PUBLIC UTILITY DEPRECIATION PRACTICES
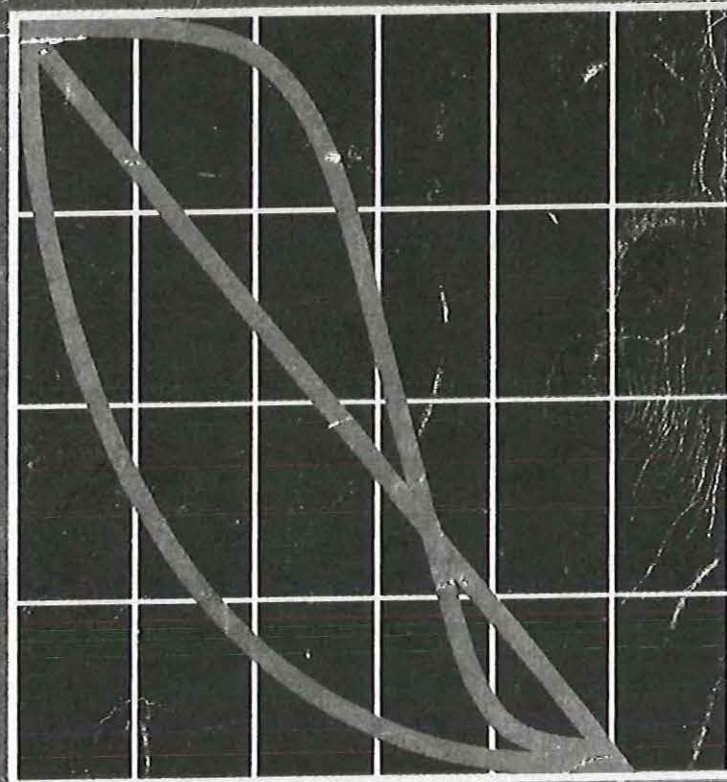
Although removal labor costs increase so do placement labor costs, and a higher removal cost related to a higher value of plant retired may result in essentially no change in the percentage cost of removal. Furthermore, if labor costs and/or the number of items to be removed are increasing, it becomes economical in many cases to invest in special tools which may actually result in an overall decrease in removal cost per item removed.

The factors that cause future costs of removal to differ from the past, that is, changes in labor costs and removal techniques, are difficult to predict with accuracy over the considerably long periods of time between the placement of plant and its retirement. Here again the time and effort involved in making detailed forecasts are usually not justified by the results. It is believed that an analyst, cognizant of the factors that may cause future cost of removal experience to differ from that of the past, is able to adequately estimate the future cost of removal as a percent of retirements. This is accomplished by applying informed judgment to modify the results of historical analyses.

Salvage for Life Span Categories

The life span categories consist generally of fairly long-life, structure-like plant, such as buildings, power plants, and telephone central office switching equipment. While each building or equipment installation might experience a number of modifications or additions subsequent to the date of its initial installation, each unit will retire in its entirety at the same time.

For buildings, the possibility of reuse will vary from building to building depending upon a variety of factors, including its age at final retirement, its size, the neighborhood in which it is located, and the possibility for reuse by the utility itself. For other life span categories, there may be some market outside the company for finally retired material, but frequently the reuse market is internal. When the particular model of equipment is current, reuse possibilities are high, but when it becomes obsolete, reuse may be negligible. The equipment at each installation should be considered from the standpoint of expected age at retirement and the possibility of reuse based on expected future company policy. Such future policy might be expected to have some semblance to past policy regarding the reuse of the same or similar type of equipment.

Net salvage associated with final retirements must be composited with interim net salvage resulting from expected piecemeal retirements in order to develop an estimate of future net salvage. Therefore, in order for the life span method to be applied properly, individual records of additions and retirements associated with each building and large installation must be maintained. Such records allow for data on interim and final retirements, gross salvage, and the cost of removal to be separately identified. This facilitates their analysis in the process of estimating future interim and final net salvage.

The breakdown between future interim and future final retirements can be determined by applying the interim retirement life table to surviving balances. Table 11-1 illustrates an approach in which the amount surviving at final retirement is determined by vintage. Life table values are used to factor down the amount surviving at the time of the study to reflect expected (interim) retirements for each vintage between the time of the study and the time of final retirement. The calculated interim and final retirement amounts can then be used to weight the

estimated future interim and future final gross salvage, and the cost of removal percentages to estimate average net salvage for the life span category as follows:

	Amount (a)	Gross Salvage Percent (b)	Gross Salvage Amount (c)=(a*b)	Cost of Removal Percent (d)	Cost of Removal Amount (e)=(a*d)
Past Interim Retirements	$ 902	7.3	$ 66	41.9	$ 376
Future Interim Retirements	827	7.0	58	42.0	347
Future Final Retirements	13,332	25.0	3,333	4.0	533
Total or Average	$15,061	23.0	$ 3,457	8.3	$1,256

Average Net Salvage = 23.0% - 8.3% = 14.7% or rounded to 15%