

ORIGINAL

Decision No. 58116

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of
CALIFORNIA ELECTRIC POWER COMPANY
for Authority to Establish
Account 266.2 Accumulated
Deferred Taxes on Income -
Liberalized Depreciation, and
Account 507-B Taxes on Income
Deferred in Prior Years--Credit,
and to Make Certain Accounting
Entries in Connection Therewith.

Application No. 40833

O P I N I O N

California Electric Power Company, applicant herein, prior to 1958 had elected to use the liberalized depreciation provisions of the Internal Revenue Code of 1954 and, by normalizing tax expense, had accumulated a reserve of \$894,000 as of December 31, 1957, to provide for estimated deferred federal income taxes resulting from the application of such provisions.

In 1958, however, the company discontinued, retroactively to January 1, 1958, its practice of normalizing tax expense because of the use of accelerated depreciation for income tax purposes and transferred the \$894,000 to its earned surplus account.

California Electric Power Company is engaged in business as a public utility in California and Nevada and is subject to regulation by the Federal Power Commission. On May 29, 1958, that commission issued its Order No. 204 in Docket No. R-159, effective retroactively to January 1, 1958, which provided, among other things, for the establishment of a new balance sheet account,

No. 266.2, Accumulated Deferred Taxes on Income - Liberalized Depreciation, which would be credited with an amount equal to that by which taxes on income payable for the year are lower because of the use of liberalized depreciation in computing such taxes, and which would be debited, in future years, with an amount equal to that by which taxes on income payable for the year are greater because of the use in prior years of liberalized depreciation. These debits would be credited to a new income account, No. 507-B, Taxes on Income Deferred in Prior Years - Credit. These accounts are not included in the uniform system of accounts which we have prescribed for electric utilities.

The Federal Power Commission has refused to sanction applicant's transfer of the \$894,000 to earned surplus and has issued a directive to applicant to retransfer the amount to Account 266.2. Applicant has complied with this directive and now seeks from us an order authorizing it to create the new accounts to which reference has been made. Applicant reports that it has not formulated a plan for disposing of the \$894,000 by credits to the new income account and does not wish to do so until we have entered our order in Case No. 6148 concerning the treatment for rate purposes to be accorded accelerated amortization and accelerated depreciation.

This application involves only taxes on income prior to 1958. In our opinion the normalized taxes recorded on the books in former years should be set up in a separate reserve account and we will enter our order granting the company's request.

This order is not to be construed as approval of normalization of income taxes for 1958 and subsequent years for rate or accounting purposes.

O R D E R

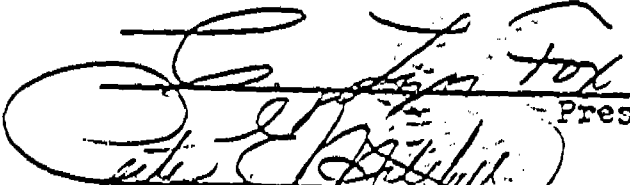
The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, therefore,


IT IS HEREBY ORDERED as follows:

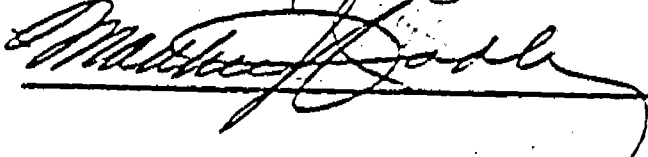
1. California Electric Power Company may create and establish on its books Account No. 266.2, Accumulated Deferred Taxes on Income - Liberalized Depreciation, and Account No. 507-B, Taxes on Income Deferred in Prior Years - Credit.
2. California Electric Power Company shall transfer the sum of \$894,000 to which reference is made in the preceding opinion from earned surplus to Account No. 266.2.
3. The Commission reserves jurisdiction over the disposition of the amounts contained in said Account No. 266.2,
4. The Commission reserves jurisdiction to order appropriate adjustments in said Account No. 266.2 subsequent to the review of applicant's federal income tax returns for the years 1954-1957 by the Bureau of Internal Revenue and the final determination of the exact amounts.

5. This order is effective on the date hereof.

Dated at San Francisco, California, this 17th day of
March, 1959.



President




Commissioners