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2008 JUN 11 P 4: 04

AZ CORP COMMISSION, 2008  
DOCKET CONTROL

Arizona Corporation Commission  
**DOCKETED**

JUN 11 2008

**CERTIFIED MAIL**

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Mr. Richard L. Sallquist  
Attorney Representative for H2O, Inc  
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-07-0557

**LETTER OF DEFICIENCY**

Dear Mr. Sallquist:

In reference to your amended rate application received on May 13, 2008, this letter is to inform you that your application has not met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.

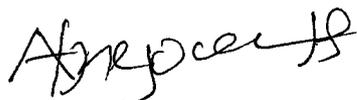
Staff has found several deficiencies with your application, which are listed on a separate attachment. The 30-day sufficiency determination period will begin anew when the Company corrects the deficiencies and Docket Control receives an original and sixteen copies of the corrected pages.

You have 15 calendar days, or until June 25, 2008, 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 pursue appropriate remedies to obtain them. 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.

Mr. Richard L. Sallquist  
June 11, 2008  
Page 2

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

EOA:BCA:tdp

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

**H20, INC.**  
**RATES APPLICATION**  
**DOCKET NO. W-02234A-07-0557**  
**STAFF'S LIST OF DEFICIENCIES**  
**JUNE 11, 2008**

- BCA 1 There is a discrepancy between the allowance for working capital in schedules B-5 and B-1.
- BCA 2 Copies of Mr. Bourassa's original cost of capital direct testimony are not identical to the original on pages 7 through 23.
- BCA 3 Schedule H-1, page 3, of the application shows a tolerance percentage of 0.50 percent for the difference between the revenue per bill count and the revenue per general ledger. Reference to a tolerance level is misleading as the commission has not sanctioned any allowed difference. The tolerance reference should either be removed or clearly marked as an opinion of the Company.
- BCA 4 The following service charge rates on schedule H-3 do not agree with the filed tariff schedule as shown:
- | <u>Per H-3</u>             | <u>Per Tariff</u>         |
|----------------------------|---------------------------|
| NSF Check \$25             | NSF Check \$15            |
| Late Charge Per Month 1.5% | Late Charge Per Month N/A |
- KS 5 With reference to an inventory of the major plant **in service during the test year**, the submitted Attachment 3 does not agree with Plant Description specified in the ADEQ Inspection Report of June 28, 2006 (Attachment 2) and the Company's Source and Storage Capacities Data Sheet filed on January 31, 2008 in Docket # 07-0371. Please correct and reconcile.
- KS 6 With reference to the submitted Attachment 6, please state if the Town of Queen Creek will assume Queen Creek Water Company's obligations listed in the Addendum to Water Supply Agreement dated December 27, 2007 (Attachment 6).
- KS 7 In order for Staff to estimate annual water testing cost, please provide the following:
- a) List of **all tests required by ADEQ** for Distribution System Monitoring (per system: 11-060 & 07-904)
  - b) List of **all tests required by ADEQ** for Ground Water Monitoring (for each POE)
  - c) Number of POEs
  - d) Monitoring cycle (monthly, quarterly, annually, per three-year, etc.)
  - e) Number of tests per monitoring cycle
  - f) Cost per test

**H2O, INC.**  
**RATES APPLICATION**  
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**JUNE 11, 2008**

KS 8 The Company's proposed depreciation rate table, listed in Exhibit Schedule C-2, page 2, deviates from the Staff's typical depreciation rate table shown below.

- a) The Company's table does not include the following plant accounts specified in the Staff's table: #320.1, #320.2, #330.1, #330.2, and #340.1. Please correct and reconcile.
- b) Account #348 "Other Tangible Plant: Please list specific capital plant items used in this account.

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00

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**JUNE 11, 2008**

345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.