

ORIGINAL

Decision No. 50049

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
THE CALIFORNIA OREGON POWER COMPANY)	
for an order authorizing the account-)	Application
ing procedure to be followed with respect)	No. 35154
to amortization of certain facilities.)	
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Brobeck, Phleger & Harrison, by George D. Rives,
 for applicant; John Carroll Morrissey, for Pacific
 Gas and Electric Company, interested party;
Walter Wessells, for the Commission's staff.

O P I N I O N

In this application The California Oregon Power Company seeks the Commission's approval of its proposed accounting treatment with respect to deferment of taxes on income arising from accelerated amortization of certificated defense facilities.

The application was filed with the Commission on February 16, 1954. A public hearing was held before Commissioner Potter and Examiner Coleman in San Francisco on April 19, 1954, at which time the matter was taken under submission. It now is ready for decision.

Under the provisions of Section 124-A of the United States Internal Revenue Code, any tax payer who has received a certificate of necessity issued by the defense agency for the construction of any emergency facilities may elect to 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 the facilities, and thereby

realize reductions in taxes on income during the period of amortization. Applicant reports that it has a necessity certificate issued by the Defense Production Authority permitting the rapid amortization of approximately \$24,700,000 of the cost of its Soda Springs, Fish Creek, Clearwater and Lemolo hydroelectric plants on the North Umpqua River and certain transmission facilities. It is estimated that the last unit covered by the certificate will not be completed until 1956 and that accelerated amortization will carry through the year 1961.

The annual reductions in taxes during the 60-month period, according to applicant's Exhibit No. 1, will range from \$280,000 during 1953 to \$2,318,000 during 1957, assuming a 52% federal income tax rate, with the total reduction for all the years estimated at approximately \$11,000,000 at the 52% rate. It is applicant's intention to account for such reductions in taxes during the period of accelerated amortization by charging the amounts thereof to an income account and crediting the same to a miscellaneous reserve account. Following the close of the amortization period, it proposes to draw down the balance in the reserve account by crediting to an income account each year an amount equal to the increase in the taxes on income which will result from the fact that normal depreciation on the emergency facilities cannot then be deducted.

The accelerated amortization provisions of the Internal Revenue Code do not provide for the forgiveness of the payment of any taxes on income. They merely permit the deferment of part of the taxes until a later date. The advantage to the utility is the generation of additional funds from internal sources during the amortization period which will be available for construction purposes.

We have reviewed this application and the evidence submitted in support of it and are of the opinion that applicant's

proposed accounting procedure should be approved.

O R D E R

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. The California Oregon Power Company, in accounting for reductions in federal and state income taxes arising from the exercise of its necessity certificate permitting the accelerated amortization of defense facilities, is authorized:

(a) To charge to Account 507-2, Provision for Deferred Taxes, a separate subaccount under Account 507, Taxes, and to credit to Reserve for Deferred Taxes, a separate subaccount under Account 258-2, Miscellaneous Reserves, an amount each year equal to the reduction in federal income and California Bank and Corporation Franchise taxes resulting from the accelerated amortization permitted by the necessity certificate.

(b) To charge Account 507-1, Federal Income Taxes, (a new subaccount) with federal income taxes to be paid and applicable to the current year.

(c) To charge Account 507-3, Other Federal, State and Local Taxes, (a new subaccount) with California Bank and Corporation Franchise taxes to be paid and applicable to the current year.

(d) After the accelerated amortization under the necessity certificate is complete or discontinued and thereafter during the life of such property or until the earlier exhaustion of the portion of the Reserve for Deferred Taxes related to such property:

i. To charge Reserve for Deferred Taxes and credit Account 507-4, Portion of Current Taxes Deferred in Prior Years, (a sub-account under Account 507, Taxes) an amount for each year equal to the increase in federal income and California Bank and Corporation Franchise taxes payable for that year due to the fact that normal depreciation cannot be deducted because of previous amortization of the property under the necessity certificate.

ii. To charge Reserve for Deferred Taxes and credit Portion of Current Taxes Deferred in Prior Years with an amount equal to any balance in that reserve at December 31 of each year for plant retired during said year which had been amortized under such necessity certificate.

2. If any balance remains in said Reserve for Deferred Taxes when all plant amortized under the necessity certificate has been retired, applicant shall charge to said reserve account, during each of the 10 years next following, an amount equivalent to 10% of such balance and shall credit the same to Account 507-1, Federal Income Taxes.

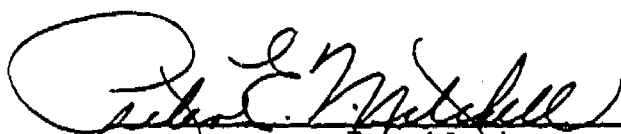
3. Applicant shall file with each annual report to the Commission a statement showing, for the report year and cumulatively through such report year: (1) the normal depreciation expense assignable to the construction covered by the necessity certificate, (2) the amortization claimed for tax purposes, (3) the resulting tax deferment and (4) the accounting for such tax deferment.

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

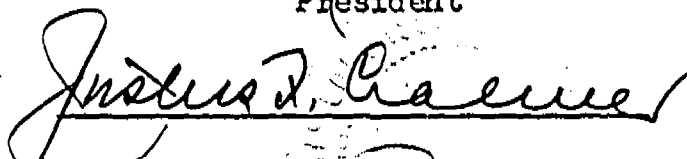
5. The authorization herein granted is for accounting purposes only. The Commission reserves the right to determine how the deferred taxes may be treated in any future rate making proceedings which may come before it.

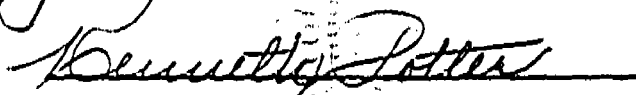
6. The authority herein granted will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 18th day of May, 1954.



President







Commissioners