

ORIGINAL

Decision No. 60346

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
PACIFIC GAS AND ELECTRIC COMPANY
for an order authorizing the
accounting procedure to be followed
with respect to amortization of
certain facilities.

Application No. 42334

O P I N I O N

On June 8, 1960, Pacific Gas and Electric Company filed the above-entitled application for approval of accounting procedures so as to enable it to conform with requirements of the Federal Power Commission and the Securities and Exchange Commission.

Under authorization granted by Decision No. 49979, dated April 27, 1954, Pacific Gas and Electric Company has been following certain accounting procedures with respect to the deferred amount of taxes based on income arising from accelerated amortization of the cost of certain defense facilities, which procedures, among other things, provide for crediting the tax deferrals to a restricted surplus account and for drawing down the balance in the account by subsequent credits to income.

Pacific Gas and Electric Company is subject, in certain accounting respects, to the jurisdiction of the Federal Power Commission, being a licensee of that commission and being engaged in the transmission of electric energy in interstate commerce. The Federal Power Commission, under date of October 22, 1959,

issued an order modifying its uniform system of accounts so as to prescribe new accounts and new procedures for recording tax deferrals arising from accelerated amortization. The order provides for the establishment of a new balance sheet account, designated as Account 266 - Accumulated Deferred Taxes on Income, which will be segregated into subaccounts and to which there will be credited the amounts of the tax deferrals, which amounts thereafter would appear on the balance sheet clearly identified as a separate classification. The order further provides for the establishment of new income accounts to be utilized to offset the charges and credits to the new balance sheet account.

Furthermore, the Securities and Exchange Commission on February 29, 1960, issued its Accounting Series Release No. 85 in which it took exception to the establishment of the tax deferrals in any manner as a part of equity capital even though designated as restricted surplus or appropriated surplus.

The new accounts which have been prescribed by the Federal Power Commission are not included in the uniform system of accounts which we have prescribed for electric utilities in California and the statement of the Securities and Exchange Commission differs from the procedure which we have authorized and which applicant now is following.

The company therefore requests us to modify our former decision so as to permit it to establish the accounts prescribed by the Federal Power Commission and thereby maintain its accounts

upon a consistent basis which will satisfy the requirements of the several commissions. We have considered this request and we find and conclude that it is desirable to set up the tax deferrals in a separate balance sheet account and that the company's application should be granted.

The authorization herein granted is for accounting purposes only and is given as a matter of convenience to applicant to enable it to comply with the accounting requirements of the Federal Power Commission and the Securities and Exchange Commission. In issuing the order, we are not approving the normalization of taxes and are not authorizing applicant to normalize taxes in the future or to adopt accounting procedures with respect to accelerated amortization except as indicated herein. Moreover, the order shall not be construed as indicative of amounts to be included in operating expenses, taxes or other accounts for the purpose of determining just and reasonable rates.

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 that the Order in Decision No. 49979, dated April 27, 1954, be, and it hereby is, amended as follows:

1. Subparagraph (a) of Ordering Paragraph 1 of said order is amended to read:

"To establish and charge Income Account 507-A -- Provision for Deferred Taxes on Income -- and concurrently credit Balance Sheet Account 266.1 -- Accumulated Deferred Taxes on Income -- Accelerated Amortization -- with the amount of deferred taxes on income as provided in Account 266 of the Federal Power Commission's Uniform System of Accounts for Public Utilities and Licensees, and to make similar entries each year thereafter during the period of accelerated amortization."

2. Subparagraph (b) of Ordering Paragraph 1 of said order is amended to read:

"To charge, following the expiration of the accelerated amortization period and continuing until such time as the balance in Account 266.1 -- Accumulated Deferred Taxes on Income -- Accelerated Amortization -- has been exhausted, said Account 266.1 and concurrently credit Income Account 507-B--Taxes on Income Deferred in Prior Years -- Credit -- with an amount equal to the portion of taxes on income payable for the year that is attributable to a deferral of taxes on income in a prior year in accordance with the plan of deferred tax accounting provided in Account 266 of the Federal Power Commission's Uniform System of Accounts for Public Utilities and Licensees."

3. IT IS HEREBY FURTHER ORDERED that the authorization herein granted shall become effective on the date hereof.

Dated at San Francisco, California, this 5th day of July, 1960.

[Signature]
President
[Signature]
[Signature]
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Commissioners