

ORIGINAL

Decision No. 77987

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation)
 on the Commission's own motion into)
 the matter of adopting and pre-)
 scribing for Class C telephone)
 utilities the Uniform System of)
 Accounts for Class C Telephone)
 Utilities prescribed by the Federal)
 Communications Commission or adopt)
 and prescribe the same with modifi-)
 cations.)

Case No. 4540

TENTH SUPPLEMENTAL ORDER

By Decision No. 71114, dated August 16, 1966, as amended by Decisions Nos. 72823, dated August 1, 1967, and 75030, dated December 3, 1968, in the above-entitled matter, this Commission, with certain modifications, adopted and prescribed the Uniform System of Accounts for Class C Telephone Companies, September 1965 Edition, prescribed by the Federal Communications Commission. The system of accounts applies to telephone companies having average annual operating revenues exceeding \$1,500 but not exceeding \$100,000.

Subsequent to our entering the Ninth Supplemental Order in this proceeding, the Federal Communications Commission, by Report and Order adopted July 1, 1970, in Docket No. 18828, amended the Uniform System of Accounts for Class C Telephone Companies so as to prescribe accounts in which to record the income tax differential occasioned by the use of accelerated depreciation for income tax purposes. The changes accompany said Commission's Transmittal Sheet No. VIII(65)-5 to Volume VIII of Rules and Regulations September 1965 Edition.

In order to facilitate coordination of the accounting and reporting requirements applicable to California Class C telephone companies with those imposed by the Federal Communications Commission, we find said changes to be desirable and in the public interest. On the basis of this finding we conclude that this Commission should adopt and prescribe said changes. A public hearing is not necessary.

In adopting these amendments, Class C telephone companies are placed on notice that those utilities which heretofore accounted for the tax effect of using liberalized depreciation on a flow-through basis may not adopt normalization procedures without specific authorization from this Commission.

IT IS ORDERED that:

1. The Uniform System of Accounts for Class C Telephone Companies, September 1965 Edition, prescribed by the Federal Communications Commission, as heretofore adopted and prescribed with modifications by the Public Utilities Commission of the State of California, is hereby further modified by incorporating therein the changes accompanying said Transmittal Sheet No. VIII(65)-5.
2. Without prior authorization by this Commission no Class C telephone company shall transfer to surplus the balance in Account 2590 "Other deferred credits", or any portion thereof, or make any use thereof except as provided in the text of such account.
3. The Secretary of this Commission is hereby directed to give notice as required by Section 794 of the Public Utilities Code by transmitting a copy of this order to each Class C telephone utility operating in this State.
4. The effective date of Ordering Paragraph No. 1 hereof shall be January 1, 1971, unless within fifteen days after receipt of this

decision a Class C telephone utility operating in this State requests a public hearing in writing, in which event the effective date shall be stayed until further order of this Commission.

5. In the event this order is stayed, prior to January 1, 1971, the Secretary of this Commission shall so notify, in writing each Class C telephone utility operating in this State.

6. Except as otherwise specified for Ordering Paragraph No. 1, the effective date of this order is the date hereof. However, any company may, at its option, adopt the changes retroactively to January 1, 1970.

Dated at San Francisco, California, this 25th day of NOVEMBER, 1970.

J. P. ...
Chairman

William ...

Yuan L. ...
Commissioners

I will ...
Thank you
I dissent.
...

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COMMISSIONER THOMAS MORAN, Dissenting:

I dissent.

The majority decision herein is outrageous. Its interpretation of the law applicable would discredit a first-year law student. Its summary of the alleged "facts" and the effect of this decision is no more than a collection of falsehoods. The adoption of this decision is entirely contrary to the best interest of the people of California and may well generate a backlash which will ultimately prove it to be contrary also to the interests of the Pacific Telephone Company which alone has urged the Commission to adopt it.

The staff and the other parties have not yet even completed their cross-examination on the issue of accelerated depreciation, and have had no opportunity to put in their direct evidence on the subject. While the "presentation of extensive evidence would not change the provisions of the Tax Reform Act of 1969", there is nothing in that act which operates or purports to operate on anyone but the taxpayer, Pacific Telephone. Nowhere in the act does Congress tell State regulatory agencies that they must adopt accelerated depreciation with normalization for rate fixing.

The term "normalization" as used herein by the majority serves to confuse individuals unacquainted with accounting terminology. Translated into plain English it means herein that "Pacific Telephone Company may take all Federal income tax deductions available to it but retain the same for its own purposes" and "Pacific Telephone Company may collect from California subscribers the full amount of what its Federal income taxes would be if said Federal income tax deductions were either not available to Pacific or Pacific did not take advantage of them." In short, the majority by this decision authorizes the Pacific Telephone Company to collect

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money from California subscribers each year sufficient to reimburse Pacific not only for Federal income taxes which Pacific intends to pay but also for fictitious Federal income taxes which Pacific expressly states it does not intend to pay. Never before has this Commission allowed a telephone company to collect and retain "reimbursement" from subscribers for "taxes" which the company in fact does not pay.

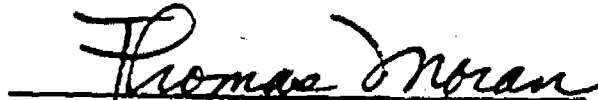
One effect of this decision is to confer the power of taxation upon Pacific Telephone as if Pacific Telephone were a government. It is indeed a step toward socialism and logically could lead ultimately only to government ownership of the telephone system in this country. If the public is to be compelled to put up the capital necessary to operate the telephone system, rather than voluntary investors as in the past, management and operation of the telephone system logically must ultimately also pass into the hands of a government agency as is the situation in virtually every other nation - something I would very much regret and which I believe would be very much contrary to the best interest of the American people.

If this action by the Commission is not reversed by the California Supreme Court, Pacific Telephone alone will collect from California subscribers a bonus of more than seven hundred million dollars during the next ten years according to the statement of the company's own witness. A realistic analysis of the figures indeed shows that the amount will exceed one billion dollars. All of these moneys will be in addition to collecting from subscribers reimbursement for all expenses the company incurs each year plus the usual profits for the company's stockholders.

Even this is not the whole story, as in all fairness this Commission will have to grant the same "special bonus" to all other telephone companies operating in California.

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The undersigned understands and appreciates as well as any other member of this Commission the pressing need of Pacific Telephone to obtain huge amounts of capital to finance the maintenance, improvement, and continued expansion of telephone service in California. The sole proper and honest approach to the problem however is to authorize Pacific to charge reasonable rates, which in turn will enable Pacific to obtain all necessary capital from the investing public through the traditional method of selling stocks and bonds.


Thomas Moran
Commissioner

San Francisco, California

November 24, 1970