

ORIGINAL

Decision No. ~~49279~~

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
PACIFIC GAS AND ELECTRIC COMPANY for	:	
an order authorizing applicant to)	
account for income tax reductions	:	
arising from the exercise by appli-)	
cant of the accelerated amortization	:	Application
privilege granted by Section 124-A)	No. 35213
of the U. S. Internal Revenue Code	:	
in the manner set forth herein.)	
-----	:	

Robert H. Gerdes, R. W. DuVal and John C. Morrissey,
for applicant; Grant C. Calhoun of Carlson, Collins,
Gordon and Bold, for City of Richmond, interested
party; Walter Wessells, for the Commission's staff.

O P I N I O N

Pacific Gas and Electric Company has filed this application for approval of its proposed accounting treatment with respect to deferments of taxes on income arising from accelerated amortization of certificated defense facilities.

A public hearing was held before Commissioner Potter and Examiner Coleman in San Francisco on April 19, 1954, at which time the application was taken under submission.

Under the provisions of Section 124-A of the United States Internal Revenue Code, any taxpayer who has received a certificate of necessity from the defense authority for the construction of emergency facilities may amortize the cost of the facilities, for tax purposes, over a period of 60 months, in lieu of taking depreciation over the estimated life of such facilities, and thereby realize reductions in taxes on income during the period of amortization.

Applicant reports that it has received certificates permitting the rapid amortization of \$104,792,110 of expenditures for emergency facilities and that it has applications pending for certificates involving estimated additional expenditures of \$12,460,077.

The reductions in taxes during the 60-month period are estimated by applicant at \$48,173,509. It proposes to charge to an income account during the period of accelerated amortization the reductions in taxes and to credit the same to a restricted surplus account. Following the close of the amortization period it proposes to draw down the balance in the restricted surplus account by crediting to current income an amount equal to the annual increase in taxes based on income during the post-amortization period, which increase will result from the fact that normal depreciation on the emergency facilities cannot then be deducted. It asserts that the exercise of the emergency certificates will be of advantage to it in that it will be able to generate approximately \$50,000,000 of funds from internal sources for construction purposes.

The accelerated amortization provisions of the Internal Revenue Code do not relieve the utility from the payment of income taxes; they merely defer payment to a later date. The effect of applicant's accounting proposal is to eliminate the fluctuations in the income account which would result from the deferment of taxes to a subsequent period and to state the net income, during both the amortization and the post-amortization periods, as if the certificates had not been accepted.

We have reviewed this matter and are of the opinion that applicant's proposed accounting procedure should be authorized.

ORDER

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Pacific Gas and Electric Company, in accounting for reductions in federal and state income taxes arising from the exercise of necessity certificates permitting the accelerated amortization of defense facilities, is authorized:

(a) To establish and charge Income Account 507 A--Provision for income taxes payable following period of accelerated amortization--and concurrently credit Balance Sheet Account 272--Surplus restricted for income taxes payable following period of accelerated amortization--with the amount of the tax reductions for the years 1952 and 1953, and to make similar entries each year hereafter during the period of accelerated amortization covering the reduction in federal and state taxes based on income resulting from the deduction from taxable income of the amount of the excess of accelerated amortization over normal depreciation, and

(b) To charge, following the expiration of the accelerated amortization period and continuing until such time as the balance in Account 272--Surplus restricted for income taxes payable following period of accelerated amortization--has been exhausted, said Account 272 and concurrently credit Income Account 507 A--Provision for income taxes payable following period of accelerated amortization--with an amount equal to the increase in federal and state taxes based on income resulting from the reduction in the allowance of normal depreciation due to accelerated amortization of the cost of facilities pursuant to Section 124-A of the Internal Revenue Code.

2. Pacific Gas and Electric Company shall file with each annual report to the Commission a statement showing for the accounting period in question and for each necessity certificate the normal depreciation expense assignable thereto, the amortization claimed for tax purposes, the resulting tax deferment, and the accounting for these tax deferments.

3. Property in respect of which said necessity certificates are issued shall be accounted for in the same manner as other property and depreciation for such facilities shall be accrued at normal rates.

4. The authorization herein granted is for accounting purposes only. The Commission reserves the right to determine how the deferred taxes may be treated in any future rate making proceedings which may come before it.

5. The authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 27th day of April, 1954.

[Signature]
President

[Signature]

[Signature]

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Commissioners