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January 10, 2005

MS. Mary Cottrell, Secretary  
Dept. Telecommunications and Energy  
One South Station  
Boston, MA 02110

RE: DTE 04-65

Dear Secretary Cottrell,

Please find enclosed the supplemental pre-filed testimony of the City's witness in the above referenced streetlight dispute. We are filing a copy of this filing, in four separate envelopes addressed directly to Bill Stevens, Sean Hanley, Mark Barrett, and James Byrne, the DTE hearing officer and staff assigned to this dispute.

We have also provided a copy of this supplemental testimony to David Rosenzweig and Jack Habib, attorneys for the Company.

We are also making an electronic filing of this testimony this afternoon. One exhibit attached to the hard copy filing herein (the Company's April 1998 computation of streetlight purchase price) is only available in hard copy and is therefore not included in the electronic filing.

Sincerely,

John Shortsleeve  
Attorney for the City of Cambridge

**STATE OF MASSACHUSETTS**  
**BEFORE THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**In re: Petition of City of Cambridge    )**  
**Regarding Streetlight Purchase        )**

**DTE 04-65**

**SUPPLEMENTAL TESTIMONY OF**  
**PAUL CHERNICK**  
**ON BEHALF OF**  
**THE CITY OF CAMBRIDGE**

Resource Insight, Inc.

**JANUARY 10, 2005**

**TABLE OF CONTENTS**

I. Introduction..... 1  
II. Timing Issues..... 2  
III. Inconsistencies ..... 5  
IV. Comparison of CELCo and Other Utilities ..... 14  
V. Recommendations..... 16

**TABLE OF ATTACHMENTS**

Attachment PLC-S-1 *May 1998 Cambridge Street Light Study*

1 **I. Introduction**

2 **Q: Are you the same Paul Chernick who filed direct testimony in this**  
3 **proceeding?**

4 A: Yes.

5 **Q: What is the subject of this supplemental testimony?**

6 A: I describe the changes and clarifications in CELCo's positions in this docket, as  
7 revealed in CELCo's responses to discovery, filed on December 14 through 17,  
8 2004. I also describe the problems in CELCo's new arguments and provide my  
9 recommendations to the Department.

10 **Q: Please describe the ways in which CELCo changed or clarified its position**  
11 **in discovery.**

12 A: There were two major changes in CELCo's positions, as follows

- 13 • The Company shed light on its earlier suggestions that it used Iowa curves  
14 to compute the accumulated depreciation for each vintage of plant,  
15 clarifying that it uses the Iowa curves only to allocate among vintages a  
16 total amount of accumulated streetlighting depreciation derived in some  
17 other manner.
- 18 • The Company asserted that the discrepancy between its alleged book value  
19 for accumulated streetlighting depreciation and the value derived by the  
20 City using CELCo data and the Department's accepted streetlighting-  
21 valuation method might be explained by negative net salvage on pre-  
22 viously retired plant.

23 **Q: Do the Company's responses justify any revision in the pricing approach**  
24 **laid out in the City's petition?**

1 A: No.

2 **II. Timing Issues**

3 **Q: When did CELCo introduce into this process its current explanation of the**  
4 **difference between its proposed purchase price and the result of the**  
5 **Department's approved methods?**

6 A: The Company has introduced evidence regarding the cost of removals, and  
7 hence net salvage, very late in the process of setting a price for the purchase of  
8 its streetlights serving the City of Cambridge.

9 The City and CELCo negotiated over the purchase price for about fifteen  
10 months, from June 2003 to September 2004. In various meetings and tele-  
11 conferences, the City specifically asked CELCo to compute the purchase price  
12 using the Department's approved method.

13 In the June 4 meeting, I also suggested that CELCo identify any errors or  
14 omissions in the City's draft computation. The Company declined all those  
15 opportunities to identify and quantify the items it would add to the Department's  
16 purchase-price methodology.

17 The same was true in the Company's responses to the City's petition in  
18 this proceeding, and Ms. Vaughn's affidavit that was attached to CELCo's  
19 October 19 2004 Response to the City's Amended petition. At no time did  
20 CELCo attempt to reconcile its proposed purchase price by introducing any data  
21 on cost of removal or negative net salvage.

22 **Q: When did the Company first indicate that it believed net salvage was a**  
23 **significant issue in this case?**

1 A: Other than some standard language about the computation of accumulated  
2 depreciation (such as that in Ms. Vaughn's affidavit), the first indications came  
3 in the discovery responses in December 2004.

4 **Q: Does the timing of this issue affect the ability of the City and Department  
5 to test the validity of the Company's claims?**

6 A: Yes. Earlier disclosure of this issue would have allowed for discovery on the  
7 asserted removal costs; none is possible now.

8 **Q: What sorts of issues would require additional review?**

9 A: The Company's addition of the removal costs it claims would roughly double  
10 the purchase price, from roughly the \$1.1 million CELCo computes in  
11 Attachment City-1-13(a) with the Department-approved formula, and the \$2.1  
12 million including the Company's negative net salvage costs in Attachment City-  
13 1-15. Had the Company disclosed this allegation in a manner that allowed an  
14 opportunity for discovery regarding the million-dollar differential, the City  
15 could have probed the following issues:

- 16 • How were the negative net salvage costs computed?
- 17 • What backup information is available to confirm the allocation and comp-  
18 utation of the net salvage costs?
- 19 • Are the net salvage costs consistent with the installation costs of replace-  
20 ment equipment?
- 21 • Are any of the removal costs in column 10 of Attachment City-1-15 also  
22 included, and essentially double counted, in the additions column in  
23 column 2?
- 24 • How did salvage and removal costs change over time?
- 25 • Why can't the Company reproduce its claimed accumulated depreciation  
26 balance for 2003 or 2004 from its records?

1           The allocation of replacement labor and contractor costs between plant  
2 additions and cost of removal is complex. For most streetlighting equipment,  
3 new equipment is typically installed at the same time that old equipment is  
4 removed. The cost of removal of the old equipment can be difficult to distin-  
5 guish from the cost of installation for the new equipment. The allocation of costs  
6 (or savings) between net salvage and the installation cost of replacement  
7 equipment appears to be largely a matter of choice by the utility.

8           The Company’s most recent depreciation study explains that, in situations  
9 in which equipment is replaced, “a portion of the labor is [added to plant in  
10 service] and the remainder of the labor cost is debited to the reserve as a cost of  
11 removal” (Attachment City-1-3 at 118). In addition, the study (ibid.) mentions  
12 “the failure to provide for cost of removal when it is expected to result in nega-  
13 tive net salvage.” In other words, the costs of removing old equipment may be  
14 regarded as part of the cost of installing new equipment and added to plant,  
15 especially when removal costs would exceed salvage.<sup>1</sup>

16           The Department has no way of knowing whether the “net salvage” values  
17 reported by CELCo in City-1-15 represent the entire labor cost, including costs  
18 added to gross plant. It is not clear that CELCo allocates costs between  
19 installation and removal in the same manner for all purposes, or that all the  
20 reports in its records use the same allocations.

21   **Q: Had CELCo previously indicated how its computation of unamortized plant**  
22   **differed from the Department-approved methods?**

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<sup>1</sup>Adding a dollar to plant in service has the same effect on rate base as subtracting a dollar from accumulated depreciation, so the allocation of costs between installation and removal has no effect on rate base or return.

1 A: The Company had previously hinted that it derived accumulated depreciation  
2 for each vintage of plant by the application of the Iowa survivorship curves.  
3 This impression was reinforced by Ms. Vaughn's statement in her affidavit (at  
4 ¶8) that "in its Amended Answer and in Exhibits NSTAR-1 and NSTAR-2, the  
5 Company has presented its methodology for determining its unamortized  
6 investment in its streetlighting equipment." In fact, Exhibits NSTAR-1 and  
7 NSTAR-2 do not present CELCo's "methodology for determining its un-  
8 amortized investment in its streetlighting equipment," but only the methodology  
9 for allocating costs among municipal, commercial, and MDC lights. The first  
10 approximation of a "methodology for determining its unamortized investment  
11 in its streetlighting equipment" came in the December discovery responses.<sup>2</sup>

12 Most of CELCo's limited earlier description of its methodology arguments  
13 turns out to be an essentially irrelevant digression.

### 14 **III. Inconsistencies**

#### 15 **Q: What is the basis for CELCo's proposed purchase price?**

16 A: The Company presents the derivation as a simple calculation: the purchase price  
17 is simply the year-end 2003 gross plant balance minus the accumulated depreci-  
18 ation, as recorded on the books. As Vaughan states (Affidavit at ¶9), "the Com-  
19 pany's books readily show both the original investment and the accumulated  
20 depreciation relating to streetlighting equipment and the Company follows all  
21 applicable accounting and regulatory rules for accounting for its utility plant."

22 In CELCo's view, if net plant is properly accounted for and accepted by

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<sup>2</sup>I do not consider an explanation that the Company looked in its book to be a description of a methodology.



1 Department for rate case purposes, the Company is not under any obligation to  
2 demonstrate that the accumulated depreciation as recorded on its books is  
3 appropriate for purposes of determining a streetlight purchase price under the  
4 formula described in the Act.

5 **Q: Is CELCo's position consistent with Department precedent?**

6 A: No. The Department found in the DTE 98-89 that what is recorded on the books  
7 or in depreciation studies or used in base rate filings is not controlling for  
8 purposes of determining the streetlighting purchase price. In particular, the  
9 Department rejected reliance on a depreciation study that allocated depreciation  
10 expense to streetlighting using a composite distribution plant depreciation rate.  
11 (DTE 98-89 at 4). Allocations of depreciation expense, depreciation reserves  
12 and salvage to the streetlighting account may be acceptable in base rate filings,  
13 but not appropriate for the determination of a streetlighting purchase price.

14 **Q: Has CELCo consistently maintained that the value of streetlighting plant  
15 on its books is the same as the unamortized investment in the statute?**

16 A: No. In April 1998, CELCo provided to the City a computation of streetlight  
17 purchase price that is attached as Attachment PLC-S-1. This computation  
18 represents only the remaining costs of specific lights currently in service and  
19 under 17 years of age. This calculation does not appear to be tied to the  
20 Company's total book value.

21 **Q: Has CELCo provided adequate accounting records?**

22 A: No. The accounting records that CELCo has made available are limited to a  
23 single table for each of the four years 2000–2003, which, in addition to the  
24 beginning depreciation reserve, provide only four items: depreciation expense,  
25 retirements, cost of removal and (in one year) an item listed as “transfer or  
26 adjustment” (DTE 1-5). There is a column in these tables for salvage and other

1 credits, but it is always blank. The Company did not provide any data prior to  
2 2000, did not provide any monthly data for 2000–2003, and did not provide  
3 monthly or cumulative data for January through September 2004, even though  
4 it uses September 2004 balances in its exhibits.

5 **Q: What allocation issues could arise in addition to the composite depreciation**  
6 **rates that were at issue in DTE 98-89?**

7 A: Without access to records and work papers, it is not possible to determine, for  
8 example, the following:

- 9 • Whether the Company kept records on accumulated depreciation for  
10 streetlighting account 373 separately since 1942, or allocated accumulated  
11 depreciation for distribution across accounts. The Company says, “The  
12 Company has researched as far back as was possible using readily avail-  
13 able records and personal knowledge” (IR City 1-20). In the case of net  
14 salvage, “as far back as possible” was only to 1989. In response to the  
15 Department’s request for “records regarding accumulated depreciation,”  
16 CELCo could only go back to 2000 (DTE 1-5).
- 17 • Whether the Company kept records of net salvage value for streetlighting  
18 account 373 separately since 1942. At the time of the rate case DPU 87-  
19 122, CELCo’s affiliate Commonwealth Gas Company did not maintain net  
20 salvage by account. As described in the Order, the depreciation study  
21 performed by Mr. Aikman “used functional plant-level account data to  
22 determine the net salvage value for each individual plant account” (DPU  
23 87-122 at 73).
- 24 • How labor and expenses of replacing streetlighting equipment were allo-  
25 cated between removal and installation.

- 1           • How CELCo treated insurance proceeds and other recovery for damages  
2           caused by others, particularly damage to poles and associated lighting  
3           equipment from vehicle collisions. In at least one case, CELCo reduced  
4           streetlighting plant in service by such proceeds (response to City 1-45); it  
5           is not clear whether CELCo followed that practice consistently, or used the  
6           proceeds to offset other capital or operating costs.

7       **Q: Has the Company made any effort to demonstrate that the depreciation**  
8       **reserve recorded on its books at year-end 2003 is appropriate for calcu-**  
9       **lating the streetlighting purchase price?**

10      A: Yes. In response to City 1-15, CELCo revised City's Exhibit CAM-5 to include  
11      negative net salvage values and to update to September 30, 2004 (provided as  
12      City-1-15 Att (Rev).xls). The Company concludes that its computed net plant  
13      in City 1-15 is close to book.

14      **Q: Does the Company's analysis in response to City 1-15 demonstrate that the**  
15      **depreciation reserve recorded on its books at year-end 2003 is appropriate**  
16      **for calculating the streetlighting purchase price?**

17      A: No, for the following reasons:

- 18           • The Company provides no data on net salvage before 1989. Without sup-  
19           port, the Company merely assumes that a negative net salvage of 15% is  
20           a reasonable assumption for all 46 years in the period 1943 to 1988. In the  
21           depreciation study provided in Attachment City-1-3(a), the Company's  
22           consultant, Mr. Aikman, computes that negative net salvage values for  
23           distribution plant was half as large in 1974–1988 as in 1977–1991, and  
24           only a third as large in 1964–78, suggesting that streetlighting net salvage  
25           may have also been much less negative than –15% in 1943–1988 .  
26           • There are errors in CELCo's computations in Attachment City 1-15.

1           • There are inconsistencies and ambiguities in the data provided by the  
2           Company.

3   **Q: What errors in CELCO’s computations have you found in Attachment City**  
4   **1-15?**

5   A: There are at least two such problems. First, CELCo tries to pick and choose its  
6   net-salvage values. The Company uses what it claims are “actual negative net  
7   salvage values” for 1989 to the present but an “Department-approved” rate of  
8   15% of retirements prior to 1989. If CELCo only used the data it claims to have,  
9   its computation of net plant would be \$227,000 less.<sup>3</sup> If CELCo had used the  
10   15% net salvage rate throughout, its computation of net plant would be  
11   \$605,000 less.

12           Second, for the pre-1942 (year-end 1941) line of Attachment City 1-15,  
13   CELCo assumes a plant balance of \$376,009 but zero accumulated depreciation,  
14   an unlikely situation.<sup>4</sup> Even in CELCo’s Attachment City 1-15, which in  
15   addition includes substantial negative net salvage, the accumulated depreciation  
16   is half the plant balance as of mid-2004. In its purchase price calculation, the  
17   City assumed a beginning depreciation reserve of 50% of gross plant or  
18   \$188,005, which is much more reasonable, especially since infrastructure was  
19   generally expanded very little during the depression of the 1930s, and the bulk  
20   of streetlighting plant in 1941 had probably been installed in the 1920s.

21   **Q: What inconsistencies and ambiguities have you found in the Company’s**  
22   **data and calculations?**

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<sup>3</sup>As demonstrated elsewhere in this testimony, the Company’s “actual” data are often inconsistent.

<sup>4</sup>CELCo actually uses accumulated depreciation of \$8 for 1941, but that is the result of a spreadsheet error. The 8 is the column number.

1 A: I have identified eight such problems.

2 First, the depreciation reserve as of year-end 2003, as recorded in the  
3 books, cannot be traced back to year-end 1995 or 1991, let alone to 1941. The  
4 changes in accumulated depreciation from year-end 1991–1995, 1991–2003,  
5 1995–2003, which are computed by the Company in Attachment City 1-15  
6 using its own data, do not match the changes in depreciation reserves recorded  
7 on its books or reported in depreciation studies.

8 Second, CELCo’s record of depreciation reserve activity for 2003 (Attach-  
9 ment DTE 1-5) includes an unexplained \$35,589.92 reduction in the depreciation  
10 reserve, under a column headed “Transfers and Adjustments”. There is no  
11 contemporaneous adjustment or transfer in gross plant (Exh. CAM-3, Attach-  
12 ment City 1-15). Ms. Vaughan’s explanation of the calculation of depreciation  
13 makes no mention of adjustments or transfers from the depreciation reserve that  
14 are independent of adjustments or transfer from plant in service. The Department  
15 has no way of knowing how many such adjustments CELCo has made over the  
16 past 60 years.

17 Third, according to CELCo’s 1992 depreciation study (Attachment City  
18 1-3, page 207), the plant retired in 1989–1991 had positive gross salvage value,  
19 while the records of the 2000–2003 retirements (in Attachment DTE 1-5) show  
20 zero gross salvage. Without further documentation, the Department cannot  
21 determine for example whether this discrepancy is due to

- 22 • changes in the market for used equipment and scrap metal,
- 23 • changes in the composition of the equipment retired,
- 24 • differences between CELCo’s books (or the portion presented in  
25 Attachment DTE 1-5) and the reports summarized in the 1992 depreciation  
26 study in the allocation and reporting of data,
- 27 • changes in accounting treatment,

- some other error, omission or inconsistency.

Fourth, CELCo reports in Attachment City 1-16 that it added \$24,484 (which is computed in the spreadsheet as the sum of \$23,870 and \$614, without any identification of the source of either figure) in streetlighting plant through September of 2004. Yet CELCo reports in Exhibit NSTAR-2 a total 2004 vintage plant of \$28,133 at the same date. And the response to City 1-25 reports that half of net additions in the same period was \$417,000, implying net additions of \$834,000 and gross additions of over \$850,000 (depending on which of CELCo's claimed retirements is included in the computation). Thus, CELCo reports 2004 additions that vary by a factor of over 30.

Fifth, the difference between pre-2004 gross plant in service at December 31, 2003 in Exhibit NSTAR-1 and at September 30, 2004 in Exhibit NSTAR-2 indicates that CELCo's retirements in 2004 through September 30 were \$22,800, while Attachment City 1-16 reports 2004 retirements of \$19,195.<sup>5</sup>

Sixth, CELCo reports streetlighting additions for 2003 of \$13,078 in its FERC Form 1 and in Attachment City 1-15(rev) and as \$13,672 in Attachment City 1-16 (the underlying spreadsheet adds \$594 to the \$13,078 value), but 2003-vintage plant is reported in Exhibit NStar-1 as \$27,124 at December 31, 2003 and in Exhibit NStar-2 as \$20,767 at September 30, 2004.<sup>6</sup> Where the Company should have one value, it reports four different ones.

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<sup>5</sup>The additions and retirements that CELCo reports for mid-2004 in Attachment 1-15(rev) are yet different numbers, but these are clearly not intended to represent actual values, since they are simply half of the values for 2003 in the attachment.

<sup>6</sup>Exhibits NStar-1 and NStar-2 include six sub-accounts. From the 2003 report to the 2004 report, four accounts for 2003-vintage plant decline by 68% to 100%, while one account doubles. These values should only change due to retirements. CELCo states in response to City-1-45 that the changes resulted from "additional late charges and credits that were posted to the General

1 Seventh, while CELCo reports 2003 retirements of \$25,200 in its FERC  
2 Form 1 and in Attachment City-1-15(rev), it also reports pre-2003 plant in  
3 service at December 31, 2003 (in Exhibit NStar-1) as being \$38,653 less than  
4 the plant in service at December 31, 2002 (in Attachments City-1-15(rev) and  
5 City-1-16, for example).

6 Eighth, the change in accumulated depreciation CELCo reports for the  
7 period December 2003 to September 2004 (Exhibits NStar-1 and NStar-2) is  
8 consistent with no negative net salvage, but CELCo claims a negative net  
9 salvage—of -\$22,717—in Attachment City 1-15.

10 **Q: What is your basis for stating that the Company's exhibits are consistent**  
11 **with net salvage near zero in 2004?**

12 A: Exhibits NStar-1 and NStar-2 show a change in accumulated reserve at the end  
13 of September 2004 of \$157,000. According to these exhibits, net plant balances  
14 at year-end 2003 and at September 30, 2004 are \$3,784,000 and \$3,789,000,  
15 respectively, and 2004 retirements are \$22,800 (the difference between pre-2004  
16 gross plant in service at December 31, 2003 in Exhibit NStar-1 and at September  
17 30, 2004 in Exhibit NStar-2).<sup>7</sup> Depreciating the average balance of \$3,787,000  
18 at a 6.29% annual depreciation rate for 9 months (\$179,000) and subtracting  
19 retirements would result in an increase in depreciation reserve by \$156,000; the  
20 \$1,000 difference between this increase and the increase in Exhibits NStar-1 and

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Ledger in 2004 that affected streetlighting assets with vintage years of 2002 and 2003,” but does not explain the nature of the charges and credits.

<sup>7</sup>This calculation assumes that there were no retirements of plant installed in 2004. If there have been retirements of 2004 plant in addition, the 2004 net salvage indicated by Exhibits NStar-1 and NStar-2 would be more positive.

1 NStar-2 could be explained by \$1,000 of *positive* net salvage.<sup>8</sup> Yet CELCo  
2 reports net salvage of -\$22,000 in response to City 1-25 and -\$22,717 in  
3 Attachment City-1-15.<sup>9</sup>

4 **Q: Doesn't CELCo demonstrate in response to City 1-25 that net salvage of**  
5 **-\$22,717 is required to produce the change in accumulated depreciation**  
6 **from December 2003 to September 2004?**

7 A: The Company purports to make that demonstration, but its computation is based  
8 on a strikingly implausible assumption. In order to derive the September 30  
9 2004 balance in Exhibit NStar-2 including a -\$22,717 net salvage, CELCo's  
10 2004 net additions would have had to be \$814,000, and its gross additions over  
11 \$850,000. This level of additions is twice the highest annual addition in the past  
12 60 years and would amount to a 20% increase in the 2003 net plant balance. By  
13 assuming an increase in the net plant balance of \$417,000 for purposes of the  
14 calculation in 1-25, Company imagines a depreciation charge in 2004, \$198,000,  
15 that is much larger than the amount shown in Attachment City 1-15, \$178,347.

16 **Q: Have you performed a comparison of CELCo's reported streetlighting**  
17 **depreciation reserve and its calculation in Attachment City 1-15?**

18 A: Yes. I compared the Company's calculation in Attachment City 1-15 to the year-  
19 end accumulated depreciation it provided from its records and depreciation

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<sup>8</sup>Using the \$19,000 retirements that the Company reports in City 1-25 would result in a change in depreciation reserve of \$160,000, and would be consistent with negative net salvage of \$3,000, not the \$22,000 or \$23,000 CELCo claims in City 1-25 and City 1-15. The Company's multiple inconsistencies complicate the isolation of the source of any particular error.

<sup>9</sup>If, due to errors or updating of accounting information in 2004 plant, Exhibits NStar-1 and NStar-2 overstate 2004 retirements and the figure of \$19,000 in City 1-25 is the more-accurate number, then Exhibits NStar-1 and NStar-2 should indicate a net salvage value for 2004 of -\$2,500, still far from the negative net salvage CELCo claims in Attachment City-1-15.



1 studies, for year-end 1973, 1978, 1986, 1991, and 2000 through 2003 (in  
 2 response to DTE 1-9). Since CELCo used its own “actual” negative net salvage  
 3 for the years 1989–2004 and an approach it endorsed, its calculation in Attach-  
 4 ment City 1-15 should match the accumulated depreciation in its records for  
 5 1991 on. However, as the following comparison table shows, it is not possible  
 6 to reproduce even the recent accumulated depreciation figures.

	Increase in Accumulated Depreciation Reported by CELCo		Difference between CELCo Reports
	<i>Response to City 1-15</i>	<i>Response to DTE 1-5</i>	
1973–2003	1,123,790	1,205,000	81,210
1978–2003	890,511	902,000	11,489
1986–2003	654,841	839,000	184,159
1991–2003	1,038,243	1,168,000	129,757
2000–2003	670,968	632,000	(38,968)
2001–2003	444,799	409,000	(35,799)
2002–2003	211,786	177,000	(34,786)

7 The changes do not match for the pre-1991 depreciation reserve numbers  
 8 either, but since the net salvage is an estimate rather than actual, that is to be  
 9 expected. The mismatch does suggest that the 15% negative net salvage rate is  
 10 not a reliable assumption.

11 **IV. Comparison of CELCo and Other Utilities**

12 **Q: Does CELCo claim to be different in some way than other utilities for which**  
 13 **the Department has approved computations of streetlighting purchase**  
 14 **prices?**

15 A: Yes. The Company asserts that its situation differs from those of CommElec or  
 16 Boston Edison, in that CELCo serves only one municipality, and hence faces no  
 17 issues of allocation of streetlighting accounts across municipalities. CELCo  
 18 seems to imply that the approaches it uses are superior to the Department’s

1 approved methods, but could not be applied to the various Boston Edison and  
2 CommElec cases.

3 **Q: Is this claim correct?**

4 A: No. For 46 of the 63 years (or about 75%) of its computation in response to City  
5 1-15, CELCo estimates negative net salvage at 15% of retirements for each year.  
6 Boston Edison could have similarly estimated annual negative net salvage for  
7 any of the towns to which it sold streetlighting equipment. Such an estimate  
8 would have been inappropriate for the Boston Edison calculations and is  
9 similarly inappropriate for CELCo.

10 **Q: Would including Boston Edison’s estimated negative net salvage value have**  
11 **produced sales prices for its municipal streetlights substantially different**  
12 **from those of the Department-approved method?**

13 A: Yes. In its depreciation study in DPU 92-92, Boston Edison estimated a 25%  
14 negative net salvage rate for streetlighting, and did not indicate that this was a  
15 change from previous practice.<sup>10</sup> Subtracting negative net salvage equal to 25%  
16 of retirements from the accumulated depreciation in the Boston Edison  
17 computations reproduced in Attachment PLC-2 of my direct testimony would  
18 yield the following results:<sup>11</sup>

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<sup>10</sup>Exhibit BE-JHA-2, to the direct testimony of James H. Aikman, at IV-9 and attached “Schedule” at 13.

<sup>11</sup>Boston Edison may not have assumed 25% negative net salvage in setting depreciation rates for all years, so these computations should be considered examples. Interestingly, CELCo has also provided no evidence that it assumed 15% negative net salvage for the entire 1942–1988 period or that it incurred 15% negative net salvage in that period.

- 1           • decrease accumulated depreciation for Lexington by \$49,271, increasing  
2           the indicated purchase price from a negative \$39,320 to a positive \$9,951;  
3           and  
4           • decrease accumulated depreciation for Waltham sub-account 635 by about  
5           \$275,000, increasing the net plant for that sub-account from about  
6           \$630,000 to over \$900,000.

7           Adoption of CELCo's proposal to decrease net book by imputed negative  
8           net salvage values would radically change the Department's precedent.

9   **V. Recommendations**

10 **Q: How should the Department deal with CELCo's positions in this case?**

11 A: The Department should reject CELCo's two major arguments. The Company's  
12 primary argument is that the purchase price for the streetlights should be what-  
13 ever net book value the Company has on its books. This position is untenable,  
14 since the Company

- 15           • cannot provide a derivation of its net book value,  
16           • adjusts accumulated depreciation by undisclosed and undocumented  
17           amounts, such as the reduction of accumulated depreciation (and hence  
18           increase of net book) by \$35,590 in 2003.

19           There is simply no basis for the Department to set the purchase price at  
20           CELCo's recent net plant balance for streetlighting. The Department should  
21           reject CELCo's approach in favor of a direct computation of unamortized  
22           investment, using the Department's approved approach.

23 **Q: What is the Company's secondary major argument?**

24 A: The Company's secondary argument appears to be that the discrepancy between  
25           its net book value for streetlighting and the results of the Department's approved

1 method for setting purchase prices for streetlights can be explained by negative  
2 net salvage over the last 60 years.

3 As shown above, this argument is riddled with inconsistencies. CELCo's  
4 claimed net salvage does not in fact match the changes in its reported book  
5 accumulated depreciation for streetlighting.

6 Specifically, CELCo provides no data on cost of removal or net salvage  
7 pre-1989. No costs should be allowed for negative net salvage in that period.  
8 This correction would reduce the purchase price by some \$227,192, even were  
9 the Department to otherwise accept CELCo's assertions.

10 Even from 1989 on, there are multiple inconsistencies and ambiguities in  
11 CELCo's data, as I describe above.

12 **Q: How should the Department deal with CELCo's computations relying on**  
13 **the net salvage values?**

14 A: The Department should reject CELCo's attempts to introduce these poorly  
15 explained, ambiguous, and inconsistent values.

16 **Q: Would omitting the net salvage on retired plant be consistent with any**  
17 **Department or Company precedent regarding the purchase price for**  
18 **streetlights?**

19 A: Yes. In DTE 01-25, the Department used an approach that sets the purchase  
20 price at the unamortized cost of the plant being purchased, rather than the differ-  
21 ence between all the historical investments in the municipality and accumulated  
22 depreciation on all streetlighting in the municipality. The DTE 01-25 approach  
23 explicitly ignored both costs and accumulated depreciation for retired plant, and  
24 hence would ignore costs of removal. Since the retired plant is not owned by the  
25 utility or in service in the municipality, excluding it seems consistent with the  
26 plain language of G.L. c. 164, §34A, which allows the utility to charge "its un-

1 amortized investment...in the lighting equipment owned by the electric company  
2 in the municipality.”

3 Increasing the purchase price to reflect the costs of removal of previously  
4 retired plant would also be inconsistent with the provision in CELCo tariff for  
5 Rate S-1, which provides that “Customers who...request...the removal of  
6 outdoor lighting units...pay to the Company the undepreciated costs less salvage  
7 value, if any, of the equipment which is taken out of service, removed without  
8 replacement, relocated or substantially altered by the Company. The  
9 undepreciated costs shall be determined based upon the actual age of such  
10 equipment as determined by the Company.” This provision also does not  
11 reference any charge for the cost of removal of previously retired equipment.

12 Finally, streetlight purchase price that the Company provided the City in  
13 April 1998 included only the remaining cost of existing equipment under 17  
14 years of age, without any adjustment for previously-retired equipment or cost  
15 of removal (Attachment PLC S-1).

16 **Q: Does this conclude your supplemental testimony?**

17 A: Yes.

**Attachment PLC-1:  
May 1998 Street Light Study**