

ORIGINAL

Decision No. 42925

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SANTA PAULA HOME TELEPHONE COMPANY, :  
for an order authorizing it to place )  
on its books the historical reproduc- :  
tion cost minus depreciation reserve }  
as reflected in an appraisal of that :  
company made as of December 31, 1947. )  
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Application  
No. 29933

Reginald L. Vaughan, for Applicant.

O P I N I O N

Santa Paula Home Telephone Company asks the Commission to issue its order authorizing applicant to record in its telephone plant accounts the figures shown in Exhibit "B" on file in this application, and the depreciation reserve therein shown in lieu of the figures appearing in said accounts as shown in its 1947 annual report.

Santa Paula Home Telephone Company is a corporation organized and existing under the laws of California. It owns and operates telephone properties situated in Santa Paula and vicinity. For 1947 it reported its operating revenues at \$113,001.33 and its net income at \$14,311.02, and for 1948 at \$136,609.11 and

\$19,393.81, respectively.

As of December 31, 1947, applicant reports its investment in telephone plant at \$302,109.81, segregated as follows:

Organization	\$ - -
Franchises	- -
Land	1,638.54
Buildings	37,398.48
Central office equipment	30,520.37
Station apparatus	69,594.28
Station installations	4,465.25
Drop and block wires	7,659.11
Private branch exchanges	1,432.23
Booths and special fittings	56.90
Pole lines	64,357.18
Aerial cable	38,421.90
Underground cable	5,653.41
Aerial wire	28,787.97
Underground conduit	5,601.03
Furniture and office equipment	1,165.08
Vehicles and other work equipment	<u>5,358.08</u>
Total	<u>\$302,109.81</u>

As of the same date its reserve for accrued depreciation is reported at \$179,110.86, which is equal to 62.2% of applicant's depreciable telephone plant as recorded on its books on December 31, 1947.

Applicant reports that because its books indicated that its depreciation reserve was excessive, it employed an engineer to prepare an appraisal of its properties on a historical reproduction cost basis and an estimate of the accrued depreciation in the properties, both as of December 31, 1947. The engineer's report is on file in this application as Exhibit "B". The report shows the following:

Acct. No. :	Description :	: Estimated : : Historical : : Reproduction : : Cost :	: Estimated Re- : serve for De- :preciation : :	: Estimated : Hist. Rep. : Cost Minus : Depn. Res. :
201	Organization	\$ 1,000.00	\$ - -	\$ 1,000.00
211	Land	1,507.50	- -	1,507.50
212	Buildings	41,722.75	1,168.24	40,554.51
221	Central office equipment	33,360.76	1,557.95	31,802.81
231	Station apparatus	45,428.05	14,900.40	30,527.65
232	Station installations	13,482.58	- -	13,482.58
233	Drop and block wires	12,274.66	- -	12,274.66
234	Private branch exchanges	2,405.70	416.91	1,988.79
235	Booths and special fittings	110.00	63.80	46.20
241	Pole lines	36,116.96	15,866.18	20,250.78
242.1	Aerial cable	24,898.51	10,893.10	14,005.41
242.2	Underground cable	2,468.05	388.72	2,079.33
243	Aerial wire	14,348.33	8,149.85	6,198.48
244	Underground conduit	4,347.66	1,249.95	3,097.71
261	Furniture and office equipment	3,246.45	1,006.40	2,240.05
264	Vehicles and other work equipment	3,654.84	1,262.75	2,392.09
	Grand Total	\$240,372.80	\$56,924.25	\$183,448.55

The foregoing appraisal figures do not include the following items:

Material and supplies	\$6,500.00
Lincoln club coupe	2,567.38
Nonoperative plant in Santa Paula	432.00
Total	<u>\$9,499.38</u>

The Lincoln club coupe is used by an officer of applicant, supervising the operations of applicant and two affiliated companies. It is, in effect, common property as is the furniture and equipment in the San Francisco office.

There is in the record a report prepared by an accountant of the Commission's staff.

The record shows conclusively the cost of applicant's property as recorded on its books is overstated. The overstatement

is not of recent origin. An appraisal made by Commission engineers in connection with a rate proceeding in 1921 showed that the then recorded cost of applicant's properties was \$58,373.21 in excess of the historical cost of its properties. The Commission engineers found such cost, as of June 30, 1921, to be \$64,390. At the end of 1921 applicant's books showed a plant cost of \$128,361.84. Said Exhibit "B" shows that only 5.37% of station equipment and exchange lines installed prior to 1922 was in service on December 31, 1947. At that date the cost of applicant's properties, as previously shown, was recorded at \$302,109.81. From 1912 to 1947, both years inclusive, applicant retired property recorded at \$110,400.94. The \$110,400.94 may be segregated to applicant's major accounting periods as follows:

1912 to 1920	\$ 5,987.21
1921 to 1922	8,461.63
1923 to 1929	5,478.86
1930 to 1942	26,004.75
1943 to 1947	<u>64,468.49</u>
Total	<u>\$110,400.94</u>

During recent years applicant has acquired land, constructed an office building and installed new central office equipment. One can determine from applicant's records the cost of its land, buildings and central office equipment. There is no need to substitute an appraisal for those items of property. From the record we find the cost of the same to be as follows:

Land	\$ 1,530.25
Buildings	37,506.77
Central office equipment	28,930.88

Applicant's charges to Accounts 231 to 264, both inclusive, contain errors in the distribution of the cost of its

properties and reflect some property no longer in service. Its accounting records do not contain sufficient information to enable one to identify the recorded costs in those accounts to property now in service. As to Accounts 231 to 264, both inclusive, applicant may, as of December 31, 1947, record its engineer's historical cost appraisal. The aggregate charges to Accounts 211 to 264, both inclusive, are recorded at \$292,610.43. The following order permits applicant to charge to its telephone plant accounts \$230,749.69. The difference between these two amounts, to wit, \$61,860.74, should be charged to applicant's depreciation reserve of \$179,110.86, leaving a balance in the reserve of \$117,250.12. Applicant's engineer finds the accrued depreciation in its properties to be \$56,924.25. The difference between this amount and the \$117,250.12 may by applicant be transferred to earned surplus, with the understanding that if it retires any property before it is fully depreciated it must charge to earned surplus the difference between the cost of property retired less its net salvage value and the amount in the depreciation reserve applicable to such property. The following order shows the amounts which applicant may charge to its telephone plant and other accounts as of December 31, 1947.

O R D E R

The Commission has considered the evidence submitted at the hearing had on this application before Examiner Fankhauser, and is of the opinion that Santa Paula Home Telephone Company should adjust its charges to its telephone plant accounts and its depreciation reserve account, as of December 31, 1947, as provided

in this order; therefore,

IT IS HEREBY ORDERED that Santa Paula Home Telephone Company shall adjust, after the effective date hereof and on or before November 30, 1949, its charges to its telephone plant and other accounts so as to show, as of December 31, 1947, approximately the following amounts:

Acct.No.:	Account	: Amount
<u>A. Telephone Plant in Service</u>		
211	Land	\$ 1,530.25
212	Buildings	37,506.77
221	Central office equipment	28,930.88
231	Station apparatus	45,428.05
232	Station installations	13,482.58
233	Drop and block wires	12,274.66
234	Private branch exchanges	2,405.70
235	Booths and special fittings	110.00
241	Pole lines	36,116.96
242.1	Aerial cable	24,898.51
242.2	Underground cable	2,468.05
243	Aerial wire	14,348.33
244	Underground conduit	4,347.66
261	Furniture and office equipment	3,246.45
264	Vehicles and other work equipment	3,654.84
Total - Telephone Plant		<u>\$230,749.69</u>
<u>B. Other Properties</u>		
103	Common utility plant	\$ 2,567.38
103	Nonoperative property	432.00
122	Material and supplies	6,500.00
Total - Other Properties		<u>\$ 9,499.38</u>
Total		<u>\$240,249.07</u>

IT IS HEREBY FURTHER ORDERED that Santa Paula Home Telephone Company shall charge to its depreciation reserve \$61,860.74, said amount representing the cost of properties no longer in service. The difference between the balance in the depreciation reserve, to wit, \$117,250.12 as of December 31, 1947, and the accrued depreciation in applicant's properties found by its

engineer to be \$56,924.25, (less adjustments in reserve balances applicable to buildings and central office equipment), shall be transferred to applicant's earned surplus, provided that if applicant hereafter retires any property before it is fully depreciated it must charge to earned surplus the difference between the cost of the property retired less the net salvage value of the retired property, and the amount in its depreciation reserve applicable to such retired property.

IT IS HEREBY FURTHER ORDERED that within sixty (60) days after adjusting its accounting records as herein ordered, applicant shall file with the Commission a copy of each and every journal entry used to record on its books said adjustments.

IT IS HEREBY FURTHER ORDERED that this order is effective twenty (20) days after the date hereof.

Dated at Los Angeles, California, this 1<sup>st</sup> day of June, 1949.

A. F. Zimmerman  
Chairman

Harold P. Hule

Kenneth D. Patten  
Commissioners