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January 24, 2005

Mr Pat Miller
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Counce Natural Gas Company, Docket No. 04-00037
Depreciation Rates to Use for Future Plant Additions
Order Approving Amended Petition to Increase Gas Rates
and Revised Rules and Regulations

Dear Mr Miller:

Please be advised that pursuant to a letter I received from Darlene Standley, Chief of the Utilities Division of the Tennessee Regulatory Authority, dated January 14, 2005, I have enclosed an original and thirteen (13) copies of the documents requested by the Tennessee Regulatory Authority in order for the Tennessee Regulatory Authority to set depreciation rates on new plant additions

If you have any questions, please advise.

Sincerely,

Thomas M McElroy

lnl

FROM: Counce Natural Gas Company

TO: Darlene Standley:

RE: Counce Natural Gas Company ("Counce")
Response to additional information requested by the Tennessee Regulatory Authority

The responses of Counce to the information requested made by the Tennessee Regulatory Authority are listed below

(1) Experience relied on by management:

Management examined the service lives prescribed by the Internal Revenue Service under the General Depreciation System and the service lives used by Lynnwood Utility Corporation, which is a utility company similar in size to Counce Management consulted with Stephen Swetz, CPA, to determine the validity of these service lives based on management's own experience in replacing such assets listed in the depreciation rate schedule sent with the original depreciation rate proposal

(2) Copy of Internal Revenue Service regulations relied on:

Counce has attached a copy of Internal Revenue Service Code Sec 168(c)(1) and Revenue Procedure 87-56 that relates to the assets listed below

Land and land rights	374	N/A
Structures and improvements	375	Sec 168(c)(1)
Mains	376	class 46 0
Compressor station equipment	377	class 49 21
Measuring & regulating station equip – general	378	class 49 21
Measuring & regulation station equip – city gate check stations	379	class 49 21
Services	380	class 49 21
Meters	381	class 49 21
Meter installations	382	class 49 21
House regulators	383	class 49 21
House regulator installations	384	class 49 21
Industrial measuring and regulating station equipment	385	class 49 21
Other property on customers' premises	386	class 49 21
Office furniture and equipment	391	class 11 & 12
Transportation equipment	392	class 241
Tools, shop, and garage equipment	394	class 11
Power operated equipment	396	class 11
Communication equipment	397	class 48 13
Miscellaneous equipment	398	class 11

(3) List of other utilities polled, along with the applicable rates used by each one for each FERC account number in Counce's proposal.

Counce has attached a copy of Lynnwood Utility Corporation's depreciation rates, which were used as a guideline for our proposal This schedule is from Docket No 99-00507 submitted by Lynnwood Utility Corporation

I hope that this information helps answer your inquiries

Sec. 168. Accelerated cost recovery system

TITLE 26, Subtitle A, CHAPTER 1, Subchapter B, PART VI, Sec 168

STATUTE

(a) General rule
Except as otherwise provided in this section, the depreciation deduction provided by section 167(a) for any tangible property shall be determined by using -
(1) the applicable depreciation method,
(2) the applicable recovery period, and
(3) the applicable convention.
(b) Applicable depreciation method
For purposes of this section -
(1) In general
Except as provided in paragraphs (2) and (3), the applicable depreciation method is -
(A) the 200 percent declining balance method,
(B) switching to the straight line method for the 1st taxable year for which using the straight line method with respect to the adjusted basis as of the beginning of such year will yield a larger allowance.
(2) 150 percent declining balance method in certain cases
Paragraph (1) shall be applied by substituting "150 percent" for "200 percent" in the case of -
(A) any 15-year or 20-year property,
(B) any property used in a farming business (within the meaning of section 263A(e)(4)), or
(C) any property (other than property described in paragraph (3)) with respect to which the taxpayer elects under paragraph (5) to have the provisions of this paragraph apply.
(3) Property to which straight line method applies
The applicable depreciation method shall be the straight line method in the case of the following property:
(A) Nonresidential real property.
(B) Residential rental property.
(C) Any railroad grading or tunnel bore.
(D) Property with respect to which the taxpayer elects under paragraph (5) to have the provisions of this paragraph apply.
(E) Property described in subsection (e)(3)(D)(ii).
(4) Salvage value treated as zero
Salvage value shall be treated as zero
(5) Election
An election under paragraph (2)(C) or (3)(D) may be made with respect to 1 or more classes of property for any taxable year and once made with respect to any class shall apply to all property in such class placed in service during such taxable year. Such an election, once made, shall be irrevocable.
(c) Applicable recovery period
For purposes of this section -
(1) In general
Except as provided in paragraph (2), the applicable recovery period shall be determined in accordance with the following table.

In the case of:	The applicable recovery period is:
3-year property	3 years
5-year property	5 years

7-year property	7 years
10-year property	10 years
15-year property	15 years
20-year property	20 years
Residential rental property	27.5 years
Nonresidential real property	39 years.
Any railroad grading or tunnel bore	50 years.

(2) Property for which 150 percent method elected
In the case of property to which an election under subsection (b)(2)(C) applies, the applicable recovery period shall be determined under the table contained in subsection (g)(2)(C).

(d) Applicable convention
For purposes of this section -

(1) In general
Except as otherwise provided in this subsection, the applicable convention is the half-year convention.

(2) Real property
In the case of -

(A) nonresidential real property,
(B) residential rental property, and
(C) any railroad grading or tunnel bore, the applicable convention is the mid-month convention

(3) Special rule where substantial property placed in service during last 3 months of taxable year

(A) In general
Except as provided in regulations, if during any taxable year -

(i) the aggregate bases of property to which this section applies placed in service during the last 3 months of the taxable year, exceed
(ii) 40 percent of the aggregate bases of property to which this section applies placed in service during such taxable year, the applicable convention for all property to which this section applies placed in service during such taxable year shall be the mid-quarter convention

(B) Certain property not taken into account
For purposes of subparagraph (A), there shall not be taken into account -

(i) any nonresidential real property (FOOTNOTE 1) residential rental property, and railroad grading or tunnel bore, and (FOOTNOTE 1) So in original Probably should be "property,"
(ii) any other property placed in service and disposed of during the same taxable year.

(4) Definitions

(A) Half-year convention
The half-year convention is a convention which treats all property placed in service during any taxable year (or disposed of during any taxable year) as placed in service (or disposed of) on the mid-point of such taxable year.

(B) Mid-month convention
The mid-month convention is a convention which treats all property placed in service during any month (or disposed of during any month) as placed in service (or disposed of) on the mid-point of such month.

(C) Mid-quarter convention
The mid-quarter convention is a convention which treats all property placed in service during any quarter of a taxable year (or disposed of during any quarter of a taxable year) as placed in service (or disposed of) on the mid-point of such quarter

(e) Classification of property
For purposes of this section -

(1) In general
Except as otherwise provided in this subsection, property shall be classified under the following table

Property shall be treated as:	If such property has a class life (in years) of:

MACRS Depreciation Periods and Prescribed Class Lives

Rev Proc 87-56 (1987-2 CB 674), as modified by Rev Proc 88-22 (1988-1 CB 785), provides as follows:

SEC 1 PURPOSE

The purpose of this revenue procedure is to set forth the class lives of property that are necessary to compute the depreciation allowances available under section 168 of the Internal Revenue Code, as amended by section 201(a) of the Tax Reform Act of 1986 (Act), 1986-3 (Vol 1) C B 38 [i e , MACRS]. Rev Proc. 87-57 [discussed at ¶ L-7900 *et seq.*] describes the applicable depreciation methods, applicable recovery periods, and applicable conventions that must be used in computing depreciation allowances under section 168

SEC 2 GENERAL RULES OF APPLICATION

01 *In general* This revenue procedure specifies class lives and recovery periods for property subject to depreciation under the general depreciation system provided in section 168(a) of the Code or the alternative depreciation system provided in section 168(g).

.02 *Definition of Class Life* Except with respect to certain assigned property described in section 3 of this revenue procedure, for purposes of both the general depreciation system and the alternative depreciation system, the term "class life" means the class life that would be applicable for any property as of January 1, 1986, under section 167(m) of the Code (determined without regard to paragraph 4 thereof and determined as if the taxpayer had made an election under section 167(m)) The class life that would be applicable for any property as of January 1, 1986, under section 167(m), is the asset guideline period (midpoint class life) for the asset guideline class in which such property is classified under Rev Proc. 83-35, 1983-1 C B [see page 35,003] However, for purposes of the alternative depreciation system, section 168(g)(3)(B) assigns a class life to certain property that is taken into account under section 168 rather than the class life that would be applicable as of January 1, 1986. The class life of property that is either determined as of January 1, 1986, under Rev. Proc. 83-35 or assigned under section 168(g)(3)(B) may be modified by the Secretary pursuant to authority granted under section 168(i)(1). See section 4 of this revenue procedure.

.03 *Rev. Proc. 83-35.* Rev. Proc. 83-35 [see page 35,003] sets out the asset guideline classes, asset guideline periods and ranges, and annual asset guideline repair allowance percentages for the Class Life Asset Depreciation Range System. The asset guideline periods (midpoint class lives) set out in Rev Proc. 83-35 are also used in defining the classes of [pre-'87 ACRS] recovery property under the Accelerated Cost Recovery System (that is, section 168 of the Code as in effect prior to amendment by section 201 of the Act) Rev Proc 83-35 remains effective for property subject to depreciation under those systems. Rev Proc 83-35 does not apply to property subject to depreciation under section 168, other than as a basis for determining the class lives of such property under section 2.02 of this revenue procedure

.04 *Property with no class life* Property that is neither described in an asset guideline class listed in section 5 of this revenue procedure nor assigned a class life under section 168(g)(3)(B) of the Code is treated as property having no class life for purposes of section 168 unless and until a class life is prescribed by the Secretary pursuant to the authority granted under section 168(i)(1) See section 4 of this revenue procedure. The general and alternative depreciation systems contain separate rules for classifying property that does not have a class life

SEC. 3. ASSIGNED PROPERTY WITH ASSIGNED CLASS LIVES, RECOVERY CLASSES, OR RECOVERY PERIODS

Under section 168(i)(1)(E) of the Code, the term "assigned property" means property for which a class life, recovery class, or recovery period is assigned under section 168(e)(3) or section 168(g)(3)(B), (C), or (D), and the term "assigned item" means the class life, recovery class, or recovery period assigned under section 168(e)(3) or section 168(g)(3)(B), (C), or (D). For purposes of the general depreciation system assigned property under section 168(c)(3) is assigned to a recovery class without regard to such property's class life. (See section 3.02 of Rev. Proc. 87-57). For purposes of the alternative depreciation system, certain assigned property is assigned a class life under section 168(g)(3)(B), notwithstanding such property's class life as set out in Rev. Proc. 83-35. See section 3.03 of Rev. Proc. 87-57. For purposes of the alternative depreciation system, certain assigned property is assigned a recovery period under section 168(g)(3)(C), (D), or (E), notwithstanding such property's class life (if any)

SEC 4. PRESCRIPTION AND MODIFICATION OF CLASS LIVES

.01 Section 168(i)(1)(B) of the Code provides that the Secretary, through an office established in the Treasury, shall monitor and analyze actual experience with respect to all depreciable assets. Except in the case of section 1250 property that is residential rental property or nonresidential real property, the Secretary, through that office, (i) may prescribe a new class life for any property, (ii) in the case of assigned property, may modify any assigned item, or (iii) may prescribe a class life for any property that does not have a class life within the meaning of section 2.02 of this revenue procedure Any class life or assigned item that is prescribed or modified pursuant to this authority shall be used for all purposes in determining depreciation allowances under the general depreciation system and the alternative depreciation system In the case of assigned property as defined in section 168(i)(1)(E), no class life set forth in this revenue procedure nor any other assigned item may be modified, unless such modification reflects a shortening of such class life, for property placed in service prior to January 1, 1992.

.02 Prescription or modification of class lives under the authority granted in section 168(i)(1)(B) of the Code shall reflect the anticipated useful lives, and the anticipated decline in value over time (that is, economic depreciation) of an asset to the industry or other group. Rules and practices governing prescription and modification of class lives pursuant to the authority granted in section 168(i)(1)(B) shall be announced through the office referred to in section 4 01 of this revenue procedure

SEC. 5 TABLES OF CLASS LIVES AND RECOVERY PERIODS

.01 Except for property described in section 5.02, below, the class lives (if any) and recovery periods for property subject to depreciation under section 168 of the Code appear in the tables below. These tables are based on the definition of class life in section 2.02 of this revenue procedure and the assigned items described in section 3 of this revenue procedure.

.02 For purposes of depreciation under the general depreciation system, residential rental property has a recovery period of 27.5 years and nonresidential real property has a recovery period of 31.5 years. For purposes of the alternative depreciation system, residential rental and nonresidential real property each has a recovery period of 40 years.

Under section 168(e)(2)(B)(ii) of the Code, "non-residental real property" does not include any property described in an asset class with a class life of less than 27.5 years. Even if nonresidential real property is described in an asset class with a class life of 27 5 years or more, the applicable recovery period for that property is 31.5 years for purposes of the general depreciation system and 40 years for purposes of the alternative depreciation system, regardless of the applicable recovery periods set out for the asset class in the tables below.

.03 Generally, the asset classes in the tables are incorporated from the asset guideline classes in Rev. Proc 83-35 as of January 1, 1986. However, descriptions of the following asset classes have been amended or added: 00.12, 00 3, 01.221, 01.222, 01.3, 01.4, 36.0, 36.1, 40.4, 48.12, 48.121, 48.31-48.45, 50, and 51. Certain asset guideline classes in Rev. Proc. 83-55 included property on the basis of regulated accounts For purposes of section 168 of the Code and this revenue procedure, asset classes include property described therein without regard to whether a taxpayer is a regulated public utility or an unregulated company.

.04 In addition to specifying class lives for each asset guideline class, the tables list certain property for which a recovery period is assigned, notwithstanding such property's class life (if any). See section 3 of this revenue procedure. The listed assigned property classes (denoted A–E) generally do not correspond to asset guideline classes for which class lives are specified in the tables. The class life (if any) of an item of assigned property described in classes A–E is determined by reference to the asset guideline class (if any) containing such item of property If an item of assigned property described in classes A–E is not contained in any asset guideline class, such item of property has no class life.

Examples. Qualified technological equipment as defined in section 168(i)(2) (class B) is assigned a recovery period of 5 years for both the general and alternative depreciation systems, notwithstanding such property's class life (if any). Property which is a computer or peripheral equipment, high technology telephone station equipment installed on the customer's premises or high technology medical equipment within the meaning of section 168(i)(2), may be described in asset guideline class 00.12 (class life 6 years), 48.13 (class life 10 years) or 57.0 (class life 9 years), respectively. Property used in connection with research and experimentation referred to in section 168(e)(3)(B) (class C) is assigned a recovery period of 5 years for the general depreciation system, notwithstanding its class life (if any). Such property's recovery period for the alternative depreciation system is based on its class life (if any) An item of property used in connection with research and experimentation has a class life if such property is contained in an asset guideline class.

.05 The following special rules are incorporated from Rev Proc. 83-35, sections 2.02(iii) and (iv):

1 Asset guideline class 00 3, "Land Improvement," includes "other tangible property" that qualifies under section 1.48-1(d) of the Income Tax Regulations However, a structure that is essentially an item of machinery or equipment or a structure that houses property used as an integral part of an activity specified in section 48(a)(1)(B)(i) of the Code, if the use of the structure is so closely related to the use of the property that the structure clearly can be expected to be replaced when the property it initially houses is replaced, is included in the asset guidelines class appropriate to the equipment to which it is related

2 Asset class 30.11 includes general rebuilding or rehabilitation costs for the special tools defined in class 30 11 that have been traditionally capitalized as the cost of a new asset.

SEC. 6. EFFECT ON OTHER REVENUE PROCEDURES

Rev. Proc 83-35 [see page 35,003] is obsoleted for property that is subject to section 168 of the Code

The principal author of this revenue procedure is Mr. Rick Robbins of the Corporation Tax Division. For further information regarding this revenue procedure, contact Mr. Rick Robbins on (202) 566-4440 (not a toll-free call).

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) General Depreciation System	Alternative Depreciation System
	Specific Depreciable Assets Used In All Business Activities, Except as Noted:			
00.11	Office Furniture, Fixtures, and Equipment: Includes furniture and fixtures that are not a structural component of a building. Includes such assets as desks, files, safes, and communications equipment. Does not include communications equipment that is included in other classes	10	7	10
00.12	Information Systems: Includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Information systems are defined as: 1) Computers: A computer is a programmable electronically activated device capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention. It usually consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. Excluded from this category are adding machines, electronic desk calculators, etc., and other equipment described in class 00.13. 2) Peripheral equipment consists of the auxiliary machines which are designed to be placed under control of the central processing unit. Nonlimiting examples are: card readers, card punches, magnetic tape feeds, high speed printers, optical character readers, tape cassettes, mass storage units, paper tape equipment, keypunches, data entry devices, teleprinters, terminals, tape drives, disc drives, disc files, disc packs, visual image projector tubes, card sorters, plotters, and collators. Peripheral equipment may be used on-line or off-line. Does not include equipment that is an integral part of other capital equipment that is included in other classes of economic activity, i.e., computers used primarily for process or production control, switching, channeling, and automating distributive trades and services such as point of sale (POS) computer systems. Also, does not include equipment of a kind used primarily for amusement or entertainment of the user	6	5*	5 *
00.13	Data Handling Equipment, except Computers: Includes only typewriters, calculators, adding and accounting machines, copiers, and duplicating equipment	6	5	6
00.21	Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines)	6	5	6
00.22	Automobiles, Taxis	3	5	5
00.23	Buses	9	5	9
00.241	Light General Purpose Trucks: Includes trucks for use over the road (actual unloaded weight less than 13,000 pounds)	4	5	5
00.242	Heavy General Purpose Trucks: Includes heavy general purpose trucks, concrete ready mix-truckers, and ore trucks, for use over the road (actual unloaded weight 13,000 pounds or more)	6	5	6
00.25	Railroad Cars and Locomotives, except those owned by railroad transportation companies	15	7	15
00.26	Tractor Units For Use Over-The-Road	4	3	4
00.27	Trailers and Trailer-Mounted Containers	6	5	6
00.28	Vessels, Barges, Tugs, and Similar Water Transportation Equipment, except those used in marine construction	18	10	18

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years): General Depreciation System	Recovery Periods (in years): Alternative Depreciation System
00.3	Land Improvements Includes improvements directly to or added to land, whether such improvements are section 1245 property or section 1250 property, provided such improvements are depreciable. Examples of such assets might include sidewalks, roads, canals, waterways, drainage facilities, sewers (not including municipal sewers in Class 51), wharves and docks, bridges, fences, landscaping, shrubbery, or radio and television transmitting towers. Does not include land improvements that are explicitly included in any other class, and buildings and structural components as defined in section 1.48-1(e) of the regulations. Excludes public utility initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102	20	15	20
00.4	Industrial Steam and Electric Generation and/or Distribution Systems Includes assets, whether such assets are section 1245 property or 1250 property, providing such assets are depreciable, used in the production and/or distribution of electricity with rated total capacity in excess of 500 Kilowatts and/or assets used in the production and/or distribution of steam with rated total capacity in excess of 12,500 pounds per hour for use by the taxpayer in its industrial manufacturing process or plant activity and not ordinarily available for sale to others. Does not include buildings and structural components as defined in section 1.48-1(e) of the regulations. Assets used to generate and/or distribute electricity or steam of the type described above but of lesser rated capacity are not included, but are included in the appropriate manufacturing equipment classes elsewhere specified. Also includes electric generating and steam distribution assets, which may utilize steam produced by a waste reduction and resource recovery plant, used by the taxpayer in its industrial manufacturing process or plant activity. Steam and chemical recovery boiler systems used for the recovery and regeneration of chemicals used in manufacturing, with rated capacity in excess of that described above, with specifically related distribution and return systems are not included but are included in appropriate manufacturing equipment classes elsewhere specified. An example of an excluded steam and chemical recovery boiler system is that used in the pulp and paper manufacturing industry	22	15	22
	Depreciable Assets Used in the Following Activities:			
01.1	Agriculture Includes machinery and equipment, grain bins, and fences but no other land improvements, that are used in the production of crops or plants, vines, and trees; livestock, the operation of farm dairies, nurseries, greenhouses, sod farms, mushroom cellars, cranberry bogs, apiaries, and fur farms; the performance of agriculture, animal husbandry, and horticultural services	10	7	10
01.11	Cotton Ginning Assets	12	7	12
01.21	Cattle, Breeding or Dairy	7	5	7
01.221	Any breeding or work horse that is 12 years old or less at the time it is placed in service**	10	7	10
01.222	Any breeding or work horse that is more than 12 years old at the time it is placed in service**	10	3	10
01.223	Any race horse that is more than 2 years old at the time it is placed in service**	†	3	12
01.224	Any horse that is more than 12 years old at the time it is placed in service and that is neither a race horse nor a horse described in class 01.222**	†	3	12
01.225	Any horse not described in classes 01.221, 01.222, 01.223, or 01.224	†	7	12
01.23	Hogs, Breeding	3	3	3

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years): General Depreciation System	Recovery Periods (in years): Alternative Depreciation System
42.0	Motor Transport—Freight: Includes assets used in the commercial and contract carrying of freight by road, except the transportation assets included in classes with the prefix 00.2	8	5	8
44.0	Water Transportation. Includes assets used in the commercial and contract carrying of freight and passengers by water except the transportation assets included in classes with the prefix 00.2. Includes all related land improvements	20	15	20
45.0	Air Transport. Includes assets (except helicopters) used in commercial and contract carrying of passengers and freight by air. For purposes of section 1.167(a)-11(d)(2)(iv)(a) of the regulations, expenditures for "repair, maintenance, rehabilitation, or improvement" shall consist of direct maintenance expenses (irrespective of airworthiness provisions or charges) as defined by Civil Aeronautics Board uniform accounts 5200, maintenance burden (exclusive of expenses pertaining to maintenance buildings and improvements) as defined by Civil Aeronautics Board uniform accounts 5300, and expenditures which are not "excluded additions" as defined in section 1.167(a)-11(d)(2)(vi) of the regulations and which would be charged to property and equipment accounts in the Civil Aeronautics Board uniform system of accounts	12	7	12
45.1	Air Transport (restricted). Includes each asset described in the description of class 45.0 which was held by the taxpayer on April 15, 1976, or is acquired by the taxpayer pursuant to a contract which was, on April 15, 1976, and at all times thereafter, binding on the taxpayer. This criterion of classification based on binding contract concept is to be applied in the same manner as under the general rules expressed in section 49(b)(1), (4), (5) and (8) of the Code (as in effect prior to its repeal by the Revenue Act of 1978, section 312(c)(1), (d), 1978-3 C.B. 1, 60)	6	5	6
46.0	Pipeline Transportation. Includes assets used in the private, commercial, and contract carrying of petroleum, gas and other products by means of pipes and conveyors. The trunk lines and related storage facilities of integrated petroleum and natural gas producers are included in this class. Excludes initial clearing and grading land improvements as specified in Rev. Rul. 72-403, 1972-2 C.B. 102, but includes all other related land improvements	22	15	22
	Telephone Communications. Includes the assets identified below and that are used in the provision of commercial and contract telephone services such as:			
48.11	Telephone Central Office Buildings. Includes assets intended to house central office equipment, as defined in Federal Communications Commission Part 31 Account No. 212 whether section 1245 or section 1250 property	45	20	45
48.12	Telephone Central Office Equipment. Includes central office switching and related equipment as defined in Federal Communications Commission Part 31 Account No. 221. Does not include computer-based telephone central office switching equipment included in class 48.121. Does not include private branch exchange (PBX) equipment	18	10	18

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) General Depreciation System	Alternative Depreciation System
48 121	Computer-based Telephone Central Office Switching Equipment Includes equipment whose functions are those of a computer or peripheral equipment (as defined in section 168(i)(2)(B) of the Code) used in its capacity as telephone central office equipment Does not include private branch exchange (PBX) equipment	9.5	5	9 5
48 13	Telephone Station Equipment. Includes such station apparatus and connections as teletypewriters, telephones, booths, private exchanges, and comparable equipment as defined in Federal Communications Commission Part 31 Account Nos 231, 232, and 234	10	7‡	10‡
48 14	Telephone Distribution Plant Includes such assets as pole lines, cable, aerial wire, underground conduits, and comparable equipment, and related land improvements as defined in Federal Communications Commission Part 31 Account Nos 241, 242 1, 242 2, 242 3, 242 4, 243, and 244	24	15	24
48 2	Radio and Television Broadcastings. Includes assets used in radio and television broadcasting, except transmitting towers	6	5	6
	Telegraph, Ocean Cable, and Satellite Communications (TOCSC) includes communications-related assets used to provide domestic and international radio-telegraph, wire-telegraph, ocean-cable, and satellite communications services, also includes related land improvements If property described in Classes 48 31–48 45 is comparable to telephone distribution plant described in Class 48 14 and used for 2-way exchange of voice and data communication which is the equivalent of telephone communication, such property is assigned a class life of 24 years under this revenue procedure Comparable equipment does not include cable television equipment used primarily for 1-way communication			
48 31	TOCSC—Electric Power Generating and Distribution Systems. Includes assets used in the provision of electric power by generation, modulation, rectification, channelization, control, and distribution Does not include these assets when they are installed on customers premises	19	10	19
48 32	TOCSC—High Frequency Radio and Microwave Systems Includes assets such as transmitters and receivers, antenna supporting structures, antennas, transmission lines from equipment to antenna, transmitter coolings systems, and control and amplification equipment Does not include cable and long-line systems	13	7	13
48 33	TOCSC—Cable and Long-line Systems Includes assets as transmission lines, pole lines, ocean cables, buried cable and conduit, repeaters, repeater stations, and other related assets. Does not include high frequency radio or microwave systems	26 5	20	26.5
48 34	TOCSC—Central Office Control Equipment Includes assets for general control, switching, and monitoring of communications signals including electromechanical switching and channeling apparatus, multiplexing equipment, patching and monitoring facilities, in-house cabling, teleprinter equipment, and associated site improvements	16.5	10	16 5
48 35	TOCSC—Computerized Switching, Channeling, and Associated Control Equipment. Includes central office switching computers, interfacing computers, other associated specialized control equipment, and site improvements	10 5	7	10 5
48 36	TOCSC—Satellite Ground Segment Property. Includes assets such as fixed earth station equipment, antennas, satellite communications equipment, and interface equipment used in satellite communications Does not include general purpose equipment or equipment used in satellite space segment property	10	7	10

Asset class	Description of assets included	Class Life (in years)	Recovery Periods (in years) General Depreciation System	Alternative Depreciation System
49.13	Electric Utility Steam Production Plant Includes assets used in the steam power production of electricity for sale, combustion turbines operated in a combined cycle with a conventional steam unit and related land improvements Also includes package boilers, electric generators and related assets such as electricity and steam distribution systems as used by a waste reduction and resource recovery plant if the steam or eletricity is normally for sale to others	28	20	28
49 14	Electric Utility Transmission and Distribution Plant. Includes assets used in the transmission and distribution of electricity for sale and related land improvements. Excludes initial clearing and grading land improvements as specified in Rev. Rul 72-403, 1972-2 C B. 102	30	20	30
49 15	Electric Utility Combustion Turbine Production Plant: Includes assets used in the production of electricity for sale by the use of such prime movers as jet engines, combustion turbines, diesel engines, gasoline engines, and other internal combustion engines, their associated power turbines and/or generators and related land improvements Does not include combustion turbines operated in a combined cycle with a conventional steam unit	20	15	20
49 21	Gas Utility Distribution Facilities: Includes gas water heaters and gas conversion equipment installed by utility on customers' premises on a rental basis	35	20	35
49.221	Gas Utility Manufactured Gas Production Plants Includes assets used in the manufacture of gas having chemical and/or physical properties which do not permit complete interchangeability with domestic natural gas Does not include gas producing systems and related systems used in waste reduction and resource recovery plants which are elsewhere classified	30	20	30
49 222	Gas Utility Substitute Natural Gas (SNG) Production Plant (naphtha or lighter hydrocarbon feedstocks): Includes assets used in the catalytic conversion of feedstocks or naphtha or lighter hydrocarbons to a gaseous fuel which is completely interchangeable with domestic natural gas	14	7	14
49 223	Substitute Natural Gas-Coal Gasification Includes assets used in the manufacture and production of pipeline quality gas from coal using the basic Lurgi process with advanced methanation. Includes all process plant equipment and structures used in this coal gasification process and all utility assets such as cooling systems, water supply and treatment facilities, and assets used in the production and distribution of electricity and steam for use by the taxpayer in a gasification plant and attendant coal mining site processes but not for assets used in the production and distribution of electricity and steam for sale to others Also includes all other related land improvements Does not include assets used in the direct mining and treatment of coal prior to the gasification process itself	18	10	18
49 23	Natural Gas Production Plant	14	7	14
49 24	Gas Utility Trunk Pipelines and Related Storage Facilities: Excluding initial clearing and grading land improvements as specified in Rev. Rul. 72-403	22	15	22

Docket No. 99-00507

Item 3 - 9/24/99
1 of 1

(UNAUDITED - SEE ACCOUNTANTS' REPORT)

LYNNWOOD UTILITY CORPORATION DETAIL OF FIXED ASSETS FOR YEAR ENDING 12/31/98					
Description	**Account Number**	**Service Life**	**Rate Applied**	**Original Cost**	**Current Depr**
Land	353	N/A	N/A	75,000 00	-
Totals for Account Number				**75,000.00**	-
Blower & Sump Pump	354	20	6.7630%	2,405.48	162 68
Pump Repairs	354	20	6.7630%	6,104.23	412.83
Plant - Overhaul & Improve	354	20	6.7630%	56,372.13	3,812 45
Manhole Raising	354	20	6.7630%	6,180.71	418 00
Meter	354	20	6 7630%	1,484.35	100.39
Major Repair - Sludge Tank	354	20	6.7630%	15,095.77	1,020.93
Major Repair - Gear	354	20	6.7630%	3,232 04	218.58
Totals for Account Number				**90,874.72**	**6,145.86**
Pump	371	20	6.7630%	184.07	12.45
Meter & Probe	371	20	6.7630%	1,470.84	99.47
Pumping Equipment	371	20	6.7630%	40,137.24	2,714.48
Pumping Equipment	371	20	6.7630%	565.23	38.23
Air Conditioner	371	20	6.7630%	883.10	59.72
Engineering Fees	371	20	6.7630%	7,818.38	528.76
Major Repair - Sludge Pipes	371	20	6.7630%	11,775.76	796.39
Totals for Account Number				**62,834.63**	**4,249.51**
Concrete Trunkage	380	20	6.7630%	127,361.93	8,613.49
Mechanical & Electrical	380	20	6.7630%	106,008 99	7,169.39
Pump Stations	380	20	6.7630%	8,625.96	583.37
Control Building	380	20	6.7630%	24,646.04	1,666.81
Motor for Plant	380	20	6.7630%	1,103.24	74.61
1997 Equipment Additions	380	20	6.7630%	54,711.77	3,700.16
1998 Equipment Additions	380	20	3.7498%	268,091.00	10,052.88
Totals for Account Number				**590,548.93**	**31,860.71**
Tractor	391	20	6.7630%	3,544.50	239.71
Totals for Account Number				**3,544.50**	**239.71**
TOTALS :				**822,802.77**	**42,495.78**

TENNESSEE REGULATORY AUTHORITY

Pat Miller, Chairman
Deborah Taylor Tate, Director
Sara Kyle, Director
Ron Jones, Director

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

January 14, 2005

Thomas M. McElroy
Attorney At Law
301 North Broadway
P.O. Box 1450
Tupelo, Mississippi 38802-1450

RE: Docket No. 04-00037 – Counce Natural Gas Company's Amended Petition to Increase Rates and Revised Rules and Regulations

Dear Mr. McElroy:

On January 5, 2004, you submitted on behalf of Counce Natural Gas Company ("Counce") a depreciation study as instructed by Hearing Officer Richard Collier in his September 1, 2004 order in the above docket. However, the information supplied is incomplete. The order states on page 7 that a depreciation study is needed "in order for the TRA to set depreciation rates on new plant additions." We will need the following information in support of Mr. Swetz's proposed depreciation rates for Counce.

For each FERC account number, provide:

(1) Experience relied on by management
(2) Copy of Internal Revenue Service regulations relied on
(3) List of other utilities polled, along with the applicable rates used by each one for each FERC account number in Counce's proposal

Please submit an original and thirteen copies addressed to the Chairman's office by January 25, 2005. If you have any questions regarding this request, please contact David Foster at extension 188 or Pat Murphy at extension 178.

Sincerely,

Darlene Standley

Darlene Standley, Chief
Utilities Division

Pm05-05

cc: Richard Collier
Mike Horton
Stephen Swetz

TENNESSEE REGULATORY AUTHORITY

Pat Miller, Chairman
Deborah Taylor Tate, Director
Sara Kyle, Director
Ron Jones, Director

460 James Robertson Parkway
Nashville, Tennessee 37243-0505

January 14, 2005

STEVE SWETZ

Thomas M. McElroy
Attorney At Law
301 North Broadway
P O. Box 1450
Tupelo, Mississippi 38802-1450

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Sincerely,

Darlene Standley

Darlene Standley, Chief
Utilities Division

Pm05-05

cc: Richard Collier
Mike Horton
Stephen Swetz

WWS

WATKINS, WARD AND STAFFORD
Professional Limited Liability Company
Certified Public Accountants

213 Commerce St
Phone (662) 494-5732

PO Box 1216

West Point, MS 39773
Fax (662) 494-7686

December 9, 2004

Mr. William H. Novak
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

RE: Counce Natural Gas Company
Depreciation Rates to Use for Future Plant Additions
Docket No. 04-00037 – Order Approving Amended Petition to Increase Rates and Revised Rules and Regulations

Dear Mr. Novak:

Enclosed please find an original and 13 copies of Counce Natural Gas Company's response to the appropriate depreciation rates to use for future plant additions. The schedule reports the proposed service life and depreciation rate applied to each class of asset categorized by FERC account number using the straight-line method of depreciation. The service lives are based on management's experience, Internal Revenue Service regulations, and the service lives used by other utility companies.

If there are additional questions, please feel free to call me at 662-494-5732 or email me at sswetz@wwscpa.com.

Sincerely,

WATKINS, WARD AND STAFFORD, PLLC

Stephen Swetz

Stephen Swetz, CPA

Enclosure

COUNCE NATURAL GAS COMPANY
DEPRECIATION RATE SCHEDULE

Description	FERC Account Number	Service Life	Rate Applied
Distribution Plant			
Land and land rights	374	N/A	0 00%
Structures and improvements	375	40	2 50%
Mains	376	20	5 00%
Compressor station equipment	377	20	5 00%
Measuring & regulating station equipment - general	378	20	5 00%
Measuring & regulating station equipment - city gate check stations	379	20	5 00%
Services	380	10	10 00%
Meters	381	10	10 00%
Meter installations	382	10	10 00%
House regulators	383	20	5 00%
House regulators installations	384	20	5 00%
Industrial measuring and regulating station equipment	385	20	5 00%
Other property on customers' premises	386	20	5 00%
General Plant			
Office furniture and equipment	391	5	20 00%
Transportation equipment	392	5	20 00%
Tools, shop, and garage equipment	394	5	20 00%
Power operated equipment	396	5	20 00%
Communication equipment	397	5	20 00%
Miscellaneous equipment	398	5	20 00%