

**ORIGINAL**

Decision No. 50723

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 SOUTHERN CALIFORNIA EDISON COMPANY, )  
 for an Order of the Public Utilities )  
 Commission of the State of California )  
 prescribing certain forms of accounts )  
 to be kept by Applicant with respect )  
 to Federal and State Income Tax )  
 allowances relating to elective )  
 accelerated amortization of emergency )  
 defense facilities specified under )  
 the Internal Revenue Code. )

Application  
No. 35871

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O P I N I O N

Southern California Edison Company, applicant herein, is a California corporation engaged in the business of generating, transmitting and distributing electric energy as a public utility in the central and southern portions of the State of California. In this application it requests Commission approval of its proposed accounting treatment with respect to deferments of taxes on income arising from the accelerated amortization of its investment in certificated defense facilities.

Under the provisions of Section 168 (old Section 124A) 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 Production Administration for the construction of emergency facilities may, at its election, accelerate for income tax purposes over a period of 60 months the amortization of the portion of the cost of such facilities determined to be attributable to defense purposes, in lieu of taking normal allowances for depreciation, and may elect, at any time prior to

completion of full amortization of such facilities, to discontinue such accelerated amortization.

Applicant reports that it has received certificates authorizing it to accelerate, for federal and state income tax purposes, the amortization of its investment in electric facilities as follows:

<u>Facility</u>	<u>Estimated Cost</u>	<u>Percentage Certified for Amortization</u>	<u>Estimated Amount which may be Amortized</u>
Etiwanda Steam Station	\$ 35,182,000	40%	\$14,072,800
Waste disposal facilities- Etiwanda	1,076,000	40	430,400
Fuel Oil Line-Etiwanda	2,525,000	40	1,010,000
Transmission lines from Etiwanda	2,681,788	40	1,072,715
Center Transmission Substation	4,773,548*	20	954,710
Transmission Lines to Center Substation	1,249,958*	20	249,992
Antelope Transmission Substation	2,091,662	40	836,665
Facilities to Serve:			
Northrop Aircraft Inc.	28,039*	20	5,607
Consolidated Vultee Aircraft Corp.	65,697*	35	22,994
Redondo No.2 Steam Station	25,085,150	25	6,271,288
El Segundo Steam Station	23,668,890	30	7,100,667
Laguna Bell Substation	2,926,788	40	1,170,715
Chino-Ganesha Transmission Line	91,364	40	36,546
Antelope-Piute Transmission Line	94,787	40	37,915
Vermilion Valley Reservoir	8,652,805	30	2,595,842
Center Substation	147,568	40	59,027
Barre-Villa Park-Fairview- Irvine Transmission Line	72,882	40	29,153
<b>Totals</b>	<b>\$110,413,926</b>		<b>\$35,957,036</b>

\* Recorded costs to 12-31-53.

On its federal income tax return for 1953 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 \$214,105 resulting in a reduction of \$111,335 in the federal income tax otherwise payable for 1953. An identical deduction was claimed on the California Bank and Corporation Franchise Tax return. Applicant reports that for the year 1954 it may claim deductions in the amount of \$3,129,000 on each of the two returns, which would result in an estimated reduction of \$1,631,000 in

the federal and state taxes on income otherwise payable by applicant for 1954.

Applicant reports that it has not as yet made entries on its books to reflect the deferment of tax payments. It proposes, with the approval of the Commission, to charge to an income account during the period of accelerated amortization the amounts of the reductions in federal and state taxes based on income and to credit the same to a reserve account. Following the close of the amortization period it proposes to draw down the balance in the reserve account by crediting current income, and charging the reserve, with an amount each year equal to the increases in taxes which will result from the fact that normal depreciation on the emergency facilities cannot then be deducted.

The primary effect of such accelerated amortization of the investment in certificated defense facilities is to defer for a period of time the payment of federal and state taxes based on income by reducing the amount of such taxes payable during the amortization period and increasing the amount of such taxes otherwise payable thereafter during the life of the facilities so amortized. The aggregate amount of such taxes which would be paid over the entire period, other things being equal and the rates remaining unchanged, would be identical, with or without such amortization. The proposed accounting treatment will eliminate the fluctuations in the income account which would result from the deferment of taxes to a subsequent period and will state the net income during both the amortization and the post-amortization periods as if the certificates had not been accepted.

ORDER

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 hereinafter provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Southern California Edison Company, in accounting for reductions in federal and state taxes based on income arising from the exercise of necessity certificates permitting the accelerated amortization of defense facilities, is authorized:

(a) To establish and charge Income Account No. 507.11, Provision for Deferred Income Taxes, as a separate subaccount under Account No. 507, Taxes, and concurrently credit Account No. 258.2, Reserve for Deferred Income Taxes, with an amount or amounts in total for each year equal to the reduction for that year in federal and state income taxes arising out of accelerated amortization, and

(b) After such accelerated amortization under each necessity certificate is completed, or is discontinued by applicant, and thereafter during the life of such facility, or until the earlier exhaustion of the portion of the Reserve for Deferred Income Taxes relating to such facility, to charge Account No. 258.2, Reserve for Deferred Income Taxes, and concurrently to credit Income Account No. 507.12, Portion of Income Taxes Deferred in Prior Years, (a separate subaccount under Account No. 507, Taxes) with an amount or amounts in total for each year for each necessity certificate equal to the increase in federal and state income taxes payable for that year resulting from the reduction in the normal allowance for depreciation due to the accelerated amortization of the cost of facilities in an earlier period pursuant to the aforesaid provisions of the Internal Revenue and California Revenue and Taxation Codes.

2. Southern California Edison Company shall file with each annual report to the Commission a statement showing, for the

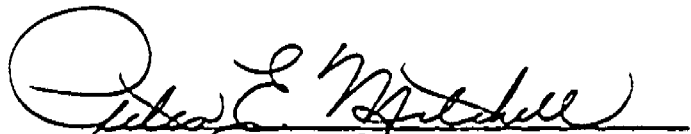
accounting period in question and for each necessity certificate, the normal depreciation expense assignable thereto, the amortization claimed for tax purposes, the resultant tax deferment, and the accounting for these tax deferments.

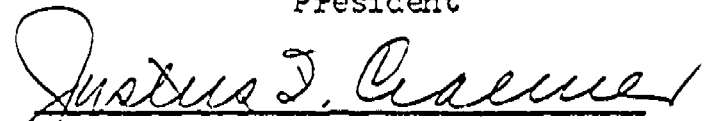
3. Property in respect of which said necessity certificates are issued shall be accounted for on the books in the same manner as other property and depreciation for such facilities shall be accrued at normal rates.

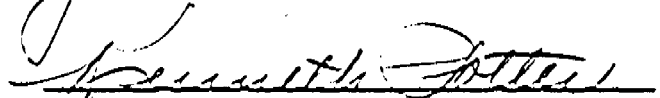
4. The authorization herein granted is for accounting purposes only. The Commission reserves the right to determine how the deferred taxes may be treated in any future rate-making proceedings which may come before it.

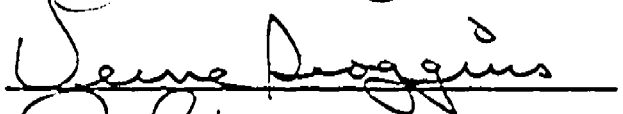
5. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 3rd day of November, 1954.

  
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President

  
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Commissioners