This runs to a lot of money. Right now we have accumulated several million dollars in these accumulated funds due to the use of accelerated depreciation and the customers are getting this benefit.

Mr. BROYHILL. You are saying that somehow the customers will have to pay an increase.

Mr. BLACK. Yes, because eventually you will have to pay these taxes. Under accelerated depreciation you accelerate your depreciation of your property for tax purposes in the early years, but when you run out of depreciation, obviously you can no longer take it, and so in the latter years then of the life of the property you have already depreciated for tax purposes and therefore in setting up your books for tax purposes you no longer have it.

It is fairly complicated, but it is a fact.

Mr. BROWN of Ohio. Will the gentleman yield on this question? One of the theories of accelerated depreciation has to do with inflation, doesn't it?

Mr. BLACK. It encourages you to invest your money in property, which we do, but it has nothing to do with inflation as such.

Mr. BROWN of Ohio. Doesn't it also provide for consideration of the possibility that the replacement or repair of this facility that you are depreciating may require additional funds beyond a simple 100 percent replacement value?

Mr. BLACK. No. If I understand what your question is I think it is primarily a device that Congress set up in order to encourage people to make investments in plant and what you do is you save taxes during the early life of this equipment over your normal depreciation.

In other words, we depreciate at 3 percent. Let's assume the accelerated depreciation was 6 percent for tax purposes.

Mr. BROWN of Ohio. We are saying the same thing I believe. Maybe I am not saying it in an accountant's language, but what I am trying to suggest is that you are encouraged not to maintain plant and equipment beyond its depreciated life, but rather to reinvest in replacement or new equipment earlier so as to get a higher depreciation rate.

Mr. BLACK. That is correct. It encourages industry to replace their equipment, their old equipment.

Mr. BROWN of Ohio. You have the option then of either replacing it or——

Mr. BLACK. Building new equipment or adding to it.

Mr. BROWN of Ohio (continuing). Or not replacing it and not getting the advantage of depreciation.

Mr. BLACK. That is right, unless you make the investment that you take the depreciation on, you don't get it.

Mr. BROWN of Ohio. Well, just one more point if I may. The theory also includes the thought that replacement in and of itself may lower costs.

Mr. BLACK. Yes. That is correct.

Mr. BROWN of Ohio. So that if you reinvest when you have run out of depreciation, you not only get the advantage of the higher rate of depreciation, but you also get the savings of more efficient equipment?

Mr. BLACK. I think that is quite true.

Mr. BROWN of Ohio. And this in turn results in a savings to the customer or greater return for the utility, doesn't it?