DRA DATA REQUEST
DRA-SCG-034-MRK
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: FEBRUARY 2, 2011
DATE RESPONDED: FEBRUARY 4, 2011

Exhibit Reference: SCG-27 Depreciation

Subject: Depreciation

Please provide the following:

1. Provide a copy of SCG's response to TURN UCAN DR-03-14 in SCG's test year 2008 rate case.

SoCalGas Response:

Please see the attached response. TURN/UCAN DR-03, Question 14

<u>Net Salvage</u>

14. Please explain, and provide examples of, each Company's retirement unit cost procedures for each account. Identify all changes to retirement unit costs which have occurred over the past 10 years.

Response 14:

The accounting entry for a retirement consists of debiting Accumulated Provision (account 1430000) for the original book value and crediting Plant in Service (account 1410000) for the original book value. There are generally two methods of determining the unit cost of the retirement.

<u>Method 1 – Unit cost of the retirement is specifically identifiable.</u>

(1) Retiring specifically identifiable asset that can be located in the accounting system using a unique asset tag.

For example, generators are identifiable in the cost accounting system, with a location and an identifying number. When a specific generator is retired, the original book value shown in the cost accounting system for this generator is used.

(2) Retiring mass assets not specifically tagged with a unique number.

For example, retiring pipeline cost equal to the length abandoned or removed times the unit cost per foot of pipeline. The unit cost of the pipeline being retired is calculated by dividing the original book value of the pipeline in the cost accounting system by the length in feet of the pipeline corresponding to this book value. The cost to retire equals the unit cost per foot multiplied by the length of pipeline being retired.

Response 14 - Continued:

<u>Method 2 – Unit cost of the retirement is not specifically identifiable.</u>

Both SoCalGas and SDG&E retire non-identifiable assets using the Handy-Whitman index of utility construction costs to deflate current installation cost back to year installed (first-in, first-out cost retirement). The resulting deflated cost is retired.

For example, valves installed on transmission mains are frequently capitalized with the pipeline as one asset, so the original valve cost cannot be identified in the cost accounting system. The current installation cost of the new valve is deflated back to the year the pipeline was installed, using the Handy Whitman index, to determine the cost to retire.

Retirement unit cost of old valve =

$$\frac{\text{Index for Capitalization Year of pipeline}}{\text{Index for Capitalization Year of new valve}} \quad \text{X} \quad \text{Installation Cost of New Valve}$$

There have been no specific changes in the methodology of calculating retirement unit costs in the past 10 years.

Response Prepared By: Pat Moersen and Michelle Somerville