

Decision No. 50594

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
California Electric Power Company	:	
for an order authorizing accounting	)	Application
procedure with respect to amortiza-	:	No. 35853
tion of certain facilities.	)	
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O P I N I O N

California Electric Power Company, applicant herein, is a Delaware corporation engaged principally in the business of supplying electric energy in portions of the counties of Mono, Inyo, Kern, San Bernardino and Riverside, in the State of California, and in the counties of Nye and Esmeralda, in the State of Nevada. In this application it requests the Commission to approve its proposed accounting treatment with respect to deferrals of taxes on income arising from accelerated amortization of certificated defense facilities.

Under the provisions of Section 124-A of the United States Internal Revenue Code, made applicable to the California Corporation Income (Franchise) Tax by the California Revenue and Taxation Code, Section 24121h, any taxpayer who has received a certificate of necessity from the defense authority for the construction of emergency facilities may amortize the cost of such 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 by reason of the deduction of the excess of accelerated amortization over normal depreciation. Applicant reports that it has received

certificates authorizing it to accelerate, for federal and state income tax purposes, the amortization of certain of its electric facilities as follows:

<u>Facility</u>	<u>Total Cost of Facility</u>	<u>Amount Certified</u>
Edwards Air Force Base Transmission Line from Highgrove to Perris Valley Sub	\$ 391,186.53	\$ 208,468.97
Highgrove Steam Plant-Unit #3	236,412.43	82,744.35
Highgrove Terminal Facilities, Project #2	5,527,120.30	1,934,492.11
San Bernardino Terminal Facilities, Project #2	295,662.00*	103,482.00*
Highgrove-San Bernardino Trans- mission Line, Project #2	241,140.00*	
Valley Sub Facilities, Project #4	122,711.00*	42,631.00*
Highgrove Terminal Facilities, Project #4	216,632.00*	72,218.00*
	<u>50,202.00*</u>	<u>17,571.00*</u>
Totals	<u>\$7,081,066.26</u>	<u>\$2,461,607.43</u>

\* Estimated

On its federal income tax return for 1952 applicant's claimed deduction for accelerated amortization of certificated facilities exceeded the amount allowable through the use of normal depreciation rates by the amount of \$36,514.25 and for the year 1953 by the amount of \$45,155.81, resulting in reductions in federal taxes based on income of approximately \$19,000 for 1952 and \$22,300 for 1953. Identical deductions were claimed on the California Bank and Corporation Franchise Tax returns. Applicant reports for the year 1954 it may claim deductions in the amount of \$403,265.44 on each of the two returns, which would result in an estimated reduction of \$224,000 in federal and state taxes based on income for 1954.

In 1952 and 1953 applicant, by appropriate journal entries, set up the amount of the reduction in taxes in Account No. 258.26, Reserve for Deferred Federal Income Taxes Resulting from Amortization of Emergency Facilities, with no similar entries, however, being

made with respect to reductions in the California taxes. It now asks the Commission to approve these entries heretofore made and to authorize it, for 1954 and future years, to charge to an income account during the period of accelerated amortization the amounts of the reductions in taxes and to credit the same to a reserve account. Following the close of the amortization period it proposes, with the approval of the Commission, to draw down the balance in the reserve account by crediting current income with an amount equal to the annual increases in taxes which will result from the fact that normal depreciation on the emergency facilities cannot then be deducted.

The accelerated amortization provisions 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.

O R D E R

The Commission having considered the above entitled matter, and being of the opinion that a public hearing is not necessary and that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. California Electric Power 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 to charge Income Account No. 507.11, Provision for Deferred Income Taxes, and concurrently to credit Balance Sheet Account No. 258.26, Reserve for Deferred Federal Income Taxes Resulting from Amortization of Emergency Facilities, each year during the period of accelerated amortization, with the amount of the federal income tax reduction resulting from the deduction from taxable income of the amount of the excess of accelerated amortization over normal depreciation; and,

(b) To charge said Account No. 258.26 following the expiration of the accelerated amortization period and continuing until such time as the balance in said account has been exhausted, and concurrently to credit Income Account No. 507.12, Credits to Operations Arising from Federal Income Taxes Deferred in Prior Years, with an amount equal to the increase in federal income taxes 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; and,

(c) To charge Income Account No. 507.39, City, County and State Taxes, and concurrently to credit Balance Sheet Account No. 258.261, Reserve for Deferred California Corporation Franchise Tax Resulting from Amortization of Emergency Facilities, each year during the period of accelerated amortization, with the amount of the state franchise tax reduction resulting from the deduction from taxable income of the amount of the excess of accelerated amortization over normal depreciation; and,

(d) To charge said Account No. 258.261, following the expiration of the accelerated amortization period and continuing until such time as the balance in said account has been exhausted,

and concurrently to credit Income Account No. 507.39 with an amount equal to the increase in California corporation franchise tax resulting from the reduction in the allowance for normal depreciation due to accelerated amortization of the cost of facilities pursuant to Section 24121h of the California Revenue and Taxation Code.

2. California Electric Power Company's journal entries of December 31, 1952 and 1953 crediting \$19,000 and \$22,300 to Account No. 258.26, with corresponding debits to Account No. 507.1, referred to in this application, hereby are approved.

3. California Electric Power 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 resultant tax deferment, and the accounting for these tax deferments.

4. Property in respect of which said necessity certificates are issued shall be accounted for on the books 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 upon the date hereof.

Dated at Los Angeles, California, this 26<sup>th</sup> day of October, 1954.

Arthur E. Mitchell  
President

Justin J. Caswell  
Francis J. Patten

James Duggins

Paulo Lutererius  
Commissioners