

ORIGINAL

Decision No. 45734

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
A. J. Cain, doing business as The	:	
Utilities Company of Novato, Cali-)	
fornia, for an order authorizing	:	
him to place on his books the)	Application
historical reproduction cost minus	:	No. 32168
depreciation reserve as reflected in)	
a study thereof made as of December	:	
31, 1949.)	
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Martin McDonough, for applicant.

O P I N I O N

A. J. Cain, applicant herein, is an individual operating a telephone system in Novato, Marin County, under the name of The Utilities Company of Novato. In this application, he asks the Commission to enter its order authorizing him to record on his books of account estimated historical reproduction costs of his properties, and related reserves for depreciation and amortization as shown in Exhibit B on file in the proceeding, in lieu of the balances appearing in these accounts as shown in his 1949 annual report.

Applicant reports that in 1949 an investigation of his accounting records by members of the Commission's staff revealed certain inaccuracies in the recorded balances for telephone plant and certain defects in the accounting procedure then followed. Because of these conditions, he employed R. L. Davis, a consulting engineer, to prepare an appraisal of his properties on an historical reproduction cost basis and an estimate of the depreciation accrued thereon, both as of December 31, 1949. The engineer's report is on

file in this proceeding as Exhibit B. A comparison of his conclusions with the then book figures is as follows:

	<u>Book Figures</u>	<u>R. L. Davis Appraisal</u>	<u>Excess of Appraisal</u>
Telephone plant	\$125,085.21	\$125,493.45	\$ 408.24
Reserves for depreciation	<u>41,716.79</u>	<u>25,032.37</u>	<u>(16,684.42)</u>
Net telephone plant	<u>\$ 83,368.42</u>	<u>\$100,461.08</u>	<u>\$ 17,092.66</u>

The reserves of \$25,032.37 calculated by Mr. Davis include a reserve for amortization of franchise cost in the amount of \$46.00.

In addition to items comprising the telephone plant, Mr. Davis priced out the inventory of material and supplies at \$13,096.36 and segregated this figure into \$7,244.96 representing material and supplies held for construction and maintenance, and \$5,851.40 representing items for which the company has no further use and which are held for salvage or disposal.

There is in the record in this proceeding a report prepared by a member of the Commission's staff. In this report information is presented explaining differences between recorded balances and those contained in the appraisal. The report also comments on the type of accounting records maintained prior to 1950, and contains references to changes which applicant subsequently has made in his accounting records and to the adequacy of those currently maintained. It appears that beginning in 1950 the records have been set up to bring them into conformity with the uniform system of accounts prescribed by the Commission.

The record clearly shows that the accounting system which applicant maintained prior to 1950 was inadequate and did not

reflect properly additions and retirements of plant. The record also indicates that the balance in the recorded reserve for depreciation is overstated, due, in part, to the use of service lives which are shorter than those employed in the appraisal but due principally to applicant's failure to account properly for retirements of plant.

During the course of the hearing held in this matter, applicant introduced a statement as Exhibit No. 1 in which is shown, among other things, the November 30, 1950, balance sheet as reflected by the books, the adjustments necessary to record the R. L. Davis appraisal, and the pro forma November 30, 1950, balance sheet after giving effect to the recording of the appraisal. Applicant's proposed adjustments would provide for the inclusion in telephone plant of \$470.21 which the R. L. Davis appraisal lists as the estimated cost of nonoperative land. This item should be charged to Account 103, Miscellaneous physical property. The adjustments provide for crediting the net increases to proprietary capital.

A review of the record clearly shows that the adjustments in applicant's accounts, as proposed, are desirable. Accordingly, an order will be entered.

O R D E R

The Commission having considered the evidence submitted at the hearing held on this application and being of the opinion that A. J. Cain, doing business as The Utilities Company of Novato, should adjust his books as provided in this order; therefore,

IT IS HEREBY ORDERED that A. J. Cain be, and he hereby is, authorized and directed, after the effective date hereof and on or before December 31, 1951, to make the adjustments on his books

substantially as shown in Exhibit No. 1, so as to reflect the estimated historical reproduction costs of his telephone plant and material and supplies and the calculated reserves for depreciation and amortization, as of December 31, 1949, shown in the R. L. Davis report filed as Exhibit B, provided that the sum of \$470.21 representing nonoperative land be transferred from Account 211 to Account 103.

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

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

Dated at San Francisco, California, this 22nd day of May, 1951.

R. J. Anderson
Justice J. Carver
Harold Hule
John L. Mitchell
Commissioners