

Decision No. 50752**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
SOUTHERN COUNTIES GAS COMPANY OF	:	
CALIFORNIA for a general increase in	)	Application
retail and wholesale gas rates under	:	No. 31161
Section 63(a) of the Public Utilities	)	
Act.	:	
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FIRST SUPPLEMENTAL OPINION

By Decision No. 45320, dated January 30, 1951, the Commission authorized and directed Southern Counties Gas Company of California to carry out the terms of a memorandum of understanding relative to depreciation practices and to place on its books the journal entries necessary to carry out the provisions of said memorandum. The program thus approved resulted in a reduction of \$2,750,000 in the depreciation reserve account, as of December 31, 1949, by transfers to the following accounts:

Earned surplus	\$ 770,000
Contingency reserve in respect to estimated tax accrual deficiency for years prior to 1950	550,000
Reserve for write-off of acquisition adjustments, including certain intangibles, to be determined under the accounting classification of January 1, 1949	750,000
Reserve for insurance	<u>680,000</u>
Total	<u>\$2,750,000</u>

It was stated in the memorandum that the differences between the tax deficiencies and the acquisition adjustments, on the one hand, and the amounts thus set up in the two reserves, on the other hand, would be disposed of through surplus upon actual determination of the amounts. The amount set up in the reserve for

insurance is specifically reserved to be used for insurance reserve purposes.

Applicant now has filed proposed journal entries to make final disposition of reserve balances under the terms of the memorandum of understanding and to reclassify its plant accounts to an original cost basis as required by the terms of the uniform system of accounts for gas corporations which became effective January 1, 1949. It seeks the Commission's approval of the entries.

So far as the contingency reserve is concerned, applicant has accumulated therein the sum of \$783,568.77, including the \$550,000 transferred from the depreciation reserve and additional amounts of \$233,568.77 which it has appropriated. It reports that it has been audited by the Bureau of Internal Revenue for the taxable years through 1949 and all liability for assessments and applicable interest has been determined to be \$359,070.08 and has been satisfied. It proposes to charge this amount against the appropriate reserve, leaving an unused balance of \$424,498.69 which it intends to transfer to surplus in accordance with the terms of the memorandum.

As to the reserve for write-off of acquisition adjustments, the company has been engaged in reclassifying its plant accounts to an original cost basis. It has filed a report of its proposed reclassification, which has been reviewed by the staff. Following such review, certain adjustments were made in the initial study and applicant now has made a revised filing showing total final adjustments of \$461,357.22 in its plant accounts to reflect the write-out of amounts determined to be in excess of original cost.

With respect to the initial balance of \$750,000 in the reserve, applicant proposes to apply \$461,357.22 to reflect the adjustment in the plant accounts and \$75,419.36 to reflect necessary adjustments in the reserve for depreciation arising out of the changes in the plant accounts, leaving an unused balance in the reserve of \$213,223.42 to be closed out to surplus.

By the proposed journal entries now before the Commission applicant will restate its plant accounts on an original cost basis, will eliminate all items of acquisition adjustments from its books, including all items of intangible capital except the recorded cost of franchises and certain miscellaneous items, and will dispose of two of the special reserves which were set up in accordance with the memorandum of understanding. The transactions will result in the transfer to surplus of unused reserves in the amount of \$637,722.11.

FIRST SUPPLEMENTAL ORDER

The Commission has considered the request of Southern Counties Gas Company of California for approval of journal entries and is of the opinion that such entries are in proper form; therefore,

IT IS HEREBY ORDERED as follows:

1. The Public Utilities Commission hereby approves, for accounting purposes, the journal entries submitted by Southern Counties Gas Company of California under date of November 4, 1954, to reflect the reclassification of its plant accounts to an original cost basis and to record adjustments in its several reserves and

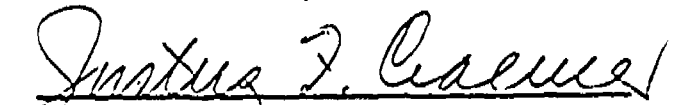
other accounts, and hereby authorizes Southern Counties Gas Company of California to enter such entries on its books of account.

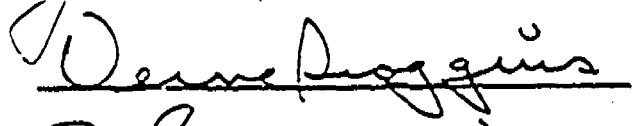
2. The action taken herein shall not be construed to be a finding of the value of applicant's plant.

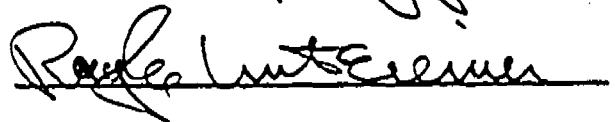
3. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 16<sup>th</sup> day of November, 1954.

  
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President

  
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Commissioners