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JUL 18 1997

WATER/DJE/DON

Decision 97-07-047 July 16, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN JOSE WATER COMPANY)
to establish a memorandum account for)
the property identified as San Jose)
Water Company Lot 310 at McKean/Fortini) (Application 96-12-040
Road ("the Calero Tank Site")) (Filed December 20, 1996)
_____)

O P I N I O N

ORIGINAL

Summary of Decision

This decision grants San Jose Water Company (San Jose), a Class A water utility, the authority requested in Application 96-12-040 (Application).

San Jose requests authority, under Rule 15 of the Rules of Practice and Procedure, to approve the transfer of the cost of the Calero Tank Site from San Jose's "Other Physical Property" account to its "Utility Plant Held For Future Use" account and the subsequent additions to that cost of all carrying cost until such time as the property qualifies for transfer to San Jose's "Utility Plant in Service" account.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of December 23, 1996. No protests have been received.

Background

San Jose is a public utility corporation, duly organized under the laws of California, and operates a public utility water system in the Cities of Campbell, Saratoga, Monte Sereno, the Town of Los Gatos, and in portions of the cities of San Jose, Cupertino and Santa Clara and in adjacent territory in the County of Santa Clara.

The Application requests the Commission to approve and order that the purchase price, transaction costs, consulting and surveying expenses, all maintenance expenses, carrying costs and associated taxes for the property identified as the real property in the County of Santa Clara, State of California, described in Exhibit A of the Application, and known as San Jose Water Company's Calero Tank Site, be recorded in the Utility Plant Held for Future Use (UPHFU) account (USOA account 100-4), which may be included in rate base at the time the property is placed in Utility Plant in Service (UPIS) account (USOA account 100). The property currently is held in the Other Physical Property account (OPP) (Uniform System of Accounts (USOA) Account 110) as a future site for a water storage tank,

Historically, for water utility ratemaking purposes, plant recorded in the UPHFU account is not included in ratebase until it is actually transferred to the UPIS account. This treatment should not be confused with the treatment accorded the gas and energy utilities in which UPHFU is included in ratebase.

The Calero Tank Site property was purchased on April 22, 1994 for a purchase price of \$75,000 with transaction expenses totaling \$1,272.50. Additional costs of \$35,317.61 were incurred for consulting and surveying. The total cost of \$111,590.11 would constitute the amount of the transfer from the OPP account to the UPHFU account. The expenses are detailed in Exhibit B of the Application.

As explained in the Application, the purchase of the Calero Tank Site became necessary due to the potential for new residential development in the Almaden Valley. Although it is uncertain when the City of San Jose will allow these new developments to move ahead, it is hoped that it will happen within the next five years. All indications point to completion by ten years.

The location of the Calero Tank Site was determined by geographical, hydraulic and geotechnical analyses of the entire area to be served by the facilities. The selected site is the only one remaining in the area that meets all the engineering criteria for the additional storage needed for the pressure zone.

The Calero Tank Site was purchased due to the perceived need and to prevent possible sale of the larger area on which the site is situated to an owner who may have been hesitant to relinquish the property at a future date.

In previous decisions the Commission has consistently supported the establishment of memorandum accounts to track the costs associated with the utility holding property for future use. D.87-03-078 set the original policy. That policy was reaffirmed in D.94-08-031.

From these Commission decisions, it is clear that the Commission recognizes that tracking the costs associated with property held for future use, but which is not included in the Utility Plant Held for Future Use account (USOA account 100-4 (B)), in a memorandum account may be to the benefit of both the utility and the ratepayer.

The objective of this proceeding is to obtain Commission concurrence that it is permissible for San Jose to carry the "Calero Tank Site" in its UPHFU account at its original cost and to add to that cost over time the associated carrying costs such as interest, property taxes, insurance, site maintenance, fencing and other costs which might arise over time which are required to maintain the site available as a tank site until the tank site is qualified for transfer to the UPIS account. At that time San Jose would transfer the total accumulated costs to the UPIS account and include it in ratebase. Large Water Branch has recommended that the costs be tracked in a UPHFU account as opposed to a memorandum account. San Jose concurs that such accounting treatment may in fact be preferable to a memorandum account for Generally Accepted Accounting Principles purposes.

San Jose also proposes that the cost of this tank site may be properly includable in a future cost estimate for a main extension contract which includes special facilities. Should this happen, then the depreciated plant amount accrued to the date of the main extension contract would transfer from the UPHFU account to the UPIS account and would simultaneously reduce ratebase in an amount equal to the Contribution or Advance. This is the normal accounting procedure for these accounts.

Findings of Fact

1. San Jose, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. San Jose filed this Application to request authority, under Rule 15 of the Rules of Practice and Procedure, to transfer the cost of the Calero Tank Site from San Jose's "Other Physical Property" account to its "Utility Plant Held For Future Use" account and the subsequent additions to that cost of all carrying cost until such time as the property qualifies for transfer to San Jose's "Utility Plant in Service" account.

3. The cost of the Calero Tank site may be properly includable in a future cost estimate for a main extension contract which includes special facilities. Should this happen, then the depreciated plant amount accrued to the date of the main extension contract should transfer from the UPHFU account to the UPIS account and should simultaneously reduce ratebase in an amount equal to the Contribution or Advance, in accordance with normal accounting procedure for these accounts.

4. There is no known opposition and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order which follows.

ORDER

IT IS ORDERED that:

1. The transfer of the cost of the Calero Tank Site from San Jose's "Other Physical Property" account to its "Utility Plant Held For Future Use" account and the subsequent additions to that cost of all carrying cost until such time as the property qualifies for transfer to San Jose's "Utility Plant in Service" account is approved.

2. If the cost of the Calero Tank site is properly includable in a future cost estimate for a main extension contract which includes special facilities, then the depreciated plant amount accrued to the date of the main extension contract shall transfer from the Utility Plant Held for Future Use account to the Utility Plant in Service account and shall simultaneously reduce ratebase in an amount equal to the Contribution or Advance, in accordance with normal accounting procedure for these accounts.

3. The Application is granted as set forth above.

4. This proceeding is closed.

This order is effective today.

Dated July 16, 1997, at San Francisco, California.

P. GREGORY CONLON

President

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

RICHARD A. BILAS

Commissioners

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OPINION

ORIGINAL

Summary of Decision

This decision grants San Jose Water Company (San Jose), a Class A water utility, the authority requested in Application 96-12-040 (Application).

San Jose requests authority, under Rule 15 of the Rules of Practice and Procedure, to approve the transfer of the cost of the Calero Tank Site from San Jose's "Other Physical Property" account to its "Utility Plant Held For Future Use" account and the subsequent additions to that cost of all carrying cost until such time as the property qualifies for transfer to San Jose's "Utility Plant in Service" account.

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