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ARIZONA CORPORATION COMMISSION

2007 NOV -1 P 3:49

November 2, 2007  
AZ CORP COMMISSION  
DOCKET CONTROL

OLD

Mr. Richard L. Sallquist  
Sallquist, Drummond & O'Conner, P.C.  
4500 South Lakeshore Drive, Suite 339  
Tempe, Arizona 85282

RE: H2O, INC. - APPLICATION FOR A RATE DECREASE, DOCKET NO. W-02234A-07-0550

LETTER OF DEFICIENCY

Dear Mr. Sallquist:

In reference to your rate application received on October 1, 2007, this letter is to inform you that your application has not met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.

Staff has found several deficiencies with your application, which are listed on a separate attachment. The 30-day sufficiency determination period will begin anew when the Company corrects the deficiencies and Docket Control receives an original and sixteen copies of the corrected pages.

You have 15 calendar days, or until November 15, 2007, to correct the deficiencies or make other arrangements with Staff to remedy your rate application. If the corrections or other arrangements are not made by the above date, Staff will request your docket number be administratively closed. Docket Control will retain one copy of the original application for Commission records. You may file an original and sixteen copies of an updated application at a later date.

The Staff person assigned to your application is Brendan C. Aladi. He can be reached at (602) 542-0785, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

Elijah Abinah  
Assistant Director/Acting Chief Accountant  
Financial & Regulatory Analysis Section  
Utilities Division

EAA;BCA:red

CC: Docket Control Center (sixteen copies)  
Lyn Farmer, Hearing Division  
Delbert Smith, Engineering  
Consumer Services  
Legal Division

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H2O, INC  
RATES APPLICATION  
DOCKET No. W-02234A-07-0557

LIST OF DEFICIENCIES

1. The application does not contain statements from the county for the property tax expenses incurred during the test year.
2. Application does not contain a copy of the ADEQ Compliance Report for H2O water system and Queen Creek water system.
3. The application does not contain an inventory of the major plant in service during the test year -Water Company Plant Description (three pages) found on ACC's website at [www.azcc.gov/divisions/utilities/forms](http://www.azcc.gov/divisions/utilities/forms).
4. The application does not contain Water Use Data Sheet (one page) found on ACC's website at [www.azcc.gov/divisions/utilities/forms](http://www.azcc.gov/divisions/utilities/forms).
5. The application/Schedule H-2 lists **irrigation** customers. State if irrigation customers using water from **potable** water wells. Unless these customers using water from potable water wells, the Company should report them separately from potable water customers in the Water Use Data Sheet.
6. The application/ Schedule E-2 indicate Purchased Water.
  - a). Please explain the need for purchase.
  - b). Please provide a copy of the water service agreement between H2O and Queen Creek Water Co.
7. The application does not contain most recent lab analyses for the arsenic levels for each well **in service** during the test year.
8. The application does not provide a breakdown for water testing expenses for the H2O water system during the test year.
  - a). State what is the water testing cost (per each test) and number of tests per year for Lead & Copper, Total Coliform, Nitrate and Disinfection/Disinfection By-Product and other required tests for the water system.
  - b). Provide invoices related to testing for above referenced water system.
9. If it has not been previously filed, the application should include a copy of the proposed curtailment tariff and cross connection/backflow tariff. Suggested formats can be found on ACC's website at [www.azcc.gov/divisions/utilities/forms](http://www.azcc.gov/divisions/utilities/forms).
10. Staff did not find Schedule H-3, Page 5 in the application.