LBM

Decision No. 29461

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on the Commission's own motion of the adoption of the Uniform System of Accounts for Telephone Companies prescribed by the Federal Communications Commission.)	Case No. 4082

James A. Marshall and Arthur T. George, for The Pacific Telephone and Telegraph Company and Southern California Telephone Company.
Ernest Irwin, for California Independent Telephone Association.
E. W. Watson, for Associated Telephone Company, Ltd.
Albert N. Johns, for Southwestern Home Telephone Company and Monrovia Telephone and Telegraph Company.
N. C. Steele, for Colusa County Telephone Company.
J. Jacobson, for Oxnard Home Telephone Company and Santa Paula Home Telephone Company.

BY THE COMMISSION:

ORIGINAL

OPINION

This is a proceeding instituted on October 28, 1935 on the Railroad Commission's own motion for the purpose of giving telephone companies operating in California and having annual operating revenues of $50,000. or more an opportunity to show cause why the Railroad Commission of the State of California should not adopt and prescribe for such telephone companies the uniform system of accounts prescribed by the Federal Communications Commission designated by it as, Issue of June 19, 1935, effective January 1, 1936, or approve or adopt the same with modifications.

A public hearing was held in this proceeding before Examiner Fankhauser on November 19, 1935. Notice of such hearing was sent to all telephone companies operating in California and having annual operating revenues of $50,000. or more.

The Telephone Division of the Federal Communications Commission on June 19, 1935, by its Order No. 7-C, prescribed for telephone companies having annual operating revenues exceeding $50,000. and operating under its jurisdiction, an uniform system of accounts designated as Issue of June 19, 1935, effective January 1, 1936.

Because of litigation the Federal Communications Commission postponed the effective date of such system of accounts. The Supreme Court of the United States by its decision of December 7, 1936 affirmed the decree of the District Court for the Southern District of New York which denied, except with respect to two minor points, the petition of The American Telephone and Telegraph Company, et al. for an injunction against the Federal Communications Commission to restrain its putting into effect the uniform system of accounts for telephone companies, Issue of June 19, 1935, effective January 1, 1936. In view of the decision of the Supreme Court the Telephone Division of the Federal Communications Commission recently announced that the provisions of the Uniform System of Accounts for telephone companies, Issue of June 19, 1935, effective January 1, 1936, except as modified by the decree of the District Court, shall be effective January 1, 1937.

The following quotation from the decision of the District Court covers the modification made by said Court:-

> " The plaintiffs object that no depreciation is allowed on property held for future use in account 100.3. Except in those rare instances when the entire cost of depreciation covers only the wear and tear on equipment in use, the plant held in reserve will depreciate because of obsolescence or deterioration as it is not entirely dependent on use. The exclusion of depreciation on this account as an item to be considered in rate determinations may be supportable but it appears unjustifiable to bar depreciation on this item altogether. Where the property is withdrawn from service for any portion of its life, upon its final retirement, the depreciation reserve set up for it would be inadequate. This can be adjusted by charging the depreciation to surplus rather than as a current account. Thus a true reflection of the adjusted value of the property would be obtained, and yet the accounts will so set off the item that it may be excluded from consideration as a current expense for rate purposes. "

"Instruction 21 (B)(3) directs a purchaser of property which has been acquired by the prior owner as a contribution, to record the contribution which the seller had received. This is done by crediting Account 175 'contributions of telephone plant' and debiting the same amount on the asset side, to account 100.4 'Telephone plant acquisition and adjustment' (Instructions 21 (B) (4)). Since this requirement is in addition to the usual entries covering the purchase, it results in swelling the assets and liabilities by a fictitious entry. It constitutes a double recording of this portion of the transaction. This part of the property is recorded once in the usual record of the transaction, and to require its inclusion a second time is unreasonable. No sufficient reason is advanced for such treatment. The desired record could be made without this inflation by a subdivision of account 100.4. It is unreasonable to require duplication and the plaintiffs are injured insofar as they are denied a reasonable and true accounting record by this provision."

We have considered the record in this proceeding. We think it is desirable that the general scheme of accounts prescribed by us should be the same as that of the Federal Communications Commission. Some telephone companies which are under our jurisdiction operate properties situate wholly in California, while others operate properties situate partly in California and partly in other states. For us to set up balance sheet accounts, plant accounts, income accounts, surplus accounts, revenue accounts and operating expense accounts different in number, title and text, from those of the Federal Communications Commission would only lead to confusion and perhaps unwarranted expense. But it does not necessarily follow that we subscribe to all the definitions and instructions contained in the proposed system of accounts. We will adopt the said system of accounts subject to the modifications presently stated.

We do not think it necessary that a system of accounts prescribe the method that shall be used to calculate the allowance for depreciation included in operating expenses. We therefore will not require by this order that telephone companies, subject to our jurisdiction calculate depreciation on a straight line basis. In prescribing the new system of accounts the Federal Communications Commission in its Order No. 7-C directed the companies during 1936 (now presumably during 1937) to keep and maintain in addition to the accounts appearing in such system, such portion or portions of their present accounts as may be necessary for the purpose of making a comparison with previous years. In this order, however, we will not require the companies to keep a duplicate set of records and as of January 1, 1937 will relieve the companies under our jurisdiction from the necessity of keeping their accounts in accordance with the uniform system of accounts now in effect.

We feel that a telephone company if it desires to do so should be permitted to write off discount on stock by charges to its surplus. We will not at this time direct telephone companies to undertake the preparation of a continuing or perpetual detailed record of telephone plant, as required by instruction 26 of the proposed system of accounts. To avoid delay in closing books we believe that instruction 81 of the proposed system of accounts should be modified to allow the computation of the monthly depreciation charges to be made on the basis of the balance in the plant accounts as of the first of the current month rather than on an average of the balance on the first and last of the current month in each plant account.

It should be understood that in prescribing the system of accounts mentioned herein, the Commission does not bind itself to approve any item set out in any account, either as to amount or character, for rate fixing purposes or when authorizing the issue of securities.

O R D E R

A public hearing having been held in the above entitled matter and the Railroad Commission having considered the record herein, IT IS HEREBY ORDERED AND DIRECTED that the uniform system of accounts for telephone companies, Issue of June 19, 1935, effective January 1, 1936, as amended and prescribed by the Federal Communications Commission be, and it hereby is, adopted and prescribed by the Railroad Commission for all telephone companies having annual operating revenues of $50,000. or more, operating in California under its jurisdiction, and that said telephone companies be, and they are hereby, directed and required on and after January 1, 1937, to keep their accounts and accounting records in conformity with said uniform system of accounts, provided,

1. That said telephone companies need not during 1937 keep the accounts provided in the uniform system of accounts now in effect, but the Commission may if in its opinion the need therefor arises call on said companies or any of them to prepare statements comparing the results of operation under the system of accounts effective January 1, 1937, with the system of accounts now in effect.
2. That Instruction 14 and Accounts Nos. 134.1 and 181 are hereby modified so as to permit all or part of any debit balance in Account 134.1-Discount on capital stock- to be charged at any time to Account 181-Unappropriated surplus.
3. That Instruction 25 is hereby modified so as to relieve the said telephone companies of the necessity in recording retirement of telephone plant from citing in the retirement entries the original entries relating to cost of the items retired, as now provided in said instruction.
4. That said telephone companies are hereby relieved from the provisions of Instruction 26 which requires the preparation of a continuing or perpetual detailed inventory or record of telephone plant.

5. That Instruction 80 and such other provisions of the uniform system of accounts where relevant are hereby modified to the extent necessary to permit said telephone cpmpanies, if they so desire, to accumulate the depreciation reserve under methods other than the straight line method.

6. That Instruction 81 is hereby modified so as to permit said telephone companies to compute monthly depreciation charges on the balances at the first of each month in each primary account.

IT IS HEREBY FURTHER ORDERED AND DIRECTED that from and after January 1, 1937 telephone companies having annual operating revenues of $50,000. or more be, and they hereby are relieved, so far as the Commission has jurisdiction, from keeping their accounts and records in accordance with the uniform system of accounts now in effect and heretofore prescribed or adopted by this Commission.

IT IS HEREBY FURTHER ORDERED AND DIRECTED that the Commission reserves the right to amend this order and that it does not bind itself to approve any item set out in any account, either as to amount or character, for rate fixing purposes or when authorizing the issue of securities.

DATED at San Francisco, California, this 21st day of December, 1936.

M B Harris

Wallace L Ware

Frank R Devlin

Commissioners.