

DRA DATA REQUEST
DRA-SCG-091-MRK
SOCALGAS 2012 GRC – A.10-12-006
SOCALGAS RESPONSE
DATE RECEIVED: MAY 11, 2011
DATE RESPONDED: MAY 27, 2011

Exhibit Reference: SCG-27 Depreciation

Subject: Depreciation

Please provide the following:

1. The response to Question 6 of the MDR refers to “the basic formula for the theoretical reserve percentage for any vintage of plant (from NARUC Public Utility Depreciation Practices)”. Please provide a copy of the relevant pages from NARUC Public Utility Depreciation Practices with the same formula underlined. If the pages sent do not provide a definition of “the basic formula for the theoretical reserve percentage for any vintage of plant,” please provide the definition and a source for the definition.

SoCalGas Response:

The relevant four (4) pages from the NARUC Public Utility Depreciation Practices document are attached as requested. Note the specific focus for these pages:

- Page 190 addresses, displays, and defines terms used by the formula in question.
- Page 190 addresses the “Whole Life” technique and formula. Page 63 also addresses the discussion of the “Whole Life” technique and, when this technique is used, the possibility of a reserve imbalance.
- Pages 63 through 65 address the “Remaining Life” technique, formula, and the smoothing of the reserve that occurs with its use.



NARUC PUDP Pages
190,63,64,65.pdf

Source document is: Public Utility Depreciation Practices, NARUC, August 1996

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2. Below is part of the response to Q6:

$$TR = (100\% - NS) - [(100\% - NS)/ASL] \times ARL$$

where the term $(100\% - NS)/ASL$ is the formula for a whole life depreciation rate.
Substituting the remaining life depreciation rate formula

$$(100\% - NS - BR)/ARL$$

where BR is recorded book reserve as a percentage of plant balance, then:

$$TR = (100\% - NS) - [(100\% - NS - BR)/ARL] \times ARL$$

Please explain why it is proper to substitute $(100\% - NS - BR)/ARL$ for $(100\% - NS)/ASL$.

SoCalGas Response:

The substitution was not done because it is proper or not proper to do so. The substitution of the “Whole Life” formula with the “Remaining Life” formula was to showcase that when a utility uses a remaining life rate and methodology, the end result is that there will be no imbalance between the theoretical reserve and the book reserve. Keeping the whole life formula within the equation and using a whole life rate and methodology can eventually result in deficiencies and/or excesses within the reserve. The CPUC has properly employed within the Standard Practice U-4 methodology the use of the remaining life rate.

The remaining life technique spreads the unrecovered cost of plant over the estimated remaining years of life of the plant. Spreading the unrecovered cost over the estimated remaining years of life tends to eliminate estimated deficits or excesses in the Depreciation Reserve which may occur in the case of the Whole Life Technique due to variations in life estimates, changes in depreciation systems used, authorized future net salvage rates that may or may not reflect real life conditions, and extraneous entries to the reserve.

Use of the remaining life technique does not eliminate the need for periodic review of the life estimate in use. In general, the better the life estimates, the better the results obtained with any depreciation practice. The remaining life technique, however, is well adapted to changing the depreciation rate sufficiently in the right direction to adjust for the so-called excesses or deficiencies in Depreciation Reserves. Over time, the Remaining Life (RL) procedure identified and prescribed by U-4 will essentially smooth out variations.

Reference document is: Standard Practice U-4, CPUC, Utilities Division, January 3, 1961