | 46.2 | 46.2 | (69,442) | -28.8 | -28.8 |
| 1986 | 639,622 | 99,058 | 15.5 | 15.5 | 134,011 | 21.0 | 21.0 | (34,953) | -5.5 | -5.5 |
| 1987 | 558,914 | 101,435 | 18.1 | 18.1 | 186,077 | 33.3 | 33.3 | (84,642) | -15.1 | -15.1 |
| 1988 | 1,155,569 | 246,991 | 21.4 | 21.4 | 275,370 | 23.8 | 23.8 | (28,379) | -2.5 | -2.5 |
| 1989 | 502,817 | 57,602 | 11.5 | 11.5 | 124,792 | 24.8 | 24.8 | (67,190) | -13.4 | -13.4 |
| 1990 | 1,023,043 | 361,272 | 35.3 | 35.3 | 442,309 | 43.2 | 43.2 | (81,037) | -7.9 | -7.9 |
| 1991 | 348,671 | 23,205 | 6.7 | 6.7 | 143,315 | 41.1 | 41.1 | (120,110) | -34.4 | -34.4 |
| 1992 | 1,043,275 | 110,943 | 10.6 | 10.6 | 310,170 | 29.7 | 29.7 | (199,227) | -19.1 | -19.1 |
| 1993 | 762,622 | 92,471 | 12.1 | 12.1 | 228,748 | 30.0 | 30.0 | (136,277) | -17.9 | -17.9 |
| 1994 | 563,069 | 53,028 | 9.4 | 9.4 | 184,163 | 32.7 | 32.7 | (131,135) | -23.3 | -23.3 |
| 1995 | 389,323 | 24,537 | 6.3 | 6.3 | 212,524 | 54.6 | 54.6 | (187,987) | -48.3 | -48.3 |
| 1996 | 863,545 | 112,017 | 13.0 | 13.0 | 139,003 | 16.1 | 16.1 | (26,987) | -3.1 | -3.1 |
| 1997 | 363,872 | 28,539 | 7.8 | 7.8 | 105,289 | 28.9 | 28.9 | (76,750) | -21.1 | -21.1 |
| 1998 | 305,868 | 7,724 | 2.5 | 2.5 | 46,085 | 15.1 | 15.1 | (38,361) | -12.5 | -12.5 |
| 1999 | 135,131 | 84,050 | 62.2 | 62.2 | | 0.0 | 0.0 | 84,050 | 62.2 | 62.2 |
| 2000 | 1,340,192 | 46,392 | 3.5 | 3.5 | 266,586 | 19.9 | 19.9 | (220,194) | -16.4 | -16.4 |
| 2001 | 693,202 | 114,204 | 16.5 | 16.5 | 241,304 | 34.8 | 34.8 | (127,100) | -18.3 | -18.3 |
| Total | 10,929,452 | 1,605,241 | 14.7 | | 3,150,962 | 28.8 | | (1,545,720) | -14.1 | |

## AQUILA NETWORKS - MPS (ELECTRIC AND COMMON)

**Distribution Plant**

**Account: 368.00 Line Transformers**

**Adjusted Net Salvage History**

| | | Gross Salvage | | | Cost of Retiring | | | Net Salvage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Retirements | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. |
| A | B | C | D=C/B | E | F | G=F/B | H | I=C-F | J=I/B | K |
| 1985 | 240,716 | 41,774 | 17.4 | 17.4 | 111,216 | 46.2 | 46.2 | (69,442) | -28.8 | -28.8 |
| 1986 | 639,594 | 99,058 | 15.5 | 15.5 | 134,011 | 21.0 | 21.0 | (34,953) | -5.5 | -5.5 |
| 1987 | 558,762 | 101,435 | 18.2 | 18.2 | 186,077 | 33.3 | 33.3 | (84,642) | -15.1 | -15.1 |
| 1988 | 1,155,749 | 246,991 | 21.4 | 21.4 | 275,370 | 23.8 | 23.8 | (28,379) | -2.5 | -2.5 |
| 1989 | 502,817 | 57,602 | 11.5 | 11.5 | 124,792 | 24.8 | 24.8 | (67,190) | -13.4 | -13.4 |
| 1990 | 1,023,043 | 361,272 | 35.3 | 35.3 | 442,309 | 43.2 | 43.2 | (81,037) | -7.9 | -7.9 |
| 1991 | 348,671 | 23,205 | 6.7 | 6.7 | 143,315 | 41.1 | 41.1 | (120,110) | -34.4 | -34.4 |
| 1992 | 1,043,275 | 110,943 | 10.6 | 10.6 | 310,170 | 29.7 | 29.7 | (199,227) | -19.1 | -19.1 |
| 1993 | 762,622 | 92,471 | 12.1 | 12.1 | 228,748 | 30.0 | 30.0 | (136,277) | -17.9 | -17.9 |
| 1994 | 563,069 | 53,028 | 9.4 | 9.4 | 184,163 | 32.7 | 32.7 | (131,135) | -23.3 | -23.3 |
| 1995 | 389,323 | 24,537 | 6.3 | 6.3 | 212,524 | 54.6 | 54.6 | (187,987) | -48.3 | -48.3 |
| 1996 | 863,545 | 112,017 | 13.0 | 13.0 | 139,003 | 16.1 | 16.1 | (26,987) | -3.1 | -3.1 |
| 1997 | 260,983 | 28,539 | 10.9 | 10.9 | 105,289 | 40.3 | 40.3 | (76,750) | -29.4 | -29.4 |
| 1998 | 408,757 | 7,724 | 1.9 | 1.9 | 46,085 | 11.3 | 11.3 | (38,361) | -9.4 | -9.4 |
| 1999 | 135,131 | 84,050 | 62.2 | 62.2 | | 0.0 | 0.0 | 84,050 | 62.2 | 62.2 |
| 2000 | 1,340,192 | 46,392 | 3.5 | 3.5 | 266,586 | 19.9 | 19.9 | (220,194) | -16.4 | -16.4 |
| 2001 | 679,025 | 114,204 | 16.8 | 16.8 | 241,304 | 35.5 | 35.5 | (127,100) | -18.7 | -18.7 |
| Total | 10,915,274 | 1,605,241 | 14.7 | | 3,150,962 | 28.9 | | (1,545,720) | -14.2 | |

Schedule REW–3

# 2002 Depreciation Rate Study

*Aquila Networks—SJLP*
*(Electric, Steam and Common)*

Prepared by
Foster Associates, Inc.

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# EXECUTIVE SUMMARY

## INTRODUCTION

This report presents the findings and recommendations developed in a 2002 Depreciation Rate Study for utility plant owned by Aquila Networks – SJLP (Electric, Industrial Steam and Common). Work on the study, conducted by Foster Associates, Inc., commenced in January 2003 and progressed through mid-March 2003, at which time the project was completed.

Foster Associates, Inc. is a public utility economic consulting firm headquartered in Bethesda, Maryland offering economic research and consulting services on issues and problems arising from governmental regulation of business. The areas of specialization supported by our Fort Myers office include property life forecasting, technological forecasting, depreciation estimation, and valuation of industrial property.

Foster Associates has undertaken numerous depreciation engagements for both public and privately owned corporations including detailed statistical life studies, analyses of required net salvage rates, and the selection of depreciation systems that will most nearly achieve the goals of depreciation accounting under the constraints of either government regulation or competitive market pricing. Foster Associates is widely recognized for industry leadership in the development of depreciation systems, life analysis techniques and computer software for conducting depreciation and valuation studies.

Electric and Common depreciation rates currently used by SJLP were approved by the Missouri Public Service Commission (Commission) pursuant to a Stipulation and Agreement in Formal Case No. ER-99-247 and Case No. EC-98-573 dated August 17, 1999. Net salvage rates and service life statistics (*i.e.*, projection lives, projection curves and average service lives) used to derive the settled depreciation rates were included in work papers related to the case.

Industrial Steam depreciation rates currently used by SJLP were approved by the Commission pursuant to a Stipulation and Agreement in Formal Case No. HR-99-245 dated August 17, 1999. Net salvage rates and service life statistics used to derive the settled depreciation rates were not included in either the Stipulation and Agreement or in other documents related to the case.

The principal findings and recommendations of the SJLP Depreciation Rate Study are summarized in the Statements section of this report. Statement A provides a comparative summary of present and proposed annual depreciation rates for each rate category. Statement B provides a comparison of present and proposed annual depreciation accruals. Statement C provides a comparison of the computed, recorded and redistributed depreciation reserves for each rate category. Statement D provides a summary of the components used to obtain a weighted-average net salvage rate for each plant account. Statement E provides a computation of the estimated future net salvage rate for steam production facilities. State-

ment F provides a comparative summary of present and proposed parameters including projection life, projection curve, average service life, and average remaining life.

## SCOPE OF STUDY

The principal activities undertaken in the current study included:

- Collection of plant and net salvage data;
- Reconciliation of data to the official records of the Company;
- Discussions with Aquila plant accounting personnel;
- On-site plant inspections;
- Estimation of projection lives and retirement dispersion patterns;
- Analysis of gross salvage and removal expense;
- Analysis and redistribution of recorded depreciation reserves; and
- Development of recommended accrual rates for each rate category.

## DEPRECIATION SYSTEM

A depreciation rate is formed by combining the elements of a depreciation system. A depreciation system is composed of a method, a procedure and a technique. A depreciation method (*e.g.*, straight-line) describes the component of the system that determines the acceleration or deceleration of depreciation accruals in relation to either time or use. A depreciation procedure (*e.g.*, vintage group) identifies the level of grouping or sub-grouping of assets within a plant category. The level of grouping specifies the weighting used to obtain composite life statistics for an account. A depreciation technique (*e.g.*, remaining-life) describes the life statistic used in the system.

SJLP is presently using a depreciation system composed of the straight-line method, broad group procedure, whole-life technique for all plant categories. The rates proposed in this study are derived from a system composed of the straight-line method, vintage group procedure, whole-life technique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique.

The matching and expense recognition principles of accounting provide that the cost of an asset (or group of assets) should be allocated to operations over an estimate of the economic life of the asset in proportion to the consumption of service potential. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage-group procedure combined with the remaining-life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, the

vintage group procedure distinguishes average service lives among vintages and provides cost apportionment over the estimated weighted-average remaining life or average life of a rate category.

The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. It is highly unlikely, therefore, that compensating deviations (*i.e.,* over and underestimates of average service life) will be created among vintages to achieve cost allocation over the average service life of each vintage. The level of asset grouping identified in the vintage group procedure is the plant in service from each vintage. The average service life (or remaining life) is estimated for each vintage and composite life statistics are computed for each plant account. It is more likely, therefore, that compensating deviations will be created with a vintage group procedure than with a broad group procedure.

The dependency of both the broad group procedure and the vintage group procedure on compensating deviations in the estimate of service lives is attributable to the use of the whole-life technique. A permanent excess or deficiency will be created in the depreciation reserve by a continued application of the whole-life technique if these deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated, however, by an application of the remaining-life technique.

The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances. A reserve imbalance is the difference between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. The remaining-life technique provides a systematic amortization of these differences over the composite weighted average remaining life of a rate category.

Although the emergence of economic factors such as bypass and incentive forms of regulation may ultimately encourage abandonment of the straight-line method, no attempt was made in the current study to address these concerns.

## PROPOSED DEPRECIATION RATES

Table 1 provides a summary of the changes in annual rates and accruals resulting from adoption of the parameters and depreciation system recommended in this study.

*Rates and Accruals*

| Function | Accrual Rate | | | 2002 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| | Present | Proposed | Difference | Present | Proposed | Difference |
| Steam Production | 3.84% | 4.56% | 0.72% | $5,106,031 | $6,069,973 | $963,942 |
| Other Production | 3.83% | 1.37% | -2.46% | 620,501 | 222,546 | -397,955 |
| Transmission | 2.89% | 1.59% | -1.30% | 721,231 | 396,668 | -324,563 |
| Distribution | 3.43% | 2.72% | -0.71% | 4,689,115 | 3,716,828 | -972,287 |
| General Plant | 4.36% | 2.26% | -2.10% | 34,547 | 17,891 | -16,656 |
| Total Electric | 3.58% | 3.34% | -0.24% | $11,171,425 | $10,423,906 | $-747,519 |
| Common Plant | 5.13% | 2.95% | -2.18% | 1,457,454 | 837,671 | -619,783 |
| Industrial Steam | 3.04% | 6.16% | 3.12% | 96,156 | 194,924 | 98,768 |
| Total SJLP | 3.71% | 3.34% | -0.37% | $12,725,035 | $11,456,501 | $-1,268,534 |

TABLE 1. PRESENT AND PROPOSED RATES AND ACCRUALS

Foster Associates is recommending primary account depreciation rates equivalent to a composite rate of 3.34 percent. Depreciation expense is presently accrued at an equivalent composite rate of 3.71 percent. The recommended change in the composite depreciation rate is, therefore, a decrease of 0.37 percentage points.

A continued application of rates currently prescribed would provide annualized depreciation expense of $12,725,035 compared to an annualized expense of $11,456,501 using the rates developed in this study. The proposed expense decrease is $1,268,534. Of this decrease, ($1,267,709) represents amortization of a ($25,104,272) reserve imbalance. The remaining portion of the decrease is attributable to recommended changes in service life and net salvage parameters.

Of the 82 primary accounts included in the 2002 study, Foster Associates is recommending rate reductions for 51 accounts and rate increases for 31 accounts.

# STUDY PROCEDURE

## INTRODUCTION

The purpose of a depreciation study is to analyze the mortality characteristics, net salvage rates and adequacy of the depreciation accrual and recorded depreciation reserve for each rate category. This study provides the foundation and documentation for recommended changes in the depreciation accrual rates used by Aquila for its SJLP (Electric, Industrial Steam and Common) operations. The proposed rates are subject to approval by the Missouri Public Service Commission.

## SCOPE

The steps involved in conducting a depreciation study can be grouped into five major tasks:

- Data Collection;
- Life Analysis and Estimation;
- Net Salvage Analysis;
- Depreciation Reserve Analysis; and
- Development of Accrual Rates.

The scope of the 2002 study for SJLP included a consideration of each of these tasks as described below.

## DATA COLLECTION

The minimum database required to conduct a statistical life study consists of a history of vintage year additions and unaged activity year retirements, transfers and adjustments. These data must be appropriately adjusted for transfers, sales and other plant activity that would otherwise bias the measured service life of normal retirements. The age distribution of surviving plant for unaged data can be estimated by distributing the plant in service at the beginning of the study year to prior vintages in proportion to the theoretical amount surviving from a projection or survivor curve identified in the life study. The statistical methods of life analysis used to examine unaged plant data are known as *semi-actuarial techniques*.

A far more extensive database is required to apply the statistical methods of life analysis known as *actuarial techniques*. Plant data used in an actuarial life study most often include the age distribution of surviving plant at the beginning of the study year and the vintage year, activity year, and dollar amounts associated with normal retirements, reimbursed retirements, sales, abnormal retirements, transfers, corrections, and extraordinary adjustments over a series of prior activity years. An actuarial database may include the age distribution of surviving plant at the beginning of the earliest activity year, rather than at the beginning of the study year. Plant additions, however, must be included in a database contain-

ing an opening age distribution to derive aged survivors at the beginning of the study year. All activity year transactions with vintage year identification are coded and stored in a data file. The data are processed by a computer program and transaction summary reports are created in a format reconcilable to the Company's official plant records. The availability of such detailed information is dependent upon an accounting system that supports aged property records. The Continuing Property Record (CPR) system used by Aquila for SJLP assets provides aged transactions for all plant accounts.

The database used in the 2002 study was compiled from two sources. Detailed accounting transactions were extracted from these sources and assigned transaction codes which identify the nature of the accounting activity. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The first data source was an electronic file used by SJLP in conducting its 1998 depreciation rate study. The legacy data base was updated by SJLP to include activity years 1998 through 2000. The earliest activity year in the updated file was 1980. An electronic worksheet was used by Foster Associates to create a coded database in a format compatible with the software used to conduct the current depreciation study.

The second source of data was the current CPR system installed by Aquila in 1998. The database obtained from this system included activity year transactions for calendar year 2001 and the age distribution of surviving plant at December 31, 2001. Plant transactions for 2001 were added to the legacy database to generate age distributions at December 31, 2001. The resulting age distributions were then compared to the age distributions extracted from the current CPR. Differences were coded as vintage adjustments in 2001 to interconnect and provide continuity between the two databases. Care was taken in creating the Foster Associates database to ensure a proper mapping of the legacy system account structure to the current CPR account structure.

The accuracy and completeness of the assembled data base was verified by Foster Associates for activity year 2001 by comparing additions, retirements, transfers and adjustments, and the ending plant balance derived for 2001 to the official plant records of the Company. The legacy database contains adjustments for depreciation study purposes which prevents reconciling the database to the official plant records for activity years prior to 2001.

## LIFE ANALYSIS AND ESTIMATION

Life analysis and life estimation are terms used to describe a two-step procedure for estimating the mortality characteristics of a plant category. The first step (*i.e.*, life analysis) is largely mechanical and primarily concerned with history. Statistical techniques are used in this step to obtain a mathematical description of the forces of retirement acting upon a plant category and an estimate of service life known as the *projection life* of the account. The mathematical expressions used to describe these life characteristics are known as *survival functions* or *survivor curves*.

The second step (*i.e.*, life estimation) is concerned with predicting the expected remaining life of property units still exposed to the forces of retirement. It is a process of blending the results of the life analysis with informed judgment (including expectations about the future) to obtain an appropriate projection life and curve. The amount of weight given to the life analysis will depend upon the extent to which past retirement experience is considered descriptive of the future.

The analytical methods used in a life analysis are broadly classified as actuarial and semi-actuarial techniques. Actuarial techniques can be applied to plant accounting records that reveal the age of a plant asset at the time of its retirement from service. Stated differently, each property unit must be identifiable by date of installation and age at retirement. Semi-actuarial techniques can be used to derive service life and dispersion estimates when age identification of retirements is not maintained or readily available.

An actuarial life analysis program designed and developed by Foster Associates was used in this study. The first step in an actuarial analysis involves a systematic treatment of the available data for the purpose of constructing an observed life table. A complete life table contains the life history of a group of property units installed during the same accounting period and various probability relationships derived from the data. A life table is arranged by age-intervals (usually defined as one year) and shows the number of units (or dollars) entering and leaving each age-interval and probability relationships associated with this activity. A life table minimally shows the age of each survivor and the age of each retirement from a group of units installed in a given accounting year.

A life table can be constructed in any one of at least five alternative methods. The annual-rate or retirement-rate method was used in this study. The mechanics of the annual-rate method require the calculation of a series of ratios obtained by dividing the number of units (or dollars) surviving at the beginning of an age interval into the number of units (or dollars) retired during the same interval. This ratio (or set of ratios) is commonly referred to as retirement ratios. The cumulative proportion surviving is obtained by multiplying the retirement ratio for each age interval by the proportion of the original group surviving at the beginning of

that age interval and subtracting this product from the proportion surviving at the beginning of the same interval. The annual-rate method is applied to multiple groups or vintages by combining the retirements and/or survivors of like ages for each vintage included in the analysis.

The second step in an actuarial analysis involves graduating or smoothing the observed life table and fitting the smoothed series to a family of survival functions. The functions used in this study are the Iowa-type curves which are mathematically described in terms of the Pearson frequency curve family. The observed life table was smoothed by a weighted least-squares procedure in which first, second and third degree polynomials were fitted to the observed retirement ratios. The resulting function can be expressed in terms of a survivorship function which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data.

The set of computer programs used in this analysis provides multiple rolling-band and shrinking-band analyses of an account. Observation bands are defined for a "retirement era" which restricts the analysis to the retirement activity of all vintages represented by survivors at the beginning of a selected era. In a rolling-band analysis, a year of retirement experience is added to each successive retirement band and the earliest year from the preceding band is dropped. A shrinking-band analysis begins with the total retirement experience available and the earliest year from the preceding band is dropped for each successive band. Rolling and shrinking band analyses are used to detect the emergence of trends in the behavior of the dispersion and average service life.

Options available in the actuarial life analysis program developed by Foster Associates include the width and location of both placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated. The program also provides tabular and graphics output as an aid in the analysis and optionally produces data output files used in the calculation of depreciation accruals.

While actuarial and semi-actuarial statistical methods are well suited to an analysis of plant categories containing a large number of homogeneous units (*e.g.*, poles and conductors), the concept of retirement dispersion is inappropriate for plant categories composed of major items of plant that will most likely be retired as a single unit. Plant retirements from an integrated system prior to the retirement of the entire facility are more properly viewed as interim retirements that

will be replaced in order to maintain the integrity of the system. Additionally, plant facilities may be added to the existing system (*i.e.*, interim additions) in order to expand or enhance its productive capacity without extending the service life of the present system. A proper depreciation rate can be developed for an integrated system using a life-span method.

The life-span method requires the selection of a coterminous retirement date for all plant additions to a specific facility. A composite depreciation rate is calculated for the facility using the technique of harmonic weighting of the expected life span of each vintage addition. The resulting accrual rate must be adjusted for interim retirements to the extent that such retirements can be reasonably expected. Absent this adjustment, the depreciation accumulated over the life span of the facility will be deficient by an amount equal to a portion of the interim retirements. Properly implemented, the life-span method does not include plant additions or replacements of interim retirements until such activity is reported. Plant accounts classified in the Steam Production, Industrial Steam and Other Production functions were identified by location and treated as life-span categories in this study.

## NET SALVAGE ANALYSIS

Depreciation rates designed to achieve the goals and objectives of depreciation accounting will include a parameter for future net salvage and a variable for average net salvage which reflects both realized and future net salvage rates.

An estimate of the net salvage rate applicable to future retirements is most often obtained from an analysis of gross salvage and removal expense realized in the past. An analysis of past experience (including an examination of trends over time) provides an appropriate basis for estimating future salvage and cost of removal. However, consideration should also be given to events that may cause deviations from net salvage realized in the past. Among the factors that should be considered are the age of plant retirements; the portion of retirements likely to be reused; changes in the method of removing plant; the type of plant to be retired in the future; inflation expectations; the shape of the projection life curve; and economic conditions that may warrant greater or lesser weight to be given to the net salvage observed in the past.

Special consideration should also be given to the treatment of insurance proceeds and other forms of third-party reimbursements credited to the depreciation reserve. A properly conducted net salvage study will exclude such activity from the estimate of future parameters and include the activity in the computation of realized and average net salvage rates.

A traditional, historical analysis using a five-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in this study to a) estimate a realized net salvage rate; b) detect the emergence of

historical trends; and c) establish a basis for estimating a future net salvage rate. Cost of removal and salvage opinions obtained from Company engineers were blended with judgment and historical net salvage indications in developing estimates of the future.

Consideration was also given in the 2002 SJLP depreciation study to the cost of dismantling the Lake Road and Iatan generating stations. The projected cost of dismantling these facilities was derived, as shown in Table 2, from an estimated cost of $50 per kW, denominated in 2001 dollars. This cost estimate is intended to serve as a placeholder pending completion of a detailed dismantling cost study. The Company is prepared to undertake a dismantling cost study upon receipt of authorization by the Commission to include removal expense in the accrual for depreciation.

| Plant | Capacity (MW) | Cost per kW | 2001 Cost | Inflation Rate | AYFR | Dismantlement Cost |
|---|---|---|---|---|---|---|
| Lake Road | 152.0 | $50.00 | $7,600,000 | 1.50% | 2012 | $8,952,412 |
| Iatan | 121.0 | 50.00 | 6,050,000 | 1.50% | 2015 | 7,452,122 |

**Table 2. Dismantlement Cost**

The average net salvage rate for an account was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate. The computation of the estimated average net salvage rate for each rate category is shown in Statement D. Future net salvage rates estimated for Lake Road and Iatan are shown in Statement E.

## DEPRECIATION RESERVE ANALYSIS

The purpose of a depreciation reserve analysis is to compare the current level of the recorded reserve with the level required to achieve the goals or objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized as predicted. The difference between the required depreciation reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to eliminate the reserve imbalance.

Unlike a recorded reserve which represents the net amount of depreciation expense charged to previous periods of operations, a theoretical reserve is a measure of the implied reserve requirement at the beginning of a study year if the timing of future retirements and net salvage is in exact conformance with a survivor curve chosen to predict the probable life of property still exposed to the forces of retirement. Stated differently, a theoretical depreciation reserve is the difference between the recorded cost of plant presently in service and the sum of the depreciation and net salvage that will be charged in the future if retirements are

distributed over time according to a specified retirement frequency distribution.

The survivor curve used in the calculation of a theoretical depreciation reserve is intended to describe forces of retirement that will be operative in the future. However, retirements caused by forces such as accidents, physical deterioration and changing technology seldom, if ever, remain stable over time. It is unlikely, therefore, that a probability or retirement frequency distribution can be identified that will accurately describe the age of plant retirements over the complete life cycle of a vintage. It is for this reason that depreciation rates should be reviewed periodically and adjusted for observed or expected changes in the parameters chosen to describe the underlying forces of mortality.

Although reserve records are commonly maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices. If statistical life studies have not been conducted or retirement dispersion has been ignored in setting depreciation rates, it is likely that some accounts will be over-depreciated and other accounts will be under-depreciated relative to a calculated theoretical reserve. Differences between the theoretical reserve and the recorded reserve also will arise as a normal occurrence when service lives, dispersion patterns and net salvage estimates are adjusted in the course of depreciation reviews. It is appropriate, therefore, and consistent with group depreciation theory to periodically redistribute or rebalance the total recorded reserve among the various primary accounts based upon the most recent estimates of retirement dispersion and net salvage rates.

A redistribution of recorded reserves is appropriate for SJLP at this time. Although recorded reserves have been maintained by primary account (and locations within primary accounts), these reserves were largely ignored in the development of the presently prescribed whole-life accrual rates. This failure to address prior reserve imbalances produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to establish an initial reserve balance for each account consistent with the age distributions and estimates of retirement dispersion developed in this study. Reserves should also be realigned in this study to reflect adoption of the vintage group procedure.

A redistribution of the recorded reserve was achieved for SJLP by multiplying the calculated reserve for each primary account within a function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within a function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Statement C provides a comparison of the computed and recorded reserves for SJLP on December 31, 2001. The recorded reserve was $191,504,496, or 55.8 percent of the depreciable plant investment. The corresponding computed reserve

is $166,400,224 or 48.5 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of ($25,104,272) will be amortized over the composite weighted-average remaining life of each rate category using the remaining life depreciation rates proposed in this study.

## DEVELOPMENT OF ACCRUAL RATES

The goal or objective of depreciation accounting is cost allocation over the economic life of an asset in proportion to the consumption of service potential. Ideally, the cost of an asset—which represents the cost of obtaining a bundle of service units—should be allocated to future periods of operation in proportion to the amount of service potential expended during an accounting interval. The service potential of an asset is the present value of future net revenue (*i.e.*, revenue less expenses exclusive of depreciation and other non-cash expenses) or cash inflows attributable to the use of that asset alone.

Cost allocation in proportion to the consumption of service potential is often approximated by the use of depreciation methods employing time rather than net revenue as the apportionment base. Examples of time-based methods include sinking-fund, straight-line, declining balance, and sum-of-the-years' digits. The advantage of using a time-based method is that it does not require an estimate of the remaining amount of service capacity an asset will provide or the amount of capacity actually consumed during an accounting interval. Using a time-based allocation method, however, does not change the goal of depreciation accounting. If it is predictable that the net revenue pattern of an asset will either decrease or increase over time, then an accelerated or decelerated time-based method should be used to approximate the rate at which service potential is actually consumed.

The time period over which the cost of an asset will be allocated to operations is determined by the combination of a procedure and a technique. A depreciation procedure describes the level of grouping or sub-grouping of assets within a plant category. The broad group, vintage group, equal-life group, and item or unit are a few of the more widely used procedures. A depreciation technique describes the life statistic used in a depreciation system. The whole life and remaining life (or expectancy) are the most common techniques.

Depreciation rates recommended in this study were developed using a system composed of the straight-line method, vintage group procedure, whole-life technique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique. It is the opinion of Foster Associates that this system will remain appropriate for SJLP, provided depreciation studies are conducted periodically and parameters are routinely adjusted to reflect changing operating conditions.

# STATEMENTS

## INTRODUCTION

This section provides a comparative summary of depreciation rates, annual depreciation accruals, recorded and computed depreciation reserves, and present and proposed service life and net salvage statistics recommended for SJLP electric, industrial steam and common operations. The content of these statements is briefly described below.

- Statement A provides a comparative summary of present and proposed annual depreciation rates using the vintage group procedure, whole-life technique with amortization of reserve imbalances.
- Statement B provides a comparison of the present and proposed annualized 2002 depreciation accruals based upon the rates developed in Statement A.
- Statement C provides a comparison of the recorded, computed and redistributed reserves for each rate category at December 31, 2001.
- Statement D provides a summary of the components used to obtain a weighted average net salvage rate for each rate category.
- Statement E provides a computation of the estimated future net salvage rate for steam production facilities.
- Statement F provides a comparative summary of present and proposed parameters including projection life, projection curve, average service life, and average remaining life.

Present depreciation accruals shown on Statement B are the product of the plant investment (Column B) and the present depreciation rates (Column D) shown on Statement A. These are the effective rates used by the Company for the mix of investments recorded on December 31, 2001. Similarly, proposed depreciation accruals shown on Statement B are the product of the plant investment and the proposed depreciation rates (Column I) shown on Statement A. Proposed accrual rates shown on Statement A are given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage}{Average\ Life} + \frac{Computed\ Reserve - Recorded\ Reserve}{Remaining\ Life}$$

where *Average Net Salvage*, *Computed Reserve* and *Recorded Reserve* are expressed in percent. This formulation of the accrual rate is equivalent to

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ Life}.$$

## AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)

Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| **STEAM PRODUCTION** | | | | | | | | |
| 311000 Structures and Improvements | | | 4.09% | 22.70 | -14.1% | 5.03% | 0.04% | 5.07% |
| 312001 Boiler Plant Equipment | | | 3.90% | 24.47 | -12.3% | 4.59% | 0.03% | 4.62% |
| 314000 Turbogenerator Units | | | 3.50% | 27.69 | -14.0% | 4.12% | 0.04% | 4.16% |
| 315000 Accessory Electric Equipment | | | 3.43% | 27.87 | -12.8% | 4.05% | 0.02% | 4.07% |
| 316000 Miscellaneous Power Plant Equipment | | | 3.50% | 23.69 | -14.6% | 4.84% | 0.02% | 4.86% |
| 353000 Station Equipment | | | 2.20% | 31.43 | -10.0% | 3.50% | | 3.50% |
| 391001 Office Furniture and Equipment | | | 7.14% | 18.68 | | 5.35% | 0.02% | 5.37% |
| 391003 Computer Hardware | | | | 12.82 | | 7.80% | 0.04% | 7.84% |
| 391004 Computer Software | | | 14.30% | 12.38 | | 8.08% | 0.01% | 8.09% |
| 392000 Transportation Equipment | | | 6.20% | 15.04 | 19.4% | 5.36% | 0.12% | 5.48% |
| 393000 Stores Equipment | | | 4.99% | 30.04 | | 3.33% | | 3.33% |
| 394000 *Tools, Shop and Garage Equipment* | | | 4.40% | 25.19 | | 3.97% | 0.02% | 3.99% |
| 395000 Laboratory Equipment | | | 3.40% | 25.71 | | 3.89% | 0.03% | 3.92% |
| 396002 Power Operated Equipment | | | 3.90% | 18.38 | 25.0% | 4.08% | 0.04% | 4.12% |
| 397000 Communication Equipment | | | 2.50% | 25.03 | -5.1% | 4.20% | | 4.20% |
| 398000 *Miscellaneous Equipment* | | | 3.60% | 25.51 | -3.1% | 4.04% | 0.02% | 4.06% |
| **Total Steam Production Plant** | | | 3.84% | 24.83 | -12.4% | 4.53% | 0.03% | 4.56% |
| **OTHER PRODUCTION (Lake Road)** | | | | | | | | |
| 341000 Structures and Improvements | 22.00 | | | 35.49 | -5.0% | 2.96% | -2.62% | 0.34% |
| 342000 Fuel Holders and Accessories | 22.00 | | | 38.64 | -5.0% | 2.72% | -2.78% | -0.06% |
| 343000 Prime Movers | 22.00 | | 4.70% | 28.00 | -5.1% | 3.75% | -2.10% | 1.65% |
| 344001 Generators | 22.00 | | 4.70% | 33.49 | -15.2% | 3.44% | -2.31% | 1.13% |
| 345000 Accessory Electric Equipment | 22.00 | | | 29.36 | -5.0% | 3.58% | -2.22% | 1.36% |
| ***Total Other Production Plant*** | | | 3.83% | 29.89 | -7.1% | 3.58% | -2.21% | 1.37% |
| **TRANSMISSION PLANT** | | | | | | | | |
| 352000 Structures and Improvements | 53.00 | | 1.90% | 60.02 | -10.0% | 1.83% | -0.45% | 1.38% |
| 353000 Station Equipment | 27.00 | -5.0% | 3.90% | 30.17 | 3.4% | 3.20% | -1.43% | 1.77% |
| 355000 Poles and Fixtures | 53.00 | -37.0% | 2.60% | 60.76 | -30.8% | 2.15% | -0.51% | 1.64% |
| 356000 Overhead Conductors and Devices | 50.00 | -17.0% | 2.30% | 60.30 | -29.1% | 2.14% | -0.77% | 1.37% |
| 357000 Underground Conduit | 58.00 | | 1.70% | 60.00 | -5.0% | 1.75% | -0.20% | 1.55% |
| 358000 Underground Conductors and Devices | 41.00 | | 2.40% | 60.75 | -5.0% | 1.73% | -0.41% | 1.32% |
| **Total Transmission Plant** | | | 2.89% | 48.05 | -18.3% | 2.46% | -0.87% | 1.59% |
| **DISTRIBUTION PLANT** | | | | | | | | |
| 361000 Structures and Improvements | 50.00 | | 2.00% | 50.15 | -10.0% | 2.19% | -0.03% | 2.16% |
| 362000 Station Equipment | 30.00 | -16.0% | 3.90% | 50.27 | -19.3% | 2.37% | -0.11% | 2.26% |
| 364000 Poles, Towers and Fixtures | 44.00 | -53.0% | 3.50% | 45.37 | -65.1% | 3.64% | -0.28% | 3.36% |
| 365000 Overhead Conductors and Devices | 47.00 | -37.0% | 2.90% | 55.30 | -37.1% | 2.48% | -0.15% | 2.33% |
| 366000 Underground Conduit | 50.00 | | 2.00% | 55.03 | -40.0% | 2.54% | -0.09% | 2.45% |
| 367000 Underground Conductors and Devices | 58.00 | -14.0% | 2.00% | 49.98 | -15.0% | 2.30% | -0.08% | 2.22% |
| 368000 Line Transformers | | | 2.87% | 40.22 | -19.3% | 2.97% | -0.22% | 2.75% |
| 369001 Overhead Services | 40.00 | -78.0% | 4.50% | 50.22 | -101.8% | 4.02% | -0.38% | 3.64% |
| 369002 Underground Services | 40.00 | -78.0% | 4.50% | 35.07 | -10.0% | 3.14% | -0.18% | 2.96% |
| 370001 Meters | 29.00 | 1.0% | 3.40% | 40.63 | 0.1% | 2.46% | -0.26% | 2.20% |
| 371000 Installations on Customers' Premises | 13.00 | 7.0% | 7.20% | 17.07 | 9.1% | 5.33% | -0.33% | 5.00% |
| 373000 Street Lighting and Signal Systems | 18.00 | -25.0% | 6.90% | 25.29 | -17.7% | 4.65% | -0.21% | 4.44% |
| **Total Distribution Plant** | | | 3.43% | 44.54 | -29.1% | 2.90% | -0.18% | 2.72% |
| **GENERAL PLANT** | | | | | | | | |
| 391001 Office Furniture and Equipment | | | 7.08% | 16.11 | 2.6% | 6.05% | -4.08% | 1.97% |
| 391003 Computer Hardware | | | | 10.01 | 4.2% | 9.57% | -3.83% | 5.74% |
| 391004 Computer Software | 7.00 | | 14.30% | 11.09 | | 9.02% | -4.43% | 4.59% |
| 393000 Stores Equipment | 20.00 | | 5.00% | 26.78 | | 3.73% | -2.68% | 1.05% |

## AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)

Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| 394000 Tools, Shop and Garage Equipment | 22.00 | 4.0% | 4.40% | 24.38 | -53.6% | 6.30% | 0.48% | 6.78% |
| 395000 Laboratory Equipment | 27.00 | 7.0% | 3.40% | 23.27 | 0.8% | 4.26% | -5.02% | -0.76% |
| 397000 Communication Equipment | 21.00 | -2.0% | 4.90% | 25.36 | -4.4% | 4.12% | -3.57% | 0.55% |
| 398000 Miscellaneous Equipment | 28.00 | | 3.60% | 25.69 | -25.4% | 4.88% | -1.84% | 3.04% |
| **Total General Plant** | | | 4.36% | 19.17 | | 5.22% | -2.96% | 2.26% |
| **TOTAL ELECTRIC UTILITY** | | | 3.58% | 33.19 | -19.5% | 3.60% | -0.26% | 3.34% |
| **COMMON UTILITY** | | | | | | | | |
| 390001 Structures and Improvements | 31.00 | 3.0% | 3.10% | 40.19 | -9.2% | 2.72% | -1.06% | 1.66% |
| 391001 Office Furniture and Equipment | | | 7.96% | 20.17 | | 4.96% | -1.53% | 3.43% |
| 391003 Computer Hardware | | | | 13.97 | | 7.16% | -3.14% | 4.02% |
| 391004 Computer Software | 7.00 | | 14.30% | 13.40 | | 7.46% | -2.31% | 5.15% |
| 392000 Transportation Equipment | 12.00 | 26.0% | 6.20% | 12.99 | 18.8% | 6.25% | -3.08% | 3.17% |
| 393000 Stores Equipment | 20.00 | | 5.00% | 30.66 | | 3.26% | -1.81% | 1.45% |
| 394000 Tools, Shop and Garage Equipment | 22.00 | 4.0% | 4.40% | 25.59 | | 3.91% | -1.20% | 2.71% |
| 395000 Laboratory Equipment | 27.00 | 7.0% | 3.40% | 26.34 | | 3.80% | -1.76% | 2.04% |
| 396002 Power Operated Equipment | 18.00 | 30.0% | 3.90% | 18.91 | 20.4% | 4.21% | -2.14% | 2.07% |
| 397000 Communication Equipment | 21.00 | -2.0% | 4.90% | 25.62 | -5.0% | 4.10% | -0.87% | 3.23% |
| 398000 Miscellaneous Equipment | 28.00 | | 3.60% | 25.62 | -5.0% | 4.10% | -0.91% | 3.19% |
| **Total Common Utility** | | | 5.13% | 20.89 | -0.1% | 4.79% | -1.84% | 2.95% |
| **TOTAL ELECTRIC AND COMMON UTILITY** | | | 3.71% | 31.87 | -17.9% | 3.70% | -0.39% | 3.31% |
| **INDUSTRIAL STEAM PRODUCTION** | | | | | | | | |
| 311009 Structures and Improvements | | | 4.40% | 32.05 | -27.6% | 3.98% | 2.17% | 6.15% |
| 312009 Boiler Plant Equipment | | | 4.00% | 33.09 | -24.9% | 3.77% | 2.22% | 5.99% |
| 315009 Accessory Electric Equipment | | | 3.80% | 23.46 | -11.2% | 4.74% | 1.91% | 6.65% |
| 375009 Structures and Improvements | | | 2.00% | 22.48 | -5.6% | 4.70% | 1.58% | 6.28% |
| 376009 Mains | | | 2.50% | 26.72 | -3.1% | 3.86% | 2.00% | 5.86% |
| 379009 Measuring and Regulating Equpment | | | 3.00% | 21.49 | -4.7% | 4.87% | 1.68% | 6.55% |
| 380009 Services | | | 3.00% | 25.79 | -4.9% | 4.07% | 1.93% | 6.00% |
| 381009 Meters | | | 4.00% | 19.19 | -0.1% | 5.22% | 1.42% | 6.64% |
| **Total Industrial Steam Production Plant** | | | 3.04% | 25.08 | -7.2% | 4.27% | 1.89% | 6.16% |
| **TOTAL SJLP** | | | 3.71% | 31.80 | -17.8% | 3.70% | -0.36% | 3.34% |
| **STEAM PRODUCTION** | | | | | | | | |
| **Lake Road** | | | | | | | | |
| 311000 Structures and Improvements | 54.00 | -31.0% | 4.40% | 20.82 | -15.1% | 5.53% | 0.06% | 5.59% |
| 312001 Boiler Plant Equipment | | | 4.18% | 20.26 | -15.4% | 5.70% | 0.06% | 5.76% |
| 314000 Turbogenerator Units | 33.00 | -33.0% | 3.90% | 24.16 | -15.0% | 4.76% | 0.07% | 4.83% |
| 315000 Accessory Electric Equipment | 39.00 | -9.0% | 3.80% | 23.29 | -13.7% | 4.88% | 0.07% | 4.95% |
| 316000 Miscellaneous Power Plant Equipment | 32.00 | | 3.50% | 19.26 | -22.4% | 6.36% | 0.05% | 6.41% |
| 353000 Station Equipment | | | | | | | | |
| 391001 Office Furniture and Equipment | | | 7.16% | 18.64 | | 5.36% | 0.02% | 5.38% |
| 391003 Computer Hardware | | | | 12.82 | | 7.80% | 0.04% | 7.84% |
| 391004 Computer Software | | | 14.30% | 12.37 | | 8.08% | 0.03% | 8.11% |
| 392000 Transportation Equipment | | | 6.20% | 15.04 | 19.4% | 5.36% | 0.12% | 5.48% |
| 393000 Stores Equipment | | | 5.00% | 30.00 | | 3.33% | 0.01% | 3.34% |
| 394000 Tools, Shop and Garage Equipment | | | 4.40% | 25.21 | | 3.97% | 0.02% | 3.99% |
| 395000 Laboratory Equipment | | | 3.40% | 25.74 | | 3.89% | 0.03% | 3.92% |
| 396002 Power Operated Equipment | | | 3.90% | 18.40 | 25.0% | 4.08% | 0.04% | 4.12% |
| 397000 Communication Equipment | | | | | | | | |
| 398000 Miscellaneous Equipment | | | 3.60% | 25.49 | -3.1% | 4.04% | 0.03% | 4.07% |
| **Total Lake Road** | | | 4.17% | 20.95 | -14.4% | 5.46% | 0.06% | 5.52% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)** Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| **Iatan** | | | | | | | | |
| 311000 *Structures and Improvements* | 30.50 | -1.0% | 3.30% | 29.64 | -11.4% | 3.76% | | 3.76% |
| 312001 Boiler Plant Equipment | 28.60 | -4.0% | 3.60% | 32.14 | -8.8% | 3.39% | | 3.39% |
| 314000 *Turbogenerator Units* | 32.30 | -1.0% | 3.10% | 32.62 | -13.0% | 3.46% | 0.01% | 3.47% |
| 315000 Accessory Electric Equipment | 31.30 | -1.0% | 3.20% | 31.72 | -12.2% | 3.54% | | 3.54% |
| 316000 Miscellaneous Power Plant Equipment | 28.00 | 2.0% | 3.50% | 25.41 | -10.1% | 4.33% | 0.01% | 4.34% |
| 353000 Station Equipment | 42.00 | 6.0% | 2.20% | 31.43 | -10.0% | 3.50% | | 3.50% |
| 391001 Office Furniture and Equipment | 18.40 | 1.0% | 5.40% | 21.26 | | 4.70% | 0.01% | 4.71% |
| 391003 Computer Hardware | | | | | | | | |
| 391004 Computer Software | | | 14.30% | 12.38 | | 8.08% | | 8.08% |
| 392000 Transportation Equipment | | | | | | | | |
| 393000 Stores Equipment | | | | | | | | |
| 394000 *Tools, Shop and Garage Equipment* | | | | | | | | |
| 395000 Laboratory Equipment | | | | | | | | |
| 396002 Power Operated Equipment | | | | | | | | |
| 397000 Communication Equipment | 38.80 | 3.0% | 2.50% | 25.03 | -5.1% | 4.20% | | 4.20% |
| 398000 Miscellaneous Equipment | | | | | | | | |
| **Total Iatan** | | | 3.46% | 31.73 | -10.0% | 3.47% | | 3.47% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)** *Statement B*

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/01 Plant Investment | 2002 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | | Proposed | | | |
| | | Present | Whole-Life | Amortization | Total | Difference |
| A | B | C | D | E | F=D+E | G=F-C |
| **STEAM PRODUCTION** | | | | | | |
| 311000 Structures and Improvements | $15,203,556 | $621,317 | $784,102 | $6,523 | $770,625 | $149,308 |
| 312001 Boiler Plant Equipment | 83,114,290 | 3,242,269 | 3,813,882 | 25,878 | 3,839,760 | 597,491 |
| 314000 Turbogenerator Units | 21,863,116 | 766,162 | 900,123 | 8,816 | 908,939 | 142,777 |
| 315000 Accessory Electric Equipment | 8,369,106 | 286,835 | 338,753 | 2,219 | 340,972 | 54,137 |
| 316000 Miscellaneous Power Plant Equipment | 965,048 | 33,777 | 46,681 | 192 | 46,873 | 13,096 |
| 353000 Station Equipment | 1,032,185 | 22,708 | 36,126 | | 36,126 | 13,418 |
| 391001 Office Furniture and Equipment | 173,724 | 12,408 | 9,300 | 35 | 9,335 | (3,073) |
| 391003 Computer Hardware | 145,037 | | 11,313 | 58 | 11,371 | 11,371 |
| 391004 Computer Software | 263,961 | 37,746 | 21,328 | 32 | 21,360 | (16,386) |
| 392000 Transportation Equipment | 270,805 | 16,790 | 14,515 | 325 | 14,840 | (1,950) |
| 393000 Stores Equipment | 841 | 42 | 28 | | 28 | (14) |
| 394000 Tools, Shop and Garage Equipment | 416,418 | 18,322 | 16,532 | 83 | 16,615 | (1,707) |
| 395000 Laboratory Equipment | 319,441 | 10,861 | 12,426 | 96 | 12,522 | 1,661 |
| 396002 Power Operated Equipment | 864,775 | 33,726 | 35,283 | 346 | 35,629 | 1,903 |
| 397000 Communication Equipment | 109,934 | 2,748 | 4,617 | | 4,617 | 1,869 |
| 398000 Miscellaneous Equipment | 8,882 | 320 | 359 | 2 | 361 | 41 |
| **Total Steam Production Plant** | $133,121,119 | $5,106,031 | $6,025,368 | $44,605 | $6,069,973 | $963,942 |
| **OTHER PRODUCTION (Lake Road)** | | | | | | |
| 341000 Structures and Improvements | $1,298,083 | | $38,423 | ($34,010) | $4,413 | $4,413 |
| 342000 Fuel Holders and Accessories | 605,108 | | 16,459 | (16,822) | (363) | (363) |
| 343000 Prime Movers | 10,409,845 | 489,263 | 390,369 | (218,607) | 171,762 | (317,501) |
| 344001 Generators | 2,792,302 | 131,238 | 96,055 | (64,502) | 31,553 | (99,685) |
| 345000 Accessory Electric Equipment | 1,116,283 | | 39,963 | (24,782) | 15,181 | 15,181 |
| **Total Other Production Plant** | $16,221,621 | $620,501 | $581,269 | ($358,723) | $222,546 | ($397,955) |
| **TRANSMISSION PLANT** | | | | | | |
| 352000 Structures and Improvements | $272,023 | $5,168 | $4,978 | ($1,224) | $3,754 | ($1,414) |
| 353000 Station Equipment | 7,586,890 | 295,889 | 242,780 | (108,492) | 134,288 | (161,601) |
| 355000 Poles and Fixtures | 9,088,521 | 236,302 | 195,403 | (46,351) | 149,052 | (87,250) |
| 356000 Overhead Conductors and Devices | 7,949,371 | 182,836 | 170,117 | (61,211) | 108,906 | (73,930) |
| 357000 Underground Conduit | 16,148 | 275 | 283 | (33) | 250 | (25) |
| 358000 Underground Conductors and Devices | 31,692 | 761 | 548 | (130) | 418 | (343) |
| **Total Transmission Plant** | $24,944,645 | $721,231 | $614,109 | ($217,441) | $396,668 | ($324,563) |
| **DISTRIBUTION PLANT** | | | | | | |
| 361000 Structures and Improvements | $1,892,325 | $37,847 | $41,442 | ($568) | $40,874 | $3,027 |
| 362000 Station Equipment | 29,270,625 | 1,141,554 | 693,714 | (32,198) | 661,516 | (480,038) |
| 364000 Poles, Towers and Fixtures | 21,560,742 | 754,626 | 784,811 | (60,370) | 724,441 | (30,185) |
| 365000 Overhead Conductors and Devices | 19,226,885 | 557,580 | 476,827 | (28,841) | 447,986 | (109,594) |
| 366000 Underground Conduit | 5,089,186 | 101,784 | 129,265 | (4,580) | 124,685 | 22,901 |
| 367000 Underground Conductors and Devices | 12,922,690 | 258,454 | 297,222 | (10,338) | 286,884 | 28,430 |
| 368000 Line Transformers | 22,711,503 | 651,820 | 674,532 | (49,966) | 624,566 | (27,254) |
| 369001 Overhead Services | 3,565,101 | 160,430 | 143,317 | (13,547) | 129,770 | (30,660) |
| 369002 Underground Services | 7,294,246 | 328,241 | 229,039 | (13,129) | 215,910 | (112,331) |
| 370001 Meters | 6,465,205 | 219,817 | 159,044 | (16,809) | 142,235 | (77,582) |
| 371000 Installations on Customers' Premises | 3,010,295 | 216,741 | 160,449 | (9,934) | 150,515 | (66,226) |
| 373000 Street Lighting and Signal Systems | 3,771,314 | 260,221 | 175,366 | (7,920) | 167,446 | (92,775) |
| **Total Distribution Plant** | $136,780,117 | $4,689,115 | $3,965,028 | ($248,200) | $3,716,828 | ($972,287) |
| **GENERAL PLANT** | | | | | | |
| 391001 Office Furniture and Equipment | $46,917 | $3,322 | $2,838 | ($1,914) | $924 | ($2,398) |
| 391003 Computer Hardware | 90,755 | | 8,685 | (3,476) | 5,209 | 5,209 |
| 391004 Computer Software | 1,556 | 223 | 140 | (69) | 71 | (152) |
| 393000 Stores Equipment | 12,698 | 635 | 474 | (341) | 133 | (502) |
| 394000 Tools, Shop and Garage Equipment | 120,242 | 5,291 | 7,575 | 577 | 8,152 | 2,861 |
| 395000 Laboratory Equipment | 6,433 | 219 | 274 | (323) | (49) | (268) |
| 397000 Communication Equipment | 488,864 | 23,954 | 20,141 | (17,452) | 2,689 | (21,265) |
| 398000 Miscellaneous Equipment | 25,081 | 903 | 1,224 | (462) | 762 | (141) |
| **Total General Plant** | $792,546 | $34,547 | $41,351 | ($23,460) | $17,891 | ($16,656) |
| **TOTAL ELECTRIC UTILITY** | $311,860,048 | $11,171,425 | $11,227,125 | ($803,219) | $10,423,906 | ($747,519) |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)** Statement B

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/01 Plant Investment | 2002 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | Present | Proposed Whole-Life | Proposed Amortization | Proposed Total | Difference |
| A | B | C | D | E | F=D+E | G=F-C |
| **COMMON UTILITY** | | | | | | |
| 390001 *Structures and Improvements* | $10,660,323 | $330,470 | $289,961 | ($113,000) | $176,961 | ($153,509) |
| 391001 Office Furniture and Equipment | 1,425,582 | 113,476 | 70,709 | (21,812) | 48,897 | (64,579) |
| 391003 Computer Hardware | 3,783,535 | | 270,901 | (118,803) | 152,098 | 152,098 |
| 391004 Computer Software | 3,831,650 | 547,926 | 285,841 | (88,511) | 197,330 | (350,596) |
| 392000 Transportation Equipment | 4,214,102 | 260,046 | 263,381 | (129,794) | 133,587 | (126,459) |
| 393000 Stores Equipment | 137,302 | 6,865 | 4,476 | (2,485) | 1,991 | (4,874) |
| 394000 Tools, Shop and Garage Equipment | 1,164,568 | 51,241 | 45,535 | (13,975) | 31,560 | (19,681) |
| 395000 Laboratory Equipment | 225,497 | 7,667 | 8,569 | (3,969) | 4,600 | (3,067) |
| 396002 Power Operated Equipment | 470,793 | 18,361 | 19,820 | (10,075) | 9,745 | (8,616) |
| 397000 Communication Equipment | 2,398,872 | 117,545 | 98,354 | (20,870) | 77,484 | (40,061) |
| 398000 Miscellaneous Equipment | 107,147 | 3,857 | 4,393 | (975) | 3,418 | (439) |
| **Total Common Utility** | $28,419,371 | $1,457,454 | $1,361,940 | ($524,269) | $837,671 | ($619,783) |
| **TOTAL ELECTRIC AND COMMON UTILITY** | $340,279,419 | $12,628,879 | $12,589,065 | ($1,327,488) | $11,261,577 | ($1,367,302) |
| **INDUSTRIAL STEAM PRODUCTION** | | | | | | |
| 311009 *Structures and Improvements* | $84,875 | $3,726 | $3,370 | $1,838 | $5,208 | $1,482 |
| 312009 Boiler Plant Equipment | 294,172 | 11,767 | 11,090 | 6,531 | 17,621 | 5,854 |
| 315009 Accessory Electric Equipment | 270,046 | 10,262 | 12,800 | 5,158 | 17,958 | 7,696 |
| 375009 Structures and Improvements | 78,278 | 1,566 | 3,679 | 1,237 | 4,916 | 3,350 |
| 376009 Mains | 1,448,150 | 36,204 | 55,899 | 28,963 | 84,862 | 48,658 |
| 379009 Measuring and Regulating Equipment | 582,661 | 17,480 | 28,376 | 9,788 | 38,164 | 20,684 |
| 380009 Services | 102,362 | 3,071 | 4,166 | 1,976 | 6,142 | 3,071 |
| 381009 Meters | 302,006 | 12,080 | 15,765 | 4,288 | 20,053 | 7,973 |
| **Total Industrial Steam Production Plant** | $3,162,350 | $96,156 | $135,145 | $59,779 | $194,924 | $98,768 |
| **TOTAL SJLP** | $343,441,769 | $12,725,035 | $12,724,210 | ($1,267,709) | $11,456,501 | ($1,268,534) |
| **STEAM PRODUCTION** | | | | | | |
| **Lake Road** | | | | | | |
| 311000 Structures and Improvements | $10,872,761 | $478,401 | $601,264 | $6,523 | $607,787 | $129,386 |
| 312001 Boiler Plant Equipment | 43,130,173 | 1,802,841 | 2,458,420 | 25,878 | 2,484,298 | 681,457 |
| 314000 Turbogenerator Units | 11,050,685 | 430,977 | 526,013 | 7,735 | 533,748 | 102,771 |
| 315000 Accessory Electric Equipment | 3,170,631 | 120,484 | 154,727 | 2,219 | 156,946 | 36,462 |
| 316000 Miscellaneous Power Plant Equipment | 241,084 | 8,438 | 15,333 | 120 | 15,453 | 7,015 |
| 353000 Station Equipment | | | | | | |
| 391001 Office Furniture and Equipment | 171,982 | 12,314 | 9,218 | 35 | 9,253 | (3,061) |
| 391003 Computer Hardware | 145,037 | | 11,313 | 58 | 11,371 | 11,371 |
| 391004 Computer Software | 106,199 | 15,186 | 8,581 | 32 | 8,613 | (6,573) |
| 392000 Transportation Equipment | 270,805 | 16,790 | 14,515 | 325 | 14,840 | (1,950) |
| 393000 Stores Equipment | 841 | 42 | 28 | | 28 | (14) |
| 394000 Tools, Shop and Garage Equipment | 416,418 | 18,322 | 16,532 | 83 | 16,615 | (1,707) |
| 395000 Laboratory Equipment | 319,441 | 10,861 | 12,426 | 96 | 12,522 | 1,661 |
| 396002 Power Operated Equipment | 864,775 | 33,726 | 35,283 | 346 | 35,629 | 1,903 |
| 397000 Communication Equipment | | | | | | |
| 398000 Miscellaneous Equipment | 8,882 | 320 | 359 | 2 | 361 | 41 |
| **Total Lake Road** | $70,769,714 | $2,948,702 | $3,864,012 | $43,452 | $3,907,464 | $958,762 |
| **Iatan** | | | | | | |
| 311000 Structures and Improvements | $4,330,795 | $142,916 | $162,838 | | $162,838 | $19,922 |
| 312001 Boiler Plant Equipment | 39,984,117 | 1,439,428 | 1,355,462 | | 1,355,462 | (83,966) |
| 314000 Turbogenerator Units | 10,812,431 | 335,185 | 374,110 | 1,081 | 375,191 | 40,006 |
| 315000 Accessory Electric Equipment | 5,198,475 | 166,351 | 184,026 | | 184,026 | 17,675 |
| 316000 Miscellaneous Power Plant Equipment | 723,964 | 25,339 | 31,348 | 72 | 31,420 | 6,081 |
| 353000 Station Equipment | 1,032,185 | 22,708 | 36,126 | | 36,126 | 13,418 |
| 391001 Office Furniture and Equipment | 1,742 | 94 | 82 | | 82 | (12) |
| 391003 Computer Hardware | | | | | | |
| 391004 Computer Software | 157,762 | 22,560 | 12,747 | | 12,747 | (9,813) |
| 392000 Transportation Equipment | | | | | | |
| 393000 Stores Equipment | | | | | | |
| 394000 Tools, Shop and Garage Equipment | | | | | | |
| 395000 Laboratory Equipment | | | | | | |
| 396002 Power Operated Equipment | | | | | | |
| 397000 Communication Equipment | 109,934 | 2,748 | 4,617 | | 4,617 | 1,869 |
| 398000 Miscellaneous Equipment | | | | | | |
| **Total Iatan** | $62,351,405 | $2,157,329 | $2,161,356 | $1,153 | $2,162,509 | $5,180 |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|
| A | B | C | D=C/B | E | F=E/B | G | H=G/B |
| **STEAM PRODUCTION** | | | | | | | |
| 311000 Structures and Improvements | $15,203,556 | $5,702,041 | 37.50% | $8,835,838 | 58.12% | $8,759,314 | 57.61% |
| 312001 Boiler Plant Equipment | 83,114,290 | 52,428,372 | 63.08% | 50,615,784 | 60.90% | 50,302,528 | 60.52% |
| 314000 Turbogenerator Units | 21,863,116 | 14,218,525 | 65.03% | 14,312,098 | 65.46% | 14,218,657 | 65.03% |
| 315000 Accessory Electric Equipment | 8,369,106 | 6,338,187 | 75.73% | 5,415,491 | 64.71% | 5,387,617 | 64.38% |
| 316000 Miscellaneous Power Plant Equipment | 965,048 | 653,858 | 67.75% | 514,858 | 53.35% | 513,020 | 53.16% |
| 353000 Station Equipment | 1,032,185 | 112,949 | 10.94% | 597,505 | 57.89% | 596,820 | 57.82% |
| 391001 Office Furniture and Equipment | 173,724 | 892 | 0.51% | 37,630 | 21.66% | 37,187 | 21.41% |
| 391003 Computer Hardware | 145,037 | 46,187 | 31.84% | 43,330 | 29.88% | 42,810 | 29.52% |
| 391004 Computer Software | 263,961 | 86,364 | 32.72% | 51,651 | 19.57% | 51,373 | 19.46% |
| 392000 Transportation Equipment | 270,805 | 276,950 | 102.27% | 140,598 | 51.92% | 138,910 | 51.30% |
| 393000 Stores Equipment | 841 | 114 | 13.59% | 97 | 11.57% | 96 | 11.43% |
| 394000 Tools, Shop and Garage Equipment | 416,418 | 222,375 | 53.40% | 121,737 | 29.23% | 120,276 | 28.88% |
| 395000 Laboratory Equipment | 319,441 | 165,759 | 51.89% | 128,695 | 40.29% | 127,149 | 39.80% |
| 396002 Power Operated Equipment | 864,775 | 326,888 | 37.80% | 297,854 | 34.44% | 294,277 | 34.03% |
| 397000 Communication Equipment | 109,934 | 37,728 | 34.32% | 25,879 | 23.54% | 25,849 | 23.51% |
| 398000 Miscellaneous Equipment | 8,882 | 1,502 | 16.91% | 2,842 | 31.99% | 2,807 | 31.61% |
| ***Total Steam Production Plant*** | $133,121,119 | $80,618,691 | 60.56% | $81,141,887 | 60.95% | $80,618,691 | 60.56% |
| **OTHER PRODUCTION (Lake Road)** | | | | | | | |
| 341000 Structures and Improvements | $1,298,083 | $1,186,441 | 91.40% | $793,828 | 61.15% | $1,298,200 | 100.01% |
| 342000 Fuel Holders and Accessories | 605,108 | 601,415 | 99.39% | 391,840 | 64.76% | 640,803 | 105.90% |
| 343000 Prime Movers | 10,409,845 | 8,469,967 | 81.36% | 5,127,834 | 49.26% | 8,385,891 | 80.56% |
| 344001 Generators | 2,792,302 | 2,792,302 | 100.00% | 1,507,488 | 53.99% | 2,465,296 | 88.29% |
| 345000 Accessory Electric Equipment | 1,116,283 | 687,372 | 61.58% | 579,262 | 51.89% | 947,306 | 84.86% |
| ***Total Other Production Plant*** | $16,221,621 | $13,737,496 | 84.69% | $8,400,252 | 51.78% | $13,737,496 | 84.69% |
| **TRANSMISSION PLANT** | | | | | | | |
| 352000 Structures and Improvements | $272,023 | $155,256 | 57.07% | $83,905 | 30.84% | $136,929 | 50.34% |
| 353000 Station Equipment | 7,586,890 | 3,900,934 | 51.42% | 3,462,861 | 45.64% | 5,651,255 | 74.49% |
| 355000 Poles and Fixtures | 9,088,521 | 7,473,943 | 82.23% | 3,220,107 | 35.43% | 5,255,090 | 57.82% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account | Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|---|
| A | | B | C | D=C/B | E | F=E/B | G | H=G/B |
| 356000 | Overhead Conductors and Devices | 7,949,371 | 5,606,990 | 70.53% | 3,739,204 | 47.04% | 6,102,236 | 76.76% |
| 357000 | Underground Conduit | 16,148 | 2,890 | 17.90% | 2,642 | 16.36% | 4,312 | 26.70% |
| 358000 | Underground Conductors and Devices | 31,692 | 24,684 | 77.89% | 9,115 | 28.76% | 14,875 | 46.94% |
| | **Total Transmission Plant** | $24,944,645 | $17,164,698 | 68.81% | $10,517,833 | 42.16% | $17,164,698 | 68.81% |
| | **DISTRIBUTION PLANT** | | | | | | | |
| 361000 | Structures and Improvements | $1,892,325 | $205,256 | 10.85% | $200,062 | 10.57% | $229,420 | 12.12% |
| 362000 | Station Equipment | 29,270,625 | 12,370,556 | 42.26% | 8,755,987 | 29.91% | 10,040,884 | 34.30% |
| 364000 | Poles, Towers and Fixtures | 21,560,742 | 9,970,543 | 46.24% | 12,210,176 | 56.63% | 14,001,957 | 64.94% |
| 365000 | Overhead Conductors and Devices | 19,226,885 | 8,655,258 | 45.02% | 7,912,656 | 41.15% | 9,073,798 | 47.19% |
| 366000 | Underground Conduit | 5,089,186 | 1,182,646 | 23.24% | 1,472,100 | 28.93% | 1,688,123 | 33.17% |
| 367000 | Underground Conductors and Devices | 12,922,690 | 3,168,535 | 24.52% | 2,997,195 | 23.19% | 3,437,019 | 26.60% |
| 368000 | Line Transformers | 22,711,503 | 13,137,259 | 57.84% | 9,159,150 | 40.33% | 10,503,209 | 46.25% |
| 369001 | Overhead Services | 3,565,101 | 2,547,403 | 71.45% | 2,772,320 | 77.76% | 3,179,143 | 89.17% |
| 369002 | Underground Services | 7,294,246 | 2,696,509 | 36.97% | 2,267,310 | 31.08% | 2,600,027 | 35.64% |
| 370001 | Meters | 6,465,205 | 3,998,735 | 61.85% | 2,707,277 | 41.87% | 3,104,556 | 48.02% |
| 371000 | Installations on Customers' Premises | 3,010,295 | 888,793 | 29.53% | 844,782 | 28.06% | 968,749 | 32.18% |
| 373000 | Street Lighting and Signal Systems | 3,771,314 | 1,238,032 | 32.83% | 1,074,904 | 28.50% | 1,232,640 | 32.68% |
| | **Total Distribution Plant** | $136,780,117 | $60,059,526 | 43.91% | $52,373,919 | 38.29% | $60,059,526 | 43.91% |
| | **GENERAL PLANT** | | | | | | | |
| 391001 | Office Furniture and Equipment | $46,917 | $28,461 | 60.66% | $16,140 | 34.40% | $36,914 | 78.68% |
| 391003 | Computer Hardware | 90,755 | 105,606 | 116.36% | 21,530 | 23.72% | 49,242 | 54.26% |
| 391004 | Computer Software | 1,556 | 1,860 | 119.54% | 429 | 27.59% | 982 | 63.11% |
| 393000 | Stores Equipment | 12,698 | 8,523 | 67.12% | 4,547 | 35.81% | 10,400 | 81.90% |
| 394000 | Tools, Shop and Garage Equipment | 120,242 | 41,292 | 34.34% | (7,482) | -6.22% | (17,111) | -14.23% |
| 395000 | Laboratory Equipment | 6,433 | 5,570 | 86.59% | 3,074 | 47.78% | 7,030 | 109.27% |
| 397000 | Communication Equipment | 488,864 | 369,881 | 75.66% | 206,600 | 42.26% | 472,511 | 96.65% |
| 398000 | Miscellaneous Equipment | 25,081 | 12,412 | 49.49% | 5,963 | 23.78% | 13,638 | 54.38% |
| | **Total General Plant** | $792,546 | $573,605 | 72.38% | $250,802 | 31.65% | $573,605 | 72.38% |
| | **TOTAL ELECTRIC UTILITY** | $311,860,048 | $172,154,015 | 55.20% | $152,684,692 | 48.96% | $172,154,015 | 55.20% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
*December* 31, 2001

| Account Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|
| A | B | C | D=C/B | E | F=E/B | G | H=G/B |
| **COMMON UTILITY** | | | | | | | |
| 390001 Structures and Improvements | $10,660,323 | $4,778,843 | 44.83% | $4,957,212 | 46.50% | $7,593,755 | 71.23% |
| 391001 Office Furniture and Equipment | 1,425,582 | 604,510 | 42.40% | 523,020 | 36.69% | 801,193 | 56.20% |
| 391003 Computer Hardware | 3,783,535 | 3,608,923 | 95.38% | 1,708,955 | 45.17% | 2,617,880 | 69.19% |
| 391004 Computer Software | 3,831,650 | 3,831,650 | 100.00% | 1,409,704 | 36.79% | 2,159,469 | 56.36% |
| 392000 Transportation Equipment | 4,214,102 | 3,025,869 | 71.80% | 1,622,160 | 38.49% | 2,484,922 | 58.97% |
| 393000 Stores Equipment | 137,302 | 108,389 | 78.94% | 70,129 | 51.08% | 107,428 | 78.24% |
| 394000 Tools, Shop and Garage Equipment | 1,164,568 | 464,922 | 39.92% | 425,506 | 36.54% | 651,816 | 55.97% |
| 395000 Laboratory Equipment | 225,497 | 146,827 | 65.11% | 104,872 | 46.51% | 160,650 | 71.24% |
| 396002 Power Operated Equipment | 470,793 | 221,076 | 46.96% | 172,358 | 36.61% | 264,028 | 56.08% |
| 397000 Communication Equipment | 2,398,872 | 1,154,481 | 48.13% | 717,695 | 29.92% | 1,099,409 | 45.83% |
| 398000 Miscellaneous Equipment | 107,147 | 45,782 | 42.73% | 33,110 | 30.90% | 50,720 | 47.34% |
| **Total Common Utility** | $28,419,371 | $17,991,270 | 63.31% | $11,744,722 | 41.33% | $17,991,270 | 63.31% |
| **TOTAL ELECTRIC AND COMMON UTILITY** | $340,279,419 | $190,145,285 | 55.88% | $164,429,414 | 48.32% | $190,145,285 | 55.88% |
| **INDUSTRIAL STEAM PRODUCTION** | | | | | | | |
| 311009 Structures and Improvements | $84,675 | $1,513 | 1.79% | $61,299 | 72.39% | $42,276 | 49.93% |
| 312009 Boiler Plant Equipment | 294,172 | 68,903 | 23.42% | 217,491 | 73.93% | 149,997 | 50.99% |
| 315009 Accessory Electric Equipment | 270,046 | 123,025 | 45.56% | 172,543 | 63.89% | 118,998 | 44.07% |
| 375009 Structures and Improvements | 78,278 | 28,069 | 35.86% | 40,735 | 52.04% | 28,094 | 35.89% |
| 376009 Mains | 1,448,150 | 695,327 | 48.01% | 950,609 | 65.64% | 655,607 | 45.27% |
| 379009 Measuring and Regulating Equpment | 582,661 | 254,868 | 43.74% | 321,958 | 55.26% | 222,045 | 38.11% |
| 380009 Services | 102,362 | 72,671 | 70.99% | 65,012 | 63.51% | 44,837 | 43.80% |
| 381009 Meters | 302,006 | 114,834 | 38.02% | 141,164 | 46.74% | 97,356 | 32.24% |
| **Total Industrial Steam Production Plant** | $3,162,350 | $1,359,211 | 42.98% | $1,970,810 | 62.32% | $1,359,211 | 42.98% |
| **TOTAL SJLP** | $343,441,769 | $191,504,496 | 55.76% | $166,400,224 | 48.45% | $191,504,496 | 55.76% |
| ***STEAM PRODUCTION*** | | | | | | | |
| **Lake Road** | | | | | | | |
| 311000 Structures and Improvements | $10,872,761 | $3,755,763 | 34.54% | $6,113,364 | 56.23% | $6,039,958 | 55.55% |
| 312001 Boiler Plant Equipment | 43,130,173 | 24,090,086 | 55.85% | 23,501,601 | 54.49% | 23,219,407 | 53.84% |
| 314000 Turbogenerator Units | 11,050,685 | 7,725,161 | 69.91% | 7,093,113 | 64.19% | 7,007,943 | 63.42% |
| 315000 Accessory Electric Equipment | 3,170,631 | 2,332,554 | 73.57% | 1,995,065 | 62.92% | 1,971,109 | 62.17% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement C

Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2001

| Account | Description | Plant Investment | Recorded Reserve Amount | Recorded Reserve Ratio | Computed Reserve Amount | Computed Reserve Ratio | Redistributed Reserve Amount | Redistributed Reserve Ratio |
|---|---|---|---|---|---|---|---|---|
| A | | B | C | D=C/B | E | F=E/B | G | H=G/B |
| 316000 | Miscellaneous Power Plant Equipment | 241,084 | 160,176 | 66.44% | 114,902 | 47.66% | 113,523 | 47.09% |
| 353000 | *Station Equipment* | | | | | | | |
| 391001 | Office Furniture and Equipment | 171,982 | (105) | -0.06% | 36,814 | 21.41% | 36,372 | 21.15% |
| 391003 | Computer Hardware | 145,037 | 46,187 | 31.84% | 43,330 | 29.88% | 42,810 | 29.52% |
| 391004 | Computer Software | 106,199 | 31,161 | 29.34% | 20,175 | 19.00% | 19,933 | 18.77% |
| 392000 | Transportation Equipment | 270,805 | 276,950 | 102.27% | 140,598 | 51.92% | 138,910 | 51.30% |
| 393000 | Stores Equipment | 841 | 114 | 13.59% | 97 | 11.57% | 96 | 11.43% |
| 394000 | Tools, Shop and Garage Equipment | 416,418 | 222,375 | 53.40% | 121,737 | 29.23% | 120,276 | 28.88% |
| 395000 | Laboratory Equipment | 319,441 | 165,759 | 51.89% | 128,695 | 40.29% | 127,149 | 39.80% |
| 396002 | Power Operated Equipment | 864,775 | 326,888 | 37.80% | 297,854 | 34.44% | 294,277 | 34.03% |
| 397000 | *Communication Equipment* | | | | | | | |
| 398000 | Miscellaneous Equipment | 8,882 | 1,502 | 16.91% | 2,842 | 31.99% | 2,807 | 31.61% |
| | **Total Lake Road** | $70,769,714 | $39,134,571 | 55.30% | $39,610,188 | 55.97% | $39,134,571 | 55.30% |
| **Iatan** | | | | | | | | |
| 311000 | *Structures and Improvements* | $4,330,795 | $1,946,278 | 44.94% | $2,722,474 | 62.86% | $2,719,356 | 62.79% |
| 312001 | Boiler Plant Equipment | 39,984,117 | 28,338,286 | 70.87% | 27,114,183 | 67.81% | 27,083,121 | 67.73% |
| 314000 | *Turbogenerator Units* | 10,812,431 | 6,493,364 | 60.05% | 7,218,985 | 66.77% | 7,210,715 | 66.69% |
| 315000 | Accessory Electric Equipment | 5,198,475 | 4,005,632 | 77.05% | 3,420,426 | 65.80% | 3,416,508 | 65.72% |
| 316000 | Miscellaneous Power Plant Equipment | 723,964 | 493,682 | 68.19% | 399,955 | 55.25% | 399,497 | 55.18% |
| 353000 | Station Equipment | 1,032,185 | 112,949 | 10.94% | 597,505 | 57.89% | 596,820 | 57.82% |
| 391001 | Office Furniture and Equipment | 1,742 | 997 | 57.24% | 816 | 46.85% | 815 | 46.79% |
| 391003 | Computer Hardware | | | | | | | |
| 391004 | Computer Software | 157,762 | 55,203 | 34.99% | 31,476 | 19.95% | 31,440 | 19.93% |
| 392000 | Transportation Equipment | | | | | | | |
| 393000 | Stores Equipment | | | | | | | |
| 394000 | Tools, Shop and Garage Equipment | | | | | | | |
| 395000 | Laboratory Equipment | | | | | | | |
| 396002 | *Power Operated Equipment* | | | | | | | |
| 397000 | Communication Equipment | 109,934 | 37,728 | 34.32% | 25,879 | 23.54% | 25,849 | 23.51% |
| 398000 | *Miscellaneous Equipment* | | | | | | | |
| | **Total Iatan** | $62,351,405 | $41,484,120 | 66.53% | $41,531,699 | 66.61% | $41,484,120 | 66.53% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | Rate |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| **STEAM PRODUCTION** | | | | | | | | | |
| 311000 Structures and Improvements | $15,995,047 | $791,491 | $15,203,556 | -29.1% | -13.3% | ($230,567) | ($2,017,834) | ($2,248,401) | -14.1% |
| 312001 *Boiler Plant Equipment* | 92,207,631 | 9,093,341 | 83,114,290 | -4.7% | -13.1% | (430,856) | (10,900,556) | (11,331,413) | -12.3% |
| 314000 Turbogenerator Units | 22,745,723 | 882,607 | 21,863,116 | -37.3% | -13.1% | (328,776) | (2,865,021) | (3,193,797) | -14.0% |
| 315000 Accessory Electric Equipment | 8,949,392 | 580,286 | 8,369,106 | -9.8% | -13.0% | (57,045) | (1,088,242) | (1,145,286) | -12.8% |
| 316000 Miscellaneous Power Plant Equipment | 1,304,571 | 339,523 | 965,048 | -19.5% | -12.9% | (66,267) | (124,490) | (190,757) | -14.6% |
| 353000 Station Equipment | 1,032,185 | | 1,032,185 | | -10.0% | | (103,219) | (103,219) | -10.0% |
| 391001 Office Furniture and Equipment | 245,489 | 71,765 | 173,724 | | | | | | |
| 391003 Computer Hardware | 280,665 | 135,628 | 145,037 | | | | | | |
| 391004 Computer Software | 264,693 | 732 | 263,961 | | | | | | |
| 392000 Transportation Equipment | 279,764 | 8,959 | 270,805 | | 20.0% | | 54,161 | 54,161 | 19.4% |
| 393000 Stores Equipment | 841 | | 841 | | | | | | |
| 394000 Tools, Shop and Garage Equipment | 471,495 | 55,077 | 416,418 | | | | | | |
| 395000 Laboratory Equipment | 397,501 | 78,060 | 319,441 | | | | | | |
| 396002 Power Operated Equipment | 864,775 | | 864,775 | | 25.0% | | 216,194 | 216,194 | 25.0% |
| 397000 Communication Equipment | 111,029 | 1,095 | 109,934 | -19.8% | -5.0% | (217) | (5,497) | (5,714) | -5.1% |
| 398000 Miscellaneous Equipment | 14,105 | 5,223 | 8,882 | | -5.0% | | (444) | (444) | -3.1% |
| **Total Steam Production Plant** | $145,164,906 | $12,043,787 | $133,121,119 | -9.2% | -12.6% | ($1,113,728) | ($16,834,947) | ($17,948,675) | -12.4% |
| **OTHER PRODUCTION (Lake Road)** | | | | | | | | | |
| 341000 Structures and Improvements | $1,302,967 | $4,884 | $1,298,083 | | -5.0% | | ($64,904) | ($64,904) | -5.0% |
| 342000 Fuel Holders and Accessories | 607,958 | 2,850 | 605,108 | | -5.0% | | (30,255) | (30,255) | -5.0% |
| 343000 Prime Movers | 10,456,606 | 46,761 | 10,409,845 | -24.4% | -5.0% | (11,410) | (520,492) | (531,902) | -5.1% |
| 344001 Generators | 3,333,871 | 541,569 | 2,792,302 | -68.0% | -5.0% | (368,267) | (139,615) | (507,882) | -15.2% |
| 345000 Accessory Electric Equipment | 1,129,814 | 13,531 | 1,116,283 | -5.9% | -5.0% | (798) | (55,814) | (56,612) | -5.0% |
| **Total Other Production Plant** | $16,831,216 | $609,595 | $16,221,621 | -62.4% | -5.0% | ($380,475) | ($811,081) | ($1,191,556) | -7.1% |
| **TRANSMISSION PLANT** | | | | | | | | | |
| 352000 Structures and Improvements | $272,240 | $217 | $272,023 | | -10.0% | | ($27,202) | ($27,202) | -10.0% |
| 353000 Station Equipment | 9,833,749 | 2,246,859 | 7,586,890 | 48.5% | -10.0% | 1,089,727 | (758,689) | 331,038 | 3.4% |
| 355000 Poles and Fixtures | 9,871,724 | 783,203 | 9,088,521 | -40.7% | -30.0% | (318,764) | (2,726,556) | (3,045,320) | -30.8% |
| 356000 Overhead Conductors and Devices | 8,456,993 | 507,622 | 7,949,371 | -15.6% | -30.0% | (79,189) | (2,384,811) | (2,464,000) | -29.1% |
| 357000 Underground Conduit | 16,148 | | 16,148 | | -5.0% | | (807) | (807) | -5.0% |
| 358000 Underground Conductors and Devices | 31,692 | | 31,692 | | -5.0% | | (1,585) | (1,585) | -5.0% |
| **Total Transmission Plant** | $28,482,546 | $3,537,901 | $24,944,645 | 19.6% | -23.7% | $691,774 | ($5,899,651) | ($5,207,877) | -18.3% |
| **DISTRIBUTION PLANT** | | | | | | | | | |
| 361000 Structures and Improvements | $1,948,562 | $56,237 | $1,892,325 | -10.1% | -10.0% | ($5,680) | ($189,233) | ($194,912) | -10.0% |
| 362000 Station Equipment | 31,418,807 | 2,148,182 | 29,270,625 | -9.2% | -20.0% | (197,633) | (5,854,125) | (6,051,758) | -19.3% |
| 364000 Poles, Towers and Fixtures | 23,214,543 | 1,653,801 | 21,560,742 | -66.5% | -65.0% | (1,099,778) | (14,014,482) | (15,114,260) | -65.1% |
| 365000 Overhead Conductors and Devices | 20,983,728 | 1,756,843 | 19,226,885 | -5.1% | -40.0% | (89,599) | (7,690,754) | (7,780,353) | -37.1% |
| 366000 Underground Conduit | 5,119,534 | 30,348 | 5,089,186 | -35.7% | -40.0% | (10,834) | (2,035,674) | (2,046,509) | -40.0% |
| 367000 Underground Conductors and Devices | 13,224,201 | 301,511 | 12,922,690 | -13.0% | -15.0% | (39,196) | (1,938,404) | (1,977,600) | -15.0% |
| 368000 *Line Transformers* | 24,973,904 | 2,262,401 | 22,711,503 | -12.2% | -20.0% | (276,013) | (4,542,301) | (4,818,314) | -19.3% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**
Average Net Salvage

*Statement D*

| Account | Description | Plant Investment Additions | Plant Investment Retirements | Plant Investment Survivors | Salvage Rate Realized | Salvage Rate Future | Net Salvage Realized | Net Salvage Future | Net Salvage Total | Average Rate |
|---|---|---|---|---|---|---|---|---|---|---|
| A | | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| 369001 | Overhead Services | 3,895,791 | 330,690 | 3,565,101 | -121.0% | -100.0% | (400,135) | (3,565,101) | (3,965,236) | -101.8% |
| 369002 | Underground Services | 7,531,368 | 237,122 | 7,294,246 | -9.3% | -10.0% | (22,052) | (729,425) | (751,477) | -10.0% |
| 370001 | Meters | 6,990,213 | 525,008 | 6,465,205 | 1.3% | | 6,825 | | 6,825 | 0.1% |
| 371000 | Installations on Customers' Premises | 4,243,933 | 1,233,638 | 3,010,295 | 19.2% | 5.0% | 236,858 | 150,515 | 387,373 | 9.1% |
| 373000 | Street Lighting and Signal Systems | 4,277,593 | 506,279 | 3,771,314 | -0.5% | -20.0% | (2,531) | (754,263) | (756,794) | -17.7% |
| | **Total Distribution Plant** | $147,822,177 | $11,042,060 | $136,780,117 | -17.2% | -30.1% | ($1,899,768) | ($41,163,246) | ($43,063,014) | -29.1% |
| | ***GENERAL PLANT*** | | | | | | | | | |
| 391001 | Office Furniture and Equipment | $966,882 | $919,965 | $46,917 | 2.7% | | $24,839 | | $24,839 | 2.6% |
| 391003 | Computer Hardware | 4,969,762 | 4,879,007 | 90,755 | 4.3% | | 209,797 | | 209,797 | 4.2% |
| 391004 | Computer Software | 29,760 | 28,204 | 1,556 | | | | | | |
| 393000 | Stores Equipment | 83,165 | 70,467 | 12,698 | | | | | | |
| 394000 | Tools, Shop and Garage Equipment | 332,984 | 212,742 | 120,242 | -83.9% | | (178,491) | | (178,491) | -53.6% |
| 395000 | Laboratory Equipment | 105,772 | 99,339 | 6,433 | 0.8% | | 795 | | 795 | 0.8% |
| 397000 | Communication Equipment | 1,036,045 | 547,181 | 488,864 | -3.8% | -5.0% | (20,793) | (24,443) | (45,236) | -4.4% |
| 398000 | Miscellaneous Equipment | 53,437 | 28,356 | 25,081 | -43.5% | -5.0% | (12,335) | (1,254) | (13,589) | -25.4% |
| | **Total General Plant** | $7,577,807 | $6,785,261 | $792,546 | 0.4% | -3.2% | $23,813 | ($25,697) | ($1,884) | |
| | **TOTAL ELECTRIC UTILITY** | $345,878,652 | $34,018,604 | $311,860,048 | -7.9% | -20.8% | ($2,678,384) | ($64,734,622) | ($67,413,007) | -19.5% |
| | **COMMON UTILITY** | | | | | | | | | |
| 390001 | Structures and Improvements | $11,387,883 | $727,560 | $10,660,323 | 2.4% | -10.0% | $17,461 | ($1,066,032) | ($1,048,571) | -9.2% |
| 391001 | Office Furniture and Equipment | 1,427,731 | 2,149 | 1,425,582 | 4.1% | | 88 | | 88 | |
| 391003 | Computer Hardware | 3,783,535 | | 3,783,535 | | | | | | |
| 391004 | Computer Software | 3,831,650 | | 3,831,650 | | | | | | |
| 392000 | Transportation Equipment | 5,349,991 | 1,135,889 | 4,214,102 | 14.3% | 20.0% | 162,432 | 842,820 | 1,005,253 | 18.8% |
| 393000 | Stores Equipment | 137,302 | | 137,302 | | | | | | |
| 394000 | Tools, Shop and Garage Equipment | 1,164,568 | | 1,164,568 | | | | | | |
| 395000 | Laboratory Equipment | 225,497 | | 225,497 | | | | | | |
| 396002 | Power Operated Equipment | 652,319 | 181,528 | 470,793 | 8.3% | 25.0% | 15,067 | 117,698 | 132,765 | 20.4% |
| 397000 | Communication Equipment | 2,398,872 | | 2,398,872 | | -5.0% | | (119,944) | (119,944) | -5.0% |
| 398000 | Miscellaneous Equipment | 107,147 | | 107,147 | | -5.0% | | (5,357) | (5,357) | -5.0% |
| | **Total Common Utility** | $30,466,495 | $2,047,124 | $28,419,371 | 9.5% | -0.8% | $195,048 | ($230,815) | ($35,766) | -0.1% |
| | **TOTAL ELECTRIC AND COMMON UTILITY** | $376,345,147 | $36,065,728 | $340,279,419 | -6.9% | -19.1% | ($2,483,336) | ($64,965,437) | ($67,448,773) | -17.9% |
| | **INDUSTRIAL STEAM PRODUCTION** | | | | | | | | | |
| 311009 | Structures and Improvements | $110,697 | $26,022 | $84,675 | -73.3% | -13.6% | ($19,074) | ($11,516) | ($30,590) | -27.6% |
| 312009 | Boiler Plant Equipment | 445,407 | 151,235 | 294,172 | -48.0% | -13.0% | (72,593) | (38,242) | (110,835) | -24.9% |
| 315009 | Accessory Electric Equipment | 315,032 | 44,986 | 270,046 | -0.2% | -13.0% | (90) | (35,106) | (35,196) | -11.2% |
| 375009 | Structures and Improvements | 83,591 | 5,313 | 78,278 | -87.7% | | (4,660) | | (4,660) | -5.6% |
| 376009 | Mains | 1,669,539 | 221,389 | 1,448,150 | 9.2% | -5.0% | 20,368 | (72,408) | (52,040) | -3.1% |
| 379009 | Measuring and Regulating Equipment | 624,602 | 41,941 | 582,661 | -0.4% | -5.0% | (168) | (29,133) | (29,301) | -4.7% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average Rate |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| 380009 Services | 104,033 | 1,671 | 102,362 | | -5.0% | | (5,118) | (5,118) | -4.9% |
| 381009 Meters | 373,420 | 71,414 | 302,006 | -0.4% | | (286) | | (286) | -0.1% |
| **Total Industrial Steam Production Plant** | $3,726,321 | $563,971 | $3,162,350 | -13.6% | -6.1% | ($76,502) | ($191,523) | ($268,025) | -7.2% |
| **TOTAL SJLP** | $380,071,468 | $36,629,699 | $343,441,769 | -7.0% | -19.0% | ($2,559,838) | ($65,156,959) | ($67,716,798) | -17.8% |
| **STEAM PRODUCTION** | | | | | | | | | |
| ***Lake Road*** | | | | | | | | | |
| 311000 Structures and Improvements | $11,545,176 | $672,415 | $10,872,761 | -40.7% | -13.5% | ($273,673) | ($1,467,823) | ($1,741,496) | -15.1% |
| 312001 Boiler Plant Equipment | 48,470,256 | 5,340,083 | 43,130,173 | -30.7% | -13.5% | (1,639,405) | (5,822,573) | (7,461,979) | -15.4% |
| 314000 Turbogenerator Units | 11,595,409 | 544,724 | 11,050,685 | -46.4% | -13.5% | (252,752) | (1,491,842) | (1,744,594) | -15.0% |
| 315000 Accessory Electric Equipment | 3,509,378 | 338,747 | 3,170,631 | -15.2% | -13.5% | (51,490) | (428,035) | (479,525) | -13.7% |
| 316000 Miscellaneous Power Plant Equipment | 479,588 | 238,504 | 241,084 | -31.3% | -13.5% | (74,652) | (32,546) | (107,198) | -22.4% |
| 353000 Station Equipment | | | | | | | | | |
| 391001 Office Furniture and Equipment | 243,747 | 71,765 | 171,982 | | | | | | |
| 391003 Computer Hardware | 280,665 | 135,628 | 145,037 | | | | | | |
| 391004 Computer Software | 106,731 | 532 | 106,199 | | | | | | |
| 392000 Transportation Equipment | 279,764 | 8,959 | 270,805 | | 20.0% | | 54,161 | 54,161 | 19.4% |
| 393000 Stores Equipment | 841 | | 841 | | | | | | |
| 394000 Tools, Shop and Garage Equipment | 471,495 | 55,077 | 416,418 | | | | | | |
| 395000 Laboratory Equipment | 397,501 | 78,060 | 319,441 | | | | | | |
| 396002 Power Operated Equipment | 864,775 | | 864,775 | | 25.0% | | 216,194 | 216,194 | 25.0% |
| 397000 Communication Equipment | | | | | | | | | |
| 398000 Miscellaneous Equipment | 14,105 | 5,223 | 8,882 | | -5.0% | | (444) | (444) | -3.1% |
| **Total Lake Road** | $78,259,431 | $7,489,717 | $70,769,714 | -30.6% | -12.7% | ($2,291,972) | ($8,972,909) | ($11,264,881) | -14.4% |
| **Iatan** | | | | | | | | | |
| 311000 Structures and Improvements | $4,449,871 | $119,076 | $4,330,795 | 36.2% | -12.7% | $43,106 | ($550,011) | ($506,905) | -11.4% |
| 312001 Boiler Plant Equipment | 43,737,375 | 3,753,258 | 39,984,117 | 32.2% | -12.7% | 1,208,549 | (5,077,983) | (3,869,434) | -8.8% |
| 314000 Turbogenerator Units | 11,150,314 | 337,883 | 10,812,431 | -22.5% | -12.7% | (76,024) | (1,373,179) | (1,449,202) | -13.0% |
| 315000 Accessory Electric Equipment | 5,440,014 | 241,539 | 5,198,475 | -2.3% | -12.7% | (5,555) | (660,206) | (665,762) | -12.2% |
| 316000 Miscellaneous Power Plant Equipment | 824,983 | 101,019 | 723,964 | 8.3% | -12.7% | 8,385 | (91,943) | (83,559) | -10.1% |
| 353000 Station Equipment | 1,032,185 | | 1,032,185 | | -10.0% | | (103,219) | (103,219) | -10.0% |
| 391001 Office Furniture and Equipment | 1,742 | | 1,742 | | | | | | |
| 391003 Computer Hardware | | | | | | | | | |
| 391004 Computer Software | 157,962 | 200 | 157,762 | | | | | | |
| 392000 Transportation Equipment | | | | | | | | | |
| 393000 Stores Equipment | | | | | | | | | |
| 394000 Tools, Shop and Garage Equipment | | | | | | | | | |
| 395000 Laboratory Equipment | | | | | | | | | |
| 396002 Power Operated Equipment | | | | | | | | | |
| 397000 Communication Equipment | 111,029 | 1,095 | 109,934 | -19.8% | -5.0% | (217) | (5,497) | (5,714) | -5.1% |
| 398000 Miscellaneous Equipment | | | | | | | | | |
| **Total Iatan** | $66,905,475 | $4,554,070 | $62,351,405 | 25.9% | -12.6% | $1,178,243 | ($7,862,038) | ($6,683,794) | -10.0% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement E

Future Net Salvage
Steam Production

| Account Description | Derived Additions | 12/31/01 Plant Investment | Interiim Retirements | | Interim Net Salvage | | | | Future Rate |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Realized | | Future | | |
| | | | Historical | Future | Rate | Amount | Rate | Amount | |
| A | B | C | D=B-C | E | F | G=D*F | H | I=E*H | J=I/C |
| **STEAM PRODUCTION** | | | | | | | | | |
| Lake Road | | | | | | | | | |
| 311000 Structures and Improvements | $11,545,176 | $10,872,761 | $672,415 | $284,526 | -40.7% | ($273,673) | -30.0% | ($85,358) | |
| 312001 Boiler Plant Equipment | 48,470,256 | 43,130,173 | 5,340,083 | 1,125,690 | -30.7% | (1,639,405) | -10.0% | (112,569) | |
| 314000 Turbogenerator Units | 11,595,409 | 11,050,685 | 544,724 | 295,590 | -46.4% | (252,752) | -30.0% | (88,677) | |
| 315000 Accessory Electric Equipment | 3,509,378 | 3,170,631 | 338,747 | 84,183 | -15.2% | (51,490) | -10.0% | (8,418) | |
| 316000 Miscellaneous Power Plant Equipment | 479,588 | 241,084 | 238,504 | 6,268 | -31.3% | (74,652) | -10.0% | (627) | |
| **Interim Net Salvage** | $75,599,807 | $68,465,334 | $7,134,473 | $1,796,257 | -32.1% | ($2,291,972) | -16.5% | ($295,649) | -0.4% |
| **Dismantlement Cost** | | | | | | | | (8,952,412) | -13.1% |
| **Total Lake Road** | | $68,465,334 | | | | | | ($9,248,061) | -13.5% |
| Iatan | | | | | | | | | |
| 311000 Structures and Improvements | $4,449,871 | $4,330,795 | $119,076 | $147,688 | 36.2% | $43,106 | -30.0% | ($44,306) | |
| 312001 Boiler Plant Equipment | 43,737,375 | 39,984,117 | 3,753,258 | 1,369,821 | 32.2% | 1,208,549 | -10.0% | (136,982) | |
| 314000 Turbogenerator Units | 11,150,314 | 10,812,431 | 337,883 | 370,548 | -22.5% | (76,024) | -30.0% | (111,164) | |
| 315000 Accessory Electric Equipment | 5,440,014 | 5,198,475 | 241,539 | 177,914 | -2.3% | (5,555) | -10.0% | (17,791) | |
| 316000 Miscellaneous Power Plant Equipment | 824,983 | 723,964 | 101,019 | 24,446 | 8.3% | 8,385 | -10.0% | (2,445) | |
| **Interim Net Salvage** | $65,602,557 | $61,049,782 | $4,552,775 | $2,090,417 | 25.9% | $1,178,460 | -15.0% | ($312,689) | -0.5% |
| **Dismantlement Cost** | | | | | | | | (7,452,122) | -12.2% |
| **Total Iatan** | | $61,049,782 | | | | | | ($7,764,811) | -12.7% |
| **Total Steam Production Plant** | $141,202,364 | $129,515,116 | $11,687,248 | $3,886,674 | -9.5% | ($1,113,512) | -15.7% | ($17,012,872) | -13.1% |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement F

Proposed Parameters
Vintage Group Procedure

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| **STEAM PRODUCTION** | | | | | | | | | | | | |
| 311000 Structures and Improvements | | | | | | | | 200-SC | 22.70 | 8.36 | -14.1 | |
| 312001 Boiler Plant Equipment | | | | | | | | 200-SC | 24.47 | 8.55 | -12.3 | |
| 314000 Turbogenerator Units | | | | | | | | 200-SC | 27.69 | 8.41 | -14.0 | |
| 315000 Accessory Electric Equipment | | | | | | | | 200-SC | 27.87 | 8.74 | -12.8 | |
| 316000 Miscellaneous Power Plant Equipment | | | | | | | | 200-SC | 23.69 | 9.64 | -14.6 | |
| 353000 Station Equipment | | | | | | | | 200-SC | 31.43 | 12.05 | -10.0 | |
| 391001 Office Furniture and Equipment | | | | | | | | 200-SC | 18.68 | 14.63 | | |
| 391003 Computer Hardware | | | | | | | | 200-SC | 12.82 | 8.99 | | |
| 391004 Computer Software | | | | | | | | 200-SC | 12.38 | 9.95 | | |
| 392000 Transportation Equipment | | | | | | | | 200-SC | 15.04 | 8.89 | 19.4 | |
| 393000 Stores Equipment | | | | | | | | 200-SC | 30.04 | 26.60 | | |
| 394000 Tools, Shop and Garage Equipment | | | | | | | | 200-SC | 25.19 | 17.82 | | |
| 395000 Laboratory Equipment | | | | | | | | 200-SC | 25.71 | 15.36 | | |
| 396002 Power Operated Equipment | | | | | | | | 200-SC | 18.38 | 16.01 | 25.0 | |
| 397000 Communication Equipment | | | | | | | | 200-SC | 25.03 | 18.21 | -5.1 | |
| 398000 Miscellaneous Equipment | | | | | | | | 200-SC | 25.51 | 16.83 | -3.1 | |
| **Total Steam Production Plant** | | | | | | | | | 24.83 | 11.42 | -12.4 | -12.6 |
| **OTHER PRODUCTION (Lake Road)** | | | | | | | | | | | | |
| 341000 Structures and Improvements | 22.00 | | 22.00 | | | | 2017 | 100-SC | 35.49 | 14.82 | -5.0 | -5.0 |
| 342000 Fuel Holders and Accessories | 22.00 | | 22.00 | | | | 2017 | 100-SC | 38.64 | 14.81 | -5.0 | -5.0 |
| 343000 Prime Movers | 22.00 | | 22.00 | | | | 2017 | 100-SC | 28.00 | 14.85 | -5.1 | -5.0 |
| 344001 Generators | 22.00 | | 22.00 | | | | 2017 | 100-SC | 33.49 | 14.83 | -15.2 | -5.0 |
| 345000 Accessory Electric Equipment | 22.00 | | 22.00 | | | | 2017 | 100-SC | 29.36 | 14.85 | -5.0 | -5.0 |
| **Total Other Production Plant** | | | | | | | | | 29.89 | 14.81 | -7.1 | -5.0 |
| **TRANSMISSION PLANT** | | | | | | | | | | | | |
| 352000 Structures and Improvements | 53.00 | | 53.00 | | | | 60.00 | S3 | 60.02 | 43.19 | -10.0 | -10.0 |
| 353000 Station Equipment | 27.00 | L3 | 27.00 | | -5.0 | -5.0 | 30.00 | L2 | 30.17 | 20.10 | 3.4 | -10.0 |
| 355000 Poles and Fixtures | 53.00 | L1 | 53.00 | | -37.0 | -37.0 | 60.00 | R1.5 | 60.76 | 43.93 | -30.8 | -30.0 |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement F

Proposed Parameters
Vintage Group Procedure

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| 356000 Overhead Conductors and Devices | 50.00 | R2.5 | 50.00 | | -17.0 | -17.0 | 60.00 | R2.5 | 60.30 | 38.75 | -29.1 | -30.0 |
| 357000 Underground Conduit | 58.00 | | 58.00 | | | | 60.00 | R4 | 60.00 | 50.65 | -5.0 | -5.0 |
| 358000 Underground Conductors and Devices | 41.00 | | 41.00 | | | | 60.00 | R1.5 | 60.75 | 44.11 | -5.0 | -5.0 |
| **Total Transmission Plant** | | | | | | | | | 48.05 | 34.52 | -18.3 | -23.7 |
| **DISTRIBUTION PLANT** | | | | | | | | | | | | |
| 361000 Structures and Improvements | 50.00 | | 50.00 | | | | 50.00 | R3 | 50.15 | 45.33 | -10.0 | -10.0 |
| 362000 Station Equipment | 30.00 | L0 | 30.00 | | -16.0 | -16.0 | 50.00 | R2 | 50.27 | 37.96 | -19.3 | -20.0 |
| 364000 Poles, Towers and Fixtures | 44.00 | S4 | 44.00 | | -53.0 | -53.0 | 45.00 | R3 | 45.37 | 29.78 | -65.1 | -65.0 |
| 365000 *Overhead Conductors and Devices* | 47.00 | R1 | 47.00 | | -37.0 | -37.0 | 55.00 | R2 | 55.30 | 39.87 | -37.1 | -40.0 |
| 366000 Underground Conduit | 50.00 | | 50.00 | | | | 55.00 | R4 | 55.03 | 43.66 | -40.0 | -40.0 |
| 367000 Underground Conductors and Devices | 58.00 | R2 | 58.00 | | -14.0 | -14.0 | 50.00 | R3 | 49.98 | 39.90 | -15.0 | -15.0 |
| 368000 Line Transformers | | | | | | | 40.00 | S2 | 40.22 | 26.86 | -19.3 | -20.0 |
| 369001 Overhead Services | 40.00 | R4 | 40.00 | | -78.0 | -78.0 | 50.00 | R4 | 50.22 | 30.42 | -101.8 | -100.0 |
| 369002 Underground Services | 40.00 | R4 | 40.00 | | -78.0 | -78.0 | 35.00 | S3 | 35.07 | 25.16 | -10.0 | -10.0 |
| 370001 Meters | 29.00 | R2 | 29.00 | | 1.0 | 1.0 | 40.00 | R3 | 40.63 | 23.64 | 0.1 | |
| 371000 Installations on Customers' Premises | 13.00 | O1 | 13.00 | | 7.0 | 7.0 | 17.00 | L0.5 | 17.07 | 12.57 | 9.1 | 5.0 |
| 373000 Street Lighting and Signal Systems | 18.00 | R2 | 18.00 | | -25.0 | -25.0 | 25.00 | L1 | 25.29 | 19.66 | -17.7 | -20.0 |
| **Total Distribution Plant** | | | | | | | | | 44.54 | 31.72 | -29.1 | -30.1 |
| **GENERAL PLANT** | | | | | | | | | | | | |
| 391001 Office Furniture and Equipment | | | | | | | 18.00 | L0 | 16.11 | 10.85 | 2.6 | |
| 391003 Computer Hardware | | | | | | | 12.00 | SC | 10.01 | 7.97 | 4.2 | |
| 391004 Computer Software | 7.00 | | 7.00 | | | | 12.00 | SC | 11.09 | 8.03 | | |
| 393000 Stores Equipment | 20.00 | L3 | 20.00 | | | | 30.00 | S1.5 | 26.78 | 17.19 | | |
| 394000 Tools, Shop and Garage Equipment | 22.00 | L0.5 | 22.00 | | 4.0 | 4.0 | 25.00 | L2 | 24.38 | 16.86 | -53.6 | |
| 395000 Laboratory Equipment | 27.00 | R1.5 | 27.00 | | 7.0 | 7.0 | 25.00 | S1 | 23.27 | 12.25 | 0.8 | |
| 397000 Communication Equipment | 21.00 | R1.5 | 21.00 | | -2.0 | -2.0 | 25.00 | L1.5 | 25.36 | 15.24 | -4.4 | -5.0 |
| 398000 Miscellaneous Equipment | 28.00 | O3 | 28.00 | | | | 25.00 | L1 | 25.69 | 16.64 | -25.4 | -5.0 |
| **Total General Plant** | | | | | | | | | 19.17 | 13.66 | | -3.2 |
| **TOTAL ELECTRIC UTILITY** | | | | | | | | | 33.19 | 19.63 | -19.5 | -20.8 |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement F

Proposed Parameters
Vintage Group Procedure

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| **COMMON UTILITY** | | | | | | | | | | | | |
| 390001 Structures and Improvements | 31.00 | R4 | 31.00 | | 3.0 | 3.0 | 40.00 | R3 | 40.19 | 23.37 | -9.2 | -10.0 |
| 391001 Office Furniture and Equipment | | | | | | | 18.00 | L0 | 20.17 | 12.77 | | |
| 391003 Computer Hardware | | | | | | | 12.00 | SC | 13.97 | 7.66 | | |
| 391004 Computer Software | 7.00 | | 7.00 | | | | 12.00 | SC | 13.40 | 8.47 | | |
| 392000 Transportation Equipment | 12.00 | L1.5 | 12.00 | | 26.0 | 26.0 | 12.00 | L1.5 | 12.99 | 6.64 | 18.8 | 20.0 |
| 393000 Stores Equipment | 20.00 | L3 | 20.00 | | | | 30.00 | S1.5 | 30.66 | 15.00 | | |
| 394000 Tools, Shop and Garage Equipment | 22.00 | L0.5 | 22.00 | | 4.0 | 4.0 | 25.00 | L2 | 25.59 | 16.24 | | |
| 395000 Laboratory Equipment | 27.00 | R1.5 | 27.00 | | 7.0 | 7.0 | 25.00 | S1 | 26.34 | 14.09 | | |
| 396002 Power Operated Equipment | 18.00 | L2 | 18.00 | | 30.0 | 30.0 | 17.00 | R1 | 18.91 | 9.12 | 20.4 | 25.0 |
| 397000 Communication Equipment | 21.00 | R1.5 | 21.00 | | -2.0 | -2.0 | 25.00 | L1.5 | 25.62 | 18.32 | -5.0 | -5.0 |
| 398000 Miscellaneous Equipment | 28.00 | O3 | 28.00 | | | | 25.00 | L1 | 25.62 | 18.08 | -5.0 | -5.0 |
| **Total Common Utility** | | | | | | | | | 20.89 | 12.72 | -0.1 | -0.8 |
| **TOTAL ELECTRIC AND COMMON UTILITY** | | | | | | | | | 31.87 | 19.10 | -17.9 | -19.1 |
| ***INDUSTRIAL STEAM PRODUCTION*** | | | | | | | | | | | | |
| 311009 Structures and Improvements | | | | | | | 2012 | 200-SC | 32.05 | 10.35 | -27.6 | -13.6 |
| 312009 Boiler Plant Equipment | | | | | | | 2012 | 200-SC | 33.09 | 10.35 | -24.9 | -13.0 |
| 315009 Accessory Electric Equipment | | | | | | | 2012 | 200-SC | 23.46 | 10.36 | -11.2 | -13.0 |
| 375009 Structures and Improvements | | | | | | | 2012 | 100-SC | 22.48 | 10.21 | -5.6 | |
| 376009 Mains | | | | | | | 2012 | 100-SC | 26.72 | 10.20 | -3.1 | -5.0 |
| 379009 Measuring and Regulating Equpment | | | | | | | 2012 | 100-SC | 21.49 | 10.21 | -4.7 | -5.0 |
| 380009 Services | | | | | | | 2012 | 100-SC | 25.79 | 10.20 | -4.9 | -5.0 |
| 381009 Meters | | | | | | | 2012 | 100-SC | 19.19 | 10.21 | -0.1 | |
| **Total Industrial Steam Production Plant** | | | | | | | | | 25.08 | 10.23 | -7.2 | -6.1 |
| **TOTAL SJLP** | | | | | | | | | 31.80 | 18.96 | -17.8 | -19.0 |
| **STEAM PRODUCTION** | | | | | | | | | | | | |
| **Lake Road** | | | | | | | | | | | | |
| 311000 Structures and Improvements | 54.00 | O1 | 54.00 | | -31.0 | -31.0 | 2012 | 200-SC | 20.82 | 10.36 | -15.1 | -13.5 |
| 312001 Boiler Plant Equipment | | | | | | | 2012 | 200-SC | 20.26 | 10.36 | -15.4 | -13.5 |
| 314000 Turbogenerator Units | 33.00 | | 33.00 | | -33.0 | -33.0 | 2012 | 200-SC | 24.16 | 10.36 | -15.0 | -13.5 |
| 315000 Accessory Electric Equipment | 39.00 | S4 | 39.00 | | -9.0 | -9.0 | 2012 | 200-SC | 23.29 | 10.36 | -13.7 | -13.5 |

**AQUILA NETWORKS - SJLP (ELECTRIC AND COMMON)**

Statement F

Proposed Parameters
Vintage Group Procedure

| Account | Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Avg. Sal. | Fut. Sal. | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Avg. Sal. | Fut. Sal. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | | B | C | D | E | F | G | H | I | J | K | L | M |
| 316000 | Miscellaneous Power Plant Equipment | 32.00 | | 32.00 | | | | 2012 | 200-SC | 19.26 | 10.36 | -22.4 | -13.5 |
| 353000 | Station Equipment | | | | | | | | | | | | |
| 391001 | Office Furniture and Equipment | | | | | | | 18.00 | L0 | 18.64 | 14.65 | | |
| 391003 | Computer Hardware | | | | | | | 12.00 | SC | 12.82 | 8.99 | | |
| 391004 | Computer Software | | | | | | | 12.00 | SC | 12.37 | 10.02 | | |
| 392000 | Transportation Equipment | | | | | | | 12.00 | L1.5 | 15.04 | 5.24 | 19.4 | 20.0 |
| 393000 | Stores Equipment | | | | | | | 30.00 | S1.5 | 30.00 | 26.53 | | |
| 394000 | Tools, Shop and Garage Equipment | | | | | | | 25.00 | L2 | 25.21 | 17.84 | | |
| 395000 | Laboratory Equipment | | | | | | | 25.00 | S1 | 25.74 | 15.37 | | |
| 396002 | Power Operated Equipment | | | | | | | 17.00 | R1 | 18.40 | 9.95 | 25.0 | 25.0 |
| 397000 | Communication Equipment | | | | | | | | | | | | |
| 398000 | Miscellaneous Equipment | | | | | | | 25.00 | L1 | 25.49 | 18.05 | -3.1 | -5.0 |
| | **Total Lake Road** | | | | | | | | | 20.95 | 10.39 | -14.4 | -12.7 |
| | **Iatan** | | | | | | | | | | | | |
| 311000 | Structures and Improvements | 30.50 | | 30.50 | | -1.0 | -1.0 | 2015 | 200-SC | 29.64 | 13.26 | -11.4 | -12.7 |
| 312001 | Boiler Plant Equipment | 28.60 | | 28.60 | | -4.0 | -4.0 | 2015 | 200-SC | 32.14 | 13.26 | -8.8 | -12.7 |
| 314000 | Turbogenerator Units | 32.30 | | 32.30 | | -1.0 | -1.0 | 2015 | 200-SC | 32.62 | 13.26 | -13.0 | -12.7 |
| 315000 | Accessory Electric Equipment | 31.30 | | 31.30 | | -1.0 | -1.0 | 2015 | 200-SC | 31.72 | 13.26 | -12.2 | -12.7 |
| 316000 | Miscellaneous Power Plant Equipment | 28.00 | | 28.00 | | 2.0 | 2.0 | 2015 | 200-SC | 25.41 | 13.26 | -10.1 | -12.7 |
| 353000 | Station Equipment | 42.00 | | 42.00 | | 6.0 | 6.0 | 30.00 | L2 | 31.43 | 14.89 | -10.0 | -10.0 |
| 391001 | Office Furniture and Equipment | 18.40 | | 18.40 | | 1.0 | 1.0 | 18.00 | L0 | 21.26 | 11.30 | | |
| 391003 | Computer Hardware | | | | | | | | | | | | |
| 391004 | Computer Software | | | | | | | 12.00 | SC | 12.38 | 9.91 | | |
| 392000 | Transportation Equipment | | | | | | | | | | | | |
| 393000 | Stores Equipment | | | | | | | | | | | | |
| 394000 | Tools, Shop and Garage Equipment | | | | | | | | | | | | |
| 395000 | Laboratory Equipment | | | | | | | | | | | | |
| 396002 | Power Operated Equipment | | | | | | | | | | | | |
| 397000 | Communication Equipment | 38.80 | | 38.80 | | 3.0 | 3.0 | 25.00 | L1.5 | 25.03 | 19.40 | -5.1 | -5.0 |
| 398000 | Miscellaneous Equipment | | | | | | | | | | | | |
| | **Total Iatan** | | | | | | | | | 31.73 | 13.29 | -10.0 | -12.6 |

# ANALYSIS

## INTRODUCTION

This section provides an explanation of the supporting schedules developed in the SJLP electric and common depreciation study to estimate appropriate projection curves, projection lives and statistics for each rate category. The form and content of the schedules developed for an account depend upon the method of analysis adopted for the category.

This section also includes an example of the supporting schedules developed for Account 365000 – Overhead Conductors and Devices as an illustration. Documentation for all other plant accounts is contained in the study work papers. The supporting schedules developed in the SJLP study include:

Schedule A – Generation Arrangement;

Schedule B – Age Distribution;

Schedule C – Unadjusted Plant History;

Schedule D – Adjusted Plant History;

Schedule E – Actuarial Life Analysis;

Schedule F – Graphics Analysis;

Schedule G – Historical Net Salvage Analysis; and

Schedule H – Average Year of Final Retirement.

The format and content of these schedules are briefly described below.

## SCHEDULE A – GENERATION ARRANGEMENT

The purpose of this schedule is to obtain appropriate weighted-average life statistics for a rate category. The weighted-average remaining-life is the sum of Column H divided by the sum of Column I. The weighted average life is the sum of Column C divided by the sum of Column I.

It should be noted that the generation arrangement does not include parameters for net salvage. Computed Net Plant (Column H) and Accruals (Column I) must be adjusted for net salvage to obtain a correct measurement of theoretical reserves and annualized depreciation accruals.

The following table provides a description of each column in the generation arrangement.

*Generation Arrangement*

| Column | Title | Description |
|---|---|---|
| A | Vintage | Vintage or placement year of surviving plant. |
| B | Age | Age of surviving plant at beginning of study year. |
| C | Surviving Plant | Actual dollar amount of surviving plant. |
| D | Average Life | Estimated average life of each vintage. This statistic is the sum of the realized life and the unrealized life, which is the product of the remaining life (Column E) and the theoretical proportion surviving. |
| E | Remaining Life | Estimated remaining life of each vintage. |
| F | Net Plant Ratio | Theoretical net plant ratio of each vintage. |
| G | Allocation Factor | A pivotal ratio which determines the amortization period of the difference between the recorded and computed reserve. |
| H | Computed Net Plant | Plant in service less theoretical reserve for each vintage. |
| I | Accrual | Ratio of computed net plant (Column H) and remaining life (Column E). |

TABLE 3. GENERATION ARRANGEMENT

### SCHEDULE B – AGE DISTRIBUTION

This schedule provides the age distribution and realized life of surviving plant shown in Column C of the Generation Arrangement (Schedule A). The format of the schedule depends upon the availability of either aged or unaged data. Derived additions for vintage years older than the earliest activity year in an account for unaged data are obtained from the age distribution of surviving plant at the beginning of the earliest activity year. The amount surviving from these vintages is shown in Column D. The realized life (Column G) is derived from the dollar years of service provided by a vintage over the period of years the vintage has been in service. Plant additions for vintages older than the earliest activity year in an account are represented by the opening balances shown in Column D.

The computed proportion surviving (Column D) for unaged is derived from a computed mortality analysis. The average service life displayed in the title block is the life statistic derived for the most recent activity year, given the derived age distribution at the start of the year and the specified retirement dispersion. The realized life (Column F) is obtained by finding the slope of an SC retirement dispersion, which connects the computed survivors of a vintage (Column E) to the recorded vintage addition (Column B). The realized life is the area bounded by the SC dispersion, the computed proportion surviving and the age of the vintage.

### SCHEDULE C – UNADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Activity year totals for unaged data are obtained from a transaction file without vintage identification. Information displayed in the unadjusted plant history is consistent with regulated investments reported internally by the Company.

### SCHEDULE D – ADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company with sales, transfers, and adjustments appropriately aged for depreciation study purposes. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Ageing of adjusting transactions is achieved using transaction codes that identify an adjusting year associated with the dollar amount of a transaction. Adjusting transactions processed in the adjusted plant history are not aged in the Company's records nor in the unadjusted plant history.

### SCHEDULE E – ACTUARIAL LIFE ANALYSIS

These schedules provide a summary of the dispersion and life indications obtained from an actuarial life analysis for a specified placement band. The observation band (Column A) is specified to produce either a rolling-band or a shrinking-band analysis depending upon the movement of the end points of the band. The degree of censoring (or point of truncation) of the observed life table is shown in Column B for each observation band. The estimated average service life, best fitting Iowa dispersion, and a statistical measure of the goodness of fit are shown for each degree polynomial (First, Second, and Third) fitted to the estimated hazard rates. Options available in the analysis include the width and location of both the placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated.

The estimated average service lives (Columns C, F, and I) are flagged with an asterisk if negative hazard rates are indicated by the fitted polynomial. All negative hazard rates are set equal to zero in the calculation of the graduated survivor curve. The Conformance Index (Columns E, H, and K) is the square root of the mean sum-of-squared differences between the graduated survivor curve and

the best fitting Iowa curve. A Conformance Index of zero would indicate a perfect fit.

### SCHEDULE F – GRAPHICS ANALYSIS

This schedule provides a graphics plot of a) the observed proportion surviving for a selected placement and observation band; b) the statistically best fitting Iowa dispersion and derived average service life; and c) the projection curve and projection life selected to describe future forces of mortality.

### SCHEDULE G – HISTORICAL NET SALVAGE ANALYSIS

This schedule provides a moving average analysis of the ratio of realized net salvage (Column I) to the associated retirements (Column B). The schedule also provides a moving average analysis of the components of net salvage related to retirements. The ratio of gross salvage to retirements is shown in Column D and the ratio of cost of removal to retirements is shown in Column G.

### SCHEDULE H – AVERAGE YEAR OF FINAL RETIREMENT

This schedule provides a computation of the weighted average year of final retirement for major structure categories. Direct dollar weighting is used to obtain a composite year of final retirement for plant investments classified in service at the beginning of the study year.

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**
**Account: 365000 Overhead Conductors and Devices**

**Dispersion: 55 - R2**
**Procedure: Vintage Group**

**Generation Arrangement**

| | December 31, 2001 | | | | Net | | | |
|---|---|---|---|---|---|---|---|---|
| Vintage | Age | Surviving Plant | Avg. Life | Rem. Life | Plant Ratio | Alloc. Factor | Computed Net Plant | Accrual |
| A | B | C | D | E | F | G | H=C*F*G | I=H/E |
| 2001 | 0.5 | 267,611 | 55.00 | 54.55 | 0.9918 | 1.0000 | 265,407 | 4,866 |
| 2000 | 1.5 | 889,165 | 55.00 | 53.65 | 0.9753 | 1.0000 | 867,227 | 16,166 |
| 1999 | 2.5 | 426,372 | 54.99 | 52.75 | 0.9593 | 1.0000 | 409,003 | 7,754 |
| 1998 | 3.5 | 704,846 | 55.01 | 51.85 | 0.9427 | 1.0000 | 664,435 | 12,813 |
| 1997 | 4.5 | 616,505 | 55.02 | 50.97 | 0.9263 | 1.0000 | 571,093 | 11,205 |
| 1996 | 5.5 | 577,373 | 55.02 | 50.08 | 0.9103 | 1.0000 | 525,570 | 10,494 |
| 1995 | 6.5 | 595,526 | 55.00 | 49.21 | 0.8947 | 1.0000 | 532,802 | 10,828 |
| 1994 | 7.5 | 526,959 | 55.05 | 48.33 | 0.8780 | 1.0000 | 462,673 | 9,573 |
| 1993 | 8.5 | 515,089 | 55.07 | 47.46 | 0.8619 | 1.0000 | 443,941 | 9,353 |
| 1992 | 9.5 | 695,436 | 55.09 | 46.60 | 0.8460 | 1.0000 | 588,322 | 12,624 |
| 1991 | 10.5 | 632,766 | 55.11 | 45.75 | 0.8301 | 1.0000 | 525,286 | 11,483 |
| 1990 | 11.5 | 1,509,260 | 55.12 | 44.90 | 0.8145 | 1.0000 | 1,229,307 | 27,382 |
| 1989 | 12.5 | 794,278 | 55.16 | 44.05 | 0.7985 | 1.0000 | 634,254 | 14,398 |
| 1988 | 13.5 | 445,113 | 55.03 | 43.21 | 0.7853 | 1.0000 | 349,531 | 8,089 |
| 1987 | 14.5 | 514,616 | 54.84 | 42.38 | 0.7728 | 1.0000 | 397,676 | 9,384 |
| 1986 | 15.5 | 542,376 | 54.88 | 41.55 | 0.7571 | 1.0000 | 410,643 | 9,883 |
| 1985 | 16.5 | 541,305 | 54.86 | 40.73 | 0.7425 | 1.0000 | 401,902 | 9,867 |
| 1984 | 17.5 | 326,116 | 54.66 | 39.92 | 0.7302 | 1.0000 | 238,129 | 5,966 |
| 1983 | 18.5 | 384,369 | 54.29 | 39.11 | 0.7203 | 1.0000 | 276,867 | 7,080 |
| 1982 | 19.5 | 479,912 | 54.33 | 38.31 | 0.7051 | 1.0000 | 338,394 | 8,834 |
| 1981 | 20.5 | 532,920 | 54.86 | 37.51 | 0.6838 | 1.0000 | 364,423 | 9,715 |
| 1980 | 21.5 | 311,792 | 53.68 | 36.72 | 0.6841 | 1.0000 | 213,311 | 5,808 |
| 1979 | 22.5 | 326,440 | 52.85 | 35.94 | 0.6801 | 1.0000 | 222,016 | 6,177 |
| 1978 | 23.5 | 227,918 | 52.40 | 35.17 | 0.6712 | 1.0000 | 152,970 | 4,349 |
| 1977 | 24.5 | 510,266 | 54.46 | 34.40 | 0.6318 | 1.0000 | 322,365 | 9,370 |
| 1976 | 25.5 | 417,002 | 55.07 | 33.65 | 0.6109 | 1.0000 | 254,751 | 7,572 |
| 1975 | 26.5 | 344,473 | 53.81 | 32.89 | 0.6113 | 1.0000 | 210,566 | 6,401 |
| 1974 | 27.5 | 289,911 | 53.80 | 32.15 | 0.5976 | 1.0000 | 173,250 | 5,389 |
| 1973 | 28.5 | 234,953 | 55.11 | 31.41 | 0.5701 | 1.0000 | 133,937 | 4,264 |
| 1972 | 29.5 | 165,783 | 54.51 | 30.68 | 0.5629 | 1.0000 | 93,320 | 3,041 |
| 1971 | 30.5 | 290,166 | 54.62 | 29.96 | 0.5486 | 1.0000 | 159,173 | 5,312 |
| 1970 | 31.5 | 438,823 | 56.24 | 29.25 | 0.5201 | 1.0000 | 228,254 | 7,803 |
| 1969 | 32.5 | 202,976 | 55.44 | 28.55 | 0.5150 | 1.0000 | 104,527 | 3,661 |
| 1968 | 33.5 | 190,794 | 55.70 | 27.85 | 0.5000 | 1.0000 | 95,405 | 3,425 |
| 1967 | 34.5 | 128,538 | 56.18 | 27.17 | 0.4836 | 1.0000 | 62,160 | 2,288 |
| 1966 | 35.5 | 227,755 | 56.51 | 26.49 | 0.4688 | 1.0000 | 106,764 | 4,031 |
| 1965 | 36.5 | 289,299 | 56.76 | 25.82 | 0.4549 | 1.0000 | 131,604 | 5,097 |
| 1964 | 37.5 | 138,028 | 56.33 | 25.16 | 0.4467 | 1.0000 | 61,653 | 2,451 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**
**Account: 365000 Overhead Conductors and Devices**

***Dispersion: 55 - R2***
**Procedure: Vintage Group**

Generation Arrangement

| Vintage | December 31, 2001 Age | Surviving Plant | Avg. Life | Rem. Life | Net Plant Ratio | Alloc. Factor | Computed Net Plant | Accrual |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H=C*F*G | I=H/E |
| 1963 | 38.5 | 123,964 | 57.04 | 24.51 | 0.4297 | 1.0000 | 53,264 | 2,173 |
| 1962 | 39.5 | 139,611 | 56.19 | 23.87 | 0.4248 | 1.0000 | 59,301 | 2,485 |
| 1961 | 40.5 | 99,603 | 56.52 | 23.24 | 0.4111 | 1.0000 | 40,945 | 1,762 |
| 1960 | 41.5 | 119,526 | 56.90 | 22.61 | 0.3974 | 1.0000 | 47,497 | 2,100 |
| 1959 | 42.5 | 125,118 | 57.32 | 22.00 | 0.3838 | 1.0000 | 48,021 | 2,183 |
| 1958 | 43.5 | 126,451 | 55.94 | 21.40 | 0.3825 | 1.0000 | 48,364 | 2,260 |
| 1957 | 44.5 | 140,743 | 56.76 | 20.80 | 0.3665 | 1.0000 | 51,587 | 2,480 |
| 1956 | 45.5 | 95,898 | 56.19 | 20.22 | 0.3599 | 1.0000 | 34,513 | 1,707 |
| 1955 | 46.5 | 108,475 | 55.26 | 19.65 | 0.3556 | 1.0000 | 38,575 | 1,963 |
| 1954 | 47.5 | 61,502 | 58.78 | 19.09 | 0.3248 | 1.0000 | 19,974 | 1,046 |
| 1953 | 48.5 | 57,927 | 58.55 | 18.54 | 0.3166 | 1.0000 | 18,342 | 989 |
| 1952 | 49.5 | 56,446 | 58.39 | 18.00 | 0.3082 | 1.0000 | 17,398 | 967 |
| 1951 | 50.5 | 46,703 | 60.33 | 17.47 | 0.2895 | 1.0000 | 13,522 | 774 |
| 1950 | 51.5 | 63,529 | 60.45 | 16.95 | 0.2804 | 1.0000 | 17,812 | 1,051 |
| 1949 | 52.5 | 94,977 | 60.68 | 16.44 | 0.2710 | 1.0000 | 25,735 | 1,565 |
| 1948 | 53.5 | 117,321 | 61.99 | 15.94 | 0.2572 | 1.0000 | 30,177 | 1,893 |
| 1947 | 54.5 | 58,355 | 60.29 | 15.46 | 0.2564 | 1.0000 | 14,961 | 968 |
| 1946 | 55.5 | 22,392 | 59.63 | 14.98 | 0.2512 | 1.0000 | 5,626 | 375 |
| 1945 | 56.5 | 9,779 | 60.07 | 14.52 | 0.2417 | 1.0000 | 2,363 | 163 |
| 1944 | 57.5 | 11,217 | 59.98 | 14.06 | 0.2345 | 1.0000 | 2,630 | 187 |
| 1943 | 58.5 | 5,475 | 56.37 | 13.62 | 0.2416 | 1.0000 | 1,323 | 97 |
| 1942 | 59.5 | 10,998 | 61.41 | 13.19 | 0.2147 | 1.0000 | 2,362 | 179 |
| 1941 | 60.5 | 14,345 | 65.88 | 12.77 | 0.1938 | 1.0000 | 2,780 | 218 |
| 1940 | 61.5 | 13,321 | 66.44 | 12.35 | 0.1859 | 1.0000 | 2,477 | 200 |
| 1939 | 62.5 | 14,998 | 67.21 | 11.95 | 0.1778 | 1.0000 | 2,667 | 223 |
| 1938 | 63.5 | 7,258 | 67.03 | 11.56 | 0.1724 | 1.0000 | 1,252 | 108 |
| 1937 | 64.5 | 130,350 | 67.43 | 11.18 | 0.1658 | 1.0000 | 21,606 | 1,933 |
| 1936 | 65.5 | 13,010 | 69.06 | 10.80 | 0.1564 | 1.0000 | 2,035 | 188 |
| 1935 | 66.5 | 1,292 | 67.89 | 10.44 | 0.1538 | 1.0000 | 199 | 19 |
| 1934 | 67.5 | 493 | 65.95 | 10.08 | 0.1529 | 1.0000 | 75 | 7 |
| 1933 | 68.5 | 1,558 | 70.71 | 9.74 | 0.1377 | 1.0000 | 215 | 22 |
| 1932 | 69.5 | 8,531 | 71.81 | 9.40 | 0.1308 | 1.0000 | 1,116 | 119 |
| 1931 | 70.5 | 3,463 | 67.97 | 9.06 | 0.1333 | 1.0000 | 462 | 51 |
| 1930 | 71.5 | 15,175 | 68.21 | 8.74 | 0.1281 | 1.0000 | 1,944 | 222 |
| 1929 | 72.5 | 25,520 | 68.81 | 8.42 | 0.1223 | 1.0000 | 3,122 | 371 |
| 1928 | 73.5 | 28,732 | 64.73 | 8.10 | 0.1252 | 1.0000 | 3,597 | 444 |
| Total | 18.7 | $19,226,885 | 55.30 | 39.87 | 0.7209 | 1.0000 | $13,860,748 | $347,690 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

***Distribution Plant***

**Account: 365000 Overhead Conductors and Devices**

**Age Distribution**

| Vintage | Age as of 12/31/2001 | Derived Additions | 1980 Opening Balance | Experience to 12/31/2001 Amount Surviving | Proportion Surviving | Realized Life |
|---|---|---|---|---|---|---|
| A | B | C | D | E | F=E/(C+D) | G |
| 2001 | 0.5 | 267,611 | | 267,611 | 1.0000 | 0.5000 |
| 2000 | 1.5 | 889,223 | | 889,165 | 0.9999 | 1.5000 |
| 1999 | 2.5 | 431,603 | | 426,372 | 0.9879 | 2.4818 |
| 1998 | 3.5 | 705,857 | | 704,846 | 0.9986 | 3.4971 |
| 1997 | 4.5 | 616,558 | | 616,505 | 0.9999 | 4.5000 |
| 1996 | 5.5 | 579,151 | | 577,373 | 0.9969 | 5.4904 |
| 1995 | 6.5 | 604,090 | | 595,526 | 0.9858 | 6.4566 |
| 1994 | 7.5 | 528,355 | | 526,959 | 0.9974 | 7.4918 |
| 1993 | 8.5 | 515,416 | | 515,089 | 0.9994 | 8.4983 |
| 1992 | 9.5 | 697,766 | | 695,436 | 0.9967 | 9.4940 |
| 1991 | 10.5 | 636,118 | | 632,766 | 0.9947 | 10.4896 |
| 1990 | 11.5 | 1,526,177 | | 1,509,260 | 0.9889 | 11.4761 |
| 1989 | 12.5 | 796,409 | | 794,278 | 0.9973 | 12.4916 |
| 1988 | 13.5 | 474,245 | | 445,113 | 0.9386 | 13.3217 |
| 1987 | 14.5 | 574,266 | | 514,616 | 0.8961 | 14.0971 |
| 1986 | 15.5 | 596,994 | | 542,376 | 0.9085 | 15.0974 |
| 1985 | 16.5 | 612,607 | | 541,305 | 0.8836 | 16.0301 |
| 1984 | 17.5 | 367,293 | | 326,116 | 0.8879 | 16.7882 |
| 1983 | 18.5 | 460,065 | | 384,369 | 0.8355 | 17.3632 |
| 1982 | 19.5 | 550,766 | | 479,912 | 0.8714 | 18.3390 |
| 1981 | 20.5 | 574,016 | | 532,920 | 0.9284 | 19.8059 |
| 1980 | 21.5 | 362,872 | | 311,792 | 0.8592 | 19.5600 |
| 1979 | 22.5 | | 414,203 | 326,440 | 0.7881 | 19.6566 |
| 1978 | 23.5 | | 290,616 | 227,918 | 0.7843 | 20.1299 |
| 1977 | 24.5 | | 561,088 | 510,266 | 0.9094 | 23.0995 |
| 1976 | 25.5 | | 446,998 | 417,002 | 0.9329 | 24.6238 |
| 1975 | 26.5 | | 480,367 | 344,473 | 0.7171 | 24.2636 |
| 1974 | 27.5 | | 344,147 | 289,911 | 0.8424 | 25.1443 |
| 1973 | 28.5 | | 258,510 | 234,953 | 0.9089 | 27.3396 |
| 1972 | 29.5 | | 191,743 | 165,783 | 0.8646 | 27.6265 |
| 1971 | 30.5 | | 333,458 | 290,166 | 0.8702 | 28.6111 |
| 1970 | 31.5 | | 455,149 | 438,823 | 0.9641 | 31.0889 |
| 1969 | 32.5 | | 224,005 | 202,976 | 0.9061 | 31.1425 |
| 1968 | 33.5 | | 209,873 | 190,794 | 0.9091 | 32.2535 |
| 1967 | 34.5 | | 138,675 | 128,538 | 0.9269 | 33.5658 |
| 1966 | 35.5 | | 241,918 | 227,755 | 0.9415 | 34.7234 |
| 1965 | 36.5 | | 304,230 | 289,299 | 0.9509 | 35.7915 |
| 1964 | 37.5 | | 153,631 | 138,028 | 0.8973 | 36.1666 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

**Age Distribution**

| Vintage | Age as of 12/31/2001 | Derived Additions | 1980 Opening Balance | Experience to 12/31/2001 | | |
|---|---|---|---|---|---|---|
| | | | | Amount Surviving | Proportion Surviving | Realized Life |
| A | B | C | D | E | F=E/(C+D) | G |
| 1963 | 38.5 | | 137,878 | 123,964 | 0.8991 | 37.6742 |
| 1962 | 39.5 | | 182,932 | 139,611 | 0.7632 | 37.6095 |
| 1961 | 40.5 | | 123,025 | 99,603 | 0.8096 | 38.7144 |
| 1960 | 41.5 | | 143,449 | 119,526 | 0.8332 | 39.8576 |
| 1959 | 42.5 | | 147,526 | 125,118 | 0.8481 | 41.0218 |
| 1958 | 43.5 | | 166,803 | 126,451 | 0.7581 | 40.3789 |
| 1957 | 44.5 | | 177,630 | 140,743 | 0.7923 | 41.9153 |
| 1956 | 45.5 | | 140,311 | 95,898 | 0.6835 | 42.0513 |
| 1955 | 46.5 | | 199,923 | 108,475 | 0.5426 | 41.8119 |
| 1954 | 47.5 | | 82,038 | 61,502 | 0.7497 | 46.0080 |
| 1953 | 48.5 | | 86,862 | 57,927 | 0.6669 | 46.4371 |
| 1952 | 49.5 | | 85,191 | 56,446 | 0.6626 | 46.9242 |
| 1951 | 50.5 | | 54,526 | 46,703 | 0.8565 | 49.4967 |
| 1950 | 51.5 | | 69,442 | 63,529 | 0.9149 | 50.2288 |
| 1949 | 52.5 | | 105,632 | 94,977 | 0.8991 | 51.0480 |
| 1948 | 53.5 | | 123,231 | 117,321 | 0.9520 | 52.9330 |
| 1947 | 54.5 | | 78,072 | 58,355 | 0.7475 | 51.7974 |
| 1946 | 55.5 | | 30,982 | 22,392 | 0.7227 | 51.6782 |
| 1945 | 56.5 | | 14,579 | 9,779 | 0.6708 | 52.6412 |
| 1944 | 57.5 | | 16,058 | 11,217 | 0.6985 | 53.0499 |
| 1943 | 58.5 | | 11,376 | 5,475 | 0.4813 | 49.9269 |
| 1942 | 59.5 | | 13,743 | 10,998 | 0.8003 | 55.4314 |
| 1941 | 60.5 | | 15,058 | 14,345 | 0.9526 | 60.3401 |
| 1940 | 61.5 | | 13,502 | 13,321 | 0.9866 | 61.3243 |
| 1939 | 62.5 | | 15,019 | 14,998 | 0.9986 | 62.4950 |
| 1938 | 63.5 | | 7,818 | 7,258 | 0.9284 | 62.7058 |
| 1937 | 64.5 | | 139,916 | 130,350 | 0.9316 | 63.4689 |
| 1936 | 65.5 | | 13,134 | 13,010 | 0.9906 | 65.4411 |
| 1935 | 66.5 | | 1,538 | 1,292 | 0.8403 | 64.5995 |
| 1934 | 67.5 | | 709 | 493 | 0.6957 | 62.9676 |
| 1933 | 68.5 | | 1,695 | 1,558 | 0.9196 | 68.0084 |
| 1932 | 69.5 | | 8,604 | 8,531 | 0.9916 | 69.3825 |
| 1931 | 70.5 | | 9,062 | 3,463 | 0.3821 | 65.7898 |
| 1930 | 71.5 | | 24,779 | 15,175 | 0.6124 | 66.2561 |
| 1929 | 72.5 | | 35,904 | 25,520 | 0.7108 | 67.0767 |
| 1928 | 73.5 | | 89,040 | 28,732 | 0.3227 | 63.1937 |
| 1922 | 79.5 | | 213 | | 0.0000 | 63.0000 |
| 1913 | 88.5 | | 224 | | 0.0000 | 68.1250 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

**Age Distribution**

| Vintage | Age as of 12/31/2001 | Derived Additions | 1980 Opening Balance | Experience to 12/31/2001 Amount Surviving | Proportion Surviving | Realized Life |
|---|---|---|---|---|---|---|
| A | B | C | D | E | F=E/(C+D) | G |
| 1910 | 91.5 | | 34 | | 0.0000 | 71.0000 |
| *Total* | | $13,367,460 | $7,616,268 | $19,226,885 | 0.9163 | |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

**Unadjusted Plant History**

| Year | Beginning Balance | Additions | Retirements | Sales, Transfers & Adjustments | Ending Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1980 | 6,458,141 | 363,030 | 69,101 | | 6,752,070 |
| 1981 | 6,752,070 | 589,402 | 49,730 | | 7,291,742 |
| 1982 | 7,291,742 | 571,281 | 76,653 | | 7,786,370 |
| 1983 | 7,786,370 | 543,797 | 73,303 | | 8,256,864 |
| 1984 | 8,256,864 | 393,329 | 37,858 | | 8,612,335 |
| 1985 | 8,612,335 | 732,358 | 125,049 | | 9,219,644 |
| 1986 | 9,219,644 | 630,757 | 94,166 | | 9,756,235 |
| 1987 | 9,756,235 | 547,012 | 104,256 | | 10,198,991 |
| 1988 | 10,198,991 | 426,456 | 46,914 | | 10,578,533 |
| 1989 | 10,578,533 | 749,195 | 74,772 | | 11,252,956 |
| 1990 | 11,252,956 | 773,356 | 59,596 | | 11,966,716 |
| 1991 | 11,966,716 | 562,808 | 54,398 | | 12,475,126 |
| 1992 | 12,475,126 | 664,640 | 87,009 | | 13,052,757 |
| 1993 | 13,052,757 | 398,079 | 65,571 | | 13,385,265 |
| 1994 | 13,385,265 | 493,109 | 71,984 | | 13,806,390 |
| 1995 | 13,806,390 | 437,194 | 52,733 | | 14,190,851 |
| 1996 | 14,190,851 | 551,653 | 109,279 | | 14,633,225 |
| 1997 | 14,633,225 | 4,168,440 | 93,006 | | 18,708,659 |
| 1998 | 18,708,659 | 874,555 | 64,844 | | 19,518,370 |
| 1999 | 19,518,370 | 441,364 | 95,929 | | 19,863,805 |
| 2000 | 19,863,805 | 867,031 | 204,668 | | 20,526,168 |
| 2001 | 20,526,168 | 306,076 | 46,023 | (1,559,335) | 19,226,885 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

T-Cut: None

Placement Band: 1910-2001

Hazard Function: Proportion Retired

Weighting: Exposures

***Shrinking Band Life Analysis***

| Observation Band | Censoring | First Degree | | | Second Degree | | | Third Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index |
| A | B | C | D | E | F | G | H | I | J | K |
| 1980-2001 | 45.2 | 75.3 | L0.5 | 0.42 | 74.2 | L0.5 | 0.76 | 64.7 | R1 | 1.16 |
| 1982-2001 | 46.1 | 75.8 | L0.5 | 0.45 | 78.3 | L0.5 | 0.88 | 65.0 | R1 | 1.51 |
| 1984-2001 | 48.2 | 77.2 | L0.5 | 0.48 | 90.8 | O2 * | 4.03 | 66.3 | R1 | 1.87 |
| 1986-2001 | 50.5 | 78.9 | L0.5 | 0.53 | 101.6 | O3 * | 7.44 | 68.5 | R1 | 1.62 |
| 1988-2001 | 53.1 | 81.4 | L0.5 | 0.67 | 103.6 | O3 * | 7.71 | 71.4 | R1 | 1.35 |
| 1990-2001 | 54.4 | 81.8 | L0.5 | 0.67 | 111.3 | O3 * | 10.34 | 73.9 | R1 | 0.83 |
| 1992-2001 | 54.3 | 81.6 | L0.5 | 0.59 | 102.3 | O2 * | 7.30 | 72.8 | R1 | 0.79 |
| 1994-2001 | 53.6 | 80.0 | L0.5 | 0.86 | 88.6 | L0 | 2.32 | 73.0 | R1 | 0.82 |
| 1996-2001 | 50.2 | 76.9 | L0.5 | 0.91 | 78.9 | L0.5 | 0.61 | 71.2 | S0 | 0.57 |
| 1998-2001 | 47.8 | 74.9 | L1 | 0.59 | 73.5 | L1 | 0.69 | 69.7 | S0 | 0.88 |
| 2000-2001 | 38.2 | 65.9 | L1 * | 0.71 | 68.3 | L1 * | 1.19 | 92.9 | O3 * | 8.43 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

***Account:* 365000 *Overhead Conductors and Devices***

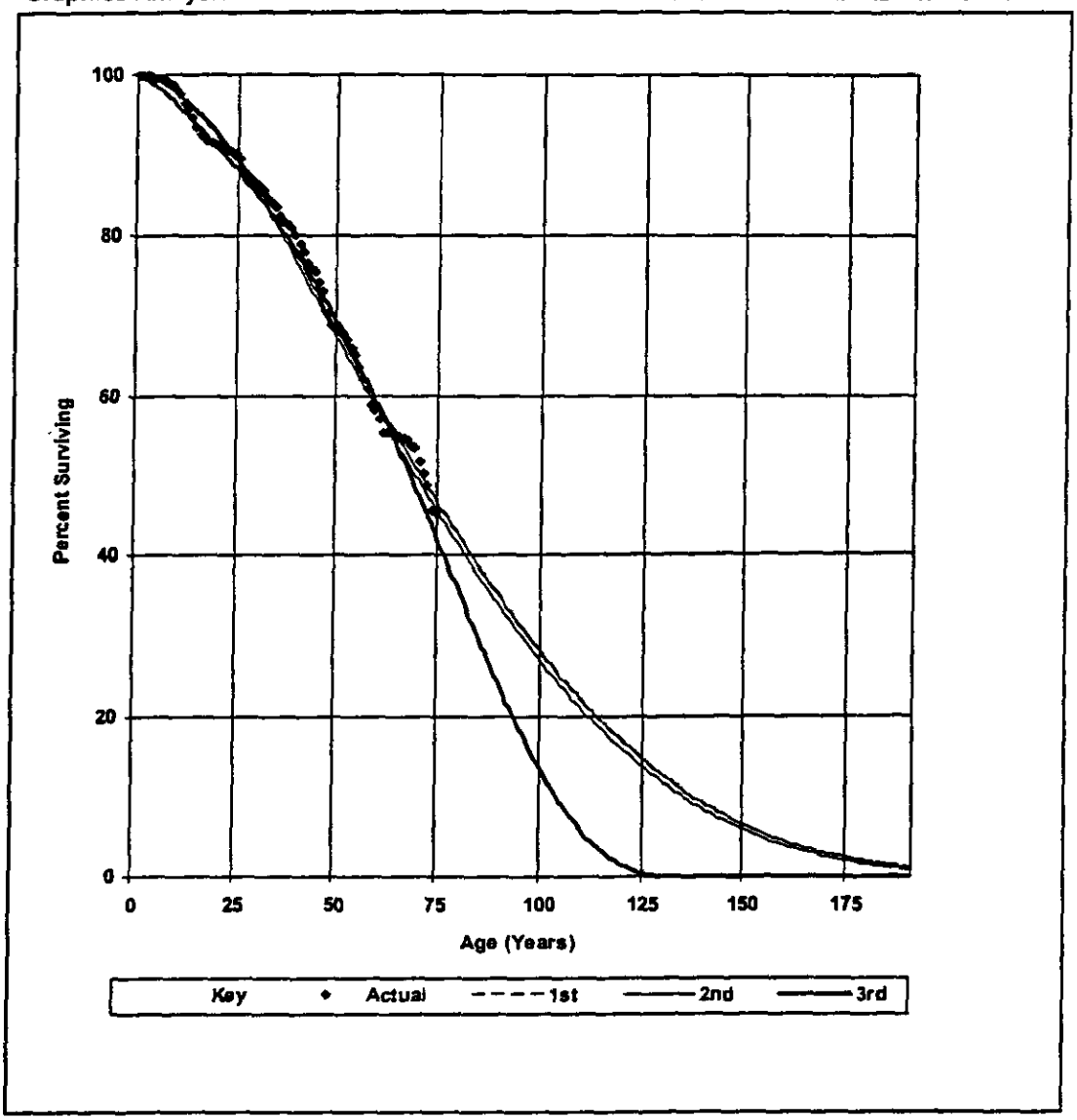
**T-Cut: None**

**Placement Band: 1910-2001 Observation Band: 1980-2001**

**Hazard Function: Proportion Retired**

**Weighting: Exposures**

**Graphics Analysis** **1st: 75.3-L0.5 2nd: 74.2-L0.5 3rd: 64.7-R1**



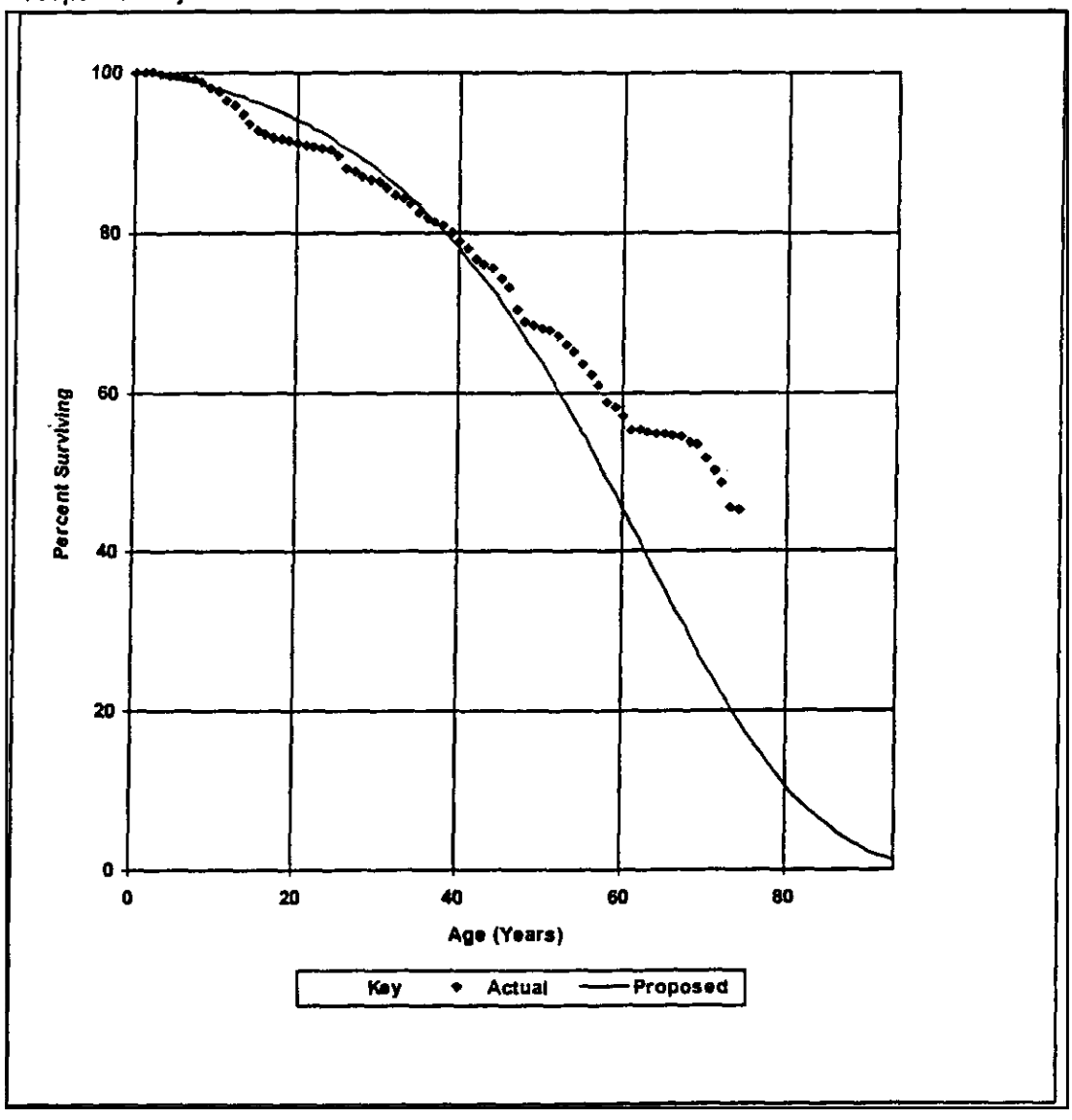
## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

*Distribution Plant*

Account: 365000 Overhead Conductors and Devices

T-Cut: 75
Placement Band: 1910-2001
Observation Band: 1980-2001
55.0-R2

Proposed Projection Life Curve



## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

**Unadjusted Net Salvage History**

| | | Gross Salvage | | | Cost of Retiring | | | Net Salvage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Retirements | Amount | Pct. | 5-Yr Avg. | Amount | Pct. | 5-Yr Avg. | Amount | Pct. | 5-Yr Avg. |
| A | B | C | D=C/B | E | F | G=F/B | H | I=C-F | J=I/B | K |
| 1980 | 69,101 | 88,306 | 127.8 | | 48,838 | 70.7 | | 39,468 | 57.1 | |
| 1981 | 49,730 | 59,785 | 120.2 | | 69,332 | 139.4 | | (9,547) | -19.2 | |
| 1982 | 76,653 | 48,006 | 62.6 | | 84,365 | 110.1 | | (36,359) | -47.4 | |
| 1983 | 73,303 | 84,891 | 115.8 | | 67,419 | 92.0 | | 17,472 | 23.8 | |
| 1984 | 37,858 | 142,291 | 375.9 | 138.0 | 54,116 | 142.9 | 105.7 | 88,175 | 232.9 | 32.4 |
| 1985 | 125,049 | 154,899 | 123.9 | 135.1 | 76,650 | 61.3 | 97.0 | 78,249 | 62.6 | 38.1 |
| 1986 | 94,166 | 146,649 | 155.7 | 141.7 | 72,446 | 76.9 | 87.2 | 74,203 | 78.8 | 54.5 |
| 1987 | 104,256 | 141,081 | 135.3 | 154.1 | 117,917 | 113.1 | 89.4 | 23,164 | 22.2 | 64.7 |
| 1988 | 46,914 | 85,476 | 182.2 | 164.2 | 78,689 | 167.7 | 97.9 | 6,787 | 14.5 | 66.3 |
| 1989 | 74,772 | 117,622 | 157.3 | 145.1 | 90,614 | 121.2 | 98.0 | 27,008 | 36.1 | 47.0 |
| 1990 | 59,596 | 119,739 | 200.9 | 160.8 | 97,116 | 163.0 | 120.3 | 22,623 | 38.0 | 40.5 |
| 1991 | 54,398 | 61,279 | 112.6 | 154.5 | 95,555 | 175.7 | 141.2 | (34,276) | -63.0 | 13.3 |
| 1992 | 87,009 | 61,500 | 70.7 | 138.1 | 100,005 | 114.9 | 143.2 | (38,505) | -44.3 | -5.1 |
| 1993 | 65,571 | 48,644 | 74.2 | 119.8 | 79,460 | 121.2 | 135.6 | (30,816) | -47.0 | -15.8 |
| 1994 | 71,984 | 43,614 | 60.6 | 98.9 | 81,398 | 113.1 | 134.0 | (37,784) | -52.5 | -35.1 |
| 1995 | 52,733 | 41,278 | 78.3 | 77.3 | 68,598 | 130.1 | 128.1 | (27,320) | -51.8 | -50.9 |
| 1996 | 109,279 | 64,455 | 59.0 | 67.1 | 96,449 | 88.3 | 110.2 | (31,994) | -29.3 | -43.0 |
| 1997 | 93,006 | 52,437 | 56.4 | 63.8 | 75,156 | 80.8 | 102.2 | (22,719) | -24.4 | -38.4 |
| 1998 | 64,844 | 35,489 | 54.7 | 60.6 | 85,511 | 131.9 | 103.9 | (50,022) | -77.1 | -43.3 |
| 1999 | 95,929 | 22,557 | 23.5 | 52.0 | 72,079 | 75.1 | 95.7 | (49,522) | -51.6 | -43.7 |
| 2000 | 204,668 | 24,231 | 11.8 | 35.1 | 101,995 | 49.8 | 76.0 | (77,764) | -38.0 | -40.9 |
| 2001 | 46,023 | 865 | 1.9 | 26.9 | 20,193 | 43.9 | 70.4 | (19,328) | -42.0 | -43.5 |
| Total | 1,756,842 | 1,645,094 | 93.6 | | 1,733,901 | 98.7 | | (88,807) | -5.1 | |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

***Adjusted Net Salvage History***

| | | Gross Salvage | | | Cost of Retiring | | | Net Salvage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Retirements | Amount | Pct. | 5-Yr Avg. | Amount | Pct. | 5-Yr Avg. | Amount | Pct. | 5-Yr Avg. |
| A | B | C | D=C/B | E | F | G=F/B | H | I=C-F | J=I/B | K |
| 1980 | 69,101 | 88,306 | 127.8 | | 48,838 | 70.7 | | 39,468 | 57.1 | |
| 1981 | 49,730 | 59,785 | 120.2 | | 69,332 | 139.4 | | (9,547) | -19.2 | |
| 1982 | 76,653 | 48,006 | 62.6 | | 84,365 | 110.1 | | (36,359) | -47.4 | |
| 1983 | 73,303 | 84,891 | 115.8 | | 67,419 | 92.0 | | 17,472 | 23.8 | |
| 1984 | 37,858 | 142,291 | 375.9 | 138.0 | 54,116 | 142.9 | 105.7 | 88,175 | 232.9 | 32.4 |
| 1985 | 125,049 | 154,899 | 123.9 | 135.1 | 76,650 | 61.3 | 97.0 | 78,249 | 62.6 | 38.1 |
| 1986 | 94,166 | 146,649 | 155.7 | 141.7 | 72,446 | 76.9 | 87.2 | 74,203 | 78.8 | 54.5 |
| 1987 | 104,256 | 141,081 | 135.3 | 154.1 | 117,917 | 113.1 | 89.4 | 23,164 | 22.2 | 64.7 |
| 1988 | 46,914 | 85,476 | 182.2 | 164.2 | 78,689 | 167.7 | 97.9 | 6,787 | 14.5 | 66.3 |
| 1989 | 74,772 | 117,622 | 157.3 | 145.1 | 90,614 | 121.2 | 98.0 | 27,008 | 36.1 | 47.0 |
| 1990 | 59,596 | 119,739 | 200.9 | 160.8 | 97,116 | 163.0 | 120.3 | 22,623 | 38.0 | 40.5 |
| 1991 | 54,398 | 61,279 | 112.6 | 154.5 | 95,555 | 175.7 | 141.2 | (34,276) | -63.0 | 13.3 |
| 1992 | 87,009 | 61,500 | 70.7 | 138.1 | 100,005 | 114.9 | 143.2 | (38,505) | -44.3 | -5.1 |
| 1993 | 65,571 | 48,644 | 74.2 | 119.8 | 79,460 | 121.2 | 135.6 | (30,816) | -47.0 | -15.8 |
| 1994 | 71,984 | 43,614 | 60.6 | 98.9 | 81,398 | 113.1 | 134.0 | (37,784) | -52.5 | -35.1 |
| 1995 | 52,733 | 41,278 | 78.3 | 77.3 | 68,598 | 130.1 | 126.1 | (27,320) | -51.8 | -50.9 |
| 1996 | 109,279 | 64,455 | 59.0 | 67.1 | 96,449 | 88.3 | 110.2 | (31,994) | -29.3 | -43.0 |
| 1997 | 93,006 | 52,437 | 56.4 | 63.8 | 75,156 | 80.8 | 102.2 | (22,719) | -24.4 | -38.4 |
| 1998 | 64,844 | 35,489 | 54.7 | 60.6 | 85,511 | 131.9 | 103.9 | (50,022) | -77.1 | -43.3 |
| 1999 | 95,929 | 22,557 | 23.5 | 52.0 | 72,079 | 75.1 | 95.7 | (49,522) | -51.6 | -43.7 |
| 2000 | 204,668 | 24,231 | 11.8 | 35.1 | 101,995 | 49.8 | 76.0 | (77,764) | -38.0 | -40.9 |
| 2001 | 46,023 | 865 | 1.9 | 26.9 | 20,193 | 43.9 | 70.4 | (19,328) | -42.0 | -43.5 |
| Total | 1,756,842 | 1,645,094 | 93.6 | | 1,733,901 | 98.7 | | (88,807) | -5.1 | |

Schedule REW–4

# 2003 Depreciation Rate Study

*Aquila Corporate Assets*
*(Missouri Operations)*

Prepared by
Foster Associates, Inc.

FOSTER ASSOCIATES INCORPORATED

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# EXECUTIVE SUMMARY

## INTRODUCTION

This report presents the findings and recommendations developed in a 2003 *Depreciation Rate Study for Aquila Corporate Assets (Corporate).* The 2003 study provides depreciation rates and annualized depreciation accruals for calendar year 2003, based on forecasted December 31, 2002 investments and depreciation reserves. The forecast period (*i.e.*, calendar year 2002) includes actual plant and reserve activity through September 30, 2002 and forecasted plant additions and depreciation accruals over the period October 1 through December 31, 2002. Work on the study, conducted by Foster Associates, Inc., commenced in August 2002 and progressed through mid-December 2002, at which time the project was completed.

Foster Associates, Inc. is a public utility economics consulting firm headquartered in Bethesda, Maryland offering economic research and consulting services on issues and problems arising from governmental regulation of business. Areas of specialization supported by our Fort Myers office include property life forecasting, technological forecasting, depreciation estimation, and valuation of industrial property.

Foster Associates has undertaken numerous depreciation engagements for both public and privately owned corporations including detailed statistical life studies, analyses of required net salvage rates, and the selection of depreciation systems that will most nearly achieve the goals of depreciation accounting under the constraints of either government regulation or competitive market pricing. Foster Associates is widely recognized for industry leadership in the development of depreciation systems, life analysis techniques and computer software for conducting depreciation and valuation studies.

Depreciation rates currently used for Corporate Assets allocated to jurisdictions other than Missouri were approved by the Missouri Public Service Commission (Commission) in Case No. ER-97-394 (Order dated August 14, 1998). The approved rates were developed for Aquila – MPS (formerly Missouri Public Service) electric and common operations. Recognizing that a significant portion of Corporate Assets property is located in the state of Missouri and the Missouri order represented the most recent Commission review of parameters for general plant assets, Aquila elected to adopt the MPS depreciation rates for all Corporate Assets. Service life and net salvage statistics (*e.g.*, projection life, projection curve, remaining life and future net salvage rates) used to derive the approved MPS depreciation rates were not identified in either the Order or other documents related to the case.

Depreciation rates currently used for Corporate Assets allocated to Missouri were approved by the Missouri Public Service Commission pursuant to a Stipulation and Agreement in consolidated Case Nos. ER-2001-672 and EC-2002-265

(Agreement dated February 5, 2002). The approved General Common Plant rates were developed for Aquila Networks – MPS electric and common operations and adopted by Aquila for Corporate Assets allocated to Missouri. Depreciable rate categories for Corporate Assets in which no corresponding depreciation rate was approved for General Common Plant have been assigned a zero percent rate. Average service lives used to derive the settled General Common Plant depreciation rates were included in an appendix attached to the Stipulation and Agreement.

Depreciation reserves allocated to Missouri are adjusted for differences in the accrual rates prescribed in Missouri and those currently used for all other jurisdictions and non-regulated business units. The reserve adjustment is the cumulative difference in accruals resulting from the application of unique depreciation rates in Missouri. Reserve adjustments are shown on Statement C of this report.

The principal findings and recommendations of the Corporate Assets Depreciation Rate Study for Missouri are summarized in the Statements section of this report. Statement A provides a comparative summary of present and proposed annual depreciation rates for each rate category. Statement B provides a comparison of present and proposed annual depreciation accruals. Statement C provides a comparison of the computed, recorded and redistributed depreciation reserves for each rate category. Statement D provides a summary of the components used to obtain a weighted-average net salvage rate for each account. Statement E provides a comparative summary of present and proposed parameters and statistics including projection life, projection curve, average service life, average remaining life, and average and future net salvage rates. Statement F provides plant and reserve allocation factors and the derivation of plant and reserves allocated to Missouri operations. A set of statements is included in this report for a) Corporate Assets allocated to MPS operations; and b) Corporate Assets allocated to SJLP operations.

## SCOPE OF STUDY

The principal activities undertaken in the course of the current study included:

- Collection of plant data;
- Reconciliation of data to the official records of the Company;
- Discussions with Corporate plant accounting personnel;
- Estimation of projection lives and retirement dispersion patterns;
- Analysis of gross salvage and removal expense;
- Analysis and redistribution of recorded depreciation reserves; and
- Development of recommended accrual rates for each rate category.

## DEPRECIATION SYSTEM

A depreciation rate is formed by combining the elements of a depreciation system. A depreciation system is composed of a method, a procedure and a technique. A depreciation method (*e.g.*, straight-line) describes the component of the system that determines the acceleration or deceleration of depreciation accruals in relation to either time or use. A depreciation procedure (*e.g.*, vintage group) identifies the level of grouping or sub-grouping of assets within a plant category. The level of grouping specifies the weighting used to obtain composite life statistics for an account. A depreciation technique (*e.g.*, remaining-life) describes the life statistic used in the system.

The depreciation system presently used for Corporate Assets is composed of the straight-line method, broad group procedure, whole-life technique for all plant categories. The rates proposed in this study are derived from a system composed of the straight-line method, vintage group procedure, whole-life technique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique.

The matching and expense recognition principles of accounting provide that the cost of an asset (or group of assets) should be allocated to operations over an estimate of the economic life of the asset in proportion to the consumption of service potential. It is the opinion of Foster Associates that the objectives of depreciation accounting can be more nearly achieved using the vintage-group procedure combined with the remaining-life technique. Unlike the broad group procedure in which each vintage is estimated to have the same average service life, the vintage group procedure distinguishes average service lives among vintages and provides cost apportionment over the estimated weighted-average remaining life or average life of a rate category.

The level of asset grouping identified in the broad group procedure is the total plant in service from all vintages in an account. Each vintage is estimated to have the same average service life. It is highly unlikely, therefore, that compensating deviations (*i.e.*, over and underestimates of average service life) will be created among vintages to achieve cost allocation over the average service life of each vintage. The level of asset grouping identified in the vintage group procedure is the plant in service from each vintage. The average service life (or remaining life) is estimated independently for each vintage and composite life statistics are computed for each plant account. It is more likely, therefore, that compensating deviations will be created with a vintage group procedure than with a broad group procedure.

The dependency of both the broad group procedure and the vintage group procedure on compensating deviations in the estimate of service lives is attribut-

able to the use of the whole-life technique. A permanent excess or deficiency will be created in the depreciation reserve by a continued application of the whole-life technique if these deviations are not exactly offsetting. The potential for a permanent reserve imbalance can be eliminated, however, by an application of the remaining-life technique.

The principal distinction between a whole-life rate and a remaining-life rate is the treatment of depreciation reserve imbalances. A reserve imbalance is the difference between a theoretical or computed reserve and the corresponding recorded reserve for a rate category. The remaining-life technique provides a systematic amortization of these differences over the composite weighted average remaining life of a rate category.

Although the emergence of economic factors such as bypass and incentive forms of regulation may ultimately encourage abandonment of the straight-line method, no attempt was made in the current study to address these concerns.

## PROPOSED DEPRECIATION RATES

Table 1 provides a summary of the changes in annual depreciation rates and accruals applicable to Corporate Assets devoted to MPS operations.

*Rates and Accruals*

| Function | Accrual Rate | | | 2003 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| | Present | Proposed | Difference | Present | Proposed | Difference |
| General Plant | 1.39% | 11.86% | 10.47% | $732,797 | $6,256,676 | $5,523,879 |

TABLE 1. CORPORATE ASSETS – MPS RATES AND ACCRUALS

The composite accrual rate recommended for MPS operations is 11.86 percent. The current equivalent rate is 1.39 percent. The recommended change in the composite rate is an increase of 10.47 percentage points.

A continued application of rates currently adopted for MPS would provide annualized depreciation expense of $732,797 compared to an annualized expense of $6,256,676 using the rates developed in this study. The proposed expense increase is $5,523,879. Of this increase, $1,985,795 represents amortization of a $12,229,229 reserve imbalance. The remaining portion of the increase is attributable to recommended changes in service life parameters.

Of the 10 primary accounts included in the 2003 study, a rate reduction is recommended for one account and rate increases for nine accounts.

Table 2 provides a summary of the changes in annual depreciation rates and accruals applicable to Corporate Assets devoted to SJLP operations.

| Function | Accrual Rate | | | 2003 Annualized Accrual | | |
|---|---|---|---|---|---|---|
| | Present | Proposed | Difference | Present | Proposed | Difference |
| General Plant | 1.41% | 11.97% | 10.56% | $241,203 | $2,046,124 | $1,804,921 |

TABLE 2. CORPORATE ASSETS – SJLP RATES AND ACCRUALS

The composite accrual rate recommended for SJLP operations is 11.97 percent. The current equivalent rate is 1.41 percent. The recommended change in the composite rate is an increase of 10.56 percentage points.

A continued application of rates currently adopted for SJLP would provide annualized depreciation expense of $241,203 compared to an annualized expense of $2,046,124 using the rates developed in this study. The proposed expense increase is $1,804,921. Of this increase, $663,511 represents amortization of a $4,020,601 reserve imbalance. The remaining portion of the increase is attributable to recommended changes in service life parameters.

Of the 10 primary accounts included in the 2003 study, a rate reduction is recommended for one account and rate increases for nine accounts.

# COMPANY PROFILE

## GENERAL

Aquila began as Green Light and Power Company in 1917. In 1922 the name was changed to West Missouri Power Company and in 1927 was merged with Missouri Public Service Company, adopting the Missouri Public Service Company name. Over the ensuing years, the Company continued to grow and acquire other utilities. In 1985, the Company name was changed to UtiliCorp United to better describe the numerous areas of the country being served by the Company. In 2002, the Company changed its name to Aquila.

Based in Kansas City, Missouri, Aquila operates electric and natural gas distribution networks serving customers in seven states, Canada, the United Kingdom, and Australia. The Company also owns and operates power generation assets.

At June 30, 2002, Aquila had total assets of $11.9 billion. Aquila Corporate Assets included in this study are used to provide corporate support to the networks and power generation asset groups. Corporate Assets and associated costs are distributed to other business units based on annually adjusted allocation factors.

# STUDY PROCEDURE

## INTRODUCTION

The purpose of a depreciation study is to analyze the mortality characteristics, net salvage rates and adequacy of the depreciation accrual and recorded depreciation reserve for each rate category. This study provides the foundation and documentation for recommended changes in the depreciation accrual rates used for Aquila Corporate Assets – MPS and Aquila Corporate Assets - SJLP.

## SCOPE

The steps involved in conducting a depreciation study can be grouped into five major tasks:

- Data Collection;
- Life Analysis and Estimation;
- Net Salvage Analysis;
- Depreciation Reserve Analysis; and
- Development of Accrual Rates.

The scope of the 2003 study of Corporate Assets included a consideration of each of these tasks as described below.

## DATA COLLECTION

The minimum database required to conduct a statistical life study consists of a history of vintage year additions and unaged activity year retirements, transfers and adjustments. These data must be appropriately adjusted for transfers, sales and other plant activity that would otherwise bias the measured service life of normal retirements. The age distribution of surviving plant for unaged data can be estimated by distributing the plant in service at the beginning of the study year to prior vintages in proportion to the theoretical amount surviving from a projection or survivor curve identified in the life study. The statistical methods of life analysis used to examine unaged plant data are known as *semi-actuarial techniques*.

A far more extensive database is required to apply the statistical methods of life analysis known as *actuarial techniques*. Plant data used in an actuarial life study most often include the age distribution of surviving plant at the beginning of the study year and the vintage year, activity year, and dollar amounts associated with normal retirements, reimbursed retirements, sales, abnormal retirements, transfers, corrections, and extraordinary adjustments over a series of prior activity years. An actuarial database may include the age distribution of surviving plant at the beginning of the earliest activity year, rather than at the beginning of the study year. Plant additions, however, must be included in a database containing an opening age distribution to derive aged survivors at the beginning of the study year. All activity year transactions with vintage year identification are

coded and stored in a data file. The data are processed by a computer program and transaction summary reports are created in a format reconcilable to the Company's official plant records. The availability of such detailed information is dependent upon an accounting system that supports aged property records. The Continuing Property Record (CPR) system used by Aquila for Corporate Assets provides aged transactions for all plant accounts.

The database used in the 2003 study was compiled from the current CPR system installed by Aquila in October 1998. The database was provided to Foster Associates in an electronic format containing activity year transactions over the period 1999 through September 30, 2002. Forecasted plant additions and depreciation accruals were provided over the period October 1 through December 31, 2002.

Transaction codes are used to describe the nature of the detailed accounting activity extracted from the CPR. Transaction codes for plant additions, for example, are used to distinguish normal additions from acquisitions, purchases, reimbursements and adjustments. Similar transaction codes are used to distinguish normal retirements from sales, reimbursements, abnormal retirements and adjustments. Transaction codes are also assigned to transfers, capital leases and other accounting activity which should be considered in a depreciation study.

The database was initially constructed to provide a reverse calculation of the historical arrangement over the period 1998–2002 for each account. Age distributions of plant exposed to retirement at the beginning of each activity year were obtained by adding (or subtracting) transaction amounts to the coded age distribution of surviving plant at the end of 2002. Plant additions for each activity year and age distributions of surviving plant at the beginning of 1999 derived from these transactions were subsequently coded and added to the database. The age distribution of surviving plant at the end of 2002 was then removed from the database. This conversion of the database from a reverse construction to a forward construction of the historical arrangement was made to facilitate maintaining the database for future depreciation studies. Future activity-year transactions (including plant additions) can now be appended to the database without removing or adjusting prior coded transactions.

The accuracy and completeness of the assembled data base was verified by Foster Associates for activity years 1999 through September 30, 2002 by comparing the beginning plant balance, additions, retirements, transfers and adjustments, and the ending plant balance derived for each activity year to the official plant records of the Company. Forecasted plant and reserve activity could not be reconciled to any official plant records of the Company.

## LIFE ANALYSIS AND ESTIMATION

Life analysis and life estimation are terms used to describe a two-step procedure for estimating the mortality characteristics of a plant category. The first step (*i.e.*, life analysis) is largely mechanical and primarily concerned with history. Statistical techniques are used in this step to obtain a mathematical description of the forces of retirement acting upon a plant category and an estimate of service life known as the *projection life* of the account. The mathematical expressions used to describe these life characteristics are known as *survival functions* or *survivor curves*.

The second step (*i.e.*, life estimation) is concerned with predicting the expected remaining life of property units still exposed to the forces of retirement. It is a process of blending the results of a life analysis with informed judgment (including expectations about the future) to obtain an appropriate projection life and curve. The amount of weight given to the life analysis will depend upon the extent to which past retirement experience is considered descriptive of the future.

The analytical methods used in a life analysis are broadly classified as actuarial and semi-actuarial techniques. Actuarial techniques can be applied to plant accounting records that reveal the age of a plant asset at the time of its retirement from service. Stated differently, each property unit must be identifiable by date of installation and age at retirement. Semi-actuarial techniques can be used to derive service life and dispersion estimates when age identification of retirements is not maintained or readily available.

An actuarial life analysis program designed and developed by Foster Associates was used in this study. The first step in an actuarial analysis involves a systematic treatment of the available data for the purpose of constructing an observed life table. A complete life table contains the life history of a group of property units installed during the same accounting period and various probability relationships derived from the data. A life table is arranged by age-intervals (usually defined as one year) and shows the number of units (or dollars) entering and leaving each age-interval and probability relationships associated with this activity. A life table minimally shows the age of each survivor and the age of each retirement from a group of units installed in a given accounting year.

A life table can be constructed in any one of at least five alternative methods. The annual-rate or retirement-rate method was used in this study. The mechanics of the annual-rate method require the calculation of a series of ratios obtained by dividing the number of units (or dollars) surviving at the beginning of an age interval into the number of units (or dollars) retired during the same interval. This ratio (or set of ratios) is commonly referred to as retirement ratios. The cumulative proportion surviving is obtained by multiplying the retirement ratio for each age interval by the proportion of the original group surviving at the beginning of

that age interval and subtracting this product from the proportion surviving at the beginning of the same interval. The annual-rate method is applied to multiple groups or vintages by combining the retirements and/or survivors of like ages for each vintage included in the analysis.

The second step in an actuarial analysis involves graduating or smoothing the observed life table and fitting the smoothed series to a family of survival functions. The functions used in this study are the Iowa-type curves which were mathematically derived from the Pearson frequency curve family. The observed life table was smoothed by a weighted least-squares procedure in which first, second and third degree polynomials were fitted to the observed retirement ratios. The resulting function can be expressed as a survivorship function which is numerically integrated to obtain an estimate of the average service life. The smoothed survivorship function is then fitted by a weighted least-squares procedure to the Iowa-curve family to obtain a mathematical description or classification of the dispersion characteristics of the data.

The set of computer programs used in this analysis provides multiple rolling-band and shrinking-band analyses of an account. Observation bands are defined for a "retirement era" which restricts the analysis to the retirement activity of all vintages represented by survivors at the beginning of a selected era. In a rolling-band analysis, a year of retirement experience is added to each successive retirement band and the earliest year from the preceding band is dropped. A shrinking-band analysis begins with the total retirement experience available and the earliest year from the preceding band is dropped for each successive band. Rolling and shrinking band analyses are used to detect the emergence of trends in the behavior of the dispersion and average service life.

Options available in the actuarial life analysis program developed by Foster Associates include the width and location of both placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated. The program also provides tabular and graphics output as an aid in the analysis and optionally produces data output files used in the calculation of depreciation accruals.

While actuarial and semi-actuarial statistical methods are well suited to an analysis of plant categories containing a large number of homogeneous units (*e.g.*, mains and services), the concept of retirement dispersion is inappropriate for plant categories composed of major items of plant that will most likely be retired as a single unit. Plant retirements from an integrated system prior to the retirement of the entire facility are more properly viewed as interim retirements that will be re-

placed in order to maintain the integrity of the system. Additionally, plant facilities may be added to the existing system (*i.e.*, interim additions) in order to expand or enhance its productive capacity without extending the service life of the present system. A proper depreciation rate can be developed for an integrated system using a life-span method. All plant accounts were treated as full mortality categories in this study.

Without exception, service life indications were indeterminate from a statistical analysis of the available activity years. Much of the plant activity over the period 1999–2002 consisted of transfers, adjustments, and several large retirements associated with the formation of the Corporate Assets business unit. Service life indications were generally much shorter than either experience or the anticipated future use of the assets would suggest. Absent meaningful indications from the analysis of historical retirement activity, the service-life statistics recommended in this study were based largely on judgment and a consideration of the parameters approved for similar assets managed by other Aquila business units.

## NET SALVAGE ANALYSIS

Depreciation rates designed to achieve the goals and objectives of depreciation accounting will include a parameter for future net salvage and a variable for average net salvage which reflects both realized and future net salvage rates.

An estimate of the net salvage rate applicable to future retirements is most often obtained from an analysis of gross salvage and removal expense realized in the past. An analysis of past experience (including an examination of trends over time) provides an appropriate basis for estimating future salvage and cost of removal. Consideration should also be given, however, to events that may cause deviations from net salvage realized in the past.

Special consideration should also be given to the treatment of insurance proceeds and other forms of third-party reimbursements credited to the depreciation reserve. A properly conducted net salvage study will exclude such activity from the estimate of future parameters and include the activity in the computation of realized and average net salvage rates.

A traditional, historical analysis using a one-year moving average of the ratio of realized salvage and removal expense to the associated retirements was used in this study to a) estimate realized net salvage rates; b) detect the emergence of historical trends; and c) provide a basis for estimating future net salvage rates. Cost of removal and salvage opinions obtained from the Company were blended with judgment and historical indications in developing estimates of the future.

Account 390001 (Structures and Improvements) is the only account for which net salvage has been recorded. Salvage proceeds resulted from the sale infrastructure improvements on developable land. Foster Associates was advised by

Aquila that any future interim salvage from Corporate Assets will, most likely, be offset by removal expense. Accordingly, a future net salvage rate of zero percent is recommended for all Corporate Asset accounts.

The average net salvage rate for Account 390001 was estimated using direct dollar weighting of historical retirements with the historical net salvage rate, and future retirements (*i.e.*, surviving plant) with the estimated future net salvage rate. The computation of the estimated average net salvage rate for this account is shown in Statement D.

## DEPRECIATION RESERVE ANALYSIS

The purpose of a depreciation reserve analysis is to compare the current level of the recorded reserve with the level required to achieve the goals or objectives of depreciation accounting if the amount and timing of future retirements and net salvage are realized as predicted. The difference between the required depreciation reserve and the recorded reserve provides a measurement of the expected excess or shortfall that will remain in the depreciation reserve if corrective action is not taken to eliminate the reserve imbalance.

Unlike a recorded reserve which represents the net amount of depreciation expense charged to previous periods of operations, a theoretical reserve is a measure of the implied reserve requirement at the beginning of a study year if the timing of future retirements and net salvage is in exact conformance with a survivor curve chosen to predict the probable life of plant units still exposed to the forces of retirement. Stated differently, a theoretical depreciation reserve is the difference between the recorded cost of plant presently in service and the sum of the depreciation expense and net salvage that will be charged in the future if plant retirements are distributed over time according to a specified retirement frequency distribution.

The survivor curve used in the calculation of a theoretical depreciation reserve is intended to describe forces of retirement that will be operative in the future. However, retirements caused by forces such as accidents, physical deterioration and changing technology seldom, if ever, remain stable over time. It is unlikely, therefore, that a probability or retirement frequency distribution can be identified that will accurately describe the age of plant retirements over the complete life cycle of a vintage. It is for this reason that depreciation rates should be reviewed periodically and adjusted for observed or expected changes in the parameters chosen to describe the underlying forces of mortality.

Although reserve records are commonly maintained by various account classifications, the total reserve for a company is the most important measure of the status of the company's depreciation practices and procedures. If a company has not previously conducted statistical life studies or considered retirement disper-

sion in setting depreciation rates, it is likely that some accounts will be over-depreciated and other accounts will be under-depreciated relative to a calculated theoretical reserve. Differences between the theoretical reserve and the recorded reserve also will arise as a normal occurrence when service lives, dispersion patterns and net salvage estimates are adjusted in the course of depreciation reviews. It is appropriate, therefore, and consistent with group depreciation theory to periodically redistribute or rebalance the total recorded reserve among the various primary accounts based upon the most recent estimates of retirement dispersion and net salvage rates.

A redistribution of recorded reserves is considered appropriate for Corporate Assets at this time. Although recorded reserves have been maintained by primary account, these reserves were largely ignored in the development of the currently used whole-life accrual rates. The MPS rates adopted for Corporate Assets were established by negotiations and compromise without specifying the projection curve and reserve ratios contemplated in the settled rates. The failure to address prior reserve imbalances produces an added dimension of instability in accrual rates beyond the variability attributable to the parameters estimated in the current study. A redistribution of the recorded reserve is necessary, therefore, to develop an initial reserve balance for each primary account consistent with the age distributions and estimates of retirement dispersion developed in this study. Reserves should also be realigned in this study to reflect implementation of the vintage group procedure.

A redistribution of the recorded reserve was achieved for Corporate Assets by multiplying the calculated reserve for each primary account within the general function by the ratio of the function total recorded reserve to the function total calculated reserve. The sum of the redistributed reserves within the general function is, therefore, equal to the function total recorded depreciation reserve before the redistribution.

Statement C (page 19) provides a comparison of the computed and recorded reserves forecasted for Corporate Assets – MPS on December 31, 2002. The recorded reserve is $2,051,206, or 3.9 percent of the depreciable plant investment. The corresponding computed reserve is $14,280,435 or 27.1 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbalance of $12,229,229 will be amortized over the composite weighted-average remaining life of each rate category.

Statement C (page 26) provides a comparison of the computed and recorded reserves forecasted for Corporate Assets – SJLP on December 31, 2002. The recorded reserve is $697,985, or 4.1 percent of the depreciable plant investment. The corresponding computed reserve is $4,718,586 or 27.6 percent of the depreciable plant investment. A proportionate amount of the measured reserve imbal-

ance of $4,020,601 will be amortized over the composite weighted-average remaining life of each rate category.

## DEVELOPMENT OF ACCRUAL RATES

The goal or objective of depreciation accounting is cost allocation over the economic life of an asset in proportion to the consumption of service potential. Ideally, the cost of an asset—which represents the cost of obtaining a bundle of service units—should be allocated to future periods of operation in proportion to the amount of service potential expended during an accounting interval. The service potential of an asset is the present value of future net revenue (*i.e.*, revenue less expenses exclusive of depreciation and other non-cash expenses) or cash inflows attributable to the use of that asset alone.

Cost allocation in proportion to the consumption of service potential is often approximated by the use of depreciation methods employing time rather than net revenue as the apportionment base. Examples of time-based methods include sinking-fund, straight-line, declining balance, and sum-of-the-years' digits. The advantage of using a time-based method is that it does not require an estimate of the remaining amount of service capacity an asset will provide or the amount of capacity actually consumed during an accounting interval. Using a time-based allocation method, however, does not change the goal of depreciation accounting. If it is predictable that the net revenue pattern of an asset will either decrease or increase over time, then an accelerated or decelerated time-based method should be used to approximate the rate at which service potential is actually consumed.

The time period over which the cost of an asset will be allocated to operations is determined by the combination of a procedure and a technique. A depreciation procedure describes the level of grouping or sub-grouping of assets within a plant category. The broad group, vintage group, equal-life group, and item or unit are a few of the more widely used procedures. A depreciation technique describes the life statistic used in a depreciation system. The whole life and remaining life (or expectancy) are the most common techniques.

Depreciation rates recommended in this study were developed using a system composed of the straight-line method, vintage group procedure, whole-life technique with amortization of reserve imbalances over the estimated remaining life of each rate category. This formulation of the accrual rate is equivalent to a straight-line method, vintage group procedure, remaining-life technique. It is the opinion of Foster Associates that this system will remain appropriate for Corporate Assets, provided depreciation studies are conducted periodically and parameters are routinely adjusted to reflect changing operating conditions.

# STATEMENTS

## INTRODUCTION

This section provides a comparative summary of depreciation rates, annual depreciation accruals, recorded and computed depreciation reserves, and present and proposed service life statistics recommended for Corporate Assets – MPS and Corporate Assets - SJLP. The content of these statements is briefly described below.

- Statement A provides a comparative summary of present and proposed annual depreciation rates using the vintage group procedure, whole-life technique with amortization of reserve imbalances.
- Statement B provides a comparison of the present and proposed 2003 annualized depreciation accruals based upon the rates developed in Statement A.
- Statement C provides a comparison of the recorded, computed and re-distributed reserves for each rate category at December 31, 2002.
- Statement D provides a summary of the components used to obtain a weighted average net salvage rate for each plant account.
- Statement E provides a comparative summary of present and proposed parameters including projection life, projection curve and future net salvage rates. The statement also contains present and proposed statistics including average service life, average remaining life, and average net salvage rates.
- Statement F provides plant and reserve allocation factors and the derivation of plant and reserves allocated to Missouri operations.

Present depreciation accruals shown on Statement B are the product of the plant investment (Column B) and the present depreciation rates (Column D) shown on Statement A. These are the current Missouri rates used by the Company for the mix of investments estimated at December 31, 2002. Similarly, proposed depreciation accruals shown on Statement B are the product of the plant investment and the proposed depreciation rates (Column I) shown on Statement A. Proposed accrual rates shown on Statement A are given by:

$$Accrual\ Rate = \frac{1.0 - Average\ Net\ Salvage}{Average\ Life} + \frac{Computed\ Reserve - Recorded\ Reserve}{Remaining\ Life}$$

where *Average Net Salvage*, *Computed Reserve* and *Recorded Reserve* are expressed in percent. This formulation of the accrual rate is equivalent to

$$Accrual\ Rate = \frac{1.0 - Reserve\ Ratio - Future\ Net\ Salvage\ Rate}{Remaining\ Life}.$$

*Statements A through F*

**Aquila Corporate Assets - MPS** Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| ***GENERAL PLANT*** | | | | | | | | |
| 390001 Structures and Improvements | | | 2.22% | 44.97 | 2.9% | 2.16% | 0.28% | 2.44% |
| 391001 *Office Furniture and Equipment* | | | 7.69% | 19.95 | | 5.01% | 0.77% | 5.78% |
| 391003 Computers - Hardware | | | | 4.95 | | 20.20% | 12.96% | 33.16% |
| 391004 Computer Software | | | | 9.85 | | 10.15% | 3.59% | 13.74% |
| 391005 Computer Systems Development | | | | 9.37 | | 10.67% | 9.20% | 19.87% |
| 392004 Trans. Equip. - Medium Trucks | | | 11.11% | 11.27 | | 8.87% | 39.46% | 48.33% |
| 394000 Tools, Shop & Garage Equipment | | | | 20.39 | | 4.90% | 2.80% | 7.70% |
| 395000 Laboratory Equipment | | | | 15.11 | | 6.62% | 8.63% | 15.25% |
| 397000 *Communication Equipment* | | | 5.00% | 9.97 | | 10.03% | 5.98% | 16.01% |
| 398000 Miscellaneous Equipment | | | 5.56% | 10.07 | | 9.93% | 6.65% | 16.58% |
| **Total General Plant** | | | 1.39% | 12.27 | 0.7% | 8.09% | 3.77% | 11.86% |

**Aquila Corporate Assets - MPS** Statement B

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/02 Plant Investment | 2003 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | Present | Proposed | | | Difference |
| | | | Whole-Life | Amortization | Total | |
| A | B | C | D | E | F=D+E | G=F-C |
| **GENERAL PLANT** | | | | | | |
| 390001 Structures and Improvements | $16,586,756 | $368,226 | $358,274 | $46,443 | $404,717 | $36,491 |
| 391001 Office Furniture and Equipment | 3,283,822 | 252,526 | 164,519 | 25,286 | 189,805 | (62,721) |
| 391003 Computers - Hardware | 3,847,681 | | 777,232 | 498,659 | 1,275,891 | 1,275,891 |
| 391004 Computer Software | 21,104,602 | | 2,142,117 | 757,655 | 2,899,772 | 2,899,772 |
| 391005 Computer Systems Development | 5,636,230 | | 601,386 | 518,533 | 1,119,919 | 1,119,919 |
| 392004 Trans. Equip. - Medium Trucks | 5,688 | 632 | 505 | 2,244 | 2,749 | 2,117 |
| 394000 Tools, Shop & Garage Equipment | 83,065 | | 4,070 | 2,326 | 6,396 | 6,396 |
| 395000 Laboratory Equipment | 16,201 | | 1,073 | 1,398 | 2,471 | 2,471 |
| 397000 Communication Equipment | 2,065,696 | 103,285 | 207,189 | 123,529 | 330,718 | 227,433 |
| 398000 Miscellaneous Equipment | 146,187 | 8,128 | 14,516 | 9,722 | 24,238 | 16,110 |
| **Total General Plant** | $52,775,928 | $732,797 | $4,270,881 | $1,985,795 | $6,256,676 | $5,523,879 |

**Aquila Corporate Assets - MPS**
Depreciation Reserve Summary
Vintage Group Procedure
December 31, 2002

Statement C

| Account Description | Plant Investment | Recorded Reserve | | | | Computed Reserve | | Redistributed Reserve | |
|---|---|---|---|---|---|---|---|---|---|
| | | Allocated | Adjustment | Total | Ratio | Amount | Ratio | Amount | Ratio |
| A | B | C | D | E=C+D | F=E/B | G | H=G/B | I | J=I/B |
| **GENERAL PLANT** | | | | | | | | | |
| 390001 Structures and Improvements | $16,586,756 | $1,126,697 | ($28,659) | $1,098,038 | 6.62% | $2,175,038 | 13.11% | $312,417 | 1.88% |
| 391001 Office Furniture and Equipment | 3,283,822 | 289,291 | 3,928 | 293,219 | 8.93% | 500,392 | 15.24% | 71,875 | 2.19% |
| 391003 Computers - Hardware | 3,847,681 | (465,078) | (372,863) | (837,941) | -21.78% | 1,647,896 | 42.83% | 236,700 | 6.15% |
| 391004 Computer Software | 21,104,602 | 2,608,430 | (2,106,578) | 501,852 | 2.38% | 6,170,686 | 29.24% | 886,342 | 4.20% |
| 391005 Computer Systems Development | 5,636,230 | 1,249,231 | (598,233) | 650,998 | 11.55% | 2,827,138 | 50.16% | 406,083 | 7.20% |
| 392004 Trans. Equip. - Medium Trucks | 5,688 | (2,813) | (144) | (2,957) | -51.98% | 4,769 | 83.85% | 685 | 12.04% |
| 394000 Tools, Shop & Garage Equipment | 83,065 | 66,090 | (4,743) | 61,347 | 73.85% | 33,161 | 39.92% | 4,763 | 5.73% |
| 395000 Laboratory Equipment | 16,201 | 1,867 | (614) | 1,253 | 7.74% | 9,778 | 60.36% | 1,405 | 8.67% |
| 397000 Communication Equipment | 2,065,696 | 220,960 | (10,003) | 210,957 | 10.21% | 847,412 | 41.02% | 121,720 | 5.89% |
| 398000 Miscellaneous Equipment | 146,187 | 74,307 | 133 | 74,440 | 50.92% | 64,165 | 43.89% | 9,217 | 6.30% |
| **Total General Plant** | $52,775,928 | $5,168,982 | ($3,117,776) | $2,051,206 | 3.89% | $14,280,435 | 27.06% | $2,051,206 | 3.89% |

**Aquila Corporate Assets - MPS**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average Rate |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| **GENERAL PLANT** | | | | | | | | | |
| 390001 Structures and Improvements | $17,730,438 | $1,143,682 | $16,586,756 | 44.3% | | $506,651 | | $506,651 | 2.9% |
| 391001 Office Furniture and Equipment | 4,973,263 | 1,689,441 | 3,283,822 | | | | | | |
| 391003 Computers - Hardware | 15,924,258 | 12,076,577 | 3,847,681 | | | | | | |
| 391004 Computer Software | 26,128,438 | 5,023,836 | 21,104,602 | | | | | | |
| 391005 Computer Systems Development | 8,018,639 | 2,382,409 | 5,636,230 | | | | | | |
| 392004 Trans. Equip. - Medium Trucks | 11,159 | 5,471 | 5,688 | | | | | | |
| 394000 Tools, Shop & Garage Equipment | 112,696 | 29,631 | 83,065 | | | | | | |
| 395000 Laboratory Equipment | 29,654 | 13,453 | 16,201 | | | | | | |
| 397000 Communication Equipment | 2,534,514 | 468,818 | 2,065,696 | | | | | | |
| 398000 Miscellaneous Equipment | 214,264 | 68,077 | 146,187 | | | | | | |
| **Total General Plant** | $75,677,324 | $22,901,396 | $52,775,928 | 2.2% | | $506,651 | | $506,651 | 0.7% |

**Aquila Corporate Assets - MPS**
Proposed Parameters
Vintage Group Procedure

Statement E

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Average Salvage | Future Salvage | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Average Salvage | Future Salvage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| **GENERAL PLANT** | | | | | | | | | | | | |
| 390001 Structures and Improvements | | | | | | | 45.00 | R5 | 44.97 | 40.24 | 2.9 | |
| 391001 Office Furniture and Equipment | | | | | | | 20.00 | L1.5 | 19.95 | 16.91 | | |
| 391003 Computers - Hardware | | | | | | | 5.00 | R4 | 4.95 | 2.83 | | |
| 391004 Computer Software | | | | | | | 10.00 | R4 | 9.85 | 6.97 | | |
| 391005 Computer Systems Development | | | | | | | 10.00 | R4 | 9.37 | 4.67 | | |
| 392004 Trans. Equip. - Medium Trucks | | | | | | | 10.00 | S3 | 11.27 | 1.82 | | |
| 394000 Tools, Shop & Garage Equipment | | | | | | | 20.00 | L1.5 | 20.39 | 12.25 | | |
| 395000 Laboratory Equipment | | | | | | | 15.00 | R4 | 15.11 | 5.99 | | |
| 397000 Communication Equipment | | | | | | | 10.00 | S2 | 9.97 | 5.88 | | |
| 398000 Miscellaneous Equipment | | | | | | | 10.00 | S2 | 10.07 | 5.65 | | |
| **Total General Plant** | | | | | | | | | 12.27 | 8.11 | 0.7 | |

**Aquila Corporate Assets - MPS**
Jurisdictional Allocations

Statement F

| Account Description | Plant Investment | | | Depreciation Reserve | | |
|---|---|---|---|---|---|---|
| | Corporate | Factor | Allocated | Corporate | Factor | Allocated |
| A | B | C | D=B-C | B | C | D=B-C |
| **GENERAL PLANT** | | | | | | |
| 390001 Structures and Improvements | $65,250,810 | 25.42% | $16,586,756 | $4,634,704 | 24.31% | $1,126,697 |
| 391001 Office Furniture and Equipment | 12,933,525 | 25.39% | 3,283,822 | 1,137,150 | 25.44% | 289,291 |
| 391003 Computers - Hardware | 15,795,080 | 24.36% | 3,847,681 | (2,091,178) | 22.24% | (465,078) |
| 391004 Computer Software | 98,850,597 | 21.35% | 21,104,602 | 12,805,254 | 20.37% | 2,608,430 |
| 391005 Computer Systems Development | 29,022,811 | 19.42% | 5,636,230 | 6,432,704 | 19.42% | 1,249,231 |
| 392004 Trans. Equip. - Medium Trucks | 22,305 | 25.50% | 5,688 | (11,030) | 25.50% | (2,813) |
| 394000 Tools, Shop & Garage Equipment | 326,258 | 25.46% | 83,065 | 259,176 | 25.50% | 66,090 |
| 395000 Laboratory Equipment | 63,534 | 25.50% | 16,201 | 7,321 | 25.50% | 1,867 |
| 397000 Communication Equipment | 4,972,787 | 41.54% | 2,065,696 | 523,850 | 42.18% | 220,960 |
| 398000 Miscellaneous Equipment | 594,983 | 24.57% | 146,187 | 304,289 | 24.42% | 74,307 |
| **Total General Plant** | $227,832,690 | 23.16% | $52,775,928 | $24,002,240 | 21.54% | $5,168,982 |

*Statements A through F*

**Aquila Corporate Assets - SJLP** Statement A

Comparison of Present and Proposed Accrual Rates
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | Present Avg. Life | Present Net Salvage | Present Accrual Rate | Proposed Avg. Life | Proposed Avg. Net Salvage | Proposed W/L Rate | Proposed Amorti-zation | Proposed R/L Rate |
|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I=G+H |
| **GENERAL PLANT** | | | | | | | | |
| 390001 Structures and Improvements | | | 2.22% | 44.97 | 2.9% | 2.16% | 0.28% | 2.44% |
| 391001 Office Furniture and Equipment | | | 7.69% | 19.95 | | 5.01% | 0.77% | 5.78% |
| 391003 Computers - Hardware | | | | 4.95 | | 20.20% | 12.90% | 33.10% |
| 391004 Computer Software | | | | 9.85 | | 10.15% | 3.58% | 13.73% |
| 391005 Computer Systems Development | | | | 9.37 | | 10.67% | 9.15% | 19.82% |
| 392004 Trans. Equip. - Medium Trucks | | | 11.11% | 11.27 | | 8.87% | 39.26% | 48.13% |
| 394000 Tools, Shop & Garage Equipment | | | | 20.39 | | 4.90% | 2.78% | 7.68% |
| 395000 Laboratory Equipment | | | | 15.11 | | 6.62% | 8.58% | 15.20% |
| 397000 Communication Equipment | | | 5.00% | 9.97 | | 10.03% | 5.94% | 15.97% |
| 398000 Miscellaneous Equipment | | | 5.56% | 10.07 | | 9.93% | 6.62% | 16.55% |
| **Total General Plant** | | | 1.41% | 12.28 | 0.7% | 8.09% | 3.88% | 11.97% |

**Aquila Corporate Assets - SJLP**

Statement B

Comparison of Present and Proposed Accruals
Present: BG Procedure / WL Technique
Proposed: VG Procedure / RL Technique

| Account Description | 12/31/02 Plant Investment | 2003 Annualized Accrual | | | | |
|---|---|---|---|---|---|---|
| | | Present | Proposed | | | |
| | | | Whole-Life | Amortization | Total | Difference |
| A | B | C | D | E | F=D+E | G=F-C |
| **GENERAL PLANT** | | | | | | |
| 390001 Structures and Improvements | $5,376,667 | $119,362 | $116,136 | $15,055 | $131,191 | $11,829 |
| *391001 Office Furniture and Equipment* | *1,064,429* | *81,855* | *53,328* | *8,196* | *61,524* | *(20,331)* |
| 391003 Computers - Hardware | 1,222,539 | | 246,953 | 157,707 | 404,660 | 404,660 |
| 391004 Computer Software | 6,356,093 | | 645,143 | 227,549 | 872,692 | 872,692 |
| *391005 Computer Systems Development* | *2,249,268* | | *239,997* | *205,808* | *445,805* | *445,805* |
| 392004 Trans. Equip. - Medium Trucks | 1,851 | 206 | 164 | 727 | 891 | 685 |
| 394000 Tools, Shop & Garage Equipment | 27,014 | | 1,324 | 751 | 2,075 | 2,075 |
| *395000 Laboratory Equipment* | *5,273* | | *349* | *452* | *801* | *801* |
| 397000 Communication Equipment | 742,934 | 37,147 | 74,516 | 44,131 | 118,647 | 81,500 |
| 398000 Miscellaneous Equipment | 47,361 | 2,633 | 4,703 | 3,135 | 7,838 | 5,205 |
| ***Total General Plant*** | $17,093,429 | $241,203 | $1,382,613 | $663,511 | $2,046,124 | $1,804,921 |

**Aquila Corporate Assets - SJLP**
*Depreciation Reserve Summary*
Vintage Group Procedure
December 31, 2002

Statement C

| Account Description | Plant Investment | Recorded Reserve | | | | Computed Reserve | | Redistributed Reserve | |
|---|---|---|---|---|---|---|---|---|---|
| | | Allocated | Adjustment | Total | Ratio | Amount | Ratio | Amount | Ratio |
| A | B | C | D | E=C+D | F=E/B | G | H=G/B | I | J=I/B |
| **GENERAL PLANT** | | | | | | | | | |
| 390001 Structures and Improvements | $5,376,667 | $364,751 | ($9,414) | $355,337 | 6.61% | $705,048 | 13.11% | $104,292 | 1.94% |
| 391001 Office Furniture and Equipment | 1,064,429 | 93,701 | 1,205 | 94,906 | 8.92% | 162,199 | 15.24% | 23,993 | 2.25% |
| 391003 Computers - Hardware | 1,222,539 | (149,101) | (120,570) | (269,671) | -22.06% | 523,592 | 42.83% | 77,451 | 6.34% |
| 391004 Computer Software | 6,356,093 | 795,206 | (654,649) | 140,557 | 2.21% | 1,858,431 | 29.24% | 274,904 | 4.33% |
| 391005 Computer Systems Development | 2,249,268 | 498,535 | (241,384) | 257,151 | 11.43% | 1,128,235 | 50.16% | 166,891 | 7.42% |
| 392004 Trans. Equip. - Medium Trucks | 1,851 | (915) | (48) | (963) | -52.02% | 1,552 | 83.85% | 230 | 12.40% |
| 394000 Tools, Shop & Garage Equipment | 27,014 | 21,512 | (1,550) | 19,962 | 73.90% | 10,784 | 39.92% | 1,595 | 5.91% |
| 395000 Laboratory Equipment | 5,273 | 608 | (201) | 407 | 7.72% | 3,183 | 60.36% | 471 | 8.93% |
| 397000 Communication Equipment | 742,934 | 79,625 | (3,439) | 76,186 | 10.25% | 304,774 | 41.02% | 45,083 | 6.07% |
| 398000 Miscellaneous Equipment | 47,361 | 24,069 | 43 | 24,112 | 50.91% | 20,788 | 43.89% | 3,075 | 6.49% |
| **Total General Plant** | $17,093,429 | $1,727,991 | ($1,030,006) | $697,985 | 4.08% | $4,718,586 | 27.60% | $697,985 | 4.08% |

**Aquila Corporate Assets - SJLP**
Average Net Salvage

Statement D

| Account Description | Plant Investment | | | Salvage Rate | | Net Salvage | | | Average Rate |
|---|---|---|---|---|---|---|---|---|---|
| | Additions | Retirements | Survivors | Realized | Future | Realized | Future | Total | |
| A | B | C | D=B-C | E | F | G=E*C | H=F*D | I=G+H | J=I/B |
| **GENERAL PLANT** | | | | | | | | | |
| 390001 Structures and Improvements | $5,747,396 | $370,729 | $5,376,667 | 44.3% | | $164,233 | | $164,233 | 2.9% |
| 391001 Office Furniture and Equipment | 1,612,050 | 547,621 | 1,064,429 | | | | | | |
| 391003 Computers - Hardware | 5,059,678 | 3,837,139 | 1,222,539 | | | | | | |
| 391004 Computer Software | 7,869,127 | 1,513,034 | 6,356,093 | | | | | | |
| 391005 Computer Systems Development | 3,200,023 | 950,755 | 2,249,268 | | | | | | |
| 392004 Trans. Equip. - Medium Trucks | 3,632 | 1,781 | 1,851 | | | | | | |
| 394000 Tools, Shop & Garage Equipment | 36,651 | 9,637 | 27,014 | | | | | | |
| 395000 Laboratory Equipment | 9,652 | 4,379 | 5,273 | | | | | | |
| 397000 Communication Equipment | 911,547 | 168,613 | 742,934 | | | | | | |
| 398000 Miscellaneous Equipment | 69,416 | 22,055 | 47,361 | | | | | | |
| **Total General Plant** | $24,519,172 | $7,425,743 | $17,093,429 | 2.2% | | $164,233 | | $164,233 | 0.7% |

**Aquila Corporate Assets - SJLP**
Proposed Parameters
*Vintage Group Procedure*

Statement E

| Account Description | Present Parameters P-Life/ AYFR | Curve Shape | BG ASL | Rem. Life | Average Salvage | Future Salvage | Proposed Parameters P-Life/ AYFR | Curve Shape | VG ASL | Rem. Life | Average Salvage | Future Salvage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | B | C | D | E | F | G | H | I | J | K | L | M |
| **GENERAL PLANT** | | | | | | | | | | | | |
| 390001 Structures and Improvements | | | | | | | 45.00 | R5 | 44.97 | 40.24 | 2.9 | |
| 391001 Office Furniture and Equipment | | | | | | | 20.00 | L1.5 | 19.95 | 16.91 | | |
| 391003 Computers - Hardware | | | | | | | 5.00 | R4 | 4.95 | 2.83 | | |
| 391004 Computer Software | | | | | | | 10.00 | R4 | 9.85 | 6.97 | | |
| 391005 Computer Systems Development | | | | | | | 10.00 | R4 | 9.37 | 4.67 | | |
| 392004 Trans. Equip. - Medium Trucks | | | | | | | 10.00 | S3 | 11.27 | 1.82 | | |
| 394000 Tools, Shop & Garage Equipment | | | | | | | 20.00 | L1.5 | 20.39 | 12.25 | | |
| 395000 Laboratory Equipment | | | | | | | 15.00 | R4 | 15.11 | 5.99 | | |
| 397000 Communication Equipment | | | | | | | 10.00 | S2 | 9.97 | 5.88 | | |
| 398000 Miscellaneous Equipment | | | | | | | 10.00 | S2 | 10.07 | 5.65 | | |
| **Total General Plant** | | | | | | | | | 12.28 | 8.01 | 0.7 | |

**Aquila Corporate Assets - SJLP**
Jurisdictional Allocations

Statement F

| Account Description | Plant Investment | | | Depreciation Reserve | | |
|---|---|---|---|---|---|---|
| | Corporate | Factor | Allocated | Corporate | Factor | Allocated |
| A | B | C | D=B-C | B | C | D=B-C |
| **GENERAL PLANT** | | | | | | |
| 390001 Structures and Improvements | $65,250,810 | 8.24% | $5,376,667 | $4,634,704 | 7.87% | $364,751 |
| 391001 Office Furniture and Equipment | 12,933,525 | 8.23% | 1,064,429 | 1,137,150 | 8.24% | 93,701 |
| 391003 Computers - Hardware | 15,795,080 | 7.74% | 1,222,539 | (2,091,178) | 7.13% | (149,101) |
| 391004 Computer Software | 98,850,597 | 6.43% | 6,356,093 | 12,805,254 | 6.21% | 795,206 |
| 391005 *Computer Systems Development* | 29,022,811 | 7.75% | 2,249,268 | 6,432,704 | 7.75% | 498,535 |
| 392004 Trans. Equip. - Medium Trucks | 22,305 | 8.30% | 1,851 | (11,030) | 8.30% | (915) |
| 394000 Tools, Shop & Garage Equipment | 326,258 | 8.28% | 27,014 | 259,176 | 8.30% | 21,512 |
| 395000 Laboratory Equipment | 63,534 | 8.30% | 5,273 | 7,321 | 8.30% | 608 |
| 397000 Communication Equipment | 4,972,787 | 14.94% | 742,934 | 523,850 | 15.20% | 79,625 |
| 398000 Miscellaneous Equipment | 594,983 | 7.96% | 47,361 | 304,289 | 7.91% | 24,069 |
| **Total General Plant** | $227,832,690 | 7.50% | $17,093,429 | $24,002,240 | 7.20% | $1,727,991 |

# ANALYSIS

## INTRODUCTION

This section provides an explanation of the supporting schedules developed in the Corporate Assets depreciation study to estimate appropriate projection curves, projection lives and statistics for each rate category. The form and content of the schedules developed for an account depend upon the method of analysis adopted for the category.

This section also includes an example of the supporting schedules developed for Account 390001 – Structures and Improvements as an illustration. Documentation for all other plant accounts is contained in the study work papers. The supporting schedules developed in the Corporate Assets study include:

Schedule A – Generation Arrangement;

Schedule B – Age Distribution;

Schedule C – Unadjusted Plant History;

Schedule D – Adjusted Plant History;

Schedule E – Actuarial Life Analysis;

Schedule F – Graphics Analysis; and

Schedule G – Historical Net Salvage Analysis.

The format and content of these schedules are briefly described below.

## SCHEDULE A – GENERATION ARRANGEMENT

The purpose of this schedule is to obtain appropriate weighted-average life statistics for a rate category. The weighted-average remaining-life is the sum of Column H divided by the sum of Column I. The weighted average life is the sum of Column C divided by the sum of Column I.

It should be noted that the generation arrangement does not include parameters for net salvage. Computed Net Plant (Column C) and Accruals (Column I) must be adjusted for net salvage to obtain a correct measurement of theoretical reserves and annualized depreciation accruals.

The following table provides a description of each column in the generation arrangement.

*Generation Arrangement*

| Column | Title | Description |
|---|---|---|
| A | Vintage | Vintage or placement year of surviving plant. |
| B | Age | Age of surviving plant at beginning of study year. |
| C | Surviving Plant | Actual dollar amount of surviving plant. |
| D | Average Life | Estimated average life of each vintage. This statistic is the sum of the realized life and the unrealized life, which is the product of the remaining life (Column E) and the theoretical proportion surviving. |
| E | Remaining Life | Estimated remaining life of each vintage. |
| F | Net Plant Ratio | Theoretical net plant ratio of each vintage. |
| G | Allocation Factor | A pivotal ratio which determines the amortization period of the difference between the recorded and computed reserve. |
| H | Computed Net Plant | Plant in service less theoretical reserve for each vintage. |
| I | Accrual | Ratio of computed net plant (Column H) and remaining life (Column E). |

TABLE 3. GENERATION ARRANGEMENT

## SCHEDULE B – AGE DISTRIBUTION

This schedule provides the age distribution and realized life of surviving plant shown in Column C of the Generation Arrangement (Schedule A). The format of the schedule depends upon the availability of either aged or unaged data. Derived additions for vintage years older than the earliest activity year in an account for unaged data are obtained from the age distribution of surviving plant at the beginning of the earliest activity year. The amount surviving from these vintages is shown in Column D. The realized life (Column G) is derived from the dollar years of service provided by a vintage over the period of years the vintage has been in service. Plant additions for vintages older than the earliest activity year in an account are represented by the opening balances shown in Column D.

The computed proportion surviving (Column D) for unaged is derived from a computed mortality analysis. The average service life displayed in the title block is the life statistic derived for the most recent activity year, given the derived age distribution at the start of the year and the specified retirement dispersion. The realized life (Column F) is obtained by finding the slope of an SC retirement dispersion, which connects the computed survivors of a vintage (Column E) to the recorded vintage addition (Column B). The realized life is the area bounded by the SC dispersion, the computed proportion surviving and the age of the vintage.

### SCHEDULE C – UNADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by Company. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Activity year totals for unaged data are obtained from a transaction file without vintage identification. Information displayed in the unadjusted plant history is consistent with regulated investments reported internally by the Company.

### SCHEDULE D – ADJUSTED PLANT HISTORY

This schedule provides a summary of recorded plant data extracted from the continuing property records maintained by the Company with sales, transfers, and adjustments appropriately aged for depreciation study purposes. Activity year total amounts shown on this schedule for aged data are obtained from a historical arrangement of the data base in which all plant accounting transactions are identified by vintage and activity year. Ageing of adjusting transactions is achieved using transaction codes that identify an adjusting year associated with the dollar amount of a transaction. Adjusting transactions processed in the adjusted plant history are not aged in the Company's records nor in the unadjusted plant history.

### SCHEDULE E – ACTUARIAL LIFE ANALYSIS

These schedules provide a summary of the dispersion and life indications obtained from an actuarial life analysis for a specified placement band. The observation band (Column A) is specified to produce either a rolling-band or a shrinking-band analysis depending upon the movement of the end points of the band. The degree of censoring (or point of truncation) of the observed life table is shown in Column B for each observation band. The estimated average service life, best fitting Iowa dispersion, and a statistical measure of the goodness of fit are shown for each degree polynomial (First, Second, and Third) fitted to the estimated hazard rates. Options available in the analysis include the width and location of both the placement and observation bands; the interval of years included in a selected rolling or shrinking band analysis; the estimator of the hazard rate (actuarial, conditional proportion retired, or maximum likelihood); the elements to include on the diagonal of a weight matrix (exposures, inverse of age, inverse of variance, or unweighted); and the age at which an observed life table is truncated.

The estimated average service lives (Columns C, F, and I) are flagged with an asterisk if negative hazard rates are indicated by the fitted polynomial. All negative hazard rates are set equal to zero in the calculation of the graduated survivor curve. The Conformance Index (Columns E, H, and K) is the square root of the mean sum-of-squared differences between the graduated survivor curve and

the best fitting Iowa curve. A Conformance Index of zero would indicate a perfect fit.

### SCHEDULE F – GRAPHICS ANALYSIS

This schedule provides a graphics plot of a) the observed proportion surviving for a selected placement and observation band; b) the statistically best fitting Iowa dispersion and derived average service life; and c) the projection curve and projection life selected to describe future forces of mortality.

### SCHEDULE G – HISTORICAL NET SALVAGE ANALYSIS

This schedule provides a moving analysis of the ratio of realized net salvage (Column I) to the associated retirements (Column B). This schedule also provides a moving average analysis of the components of net salvage related to retirements. The ratio of gross salvage to retirements is shown in Column D and the ratio of cost of removal to retirements is shown in Column G.

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 Structures and Improvements**

**Dispersion: 45 - R5**

**Procedure: Vintage Group**



**Generation Arrangement**

| | December 31, 2002 | | | | Net | | | |
|---|---|---|---|---|---|---|---|---|
| Vintage | Age | Surviving Plant | Avg. Life | Rem. Life | Plant Ratio | Alloc. Factor | Computed Net Plant | Accrual |
| A | B | C | D | E | F | G | H=C*F*G | I=H/E |
| 2002 | 0.5 | 4,764,788 | 44.93 | 44.50 | 0.9904 | 1.0000 | 4,718,943 | 106,044 |
| 2001 | 1.5 | 11,441,163 | 45.00 | 43.50 | 0.9667 | 1.0000 | 11,059,792 | 254,248 |
| 2000 | 2.5 | 269,189 | 44.03 | 42.50 | 0.9652 | 1.0000 | 259,811 | 6,113 |
| 1999 | 3.5 | 454,812 | 44.96 | 41.50 | 0.9230 | 1.0000 | 419,810 | 10,116 |
| 1998 | 4.5 | 470,277 | 44.99 | 40.50 | 0.9002 | 1.0000 | 423,335 | 10,453 |
| 1997 | 5.5 | 44,703,387 | 45.00 | 39.50 | 0.8778 | 1.0000 | 39,239,705 | 993,410 |
| 1996 | 6.5 | 42,261 | 44.29 | 38.50 | 0.8693 | 1.0000 | 36,736 | 954 |
| 1995 | 7.5 | 60,988 | 44.41 | 37.50 | 0.8445 | 1.0000 | 51,504 | 1,373 |
| 1994 | 8.5 | 174,587 | 44.15 | 36.50 | 0.8268 | 1.0000 | 144,350 | 3,955 |
| 1993 | 9.5 | 960,384 | 44.75 | 35.50 | 0.7934 | 1.0000 | 761,948 | 21,463 |
| 1992 | 10.5 | 213,692 | 43.88 | 34.50 | 0.7862 | 1.0000 | 168,010 | 4,870 |
| 1991 | 11.5 | 331,302 | 44.36 | 33.50 | 0.7552 | 1.0000 | 250,195 | 7,468 |
| 1990 | 12.5 | 63,200 | 45.00 | 32.50 | 0.7222 | 1.0000 | 45,645 | 1,404 |
| 1989 | 13.5 | 21,086 | 44.12 | 31.50 | 0.7140 | 1.0000 | 15,055 | 478 |
| 1988 | 14.5 | 12,272 | 43.88 | 30.50 | 0.6951 | 1.0000 | 8,530 | 280 |
| 1987 | 15.5 | 364,145 | 44.70 | 29.50 | 0.6599 | 1.0000 | 240,312 | 8,146 |
| 1986 | 16.5 | 140,712 | 44.91 | 28.50 | 0.6346 | 1.0000 | 89,294 | 3,133 |
| 1985 | 17.5 | 81,206 | 44.11 | 27.50 | 0.6235 | 1.0000 | 50,633 | 1,841 |
| 1984 | 18.5 | 642,823 | 44.31 | 26.50 | 0.5981 | 1.0000 | 384,463 | 14,508 |
| 1983 | 19.5 | 38,537 | 43.66 | 25.50 | 0.5841 | 1.0000 | 22,508 | 883 |
| Total | 4.8 | $65,250,810 | 44.97 | 40.24 | 0.8949 | 1.0000 | $58,390,577 | $1,451,140 |

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 *Structures and Improvements***



**Age Distribution**

| Vintage | Age as of 12/31/2002 | Derived Additions | 1999 Opening Balance | Experience to 12/31/2002 Amount Surviving | Proportion Surviving | Realized Life |
|---|---|---|---|---|---|---|
| A | B | C | D | E | F=E/(C+D) | G |
| 2002 | 0.5 | 5,510,775 | | 4,764,788 | 0.8646 | 0.4323 |
| 2001 | 1.5 | 11,441,163 | | 11,441,163 | 1.0000 | 1.5000 |
| 2000 | 2.5 | 756,033 | | 269,189 | 0.3561 | 1.5341 |
| 1999 | 3.5 | 467,241 | | 454,812 | 0.9734 | 3.4601 |
| 1998 | 4.5 | | 473,143 | 470,277 | 0.9939 | 4.4909 |
| 1997 | 5.5 | | 44,705,584 | 44,703,387 | 1.0000 | 5.4999 |
| 1996 | 6.5 | | 53,527 | 42,261 | 0.7895 | 5.7906 |
| 1995 | 7.5 | | 100,987 | 60,988 | 0.6039 | 6.9059 |
| 1994 | 8.5 | | 405,706 | 174,587 | 0.4303 | 7.6455 |
| 1993 | 9.5 | | 1,156,784 | 960,384 | 0.8302 | 9.2453 |
| 1992 | 10.5 | | 842,056 | 213,692 | 0.2538 | 9.3807 |
| 1991 | 11.5 | | 577,917 | 331,302 | 0.5733 | 10.8599 |
| 1990 | 12.5 | | 63,200 | 63,200 | 1.0000 | 12.5000 |
| 1989 | 13.5 | | 51,047 | 21,086 | 0.4131 | 12.6196 |
| 1988 | 14.5 | | 48,310 | 12,272 | 0.2540 | 13.3810 |
| 1987 | 15.5 | | 454,659 | 364,145 | 0.8009 | 15.2014 |
| 1986 | 16.5 | | 149,572 | 140,712 | 0.9408 | 16.4111 |
| 1985 | 17.5 | | 201,245 | 81,206 | 0.4035 | 16.6053 |
| 1984 | 18.5 | | 1,175,737 | 642,823 | 0.5467 | 17.8086 |
| 1983 | 19.5 | | 183,079 | 38,537 | 0.2105 | 18.1614 |
| 1978 | 24.5 | | 40,187 | | 0.0000 | 21.0000 |
| 1977 | 25.5 | | 19,827 | | 0.0000 | 22.0000 |
| 1976 | 26.5 | | 938 | | 0.0000 | 23.0000 |
| 1975 | 27.5 | | 14,345 | | 0.0000 | 24.0000 |
| 1973 | 29.5 | | 959 | | 0.0000 | 26.0000 |
| 1971 | 31.5 | | 1,765 | | 0.0000 | 28.0000 |
| 1969 | 33.5 | | 2,940 | | 0.0000 | 30.0000 |
| 1968 | 34.5 | | 353 | | 0.0000 | 31.0000 |
| 1967 | 35.5 | | 1,464 | | 0.0000 | 32.0000 |
| 1966 | 36.5 | | 1,832 | | 0.0000 | 33.0000 |
| 1965 | 37.5 | | 284 | | 0.0000 | 34.0000 |
| 1962 | 40.5 | | 291 | | 0.0000 | 37.0000 |
| 1961 | 41.5 | | 397 | | 0.0000 | 38.0000 |
| 1960 | 42.5 | | 616 | | 0.0000 | 39.0000 |
| 1959 | 43.5 | | 9,131 | | 0.0000 | 40.0000 |
| 1958 | 44.5 | | 33,889 | | 0.0000 | 41.0000 |
| 1957 | 45.5 | | 802,970 | | 0.0000 | 42.0295 |
| Total | | $18,175,213 | $51,574,740 | $65,250,810 | 0.9355 | |

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 Structures and Improvements**



**Unadjusted Plant History**

| Year | Beginning Balance | Additions | Retirements | Sales, Transfers & Adjustments | Ending Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1999 | 45,144,336 | 874,914 | 930,896 | 7,639,934 | 52,728,289 |
| 2000 | 52,728,289 | 1,478,779 | 41,831 | (341,431) | 53,823,805 |
| 2001 | 53,823,805 | 10,032,260 | 2,780,428 | (2,073,442) | 59,002,195 |
| 2002 | 59,002,195 | 6,994,602 | 745,987 | | 65,250,810 |

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 Structures and Improvements**



**Adjusted Plant History**

| Year | *Beginning* Balance | Additions | Retirements | Sales, Transfers & Adjustments | *Ending* Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1999 | 45,687,028 | 606,983 | 930,896 | 7,639,934 | 53,003,048 |
| 2000 | 53,003,048 | 1,179,195 | 41,831 | (341,431) | 53,798,981 |
| 2001 | 53,798,981 | 11,540,912 | 2,780,428 | (2,073,442) | 60,486,023 |
| 2002 | 60,486,023 | 5,510,775 | 745,987 | | 65,250,810 |

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 Structures and Improvements**



T-Cut: None

Placement Band: 1957-2002

Hazard Function: Proportion Retired

Weighting: Exposures

**Rolling Band Life Analysis**

| | | First Degree | | | Second Degree | | | Third Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Observation Band | Censoring | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index |
| A | B | C | D | E | F | G | H | I | J | K |
| 1999-2002 | 0.0 | 13.3 | L2 * | 1.39 | 16.1 | S1.5 | 0.45 | 16.2 | S1.5 * | 0.43 |

## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

**Account: 390001 Structures and Improvements**



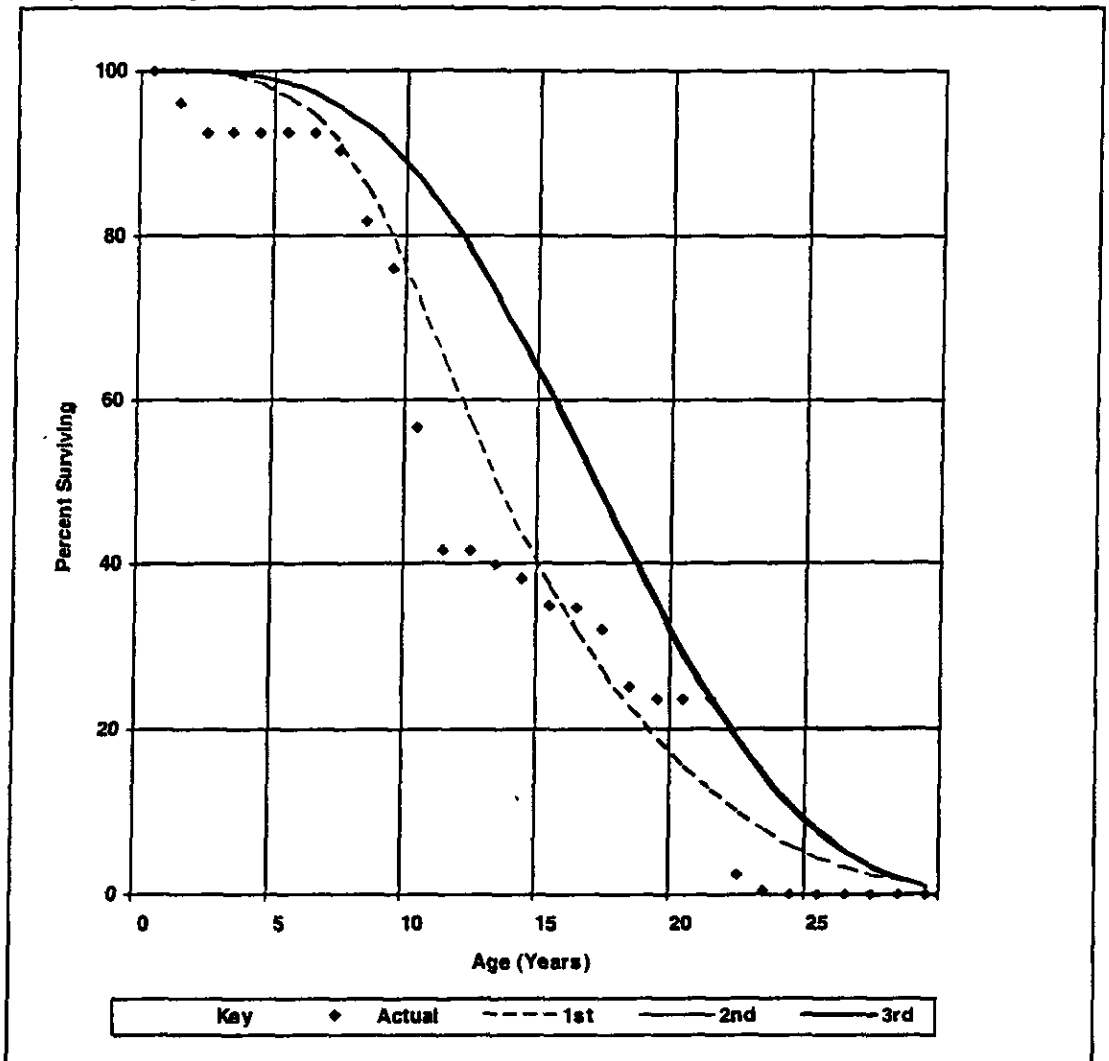
**T-Cut: None**

**Placement Band: 1957-2002 Observation Band: 1999-2002**

***Hazard Function: Proportion Retired***

**Weighting: Exposures**

**Graphics Analysis** **1st: 13.3-L2 2nd: 16.1-S1.5 3rd: 16.2-S1.5**



## AQUILA CORPORATE ASSETS

**General Plant**

**Depreciable General Plant**

***Account: 390001 Structures and Improvements***



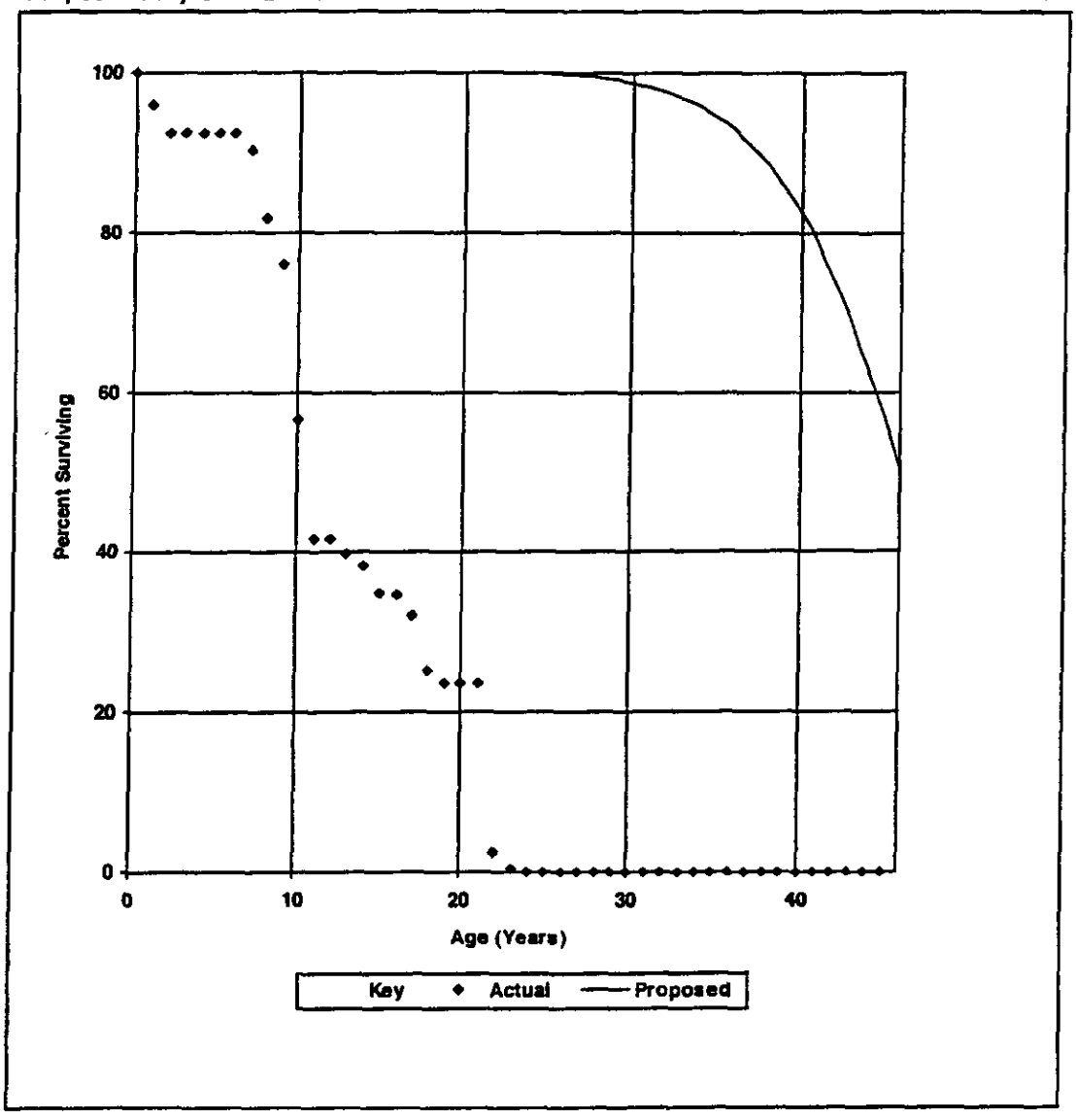
**T-Cut: None**

**Placement Band: 1957-2002**

**Observation Band: 1999-2002**

**45.0-R5**

**Proposed Projection Life Curve**



## AQUILA CORPORATE ASSETS

**General Plant**

***Depreciable General Plant***

**Account: 390001 Structures and Improvements - Owned**



**Unadjusted Net Salvage History**

| | | Gross Salvage | | | Cost of Retiring | | | Net Salvage | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Retirements | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. | Amount | Pct. | 1-Yr Avg. |
| A | B | C | D=C/B | E | F | G=F/B | H | I=C-F | J=I/B | K |
| 1999 | 930,896 | 155 | 0.0 | 0.0 | | 0.0 | 0.0 | 155 | 0.0 | 0.0 |
| 2000 | 41,831 | | 0.0 | 0.0 | | 0.0 | 0.0 | | 0.0 | 0.0 |
| 2001 | 2,780,426 | 1,145,739 | 41.2 | 41.2 | | 0.0 | 0.0 | 1,145,739 | 41.2 | 41.2 |
| 2002 | 745,987 | 847,000 | 113.5 | 113.5 | | 0.0 | 0.0 | 847,000 | 113.5 | 113.5 |
| Total | 4,499,143 | 1,992,894 | 44.3 | | | 0.0 | | 1,992,894 | 44.3 | |

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

| | | |
|---|---|---|
| In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the service provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P area | ) ) ) ) ) ) | Case No. ER-_____ |

County of Lee )
) ss
State of Florida )

AFFIDAVIT OF RONALD E. WHITE

Ronald E. White, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Ronald E. White;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Ronald E. White, Ph.D.

Subscribed and sworn to before me this 11th day of June, 2003.

Notary Public

Margaret E. Lange

My Commission expires:

OFFICIAL NOTARY SEAL
MARGARET E LANGE
NOTARY PUBLIC STATE OF FLORIDA
COMMISSION NO. DD060866
MY COMMISSION EXP. OCT. 19,2005

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

**Distribution Plant**

**Account: 365000 Overhead Conductors and Devices**

**Adjusted Plant History**

| Year | *Beginning* Balance | Additions | Retirements | Sales, Transfers & Adjustments | *Ending* Balance |
|---|---|---|---|---|---|
| A | B | C | D | E | F=B+C-D+E |
| 1980 | 7,699,576 | 371,362 | 69,101 | | 8,001,837 |
| 1981 | 8,001,837 | 637,402 | 49,730 | | 8,589,509 |
| 1982 | 8,589,509 | 599,964 | 76,653 | | 9,112,820 |
| 1983 | 9,112,820 | 575,285 | 73,303 | | 9,614,802 |
| 1984 | 9,614,802 | 473,628 | 37,858 | | 10,050,572 |
| 1985 | 10,050,572 | 904,954 | 125,049 | | 10,830,477 |
| 1986 | 10,830,477 | 745,251 | 94,166 | | 11,481,562 |
| 1987 | 11,481,562 | 748,391 | 104,256 | | 12,125,697 |
| 1988 | 12,125,697 | 521,741 | 46,914 | | 12,600,524 |
| 1989 | 12,600,524 | 910,967 | 74,772 | | 13,436,719 |
| 1990 | 13,436,719 | 1,531,697 | 59,596 | | 14,908,820 |
| 1991 | 14,908,820 | 658,851 | 54,398 | | 15,513,273 |
| 1992 | 15,513,273 | 712,318 | 87,009 | | 16,138,582 |
| 1993 | 16,138,582 | 550,206 | 65,571 | | 16,623,217 |
| 1994 | 16,623,217 | 547,608 | 71,984 | | 17,098,841 |
| 1995 | 17,098,841 | 626,805 | 52,733 | | 17,672,913 |
| 1996 | 17,672,913 | 609,983 | 109,279 | | 18,173,617 |
| 1997 | 18,173,617 | 645,518 | 93,006 | | 18,726,129 |
| 1998 | 18,726,129 | 857,085 | 64,844 | | 19,518,370 |
| 1999 | 19,518,370 | 441,364 | 95,929 | | 19,863,805 |
| 2000 | 19,863,805 | 905,496 | 204,668 | | 20,564,633 |
| 2001 | 20,564,633 | 267,611 | 46,023 | (1,559,335) | 19,226,885 |

## AQUILA NETWORKS - SJLP (ELECTRIC and COMMON)

*Distribution Plant*

**Account: 365000 Overhead Conductors and Devices**

T-Cut: None

Placement Band: 1910-2001

*Hazard Function: Proportion Retired*

Weighting: Exposures

**Rolling Band Life Analysis**

| Observation Band | Censoring | First Degree | | | Second Degree | | | Third Degree | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index | Average Life | Dispersion | Conf. Index |
| A | B | C | D | E | F | G | H | I | J | K |
| 1980-1984 | 0.3 | 64.6 | L0.5 | 0.42 | 52.0 | R1.5 | 1.16 | 50.4 | R2 | 3.08 |
| 1981-1985 | 0.0 | 59.0 | L0.5 | 0.40 | 50.3 | R1.5 | 0.90 | 48.6 | R2 | 4.00 |
| 1982-1986 | 0.0 | 58.3 | L0.5 | 0.43 | 50.7 | R1 | 1.04 | 48.4 | R1.5 | 4.44 |
| 1983-1987 | 0.0 | 58.0 | L0.5 | 0.38 | 52.8 | S0 | 1.15 | 48.9 | R1.5 * | 4.17 |
| 1984-1988 | 0.0 | 60.6 | L0.5 | 0.53 | 55.3 | S0 | 1.10 | 50.5 | R1.5 * | 4.63 |
| 1985-1989 | 0.0 | 61.5 | L0.5 | 0.40 | 57.7 | L1 | 1.42 | 51.1 | R1.5 * | 4.20 |
| 1986-1990 | 51.0 | 69.2 | L0.5 | 0.43 | 74.5 | L0 | 1.64 | 56.4 | R1.5 * | 3.34 |
| 1987-1991 | 58.9 | 74.0 | L0.5 | 0.80 | 102.4 | O3 * | 8.35 | 61.4 | R1.5 * | 2.40 |
| 1988-1992 | 64.7 | 81.0 | L0.5 | 0.57 | 127.1 | SC * | 13.19 | 67.3 | R1.5 | 2.24 |
| 1989-1993 | 70.3 | 88.4 | L0.5 | 0.96 | 148.9 | SC * | 16.43 | 82.8 | R1 | 3.95 |
| 1990-1994 | 69.5 | 88.2 | L0.5 | 0.61 | 148.8 | SC * | 16.22 | 96.3 | R1 | 4.96 |
| 1991-1995 | 71.0 | 93.8 | L0.5 | 0.91 | 152.1 | SC * | 16.54 | 85.4 | R1 | 3.89 |
| 1992-1996 | 68.2 | 90.2 | L0.5 | 0.99 | 145.9 | SC * | 15.65 | 81.5 | R1 | 3.03 |
| 1993-1997 | 68.5 | 91.9 | L0.5 | 1.06 | 143.4 | SC * | 14.94 | 80.5 | R1 | 2.58 |
| 1994-1998 | 63.3 | 88.1 | L0.5 | 0.61 | 113.5 | SC * | 9.36 | 81.0 | R1 | 0.95 |
| 1995-1999 | 60.9 | 91.6 | L0.5 | 0.86 | 103.3 | L0 | 3.88 | 73.2 | R1.5 | 2.00 |
| 1996-2000 | 45.9 | 74.3 | L0.5 | 0.48 | 78.8 | L0 | 1.46 | 65.8 | R1 | 0.93 |
| 1997-2001 | 49.1 | 77.0 | L1 | 0.93 | 76.2 | L1 | 0.75 | 70.6 | S0 | 0.88 |