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AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF H2O, INC., AN ARIZONA CORPORATION, FOR A DETERMINIATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PROPERTY AND FOR AN INCREASE IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICES	DOCKET NO. W-02234A-07-0557 **NOTICE OF FILING TESTIMONY**

H2O, Inc., ("H2O" or the "Company"), by and through the undersigned counsel, hereby gives Notice of the filing of witness Thomas J. Bourassa's Rebuttal Testimony and supporting Schedules in the subject docket.

Respectfully submitted this 10th day of March 2009.

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

By _____
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Arizona Corporation Commission
DOCKETED
MAR 10 2009
DOCKETED BY

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Original and fifteen copies of the foregoing filed this ___ day of March 2009 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing Hand Delivered this ___ day of March 209 to:

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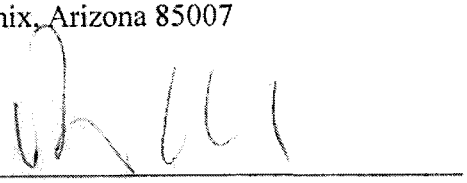

43032.00000.325

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES–Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF H2O, INC. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS WATER UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE.	DOCKET NO. W-02987A-07-0557

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(RATE BASE, INCOME STATEMENT,

REVENUE REQUIREMENT, RATE DESIGN)

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I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application filed on October 1, 2007 and amended on May 13, 2008. There were two volumes, one addressing rate base, income statement and rate design, and the other addressing cost of capital.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will provide rebuttal testimony in response to the direct filings by Arizona Corporation Commission Utilities Division Staff ("Staff"). More specifically, this first volume of my rebuttal testimony relates to rate base, income statement and rate design for H2O, Inc. ("Company" or "H2O"). In a second, separate volume of my testimony, I also present an update to the Company's requested cost of capital and rate of return applied to the fair value rate base, and the determination of operating income.

Q. WHAT IS THE RETURN ON RATE BASE THE COMPANY IS REQUESTING IN ITS REBUTTAL FILING?

A. The Company is requesting a return of 11.45 percent.

Q. WHAT IS THE REVENUE REQUIREMENT ADJUSTMENT THAT THE COMPANY IS PROPOSING IN ITS REBUTTAL FILING?

A. The Company is requesting a decrease in revenues of $134,153, a decrease of 3.97 percent for a total revenue requirement of $3,244,489.

Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT FILING?

A. In the direct filing, the Company requested a decrease in revenues of $154,861, a decrease of 4.58% for a total revenue requirement of $3,224,906.

Q. WHY IS THE REVENUE REQUIREMENT IN THE REBUTTAL FILING HIGHER THAN IN THE DIRECT FILING?

A. While the Company has adopted a number of adjustments recommended by Staff and RUCO, as well as proposed a number of adjustments of its own, the Company's proposed rebuttal rate of return is higher primarily due to my updated cost of capital analysis.

Specifically, the Company's rebuttal filing reflects a decrease in proposed operating expenses of $15,894 to a total of $3,067,520. Similarly, due to various adjustments, H2O's rebuttal Original Cost Rate Base ("OCRB") and Fair Value Rate Base ("FVRB") have increased. The OCRB increased by $51,510 from the direct filing of $1,944,185 to $1,995,695. The Company continues to request that its OCRB be treated as its FVRB. So, the FVRB increased by $51,510 to $1,995,695.

II. <u>REVENUE REQUIREMENT.</u>

Q. WHAT ARE THE REVENUE REQUIREMENTS AND RATE INCREASES FOR THE COMPANY, STAFF, AND RUCO?

A. The proposed revenue requirements and proposed rate increases are as follows:

	Revenue Requirement	Revenue Incr.	% Increase
Company-Direct[1]	$3,224,906	$(154,861)	-4.58%
Staff[2]	$3,218,705	$(159,937)	-4.73%
Company Rebuttal	$3,244,489	$(135,153)	-3.97%

Q. WHAT IS THE COMPANY'S PROPOSED RATE OF RETURN?

A. The Company is proposing a rate of return on equity of 11.45%. This is based on the weighted average cost of capital. I discuss the Company's proposed rate of return and my cost of capital in the second volume of my rebuttal testimony.

Q. IS STAFF RECOMMENDING A RETURN ON RATE BASE?

A. No. Staff is proposing a negative rate base and is proposing an operating margin approach as a result.[3] As I will discuss, Staff and the Company are in disagreement on the treatment of unexpended hook-up fees ("HUFs") in rate base as CIAC. In fact, this is the only major rate base and/or income statement disagreement. By including unexpended HUF's in rate base as CIAC, Staff Company's rate base is negative.

Q. IT APPEARS THAT STAFF AND THE COMPANY ARE NOT THAT FAR APART ON THE REVENUE REQUIERMENT AND RATE DECREASE. CORRECT?

A. Yes. But, we get there in very different ways. Staff is proposing an operating margin approach as opposed to a rate of return approach by the Company. The Company has adopted nearly all of Staff's proposed expense adjustments and

[1] As amended on December 18,2008.

[2] Per Staff Schedule BCA-1

[3] Staff is proposing a 10 percent operating margin.

levels of expense. Staff and the Company are different on the level of proposed property taxes and depreciation. For property taxes, Staff and the Company are within a few thousand dallies of each other and are different primarily due to differences in the amount of proposed revenues. For depreciation, both the Company and Staff agree on the amount of plant-in-service but differ on the amount of CIAC. The amount of CIAC amortization is the primary difference in the parties proposed depreciation expense. The difference in depreciation is approximately $195,853 ($457.035 for the Company and $261,181 for Staff).

The bottom line is the Company believes that its filing represents a more realistic relationship between rate base, revenues and expenses for the test year while Staff's does not. The differences in approaches are not as apparent on the surface. While Staff's proposed operating income is higher at $321,871[4] compared to the Company's at $228,614[5], there is a appreciable difference in cash flows. Cash flows before debt service and taxes for Staff is approximately $749,641 ($321,871 of operating income plus $166,589 for income taxes plus $261,181of depreciation) while for the Company it is approximately $822,351 ($228,614 of operating income plus $136,664 of income taxes plus $457,073 of depreciation). The difference in cash flows is approximately $73,000. This difference has significance for a relatively small utility such as H2O.

III. RATE BASE.

Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE BASE RECOMMENDATIONS AT THIS STAGE OF THE PROCEEDING?

A. The rate bases proposed by all parties in the case are as follows:

---

[4] See Staff Schedule BCA-1.

[5] See Rebuttal Schedule A-1.

	OCRB	FVRB
Company-Direct	$1,944,185	$1,944,185
Staff	$ (500,901)	$ (500,901)
Company Rebuttal	$1,995,695	$1,996,695

A. Plant-in-Service.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ORIGINAL COST RATE BASE, AND IDENTIFY ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND RUCO?

A. The Company's rebuttal rate base adjustments to OCRB are shown on rebuttal schedules B-2, pages 2 through 6. Rebuttal schedule B-2, page 1, shows the rebuttal OCRB. Rebuttal Schedule B-2, page 2, summarizes the adjustments made to the OCRB.

Rebuttal B-2 adjustment number 1, as shown on B-2, page 3, adjusts plant-in-service and reflects adoption of recommendations by both Staff. There is 1 proposed adjustment to plant-in-service that are reflected in columns labeled as "A".

The first adjustment (column A) on B-2, page 3, increases plant-in-service for capitalized operating expenses. The Company is in agreement with Staff's the adjustment to plant-in-service.[6]

B. Accumulated Depreciation

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. Yes. Rebuttal OCRB adjustment number 2, as shown on Rebuttal Schedule B-2, page 4, reflects changes to accumulated depreciation from the plant-in-service

[6] *See* Direct Testimony of Brendan Aladi ("Aladi Direct") at 7.

adjustments adopted in rebuttal OCRB adjustment number 1. There is only one proposed adjustment to accumulated depreciation that is reflected in the columns labeled as "A".

The first adjustment (column A), adjusts accumulated depreciation to the recomputed amounts based on the adjustments adopted in OCRB adjustment number 1. The detail of the re-computation of accumulated depreciation is shown on Rebuttal Schedule B-2, pages 3.1 to 3.16. The Company's adjustment to accumulated depreciation of $6,120 agrees with Staff proposed adjustment to accumulated depreciation.[7]

C. <u>Contributions-in-aid of Construction ("CIAC") - Unexpended Hook-up Fees and Construction-Work-in-Progress funded with Hook-up Fees</u>

Q. DOES THE COMPANY AGREE WITH STAFF TO INCLUDE $2,360,596 OF UNEXPENDED CIAC AND $498,743 OF CIAC FUNDED CONSTRUCTION WORK-IN-PROGRESS IN RATE BASE?

A. No. The Company does not agree. Staff proposed to include all unexpended CIAC and CIAC current funding construction work-in-progress ("CWIP")[8] in rate base. The basis of Staff's reasoning is that the Company has use of these funds regardless of whether it has expended the funds for plant.[9] In the instant case, I agree with Staff that monies collected from existing customers who are being served with existing capacity should be credited with their HUF in rate base. However, I disagree with inclusion of HUFs collected and to be used for future customers who are not on the system and whose capacity that is necessary to serve

[7] Aladi Direct at 8.

[8] The Company has not proposed to include any CWIP in rate base.

[9] *Id.*

has not been constructed and reflected in rate base. However, this is no not the case for most of the Company's unexpended CIAC (and CIAC funded CWIP).

Q. PLEASE EXPLAIN.

A. The Company typically collects hook-up fees ('HUFs")[10] well in advance of providing service to the customer(s) for whom the HUF is credited. The HUFs are paid by developers when the Company agrees to provide service to the developer's development. But, the development may take a year or more to begin. In the meantime, the Company begins constructing new capacity to service the development. The period of time between collecting the HUF, making the necessary capital improvements to have capacity to serve, and the customer connecting to the system can be well over a year or more. Consequently, not only is the future customer who is credited with the HUF not present on the system, but the plant required to serve the customer is also not constructed and placed into service. Including the unexpended HUFs in rate base not only creates a mismatch in rate base, but existing ratepayers receive a windfall. This occurs because existing rate payers get credit for HUF's paid for by or on behalf of future customers who have not yet connected to the system.

Q. DOES THE COMPANY HAVE SOME UNEXPENDED CIAC COLLECTED FROM CUSTOMERS PRESENT AT THE END OF THE TEST YEAR?

A. Yes. For certain "fill-in" lots the Company has collected a HUF. This amount of unexpended CIAC at the end of the test year was $198,372.

Q. HAVE YOU PROPOSED TO INCLUDE THIS AMOUNT IN RATE BASE?

[10] HUF's are treated as contributions-in-aid of construction ("CIAC").

A. Yes. The Company's rebuttal rate base includes $198,372 of unexpended CIAC in rate base. The Company B-2 adjustment number 3 reflects the Company proposed amount of unexpended CIAC to be included in rate base.

Q. WHY DOES THE COMPANY COLLECT HUF'S IN ADVANCE OF THE DEVELOPER'S PROJECT COMING ON LINE?

A. To provide funds as needed to help it pay for new capacity – just as the HUF is intended. Growth pays for growth. The alternative is to build the capacity first and then collect the HUF's as new customers connect. However, the Company approach provides the funds when the Company obligates itself to provide additional capacity for new developments thereby providing funds in advance of the need for new capacity. It also provides for the immediate availability of funds when construction for the new capacity begins, not after-the-fact.

Q. SO THIS ISSUE ARISES BECAUSE OF THE TIMING BETWEEN WHEN THE COLLECTION OF THE HUF OCCURS AND WHEN THE ACTUAL CONSTRUCTION OF NEW CAPACITY IS MADE IN ORDER TO SERVE FUTURE GROWTH (CUSTOMERS)?

A. Yes.

Q. DO YOU AGREE WITH STAFF THAT THE COMPANY IS ALLOWED TO EARN TWICE ON CIAC FUNDS IF THE UNEXPENDED CIAC IS NOT INCLUDED IN RATE BASE?

A. No. I do not agree with Staff that the Company will earn twice on the funds.[11] The Company does not benefit from, nor are existing rate payers harmed, by excluding unexpended CIAC or CIAC used to fund CWIP from rate base. To the contrary, existing ratepayers receive an unjustified windfall when either

[11] Aladi Direct at 9.

unexpended HUF's and/or CIAC funded CWIP is included in rate base because the Company's rate base is understated resulting in lower rates.

The Company not only has an obligation to serve the future developments for which it collected the HUF's, but these funds are restricted and can only be spent on new capacity. The HUFs should be credited to those future customers and their respective future capacity rather than providing existing ratepayer with the above-mentioned windfall.

Q. WHEN A NEW CUSTOMER CONNECTS TO THE COMPANY'S SYSTEM WITHIN A DEVELOPMENT THAT THE DEVELOPER HAS PAID THE HUF FOR THE CONNECTION, IS THE NEW CUSTOMER ALSO RESPONSIBLE FOR ANOTHER HUF?

A. No. That customer lot is covered regardless when the customer connects. That could be one to two year out into the future depending on the collection schedule of HUFs made by agreement between the Company and the developer(s).

The Company's procedure for collecting HUF's in advance of a developer's project is not typical. Under a typical approach, a utility builds capacity in advance and then collects HUF's individually upon each new connection. Under the typical approach, I would agree that if the customer pays for capacity through a HUF and connects to the system, that customer should get credit for his/her payment by recognition in rate base and rates regardless of whether the HUF has been expended for new plant. However, again this is not the case for most of the unexpended CIAC in the instant case.

D. <u>Unexpended Advances-in-aid of Construction ("AIAC")</u>

Q. HAS THE COMPANY INCLUDED UNEXPENDED AIAC IN RATE BASE?

A. No. Again, the Company disagrees with Staff to include the unexpended AIAC in rate base.[12] As with the HUF's, the unexpended AIAC funds are for future development and future customers.

E. Amortization of CIAC

Q. HAS THE COMPANY PROPOSED AN ADJUSTMENT TO ACCUMULATED AMORTIZATION OF CIAC?

A. Yes. Rebuttal B-2 adjustment number 3, as shown on Rebuttal Schedule B-2, page 4, decreases accumulated amortization of CIAC based on a correction to the amortizable balance of CIAC for 2006. The unexpended portion of CIAC for 2006 was removed thereby lowering the accumulated amortization balance.

F. Deferred Income Taxes

Q. PLEASE EXPLAIN THE COMPANY'S REBUTTAL PROPOSED ADJUSTMENT TO DEFERRED INCOME TAXES?

A. Rebuttal B-2 adjustment number 4, as shown on Rebuttal Schedule B-2, page 5, reflects the computation of the Company proposed deferred income taxes. The computation of deferred income taxes reflects the Company's rebuttal plant-in-service, CIAC and AIAC balances. It also reflects the tax rate as shown on Rebuttal Schedule C-3. In the Company's amended filing, a tax rate of 34.9 percent was used. However, this was incorrect. The correct tax rate is 38.6 percent.

IV. INCOME STATEMENT.

Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY

[12] *Id.* at 9.

ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF AND/OR RUCO?

A. The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages 1-11. The rebuttal income statement with adjustments is shown on Rebuttal Schedule C-1.

In rebuttal C-2 adjustment number one, the depreciation expense is annualized, reflecting the plant-in-service adjustments discussed above. Depreciation expense has decreased from the Company's direct filing due to the plant-in-service adjustments I discussed above.

Q. DO ALL PARTIES RECOMMEND THE SAME DEPRECIATION RATES?

A. Yes.

Q. PLEASE CONTINUE.

A. Rebuttal C-2 adjustment number 2 reflects the adjustment using the Company's rebuttal proposed revenues. The Company and Staff are in agreement on the method of computing property taxes.

Rebuttal C-2 adjustment number 3 reduces other water revenues to reflect the Company's adoption of Staff's proposed adjustment to reduce miscellaneous revenues by $1,125 for sales taxes.[13]

Rebuttal C-2 adjustment number 4 reduces miscellaneous expenses by $6,626 to reflect the Company's adoption of Staff's proposed adjustment to reclassify expense to capital. [14]

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[13] *Id.* at 12.

[14] *Id.* at 13.

Rebuttal C-2 adjustment number 5 reduces repairs and maintenance expense by $2,424 to reflect the adoption of Staff's proposed adjustment to reclassify expense to capital.[15]

Rebuttal C-2 adjustment 6 reflects the Company's adoption of Staff's recommendation to reclassify miscellaneous expense to purchased power expense.[16]

Rebuttal C-2 adjustment 7 reflects the Company's adoption of Staff's recommendation to remove a late filing penalty from miscellaneous expense.[17]

Rebuttal C-2 adjustment 7 reflects the Company's adoption of Staff's recommendation to remove unnecessary expense from office supplies expense.[18]

Rebuttal C-2 adjustment 8 reflects the Company interest synchronization based upon the Company's rebuttal proposed rate base.

Rebuttal C-2 adjustment number 9 reflects income taxes calculated at the Company's proposed revenue and expense levels.

V. RATE DESIGN (H SCHEDULES)

Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?

All Classes

Meter Size	Monthly Minimum	Gallons included in Monthly Minimum
5/8	$ 11.93	0
3/4	$ 17.90	0
1	$ 29.83	0

[15] *Id.*

[16] *Id.*

[17] *Id.* at 14.

[18] *Id.*

1 1 /2	$ 59.65	0
2	$ 95.44	0
3	$ 190.88	0
4	$ 298.25	0
6	$ 596.50	0

The commodity charges and tiers by meter size are:

Residential, Commercial, Industrial and Irrigation Class

Meter Size	Tier (gallons)	Charge per 1,000 gallons
5/8 and 3/4	1 to 4,000	$1.20
	4,001 to 10,000	$1.60
	Over 10,000	$2.05
1	1 to 25,000	$1.60
	Over 25,000	$2.05
1 1/2	1 to 50,000	$1.60
	Over 50,000	$2.05
2	1 to 80,000	$1.60
	Over 80,000	$2.05
3	1 to 160,000	$1.60
	Over 160,000	$2.05
4	1 to 250,000	$1.60
	Over 250,000	$2.05
6	1 to 500,000	$1.60
	Over 500,000	$2.05
8	1 to 800,000	$1.60

	Over 800,000	$2.05
10	1 to 1,100,000	$1.60
	Over 1,100,000	$2.05
Standpipe		
All Meter Sizes	All gallons	$2.05
Construction		
All Meter Sizes	All gallons	$2.05

Q. HOW DOES THE COMPANY PROPOSED RATE DESIGN COMPARE TO STAFF AND/OR RUCO?

A. Both the Company and Staff propose similar rate designs. Monthly minimums are scaled on the flows of a 5/8 inch meter. The 5/8 inch and ¾ residential meters have an inverted three tier rate design. The 5/8 inch and ¾ inch commercial and irrigation meters have an inverted two tier design. The 1 inch and larger meters (residential, commercial, and irrigation) have a two tier rate design.

Q. DOES THE STAFF RATE DESIGN PROVIDE FOR LESS REVENUE STABILITY THAT THE COMPANY?

A. Yes. And this increases risk to the Company. Staff rate design provides approximately 35 percent of revenue from the monthly minimum while the Company's provides approximately 44 percent. In my opinion, revenues from the monthly minimum should be closer to 50 percent in order to provide revenue stability over the long term, particularly when conservation rate designs (inverted tier rates) are utilized. Conservation will result in an erosion of the Company's revenues. The high proportion of revenues collected from the commodity charges, the greater degree of risk to revenues exists.

Q. WHAT WAS THE PROPORTION OF REVENUES FROM THE

MONTHLY MINIMUMS UNDER PRESENT RATES?

A. About 45 percent. The Company's proposed rate design does not result in a significant shift to recovery from the commodity charges whereas Staff's does.

Q. ARE STAFF AND THE COMPANY IS AGREEMENT ON THE PROPOSED METER AND SERVICE LIN INSTALLATION CHARGES?

A. Yes. The Company has updated its proposed meter and service line installation charges to match Staff's.

Q. ARE STAFF'S RECOMMENDATIONS FOR MOVING A CUSTOMER METER AND DAMAGES DIFFERENT?

A. No, not really. As Staff testifies, the Commission Rules basically state the same conditions as the language proposed in the Company's schedules.[19] Ultimately, Staff makes a distinction without a difference.

Q. DO YOU HAVE ANY RESPONSE TO STAFF'S COMMENTS ON REFUNDS FOR OVER COLLECTION OF RATES FOR THE 2 INCH METERS THAT SHOULD HAVE MADE AS ORDERED UNDER DECISION 69413?

A. Not at this time. The Company believes its refunding method was correct. Staff does not make any particular recommendation except to bring the issue to the attention of the Commission.[20]

Q. HAS STAFF RESPONDED TO THE COMPANY'S TESTIMONY ON THE CAP SURCHARGE?

A. No at this time. Staff is still analyzing the issue based on responses by the

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[19] *Id.* at 22.

[20] *Id.* at 24.

Company to its data requests.[21]

Q. ARE THERE ANY ISSUES WITH RESPECT TO THE COMPANY'S CONTINUATION OF ITS CURRENTLY AUTHORIZED HOOH-UP FEES?

A. Not at this time.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

[21] *Id.* at 23.

REBUTTAL SCHEDULES

(RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT, AND RATE DESIGN)

H2O, Inc.
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line No.			
1	Fair Value Rate Base	$	1,995,695
2			
3	Adjusted Operating Income		311,122
4			
5	Current Rate of Return		15.59%
6			
7	Required Operating Income	$	228,614
8			
9	Required Rate of Return on Fair Value Rate Base		11.46%
10			
11	Operating Income Deficiency	$	(82,508)
12			
13	Gross Revenue Conversion Factor		1.6259
14			
15	Increase in Gross Revenue Requirement		(134,153)
16			
17	Adjusted Test Year Revenues	$	3,378,642
18	Increase in Gross Revenue Requirement	$	(134,153)
19	Revenue Requirement	$	3,244,489
20			
21	% Increase		-3.97%
22			

23	Customer	Present	Proposed	Dollar	Percent
24	Classification	Rates	Rates	Increase	Increase
25	**Residential**				
26	5/8 Inch	$ 55,280	$ 47,308	$ (7,972)	-14.42%
27	3/4 Inch	1,997,926	1,985,467	(12,459)	-0.62%
28	1 Inch	184,593	164,156	(20,438)	-11.07%
29	1.5 Inch	20,856	17,731	(3,125)	-14.98%
30	2 Inch	2,065	1,687	(378)	-18.31%
31	**Commercial**				0.00%
32	5/8 Inch	$ 2,299	$ 2,148	$ (152)	-6.60%
33	3/4 Inch	8,400	8,361	(39)	-0.46%
34	1 Inch	5,055	4,496	(559)	-11.07%
35	1.5 Inch	1,785	1,471	(313)	-17.56%
36	2 Inch	80,656	72,483	(8,173)	-10.13%
37	3 Inch	55,378	49,470	(5,908)	-10.67%
38	**Irrigation**				0.00%
39	3/4 Inch	$ 3,020	$ 3,014	$ (6)	-0.18%
40	1 Inch	41,891	39,299	(2,592)	-6.19%
41	1.5 Inch	32,643	29,651	(2,992)	-9.17%
42	2 Inch	335,174	307,716	(27,458)	-8.19%
43	**Construction**				0.00%
44	2 Inch	$ 16,707	$ 14,026	$ (2,681)	-16.05%
45	3 Inch	67,721	35,290	(32,432)	-47.89%
46	Subtotal	$ 2,911,450	$ 2,783,774	$ (127,676)	-4.39%
47					
48	Revenue Annualization	262,954	252,811	(10,143)	-3.86%
49	GL Reconciliation	(3,335)	331	3,666	-109.93%
50	**Subtotal**	$ 3,171,070	$ 3,036,916	$ (134,154)	-4.23%
51					
52	Other Water Revenues	207,572	207,572	-	0.00%
53				-	0.00%
54	**Total of Water Revenues (a)**	$ 3,378,642	$ 3,244,488	$ (134,154)	-3.97%
55					

56 SUPPORTING SCHEDULES:
57 Rebuttal B-1
58 Rebuttal C-1
59 Rebuttal C-3

H2O, Inc.
Test Year Ended December 31, 2006
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	$ 12,996,414	$ 12,996,414
3	Less: Accumulated Depreciation	1,497,950	1,497,950
4			
5	Net Utility Plant in Service	$ 11,498,464	$ 11,498,464
6			
7	Less:		
8	Advances in Aid of		
9	Construction	3,031,454	3,031,454
10	Contributions in Aid of		
11	Construction (CIAC)	6,648,148	6,648,148
12	Accumulated Amortization (CIAC)	(626,137)	(626,137)
13	Customer Meter Deposits	1,600,755	1,600,755
14	Deferred Income Tax Liability (Asset)	(1,151,451)	(1,151,451)
15			
16			
17			
18	Plus:		
19	Unamortized Finance		
20	Charges	-	-
21			
22	Allowance for Working Capital	-	-
23			
24			
25	Total Rate Base	$ 1,995,695	$ 1,995,695
26			
27			
28			
29	SUPPORTING SCHEDULES:		
30	Rebuttal B-2		
31	Rebuttal B-5		
32			
33			
34			

H2O, Inc.
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Adjustments	Adjusted at end of Test Year
1	Gross Utility			
2	Plant in Service	$ 12,987,344	9,070	$ 12,996,414
3				
4	**Less:**			
5	Accumulated			
6	Depreciation	1,491,666	6,283	1,497,950
7				
8				
9	Net Utility Plant			
10	in Service	$ 11,495,678	$ 2,787	$ 11,498,464
11				
12	**Less:**			
13	Advances in Aid of			
14	Construction	3,031,454	-	3,031,454
15				
16	Contributions in Aid of			
17	Construction	6,449,776	198,372	6,648,148
18				
19	Accumulated Amortization CIAC	(683,565)	57,428	(626,137)
20				
21	Customer Refundable Meter Deposits	1,600,755	-	1,600,755
22	Deferred Income Tax Liability (Asset)	(846,927)	(304,524)	(1,151,451)
23				
24				
25				
26	**Plus:**			
27	Unamortized Finance			
28	Charges	-		-
29				
30	Working capital	-		-
31		-		-
32				
33	Total	$ 1,944,185	$ 51,510	$ 1,995,695
34				
35				
36				
37	SUPPORTING SCHEDULES:			RECAP SCHEDULES:
38	Rebuttal B-2, pages 2			Rebuttal B-1
39				
40				
41				
42				
43				
44				
45				
46				

H2O, Inc.
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments 1 Plant-in-Service	2 Accumulated Deprec.	3 CIAC	4 DIT	Rebuttal Adjusted at end of Test Year
1	Gross Utility						
2	Plant in Service	$ 12,987,344	9,070				$ 12,996,414
3							
4	**Less:**						
5	Accumulated						
6	Depreciation	1,491,666		6,283			1,497,950
7							
8							
9	Net Utility Plant						
10	in Service	$ 11,495,678					$ 11,498,464
11							
12	**Less:**						
13	Advances in Aid of						
14	Construction	3,031,454					3,031,454
15							
16	Contributions in Aid of						
17	Construction	6,449,776			198,372		6,648,148
18							
19	Accumulated Amortization CIAC	(683,565)			57,428		(626,137)
20							
21	Customer Refundable Meter Deposits	1,600,755					1,600,755
22	Deferred Income Tax Liability (Asset)	(846,927)				(304,524)	(1,151,451)
23							
24							
25							
26	**Plus:**						
27	Unamortized Finance						
28	Charges	-					-
29							
30	Working capital	-					-
31		-					-
32							
33	Total	$ 1,944,185	$ -	$ -	$ (255,800)	$ 304,524	$ 1,995,695
34							
35							
36							
37	SUPPORTING SCHEDULES:						
38	Adjustment 1 - See Rebuttal B-2, page 3						
39	Adjustment 2 - See Rebuttal B-2, page 4						
40	Adjustment 3 - See Rebuttal B-2, page 5						
41	Adjustment 4 - See Rebuttal B-2, page 6						
42							
43							
44							
45							
46							

RECAP SCHEDULES:
Rebuttal B-2, page 1

H2O, Inc.
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1

Exhibit
Rebuttal Schedule B-2
Page 3
Witness: Bourassa

Line No.	Acct. No.	Description	Direct Adjusted Orginal Cost	A Reclassify Misc. Exp. to Plant	B Reclassify R&M Exp. to Plant	C Intentionally Left Blank	Rebuttal Adjusted Original Cost
1		Plant-in-Service					
5	301	Organization Cost	-				-
6	302	Franchise Cost	131,452				131,452
7	303	Land and Land Rights	7,954				7,954
8	304	Structures and Improvements	538,179				538,179
9	305	Collecting and Impounding Res.	-				-
10	306	Lake River and Other Intakes	-				-
11	307	Wells and Springs	255,856				255,856
12	308	Infiltration Galleries and Tunnels	-				-
13	309	Supply Mains	-				-
14	310	Power Generation Equipment	-				-
15	311	Electric Pumping Equipment	4,437,582				4,437,582
16	320	Water Treatment Equipment	51,404				51,404
17	330	Distribution Reservoirs & Standpi	2,706,417	6,646			2,713,063
18	331	Transmission and Distribution Ma	1,647,121		2,424		1,649,545
19	333	Services	207,500				207,500
20	334	Meters	2,290,426				2,290,426
21	335	Hydrants	45,343				45,343
22	336	Backflow Prevention Devices	-				-
23	339	Other Plant and Miscellaneous E	-				-
24	340	Office Furniture and Fixtures	90,771				90,771
25	341	Transportation Equipment	121,240				121,240
26	342	Stores Equipment	-				-
27	343	Tools and Work Equipment	52,616				52,616
28	344	Laboratory Equipment	-				-
29	345	Power Operated Equipment	29,569				29,569
30	346	Communications Equipment	224,500				224,500
31	347	Miscellaneous Equipment	-				-
32	348	Other Tangible Plant	149,414				149,414
33							-
34		TOTALS	$ 12,987,344	$ 6,646	$ 2,424	$ -	$ 12,996,414
35							
36		Plant-in-Service per Direct					$ 12,987,344
37							
38		Increase (decrease) in Plant-in-Service					$ 9,070
39							
40		Adjustment to Plant-in-Service					$ 9,070
41							
42		SUPPORTING SCHEDULES	REFERENCES				
43		B-2, pages 3.1-3.16	Column A - see Staff Adjustment 1 Schedule BCA-4				
44			Column B - see Staff Adjustment 2 Schedule BCA-4				

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Account No.	Description	Deprec. Rate	Per Decision 58641 12/31/1992	Per Decision 58641 1992 Accum. Depr.	1993 Plant Additions	1993 Plant Adjustments	1993 Adjusted Plant Additions	1993 Plant Retirements	1993 Plant Balance	1993 Depr.
301	Organization Cost	0.00%	-		-		-	-	-	-
302	Franchise Cost	0.00%	-		-		-	-	-	-
303	Land and Land Rights	0.00%	7,954		-		-	-	7,954	-
304	Structures and Improvements	3.60%	3,317	1,160	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-	-	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-	-	-		-	-	-	-
307	Wells and Springs	3.60%	38,867	13,590	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-	-	-		-	-	-	-
309	Supply Mains	3.60%	-	-	-		-	-	-	-
310	Power Generation Equipment	3.60%	-	-	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	56,093	19,613	-		-	-	56,093	2,019
320	Water Treatment Equipment	3.60%	1,469	514	-		-	-	1,469	53
330	Distribution Reservoirs & Standpipe	3.60%	20,680	7,231	204		204	-	20,884	748
331	Transmission and Distribution Mains	3.60%	383,184	133,978	4,794		4,794	-	387,978	13,881
333	Services	3.60%	9,439	3,300	1,488		1,488	-	10,927	367
334	Meters	3.60%	22,255	7,781	1,087		1,087	-	23,342	821
335	Hydrants	3.60%	-	-	-		-	-	-	-
336	Backflow Prevention Devices	3.60%	-	-	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-	-	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	20,944	7,323	-		-	-	20,944	754
341	Transportation Equipment	3.60%	16,113	5,634	-		-	-	16,113	580
342	Stores Equipment	3.60%	-	-	-		-	-	-	-
343	Tools and Work Equipment	3.60%	1,578	552	156		156	-	1,734	60
344	Laboratory Equipment	3.60%	-	-	-		-	-	-	-
345	Power Operated Equipment	3.60%	20,264	7,085	-		-	-	20,264	730
346	Communications Equipment	3.60%	3,525	1,232	-		-	-	3,525	127
347	Miscellaneous Equipment	3.60%	-	-	-		-	-	-	-
348	Other Tangible Plant	3.60%	12,621	4,413	-		-	-	12,621	454
							-	-	-	-
	TOTAL WATER PLANT		618,303	213,405	7,730	-	7,730	-	626,033	22,112

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Account No.	Description	Deprec. Rate	1994 Plant Additions	1994 Plant Adjustments	1994 Adjusted Plant Additions	1994 Plant Retirements	1994 Plant Balance	1994 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	-		-	-	56,093	2,019
320	Water Treatment Equipment	3.60%	-		-	-	1,469	53
330	Distribution Reservoirs & Standpipe	3.60%	-		-	-	20,884	752
331	Transmission and Distribution Mains	3.60%	9,060		9,060	-	397,038	14,130
333	Services	3.60%	642		642	-	11,570	405
334	Meters	3.60%	1,168		1,168	-	24,510	861
335	Hydrants	3.60%	-		-	-	-	-
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	20,944	754
341	Transportation Equipment	3.60%	-		-	-	16,113	580
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	659		659	-	2,393	74
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	-		-	-	3,525	127
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	-		-	-	12,621	454
					-	-	-	-
	TOTAL WATER PLANT		11,529	-	11,529	-	637,562	22,458

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Account No.	Description	Deprec. Rate	1995 Plant Additions	1995 Plant Adjustments	1995 Adjusted Plant Additions	1995 Plant Retirements	1995 Plant Balance	1995 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	-		-	-	56,093	2,019
320	Water Treatment Equipment	3.60%	-		-	-	1,469	53
330	Distribution Reservoirs & Standpipe	3.60%	1,585		1,585	-	22,469	780
331	Transmission and Distribution Mains	3.60%	9,534		9,534	-	406,573	14,465
333	Services	3.60%	6,286		6,286	-	17,856	530
334	Meters	3.60%	3,084		3,084	-	27,594	938
335	Hydrants	3.60%	-		-	-	-	-
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	2,369		2,369	-	23,313	797
341	Transportation Equipment	3.60%	-		-	-	16,113	580
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	313		313	-	2,706	92
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	-		-	-	3,525	127
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	12,500		12,500	-	25,121	679
					-		-	-
	TOTAL WATER PLANT		35,672	-	35,672	-	673,234	23,308

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.4
Witness: Bourassa

Account No.	Description	Deprec. Rate	1996 Plant Additions	1996 Plant Adjustments	1996 Adjusted Plant Additions	1996 Plant Retirements	1996 Plant Balance	1996 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	-		-	-	56,093	2,019
320	Water Treatment Equipment	3.60%	-		-	-	1,469	53
330	Distribution Reservoirs & Standpipe	3.60%	-		-	-	22,469	809
331	Transmission and Distribution Mains	3.60%	13,394		13,394	-	419,967	14,878
333	Services	3.60%	10,454		10,454	-	28,310	831
334	Meters	3.60%	5,311		5,311	-	32,905	1,089
335	Hydrants	3.60%	-		-	-	-	-
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	243		243	-	23,556	844
341	Transportation Equipment	3.60%	-		-	-	16,113	580
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	523		523	-	3,228	107
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	1,181		1,181	-	4,706	148
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	1,807		1,807	-	26,929	937
					-		-	-
	TOTAL WATER PLANT		32,913	-	32,913	-	706,148	24,543

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.5
Witness: Bourassa

Account No.	Description	Deprec. Rate	1997 Plant Additions	1997 Plant Adjustments *	1997 Adjusted Plant Additions	1997 Plant Retirements	1997 Plant Balance	1997 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	8,707		8,707	-	64,800	2,176
320	Water Treatment Equipment	3.60%	-		-	(236)	1,233	49
330	Distribution Reservoirs & Standpipe	3.60%	332		332	-	22,802	815
331	Transmission and Distribution Mains	3.60%	55,275		55,275	-	475,242	16,114
333	Services	3.60%	31,064		31,064	-	59,374	1,578
334	Meters	3.60%	5,295		5,295	-	38,199	1,280
335	Hydrants	3.60%	6,000		6,000	-	6,000	108
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	801		801	-	24,357	862
341	Transportation Equipment	3.60%	-		-	(13,741)	2,372	333
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	-		-	-	3,228	116
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	-		-	-	4,706	169
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	-		-	-	26,929	969
					-		-	-
	TOTAL WATER PLANT		107,473	-	107,473	(13,977)	799,644	26,818

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.6
Witness: Bourassa

Account No.	Description	Deprec. Rate	1998 Plant Additions	1998 Plant Adjustments	1998 Adjusted Plant Additions	1998 Plant Retirements	1998 Plant Balance	1998 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	915		915	-	65,714	2,349
320	Water Treatment Equipment	3.60%	1,015		1,015	-	2,248	63
330	Distribution Reservoirs & Standpipe	3.60%	-		-	-	22,802	821
331	Transmission and Distribution Mains	3.60%	80,889		80,889	-	556,131	18,565
333	Services	3.60%	18,538		18,538	-	77,912	2,471
334	Meters	3.60%	7,422		7,422	-	45,622	1,509
335	Hydrants	3.60%	14,000		14,000	-	20,000	468
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	24,357	877
341	Transportation Equipment	3.60%	-		-	-	2,372	85
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	-		-	-	3,228	116
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	-		-	-	4,706	169
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	500		500	-	27,429	978
					-		-	-
	TOTAL WATER PLANT		123,279	-	123,279	-	922,922	30,720

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.7
Witness: Bourassa

Account No.	Description	Deprec. Rate	1999 Plant Additions	1999 Plant Adjustments	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	960		960	-	960	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	2,269		2,269	-	67,983	2,407
320	Water Treatment Equipment	3.60%	-		-	-	2,248	81
330	Distribution Reservoirs & Standpipe	3.60%	-		-	-	22,802	821
331	Transmission and Distribution Mains	3.60%	55,773		55,773	-	611,904	21,025
333	Services	3.60%	18,782		18,782	-	96,693	3,143
334	Meters	3.60%	11,529		11,529	-	57,151	1,850
335	Hydrants	3.60%	7,500		7,500	-	27,500	855
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	24,357	877
341	Transportation Equipment	3.60%	-		-	-	2,372	85
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	1,284		1,284	-	4,513	139
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	20,264	730
346	Communications Equipment	3.60%	-		-	-	4,706	169
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	3,741		3,741	-	31,170	1,055
					-		-	-
	TOTAL WATER PLANT		101,838	-	101,838	-	1,024,760	34,755

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2000 Plant Additions	2000 Plant Adjustments	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-
302	Franchise Cost	0.00%	-		-	-	960	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	-		-	-	3,317	119
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	-		-	-	38,867	1,399
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	922		922	-	68,905	2,464
320	Water Treatment Equipment	3.60%	-		-	-	2,248	81
330	Distribution Reservoirs & Standpipe	3.60%	-		-	-	22,802	821
331	Transmission and Distribution Mains	3.60%	142,518		142,518	-	754,422	24,594
333	Services	3.60%	4,749		4,749	-	101,442	3,566
334	Meters	3.60%	16,731		16,731	-	73,881	2,359
335	Hydrants	3.60%	-		-	-	27,500	990
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	24,357	877
341	Transportation Equipment	3.60%	3,543		3,543	-	5,914	149
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	1,606		1,606	-	6,119	191
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	1,987		1,987	-	22,251	765
346	Communications Equipment	3.60%	-		-	-	4,706	169
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	5,280		5,280	-	36,450	1,217
					-		-	-
	TOTAL WATER PLANT		177,335	-	177,335	-	1,202,095	39,762

H2O, Inc.
Plant Additions and Retirements

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Rebuttal Schedule B-2
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Witness: Bourassa

Account No.	Description	Deprec. Rate	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
301	Organization Cost	0.00%	-		-		-	-
302	Franchise Cost	0.00%	130,492		130,492	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	7,954	-
304	Structures and Improvements	3.60%	1,170		1,170	-	4,487	140
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-
307	Wells and Springs	3.60%	495		495	-	39,362	1,408
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-
311	Electric Pumping Equipment	3.60%	72,491		72,491	-	141,395	3,785
320	Water Treatment Equipment	3.60%	1,921		1,921	-	4,169	116
330	Distribution Reservoirs & Standpipe	3.60%	12,381		12,381	-	35,182	1,044
331	Transmission and Distribution Mains	3.60%	25,303		25,303	(43)	779,682	27,614
333	Services	3.60%	2,484		2,484	-	103,926	3,697
334	Meters	3.60%	40,029		40,029	-	113,910	3,380
335	Hydrants	3.60%	-		-	-	27,500	990
336	Backflow Prevention Devices	3.60%	-		-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	24,357	877
341	Transportation Equipment	3.60%	141		141	-	6,055	215
342	Stores Equipment	3.60%	-		-	-	-	-
343	Tools and Work Equipment	3.60%	698		698	-	6,817	233
344	Laboratory Equipment	3.60%	-		-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	22,251	801
346	Communications Equipment	3.60%	-		-	-	4,706	169
347	Miscellaneous Equipment	3.60%	-		-	-	-	-
348	Other Tangible Plant	3.60%	1,218		1,218	-	37,668	1,334
					-		-	-
	TOTAL WATER PLANT		288,822	-	288,822	(43)	1,490,874	45,804

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2002 Plant Additions	2002 Plant Adjustments	2002 Adjusted Plant Additions	2002 Plant Retirements	Plant Retirements To Date	2002 Plant Balance	2002 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	-	7,954	-
304	Structures and Improvements	3.60%	7,505		7,505	-	-	11,993	297
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-	-
307	Wells and Springs	3.60%	-		-	-	-	39,362	1,417
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-	-
311	Electric Pumping Equipment	3.60%	206,307		206,307	-	-	347,702	8,804
320	Water Treatment Equipment	3.60%	5,535		5,535	-	(236)	9,704	250
330	Distribution Reservoirs & Standpipe	3.60%	134,988		134,988	-	-	170,170	3,696
331	Transmission and Distribution Mains	3.60%	43,639		43,639	-	(43)	823,321	28,854
333	Services	3.60%	7,024		7,024	-	-	110,951	3,868
334	Meters	3.60%	124,367		124,367	-	-	238,277	6,339
335	Hydrants	3.60%	907		907	-	-	28,407	1,006
336	Backflow Prevention Devices	3.60%	-		-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	-		-	-	-	24,357	877
341	Transportation Equipment	3.60%	-		-	-	(13,741)	6,055	218
342	Stores Equipment	3.60%	-		-	-	-	-	-
343	Tools and Work Equipment	3.60%	825		825	-	-	7,641	260
344	Laboratory Equipment	3.60%	-		-	-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	-	22,251	801
346	Communications Equipment	3.60%	189		189	-	-	4,896	173
347	Miscellaneous Equipment	3.60%	-		-	-	-	-	-
348	Other Tangible Plant	3.60%	6,824		6,824	-	-	44,492	1,479
					-		-	-	-
	TOTAL WATER PLANT		538,111	-	538,111	-	(14,020)	2,028,985	58,339

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	Plant Retirements To Date	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	-	7,954	-
304	Structures and Improvements	3.60%	136,197		136,197	-	-	148,190	2,883
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-	-
307	Wells and Springs	3.60%	2,865		2,865	-	-	42,227	1,469
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-	-
311	Electric Pumping Equipment	3.60%	1,375,724		1,375,724	-	-	1,723,426	37,280
320	Water Treatment Equipment	3.60%	11,011		11,011	-	(236)	20,715	548
330	Distribution Reservoirs & Standpipe	3.60%	590,358		590,358	-	-	760,528	16,753
331	Transmission and Distribution Mains	3.60%	300,234		300,234	-	(43)	1,123,555	35,044
333	Services	3.60%	17,774		17,774	-	-	128,725	4,314
334	Meters	3.60%	330,324		330,324	-	-	568,601	14,524
335	Hydrants	3.60%	-		-	-	-	28,407	1,023
336	Backflow Prevention Devices	3.60%	-		-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	22,688		22,688	-	-	47,045	1,285
341	Transportation Equipment	3.60%	1,864		1,864	-	(13,741)	7,919	252
342	Stores Equipment	3.60%	-		-	-	-	-	-
343	Tools and Work Equipment	3.60%	11,092		11,092	-	-	18,733	475
344	Laboratory Equipment	3.60%	-		-	-	-	-	-
345	Power Operated Equipment	3.60%	4,940		4,940	-	-	27,191	890
346	Communications Equipment	3.60%	52,880		52,880	-	-	57,775	1,128
347	Miscellaneous Equipment	3.60%	-		-	-	-	-	-
348	Other Tangible Plant	3.60%	25,599		25,599	-	-	70,091	2,062
					-		-	-	-
	TOTAL WATER PLANT		2,883,550	-	2,883,550	-	(14,020)	4,912,535	119,929

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	Plant Retirements To Date	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	-	7,954	-
304	Structures and Improvements	3.60%	10,303		10,303	-	-	158,493	5,520
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-	-
307	Wells and Springs	3.60%	121,516		121,516	-	-	163,743	3,707
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-	-
311	Electric Pumping Equipment	3.60%	218,691		218,691	-	-	1,942,117	65,980
320	Water Treatment Equipment	3.60%	4,585		4,585	-	(236)	25,300	828
330	Distribution Reservoirs & Standpipe	3.60%	76,435		76,435	-	-	836,963	28,755
331	Transmission and Distribution Mains	3.60%	121,531		121,531	-	(43)	1,245,087	42,636
333	Services	3.60%	20,114		20,114	-	-	148,838	4,996
334	Meters	3.60%	702,354		702,354	-	-	1,270,954	33,112
335	Hydrants	3.60%	-		-	-	-	28,407	1,023
336	Backflow Prevention Devices	3.60%	-		-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	23,721		23,721	-	-	70,767	2,121
341	Transportation Equipment	3.60%	51,918		51,918	-	(13,741)	59,837	1,220
342	Stores Equipment	3.60%	-		-	-	-	-	-
343	Tools and Work Equipment	3.60%	5,202		5,202	-	-	23,936	768
344	Laboratory Equipment	3.60%	-		-	-	-	-	-
345	Power Operated Equipment	3.60%	1,751		1,751	-	-	28,942	1,010
346	Communications Equipment	3.60%	165,316		165,316	-	-	223,092	5,056
347	Miscellaneous Equipment	3.60%	-		-	-	-	-	-
348	Other Tangible Plant	3.60%	40,005		40,005	-	-	110,096	3,243
					-		-	-	-
	TOTAL WATER PLANT		1,563,443	-	1,563,443	-	(14,020)	6,475,978	199,975

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements	Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	-	7,954	-
304	Structures and Improvements	3.60%	125,217		125,217	-	-	283,710	7,960
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-	-
307	Wells and Springs	3.60%	64,897		64,897	-	-	228,640	7,063
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-	-
311	Electric Pumping Equipment	3.60%	1,023,286		1,023,286	-	-	2,965,403	88,335
320	Water Treatment Equipment	3.60%	14,952		14,952	-	(236)	40,252	1,180
330	Distribution Reservoirs & Standpipe	3.60%	929,939		929,939	-	-	1,766,902	46,870
331	Transmission and Distribution Mains	3.60%	247,629		247,629	-	(43)	1,492,716	49,280
333	Services	3.60%	35,110		35,110	-	-	183,948	5,990
334	Meters	3.60%	583,711		583,711	-	-	1,854,665	56,261
335	Hydrants	3.60%	-		-	-	-	28,407	1,023
336	Backflow Prevention Devices	3.60%	-		-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	8,125		8,125	-	-	78,892	2,694
341	Transportation Equipment	3.60%	52,274		52,274	-	(13,741)	112,111	3,095
342	Stores Equipment	3.60%	-		-	-	-	-	-
343	Tools and Work Equipment	3.60%	11,786		11,786	-	-	35,721	1,074
344	Laboratory Equipment	3.60%	-		-	-	-	-	-
345	Power Operated Equipment	3.60%	627		627	-	-	29,569	1,053
346	Communications Equipment	3.60%	6,006		6,006	-	-	229,098	8,139
347	Miscellaneous Equipment	3.60%	-		-	-	-	-	-
348	Other Tangible Plant	3.60%	30,106		30,106	-	-	140,202	4,505
					-		-	-	-
	TOTAL WATER PLANT		3,133,664		3,133,664	-	(14,020)	9,609,642	284,523

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2006 Plant Additions	Staff 2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	Plant Retirements To Date	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%	-		-	-	-	-	-
302	Franchise Cost	0.00%	-		-	-	-	131,452	-
303	Land and Land Rights	0.00%	-		-	-	-	7,954	-
304	Structures and Improvements	3.60%	254,469		254,469	-	-	538,179	14,794
305	Collecting and Impounding Res.	3.60%	-		-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-		-	-	-	-	-
307	Wells and Springs	3.60%	27,216		27,216	-	-	255,856	8,721
308	Infiltration Galleries and Tunnels	3.60%	-		-	-	-	-	-
309	Supply Mains	3.60%	-		-	-	-	-	-
310	Power Generation Equipment	3.60%	-		-	-	-	-	-
311	Electric Pumping Equipment	3.60%	1,472,179		1,472,179	-	-	4,437,582	133,254
320	Water Treatment Equipment	3.60%	11,152		11,152	-	(236)	51,404	1,650
330	Distribution Reservoirs & Standpipe	3.60%	939,515	6,646	946,161	-	-	2,713,063	80,639
331	Transmission and Distribution Mains	3.60%	154,405	2,424	156,829	-	(43)	1,649,545	56,561
333	Services	3.60%	23,552		23,552	-	-	207,500	7,046
334	Meters	3.60%	444,204		444,204	(8,443)	(8,443)	2,290,426	74,612
335	Hydrants	3.60%	16,936		16,936	-	-	45,343	1,328
336	Backflow Prevention Devices	3.60%	-		-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-		-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	11,879		11,879	-	-	90,771	3,054
341	Transportation Equipment	3.60%	9,129		9,129	-	(13,741)	121,240	4,200
342	Stores Equipment	3.60%	-		-	-	-	-	-
343	Tools and Work Equipment	3.60%	16,895		16,895	-	-	52,616	1,590
344	Laboratory Equipment	3.60%	-		-	-	-	-	-
345	Power Operated Equipment	3.60%	-		-	-	-	29,569	1,064
346	Communications Equipment	3.60%	-		-	(4,598)	(4,598)	224,500	8,165
347	Miscellaneous Equipment	3.60%	-		-	-	-	-	-
348	Other Tangible Plant	3.60%	32,541		32,541	(23,329)	(23,329)	149,414	5,213
					-		-	-	-
	TOTAL WATER PLANT		3,414,072		3,423,142	(36,370)	(50,390)	12,996,414	401,890

H2O, Inc.
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account 1992	1993	1994	1995	1996	1997	1998
301	Organization Cost	0.00%	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	-
304	Structures and Improvements	3.60%	1,160	1,279	1,399	1,518	1,637	1,757	1,876
305	Collecting and Impounding Res.	3.60%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-	-	-	-	-	-	-
307	Wells and Springs	3.60%	13,590	14,989	16,388	17,787	19,186	20,586	21,985
308	Infiltration Galleries and Tunnels	3.60%	-	-	-	-	-	-	-
309	Supply Mains	3.60%	-	-	-	-	-	-	-
310	Power Generation Equipment	3.60%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	3.60%	19,613	21,632	23,651	25,671	27,690	29,866	32,215
320	Water Treatment Equipment	3.60%	514	567	619	672	725	538	601
330	Distribution Reservoirs & Standpipe	3.60%	7,231	7,979	8,731	9,511	10,320	11,135	11,956
331	Transmission and Distribution Mains	3.60%	133,978	147,859	161,989	176,454	191,332	207,446	226,010
333	Services	3.60%	3,300	3,667	4,072	4,601	5,432	7,011	9,482
334	Meters	3.60%	7,781	8,602	9,463	10,401	11,490	12,770	14,279
335	Hydrants	3.60%	-	-	-	-	-	108	576
336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	7,323	8,077	8,831	9,628	10,471	11,334	12,210
341	Transportation Equipment	3.60%	5,634	6,214	6,794	7,374	7,954	(5,455)	(5,369)
342	Stores Equipment	3.60%	-	-	-	-	-	-	-
343	Tools and Work Equipment	3.60%	552	611	686	777	884	1,000	1,117
344	Laboratory Equipment	3.60%	-	-	-	-	-	-	-
345	Power Operated Equipment	3.60%	7,085	7,815	8,544	9,274	10,003	10,733	11,462
346	Communications Equipment	3.60%	1,232	1,359	1,486	1,613	1,761	1,931	2,100
347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-
348	Other Tangible Plant	3.60%	4,413	4,867	5,322	6,001	6,938	7,907	8,886
			-	-	-	-	-	-	-
	TOTAL WATER PLANT		213,405	235,517	257,975	281,283	305,826	318,667	349,386

H2O, Inc.
Plant Additions and Retirements

Exhibit
Rebuttal Schedule B-2
Page 3.16
Witness: Bourassa

Account No.	Description	Deprec. Rate	1999	2000	2001	2002	2003	2004	2005	2006
301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-
304	Structures and Improvements	3.60%	1,996	2,115	2,256	2,552	5,435	10,956	18,915	33,709
305	Collecting and Impounding Res.	3.60%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	3.60%	-	-	-	-	-	-	-	-
307	Wells and Springs	3.60%	23,384	24,783	26,191	27,608	29,077	32,785	39,847	48,568
308	Infiltration Galleries and Tunnels	3.60%	-	-	-	-	-	-	-	-
309	Supply Mains	3.60%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	3.60%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	3.60%	34,622	37,086	40,871	49,675	86,955	152,935	241,270	374,524
320	Water Treatment Equipment	3.60%	682	763	878	1,128	1,675	2,504	3,684	5,333
330	Distribution Reservoirs & Standpipe	3.60%	12,776	13,597	14,641	18,337	35,090	63,845	110,714	191,354
331	Transmission and Distribution Mains	3.60%	247,035	271,629	299,200	328,054	363,098	405,733	455,014	511,574
333	Services	3.60%	12,625	16,191	19,888	23,756	28,070	33,066	39,056	46,102
334	Meters	3.60%	16,129	18,487	21,868	28,207	42,731	75,843	132,104	198,273
335	Hydrants	3.60%	1,431	2,421	3,411	4,417	5,440	6,463	7,485	8,813
336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	3.60%	13,087	13,964	14,841	15,718	17,003	19,124	21,818	24,871
341	Transportation Equipment	3.60%	(5,284)	(5,135)	(4,919)	(4,701)	(4,450)	(3,230)	(135)	4,065
342	Stores Equipment	3.60%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	3.60%	1,256	1,447	1,680	1,940	2,415	3,183	4,257	5,847
344	Laboratory Equipment	3.60%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	3.60%	12,192	12,957	13,758	14,559	15,449	16,459	17,513	18,577
346	Communications Equipment	3.60%	2,270	2,439	2,609	2,781	3,909	8,965	17,104	20,671
347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	3.60%	9,940	11,158	12,492	13,971	16,033	19,276	23,782	5,666
			-	-	-	-	-	-	-	-
	TOTAL WATER PLANT		384,141	423,904	469,664	528,003	647,932	847,906	1,132,429	1,497,950

H2O, Inc.
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Line No.	Accumulated Depreciation		Direct Adjusted Accum. Depr.	Adjustments A Difference to Recomputed A/D	B Intentionally Left Blank	C Intentionally Left Blank	Rebuttal Adjusted Original Cost
1							
2							
3	Acct.						
4	No.	Description					
5	301	Organization Cost	-	-			-
6	302	Franchise Cost	-	-			-
7	303	Land and Land Rights	-	-			-
8	304	Structures and Improvements	33,590	119			33,709
9	305	Collecting and Impounding Res.	-	-			-
10	306	Lake River and Other Intakes	-	-			-
11	307	Wells and Springs	48,568	-			48,568
12	308	Infiltration Galleries and Tunnels	-	-			-
13	309	Supply Mains	-	-			-
14	310	Power Generation Equipment	-	-			-
15	311	Electric Pumping Equipment	374,524	-			374,524
16	320	Water Treatment Equipment	5,333	-			5,333
17	330	Distribution Reservoirs & Standpi	191,234	120			191,354
18	331	Transmission and Distribution Ma	511,531	44			511,574
19	333	Services	46,102	-			46,102
20	334	Meters	198,273	-			198,273
21	335	Hydrants	8,813	-			8,813
22	336	Backflow Prevention Devices	-	-			-
23	339	Other Plant and Miscellaneous E	-	-			-
24	340	Office Furniture and Fixtures	24,871	-			24,871
25	341	Transportation Equipment	(1,935)	6,001			4,065
26	342	Stores Equipment	-	-			-
27	343	Tools and Work Equipment	5,847	-			5,847
28	344	Laboratory Equipment	-	-			-
29	345	Power Operated Equipment	18,577	-			18,577
30	346	Communications Equipment	20,671	-			20,671
31	347	Miscellaneous Equipment	-	-			-
32	348	Other Tangible Plant	5,666	-			5,666
33							-
34		TOTALS	$ 1,491,666	$ 6,283	$ -	$ -	$ 1,497,950
35							
36	Accumulated Depreciation per Direct						$ 1,491,666
37							
38	Increase (decrease) in Accumulated Deprecaition						$ 6,283
39							
40	Adjustment to Accumulated Depreciation						$ 6,283
41							
42	SUPPORTING SCHEDULES						
43	B-2, pages 3.1-3.16						
44							

H2O, Inc.
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Line No.		Amount Recorded	Unexpended Cash[1]	CIAC Adjustments[2]	Amortizable Balance	Amortization Rate	Amortization[3]	Year	Total Amortization	Accumulated Amortization
1	Accumulated Amortization (A.A.)									
2										
3	Computation of CIAC Balances									
6	Balance at 12/31/1992	$ 42,760			$ 42,760				-	-
7	Additions 1993	4,794								
8	Balance at 12/31/1993	$ 47,554			$ 47,554	3.60%	1,626	1993	1,626	1,626
9	Additions 1994	1,045								
10	Balance at 12/31/1994	$ 48,599			$ 48,599	3.60%	1,731	1994	1,731	3,356
11	Additions 1995									
12	Balance at 12/31/1995	$ 48,599			$ 48,599	3.60%	1,750	1995	1,750	5,106
13	Additions 1996									
14	Balance at 12/31/1996	$ 48,599			$ 48,599	3.60%	1,750	1996	1,750	6,856
15	Additions 1997	167,061								
16	Balance at 12/31/1997	$ 215,660			$ 215,660	3.60%	4,757	1997	4,757	11,612
17	Additions 1998	(28)								
18	Balance at 12/31/1998	$ 215,632			$ 215,632	3.60%	7,763	1998	7,763	19,375
19	Additions 1999									
20	Balance at 12/31/1999	$ 215,632			$ 215,632	3.60%	7,763	1999	7,763	27,138
21	Additions 2000	315								
22	Balance at 12/31/2000	$ 215,947			$ 215,947	3.60%	7,768	2000	7,768	34,907
23	Additions 2001	49,350								
24	Balance at 12/31/2001	$ 265,297			$ 265,297	3.60%	8,662	2001	8,662	43,569
25	Additions 2002	124,542								
26	Balance at 12/31/2002	$ 389,839			$ 389,839	3.60%	11,792	2002	11,792	55,361
27	Additions 2003	2,781,417								
28	Balance at 12/31/2003	$ 3,171,256			$ 3,171,256	3.60%	64,100	2003	64,100	119,461
29	Additions 2004	196,752								
30	Balance at 12/31/2004	$ 3,368,008			$ 3,368,008	3.60%	117,707	2004	117,707	237,168
31	Additions 2005	2,428,609								
32	Balance at 12/31/2005	$ 5,796,617			$ 5,796,617	3.60%	164,963	2005	164,963	402,131
33	Additions 2006	3,512,498								
34	Balance at 12/31/2006	$ 9,309,115	$ (2,660,967)		$ 6,648,148	3.60%	224,006	2006	224,006	626,137
35										
36										
37	Computed Balances				$ 6,648,148					$ 626,137
38	Balance per Direct Filing				6,449,776					683,565
39	Increase (Decrease) in Balance				$ 198,372					$ (57,428)
40										
41	Adjustment to gross CIAC				$ 198,372					
42	Adjustment to A.A				3a					$ 57,428
43										3b

44 [1] Unexpended cash adjusted by $198,372 for HUF's collected from customer who were receiveing service at end of test year.
45 [2]Half-year Convention
46 [2]Half-year Convention

H2O, Inc.
Test Year Ended December 31, 2006
Deferred Income Taxes

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Line No.		
1	**Deferred Tax Analysis**	
2	**December 31, 2006**	
3		
4		
5	Accounting basis at end of year (Note 1)	$ 5,476,453
6		
7	Tax basis of capital assets at end of year (Note 1)	3,835,234
8		
9	Timing Difference	$ (1,641,219)
10		
11	Tax rate (from schedule C-3)	38.50%
12		
13	Defered Tax Liability **[1]**	$ (631,825)
14		
15	AIAC End of Year (Accounting Basis)	$ (4,632,209)
16		
17	AIAC End of Year (Tax Basis)	-
18		
19	Timing Difference	4,632,209
20		
21	Tax rate (from schedule C-3)	38.50%
22		
23	Defered Tax Asset **[2]**	$ 1,783,277
24		
25		
26	Net Deferred Tax Asset (Liability) **[3]=[1] plus [2]**	$ 1,151,451
27		
28	Deferred Income Tax per Direct Filing	$ 846,927
29		
30	Increase (Decrease) in Deferred Income Taxes	$ 304,524
31		
32	Adjustment to Deferred Income Taxes	$ (304,524)
33		
34	Note 1 - Calculation of Plant Book and Tax Basis	
35		

36		Tax	Book
37	Plant in Service (from B-2)		$ 12,996,414
38	CIAC (from B-2)		(6,648,148)
39	Amort. on CIAC (From B-2)		626,137
40	Asset Cost	$ 4,933,687	$ 6,974,403
41	Accum. Depr. (from B-2)	(1,098,453)	(1,497,950)
42	NBV	$ 3,835,234	$ 5,476,453
43			

H2O, Inc.
Test Year Ended December 31, 2006
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	$	235,781
3	Pumping Power (1/24 of Pumping Power)		10,890
4	Purchased Water (1/24 of Purchased Water)		3,241
5	Material and Supplies Inventories		-
6	Prepayments		8,127
7			
8			
9	Total Working Capital Allowance	$	258,039
10			
11			
12	Working Capital Requested	$	-
13			
14			
15	SUPPORTING SCHEDULES:	RECAP SCHEDULES:	
16	Rebuttal C-1	Rebuttal B-1	
17	E-1		

H2O, Inc.
Test Year Ended December 31, 2006
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Adjusted Test Year Book Results	Adjustments	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**					
2	Metered Water Revenues	$ 3,171,070	$ -	$ 3,171,070	$ (134,153)	$ 3,036,917
3	Unmetered Water Revenues	-		-		-
4	Other Water Revenues	208,697	(1,125)	207,572		207,572
5		$ 3,379,767	$ (1,125)	$ 3,378,642	$ (134,153)	$ 3,244,489
6	**Operating Expenses**					
7	Salaries and Wages	$ 790,693	-	$ 790,693		$ 790,693
8	Purchased Water	77,793	-	77,793		77,793
9	Purchased Power	253,894	7,455	261,349		261,349
10	Chemicals	4,229	-	4,229		4,229
11	Repairs and Maintenance	169,792	(2,424)	167,368		167,368
12	Office Supplies and Expense	75,119	(3,948)	71,171		71,171
13	Outside Services	66,331	-	66,331		66,331
14	Water Testing	12,289	-	12,289		12,289
15	Rents	175,063	-	175,063		175,063
16	Transportation Expenses	214,459	-	214,459		214,459
17	Insurance - General Liability	52,245	-	52,245		52,245
18	Insurance - Health and Life	61,213	-	61,213		61,213
19	Reg. Comm. Exp. - Rate Case	40,000	-	40,000		40,000
20	Miscellaneous Expense	187,311	(19,124)	168,187		168,187
21	Depreciation Expense	471,243	(14,171)	457,073		457,073
22	Taxes Other Than Income	63,002	-	63,002		63,002
23	Property Taxes	197,405	341	197,747		197,747
24	Income Tax	171,332	15,976	187,309	(51,645)	135,664
25				-		-
26	**Total Operating Expenses**	$ 3,083,414	$ (15,894)	$ 3,067,520	$ (51,645)	$ 3,015,875
27	**Operating Income**	$ 296,353	$ 14,769	$ 311,122	$ (82,508)	$ 228,614
28	**Other Income (Expense)**					
29	Interest Income	-	-	-		-
30	Other income	-	-	-		-
31	Interest Expense	(12,826)	946	(11,880)		(11,880)
32	Other Expense	-	-	-		-
33						
34	**Total Other Income (Expense)**	$ (12,826)	$ 946	$ (11,880)	$ -	$ (11,880)
35	**Net Profit (Loss)**	$ 283,527	$ 15,714	$ 299,242	$ (82,508)	$ 216,734
36						
37	SUPPORTING SCHEDULES:				RECAP SCHEDULES:	
38	Rebuttal C-1, page 2				Rebuttal A-1	
39						

H2O, Inc.
Test Year Ended December 31, 2006
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2
Witness: Bourassa

Line No.		Adjusted Test Year Book Results	1 Depreciation	2 Property Taxes	3 Sales Tax	4 Reclass Misc. Expense	5 Reclass R&M Expense	6 Reclass Expense	7 Remove Late Filing Penalty	8 Remove Unnecessary Expense	9 Interest Sync.	10 Income Tax	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	**Revenues**														
2	Metered Water Revenues	$ 3,171,070											$ 3,171,070	$ (134,153)	$ 3,036,917
3	Unmetered Water Revenues	-											-		-
4	Other Water Revenues	208,697			(1,125)								207,572		207,572
5		$ 3,379,767	$ -	$ -	$ (1,125)	$ -	$ -	$ -	$ -	$ -		$ -	$ 3,378,642	$ (134,153)	$ 3,244,489
6	**Operating Expenses**														
7	Salaries and Wages	$ 790,693											$ 790,693		$ 790,693
8	Purchased Water	77,793											77,793		77,793
9	Purchased Power	253,894						7,455					261,349		261,349
10	Chemicals	4,229											4,229		4,229
11	Repairs and Maintenance	169,792					(2,424)						167,368		167,368
12	Office Supplies and Expense	75,119								(3,948)			71,171		71,171
13	Outside Services	66,331											66,331		66,331
14	Water Testing	12,289											12,289		12,289
15	Rents	175,063											175,063		175,063
16	Transportation Expenses	214,459											214,459		214,459
17	Insurance - General Liability	52,245											52,245		52,245
18	Insurance - Health and Life	61,213											61,213		61,213
19	Reg. Comm. Exp. - Rate Case	40,000											40,000		40,000
20	Miscellaneous Expense	187,311				(6,646)		(7,455)	(5,023)				168,187		168,187
21	Depreciation Expense	471,243	(14,171)										457,073		457,073
22	Taxes Other Than Income	63,002											63,002		63,002
23	Property Taxes	197,405		341									197,747		197,747
24	Income Tax	171,332										15,976	187,309	(51,645)	135,664
25													-		-
26	**Total Operating Expenses**	$ 3,083,414	$ (14,171)	$ 341	$ -	$ (6,646)	$ (2,424)	$ -	$ (5,023)	$ (3,948)	$ -	$ 15,976	$ 3,067,520	$ (51,645)	$ 3,015,875
27	**Operating Income**	$ 296,353	$ 14,171	$ (341)	$ (1,125)	$ 6,646	$ 2,424	$ -	$ 5,023	$ 3,948	$ -	$ (15,976)	$ 311,122	$ (82,508)	$ 228,614
28	**Other Income (Expense)**														
29	Interest Income	-											-		-
30	Other income	-											-		-
31	Interest Expense	(12,826)									946		(11,880)		(11,880)
32	Other Expense	-											-		-
33															
34	**Total Other Income (Expense)**	$ (12,826)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 946	$ -	$ (11,880)	$ -	$ (11,880)
35	**Net Profit (Loss)**	$ 283,527	$ 14,171	$ (341)	$ (1,125)	$ 6,646	$ 2,424	$ -	$ 5,023	$ 3,948	$ 946	$ (15,976)	$ 299,242	$ (82,508)	$ 216,734
36															
37	SUPPORTING SCHEDULES:														
38	Rebuttal C-2, page 1 to 11														
39															

RECAP SCHEDULES:
Rebuttal C-1, page 1

H2O, Inc.
Test Year Ended December 31, 2006
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa
REVISED

Line No.		Adjustments to Revenues and Expenses						
		1	2	3	4	5	6	Subtotal
1		Depreciation	Property	Sales	Reclass	Reclass	Reclass	
2		Expense	Taxes	Tax	Misc. Exp.	R&M Exp.	Expense	
3	Revenues			(1,125)				(1,125)
4								
5	Expenses	(14,171)	341		(6,646)	(2,424)	-	(22,899)
6								
7	Operating							
8	Income	14,171	(341)	(1,125)	6,646	2,424	-	21,774
9								
10	Interest							
11	Expense							-
12	Other							
13	Income /							-
14	Expense							
15								
16	Net Income	14,171	(341)	(1,125)	6,646	2,424	-	21,774
17								
18								
19		Adjustments to Revenues and Expenses						
20		7	8	9	10	11	12	Subtotal
21		Remove Late	Unnecessary	Interest				
22		Filing Penalty	Expense	Sync.	Income taxes			
23	Revenues							(1,125)
24								
25	Expenses	(5,023)	(3,948)		15,976			(15,894)
26								
27	Operating							
28	Income	5,023	3,948	-	(15,976)	-	-	14,769
29								
30	Interest							
31	Expense			946				946
32	Other							
33	Income /							-
34	Expense							
35								
36	Net Income	5,023	3,948	946	(15,976)	-	-	15,714
37								

H2O, Inc.
Test Year Ended December 31, 2006
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Line No.					
1	Depreciation Expense				
2					
3	**Account**		**Rebuttal Original**	**Proposed**	**Depreciation**
4	**No.**	**Description**	**Cost**	**Rate**	**Expense**
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	131,452	0.00%	-
7	303	Land and Land Rights	7,954	0.00%	-
8	304	Structures and Improvements	538,179	3.33%	17,921
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	255,856	3.33%	8,520
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	4,437,582	12.50%	554,698
16	320	Water Treatment Equipment	51,404	3.33%	1,712
17	330	Distribution Reservoirs & Standpipe	2,713,063	2.22%	60,230
18	331	Transmission and Distribution Mains	1,649,545	2.00%	32,991
19	333	Services	207,500	3.33%	6,910
20	334	Meters	2,290,426	8.33%	190,793
21	335	Hydrants	45,343	2.00%	907
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-	6.67%	-
24	340	Office Furniture and Fixtures	90,771	6.67%	6,054
25	341	Transportation Equipment	121,240	20.00%	24,248
26	342	Stores Equipment	-	4.00%	-
27	343	Tools and Work Equipment	52,616	5.00%	2,631
28	344	Laboratory Equipment	-	10.00%	-
29	345	Power Operated Equipment	29,569	5.00%	1,478
30	346	Communications Equipment	224,500	10.00%	22,450
31	347	Miscellaneous Equipment	-	10.00%	-
32	348	Other Tangible Plant	149,414	10.00%	14,941
33					
34		TOTALS	$ 12,996,414		$ 946,484
35					
36					
37	Less: Amort. of Contributions - Adjusted Balance End of TY		$ 6,648,148	7.3616%	$ (489,411)
38					
39	Total Depreciation Expense				$ 457,073
40					
41	Depreciation Expense per Direct Filing				471,243
42					
43	Increase (decrease) in Depreciation Expense				(14,171)
44					
45	Adjustment to Revenues and/or Expenses				$ (14,171)
46					

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	Adjust Property Taxes to Reflect Proposed Revenues:		
2			
3	Adjusted Revenues in year ended 12/31/2006	$	3,378,642
4	Adjusted Revenues in year ended 12/31/2006		3,378,642
5	Rebuttal Proposed Revenues		3,244,489
6	Average of three year's of revenue	$	3,333,924
7	Average of three year's of revenue, times 2	$	6,667,848
8	Add:		
9	Construction Work in Progess at 10%	$	-
10	Deduct:		
11	Book Value of Transportation Equipment		9,231
12			
13	Full Cash Value	$	6,658,618
14	Assessment Ratio		23.00%
15	Assessed Value		1,531,482
16	Property Tax Rate		12.8467%
17			
18	Property Tax		196,744
19	Tax on Parcels		1,002
20			
21	Total Property Tax at Proposed Rates	$	197,747
22	Property Taxesper Direct Filing		197,405
23	Change in Property Taxes	$	341
24			
25			
26	Adjustment to Revenues and/or Expenses	$	341
27			
28			

H2O, Inc.
Test Year Ended December 31, 2006
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Line No.			
1	Removal of Sales Tax From Other Water Revenues		
2			
3	Sales Tax included in Other Water Revenues	$	(1,125)
4			
5			
6	Increase(decrease) in Other Revnues	$	(1,125)
7			
8	Adjustment to Revenue and/or Expense	$	(1,125)
9			
10			
11			
12			
13			
14			
15	REFERENCE		
16	Staff Adjustment #1 Schedule BCA 12		
17			
18			
19			
20			

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	Reclass Miscellaneous Expense to Plant-in-Service		
2			
3	Misellaneous Expense reclassified to 330 Distrib. Reserv. and Standpipe	$	(6,646)
4			
5			
6	Increase(decrease) in Miscellaneous Expense	$	(6,646)
7			
8	Adjustment to Revenue and/or Expense	$	(6,646)
9			
10			
11			
12			
13			
14			
15	REFERENCE		
16	Staff Adjustment #2 Schedule BCA 13		
17			
18			
19			
20			

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Line No.			
1	Reclass Repairs and Maintenance Expense to Plant-in-Service		
2			
3	Repairs and Maintenance Expense reclassified to 330 Trans. & Distrib. Mains	$	(2,424)
4			
5			
6	Increase(decrease) in Repairs and Maintenance	$	(2,424)
7			
8	Adjustment to Revenue and/or Expense	$	(2,424)
9			
10			
11			
12			
13			
14			
15	REFERENCE		
16	Staff Adjustment #3 Schedule BCA 14		
17			
18			
19			
20			

H2O, Inc.
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

Line No.				Label
1	Reclass Misc. Expense to Purchased Power			
2				
3	Miscellaneous Expense	$	(7,455)	6a
4	Purchased Power	$	7,455	6b
5				
6	Increase(decrease) in Expenses	$	-	
7				
8	Adjustment to Revenue and/or Expense	$	-	
9				
10				
11				
12				
13				
14				
15	REFERENCE			
16	Staff Adjustment #4 Schedule BCA 15			
17				
18				
19				
20				

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	Removal of Late Tax Filing Penalty from Misc. Expense		
2			
3	Late Filing Penalty included in Miscellaneous Expense	$	(5,023)
4			
5			
6	Increase(decrease) in Miscellaneous Expense	$	(5,023)
7			
8	Adjustment to Revenue and/or Expense	$	(5,023)
9			
10			
11			
12			
13			
14			
15	REFERENCE		
16	Staff Adjustment #5 Schedule BCA 16		
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

Line No.			
1	Removal of Unncessary Expense from Office Supplies Expense		
2			
3	Unnecessary Expense in Office Supplies Expense	$	(3,948)
4			
5			
6	Increase(decrease) in Office Supplies Expense	$	(3,948)
7			
8	Adjustment to Revenue and/or Expense	$	(3,948)
9			
10			
11			
12			
13			
14			
15	REFERENCE		
16	Staff Adjustment #6 Schedule BCA 17		
17			
18			
19			
20			

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rebuttal Schedule C-2
Page 10
Witness: Bourassa

Line No.			
1	Interest Synchronization With Rate Base		
2			
3			
4	Fair Value Rate Base	$ 1,995,695	
5	Weighted Cost of Debt from D-1	0.60%	
6	Synchronized Interest		$ 11,880
7			
8	Test Year Interest Expense		$ 12,826
9			
10	Increase (decrease) in Interest Expense		$ (946)
11			
12	Adjustment to Revenue and/or Expense		$ 946
13			
14			
15			
16			
17			
18			
19			
20			

H2O, Inc.
Test Year Ended December 31, 2006
Adjustment to Revenues and/or Expenses
Adjustment Number 10

Exhibit
Final Schedule C-2
Page 11
Witness: Bourassa

Line No.			Final Adjusted		Final Adjusted with Rate Increase	
1	Income Tax Computation					
7	Taxable Income		$ 486,550		$ 352,397	
9	Arizona Income Before Taxes		$ 486,550		$ 352,397	
11	Less Arizona Income Tax		$ 33,903		$ 24,555	
12	Rate =	6.97%				
13	Arizona Taxable Income		$ 452,648		$ 327,842	
15	Arizona Income Taxes		$ 33,903		$ 24,555	
17	Federal Income Before Taxes		$ 486,550		$ 352,397	
19	Less Arizona Income Taxes		$ 33,903		$ 24,555	
21	Federal Taxable Income		$ 452,648		$ 327,842	
23	FEDERAL INCOME TAXES:					
24	15% BRACKET		$ 7,500		$ 7,500	
25	25% BRACKET		$ 6,250		$ 6,250	
26	34% BRACKET		$ 8,500	Federal	$ 8,500	Federal
27	39% BRACKET		$ 91,650	Effective	$ 88,858	Effective
28	34% BRACKET		$ 40,000	Tax	$ -	Tax
29				Rate		Rate
30	Federal Income Taxes		$ 153,900	31.63%	$ 111,108	31.53%
33	Total Income Tax		$ 187,803		$ 135,664	
35	Overall tax rate				38.50%	
38	Income taxes per Direct Filing		$ 171,332			
40	Increase (decrease) to Income Taxes		$ 16,471			

H2O, Inc.
Test Year Ended December 31, 2006
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	31.53%
2		
3	State Income Taxes	6.97%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	38.50%
9		
10	Operating Income % = 100% - Tax Percentage	61.50%
11		
12		
13		
14		
15	1 = Gross Revenue Conversion Factor	
16	Operating Income %	1.6259
17		
18	SUPPORTING SCHEDULES:	RECAP SCHEDULES:
19		A-1
20		

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H2O, Inc.
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8 Inch	Residential	$ 55,280	$ 47,308	$ (7,972)	-14.42%	1.90%	1.70%
2	3/4 Inch	Residential	$ 1,997,926	$ 1,985,467	$ (12,459)	-0.62%	68.62%	71.32%
3	1 Inch	Residential	$ 184,593	$ 164,156	$ (20,438)	-11.07%	6.34%	5.90%
4	1.5 Inch	Residential	$ 20,856	$ 17,731	$ (3,125)	-14.98%	0.72%	0.64%
5	2 Inch	Residential	$ 2,065	$ 1,687	$ (378)	-18.31%	0.07%	0.06%
6								
7		Subtotal	$ 2,260,720	$ 2,216,349	$ (44,371)	-1.96%	77.65%	79.62%
8								
9	5/8 Inch	Commercial	$ 2,299	$ 2,148	$ (152)	-6.60%	0.08%	0.08%
10	3/4 Inch	Commercial	$ 8,400	$ 8,361	$ (39)	-0.46%	0.29%	0.30%
11	1 Inch	Commercial	$ 5,055	$ 4,496	$ (559)	-11.07%	0.17%	0.16%
12	1.5 Inch	Commercial	$ 1,785	$ 1,471	$ (313)	-17.56%	0.06%	0.05%
13	2 Inch	Commercial	$ 80,656	$ 72,483	$ (8,173)	-10.13%	2.77%	2.60%
14	3 Inch	Commercial	$ 55,378	$ 49,470	$ (5,908)	-10.67%	1.90%	1.78%
15		Subtotal	$ 153,573	$ 138,430	$ (15,144)	-9.86%	5.27%	4.97%
16								
17	3/4 Inch	Landscape Irrigation	$ 3,020	$ 3,014	$ (6)	-0.18%	0.10%	0.11%
18	1 Inch	Landscape Irrigation	$ 41,891	$ 39,299	$ (2,592)	-6.19%	1.44%	1.41%
19	1.5 Inch	Landscape Irrigation	$ 32,643	$ 29,651	$ (2,992)	-9.17%	1.12%	1.07%
20	2 Inch	Landscape Irrigation	$ 335,174	$ 307,716	$ (27,458)	-8.19%	11.51%	11.05%
21								
22		Subtotal	$ 412,728	$ 379,680	$ (33,048)	-8.01%	14.18%	13.64%
23								
24								
25	2 Inch	Construction	$ 16,707	$ 14,026	$ (2,681)	-16.05%	0.57%	0.50%
26	3 Inch	Construction	$ 67,721	$ 35,290	$ (32,432)	-47.89%	2.33%	1.27%
27		Subtotal	$ 84,429	$ 49,315	$ (35,113)	-41.59%	2.90%	1.77%
28								
29	Total Revenues Before Annualization		$ 2,911,450	$ 2,783,774	$ (44,371)	-1.52%	100.00%	100.00%
30								
31								
32								
33								
34								

Docket W-02234A-07-0557

H2O, Inc.
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 2
Witness: Bourassa

Line No.	Meter Size	Class	Revenue Annualization: Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Additional Bills to be Issued	Additional Gallons to be Pumped (In 1,000's)	Schedule Number
1	5/8 Inch	Residential	$ (75)	$ (60)	$ 15	0.00%	(5)	(63)	C-2, P 5.1
2	3/4 Inch	Residential	$ 203,288	$ 197,608	$ (5,679)	-2.79%	6,458	55,359	C-2, P 5.2
3	1 Inch	Residential	$ 4,766	$ 4,141	$ (625)	-13.12%	60	1,437	C-2, P 5.3
4	1.5 Inch	Residential	$ 1,446	$ 1,225	$ (221)	-15.31%	8	433	C-2, P 5.4
5	2 Inch	Residential							C-2, P 5.5
6									
7		Subtotal	$ 209,425	$ 202,914	$ (6,511)	-3.11%	6,521	57,166	
8									
9	5/8 Inch	Commercial	$ (165)	$ (131)	$ 34	0.00%	(11)	(177)	C-2, P 5.6
10	3/4 Inch	Commercial	$ 1,309	$ 1,328	$ 19	1.46%	20	529	C-2, P 5.7
11	1 Inch	Commercial	$ 387	$ 339	$ (47)	-12.25%	5	113	C-2, P 5.8
12	1.5 Inch	Commercial	$ -	$ -	$ -	0.00%	-	-	C-2, P 5.9
13	2 Inch	Commercial	$ (4,326)	$ (3,716)	$ 610	0.00%	(10)	(1,521)	C-2, P 5.10
14	3 Inch	Commercial	$ (9,659)	$ (8,315)	$ 1,344	0.00%	(12)	(3,346)	C-2, P 5.11
15		Subtotal	$ (12,454)	$ (10,495)	$ 1,959	-15.73%	(8)	(4,402)	
16									
17	3/4 Inch	Landscape Irrigation	$ 836	$ 818	$ (18)	-2.15%	23	260	C-2, P 5.12
18	1 Inch	Landscape Irrigation	$ 6,411	$ 5,994	$ (417)	-6.50%	26	2,686	C-2, P 5.13
19	1.5 Inch	Landscape Irrigation	$ 8,305	$ 7,579	$ (726)	-8.74%	18	3,368	C-2, P 5.14
20	2 Inch	Landscape Irrigation	$ 50,432	$ 46,001	$ (4,431)	-8.79%	62	20,622	C-2, P 5.15
21									
22		Subtotal	$ 65,984	$ 60,392	$ (5,592)	-8.47%	129	26,935	
23									
24									
25	2 Inch	Construction							
26	3 Inch	Construction							
27		Subtotal	$ -	$ -	$ -	0.00%	-	-	
28									
29									
30									
31									
32	Total Revenue Annualization		$ 262,954	$ 252,811	$ (10,143)	-3.86%	6,642	79,698	
33									
34									

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H2O, Inc.
Test Year Ended December 31, 2006
Revenue Summary
With Annualized Revenues to Year End Number of Customers

Exhibit
Rebuttal Schedule H-1
Page 3
Witness: Bourassa

Line No.		Present Revenues	Proposed Revenues	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	Subtotal Metered Revenues	$ 2,911,450	$ 2,783,774	$ (127,676)	-4.39%	100.00%	100.00%
2	Subtotal Revenue Annualization	262,954	252,811	(10,143)	-3.86%	9.03%	9.08%
3	Total Metered Revenues	$ 3,174,404	$ 3,036,585	$ (137,819)	-4.34%		
4							
5	Misc. Revenues	$ 207,572	$ 207,572	-	0.00%	7.13%	7.46%
6	Reconciling Amount to GL	(3,335)	331	3,666	-109.93%	-0.11%	0.01%
7	Total Water Revenues	$ 3,378,642	$ 3,244,488	$ (134,153)	-3.97%	0.00%	0.00%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
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21							
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25							
26							
27							
28							
29							
30							
31							
32							
33							
34							

H2O, Inc.
Test Year Ended December 31, 2006
Customer Summary

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.		Meter Size, Class	(a) Average Number of Customers at 12/31/2006	Average Consumption	Average Bill Present Rates	Average Bill Proposed Rates	Proposed Increase Dollar Amount	Proposed Increase Percent Amount
1	5/8 Inch	Residential	232	3,554	$ 19.55	$ 16.42	(3.12)	-15.98%
2	3/4 Inch	Residential	5,299	8,334	$ 31.05	$ 30.05	(1.01)	-3.25%
3	1 Inch	Residential	180	25,909	$ 83.29	$ 71.74	(11.55)	-13.86%
4	1.5 Inch	Residential	10	47,728	$ 167.33	$ 136.11	(31.22)	-18.66%
5	2 Inch	Residential	1	44,752	$ 206.05	$ 167.13	(38.91)	-18.89%
6								
7		Subtotal	5,722					
8								
9	5/8 Inch	Commercial	4	17,614	$ 44.57	$ 42.37	(2.20)	-4.93%
10	3/4 Inch	Commercial	11	23,312	$ 58.81	$ 60.03	1.22	2.08%
11	1 Inch	Commercial	6	20,643	$ 72.18	$ 62.89	(9.28)	-12.86%
12	1.5 Inch	Commercial	1	38,917	$ 148.74	$ 122.00	(26.74)	-17.98%
13	2 Inch	Commercial	14	176,803	$ 484.68	$ 422.24	(62.43)	-12.88%
14	3 Inch	Commercial	7	208,665	$ 656.90	$ 547.06	(109.84)	-16.72%
15		Subtotal	43					
16								
17	3/4 Inch	Landscape Irrigation	7	10,283	$ 34.52	$ 33.30	(1.23)	-3.56%
18	1 Inch	Landscape Irrigation	15	97,197	$ 233.71	$ 218.02	(15.68)	-6.71%
19	1.5 Inch	Landscape Irrigation	8	139,708	$ 361.40	$ 323.83	(37.57)	-10.40%
20	2 Inch	Landscape Irrigation	35	326,843	$ 801.26	$ 730.12	(71.14)	-8.88%
21								
22		Subtotal	64					
23								
24								
25	2 Inch	Construction	2	341,763	$ 832.74	$ 701.30	(131.44)	-15.78%
26	3 Inch	Construction	12	120,263	$ 470.38	$ 246.78	(223.60)	-47.54%
27		Subtotal	14					
28								
29								
30		Total	5,843					

31 **(a)** Average number of customers of less than one (1), indicates that less than 12 bills were issued during the year.

H2O, Inc.
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 1
Witness: Bourassa

Line No.	Monthly Usage Charge for:	Present Rates	Proposed Rates	Change	Percent Change
1	Meter Size (All Classes):				
2	5/8 Inch	$ 15.00	$ 11.93	$ (3.07)	-20.47%
3	3/4 Inch	$ 18.00	$ 17.90	$ (0.11)	-0.58%
4	1 Inch	$ 37.00	$ 29.83	$ (7.18)	-19.39%
5	1 1/2 Inch	$ 75.00	$ 59.65	$ (15.35)	-20.47%
6	2 Inch	$ 120.00	$ 95.44	$ (24.56)	-20.47%
7	3 Inch	N/A	$ 190.88	N/A	
8	4 Inch	N/A	$ 298.25	N/A	
9	6 Inch	N/A	$ 596.50	N/A	
10					
11	Construction 2 inch	120.00	-		
12	Construction 3 inch	120.00	-		
13					
14					
15					
16	Gallons In Minimum (All Zones and Classes)	1,000	-		
17					
18			(Per 1,000 gallons)		
19	**Commodity Rates**		**Present**	**Proposed**	**Percent**
20	**(Residential, Commercial, Industrial)**	**Block**	**Rate**	**Rate**	**Change**	**Change**
21						
22	All Meter Sizes	1,001 gallons to 20,000 gallons	$ 1.78	N/A	N/A	N/A
23		Over 20,000 gallons	$ 2.11	N/A	N/A	N/A
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						

H2O, Inc.
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Page 2
Witness: Bourassa

Line No.			(Per 1,000 gallons) Present Rate	Proposed Rate	Change	Percent Change
1						
2	**Commodity Rates**		**Present**	**Proposed**		**Percent**
3	**(Residential, Commercial, Irrigationl)**	**Block**	**Rate**	**Rate**	**Change**	**Change**
4	5/8 Inch Meter	1 gallons to 3,000 gallons	N/A	$ 1.20	N/A	N/A
5		3,001 gallons to 10,000 gallons	N/A	$ 1.60	N/A	N/A
6		over 10,000 gallons	N/A	$ 2.05	N/A	N/A
7						
8	3/4 Inch Meter	1 gallons to 3,000 gallons	N/A	$ 1.20	N/A	N/A
9		3,001 gallons to 10,000 gallons	N/A	$ 1.60	N/A	N/A
10		over 10,000 gallons	N/A	$ 2.05	N/A	N/A
11						
12	1 Inch Meter	1 gallons to 25,000 gallons	N/A	$ 1.60	N/A	N/A
13		over 25,000 gallons	N/A	$ 2.05	N/A	N/A
14	1.5 Inch Meter	1 gallons to 50,000 gallons	N/A	$ 1.60	N/A	N/A
15		over 50,000 gallons	N/A	$ 2.05	N/A	N/A
16						
17	2 Inch Meter	1 gallons to 80,000 gallons	N/A	$ 1.60	N/A	N/A
18		over 80,000 gallons	N/A	$ 2.05	N/A	N/A
19						
20	3 Inch Meter	1 gallons to 160,000 gallons	N/A	$ 1.60	N/A	N/A
21		over 160,000 gallons	N/A	$ 2.05	N/A	N/A
22						
23	4 Inch Meter	1 gallons to 250,000 gallons	N/A	$ 1.60	N/A	N/A
24		over 250,000 gallons	N/A	$ 2.05	N/A	N/A
25						
26	6 Inch Meter	1 gallons to 500,000 gallons	N/A	$ 1.60	N/A	N/A
27		over 500,000 gallons	N/A	$ 2.05	N/A	N/A
28						
29						
30						
31						
32						
33	**Construction/Standpipe/Bulk**	All gallons	N/A	$ 2.05	N/A	N/A
34						

H2O, Inc.
Changes in Representative Rate Schedules
Test Year Ended December 31, 2006

Exhibit
Schedule H-3
Page 3
Witness: Bourassa
2nd Revised

Line No.	Other Service Charges	Present Rates	Proposed Rates
1	Establishment	$ 15.00	$ 15.00
2	Establishment (After Hours)	$ 25.00	$ 25.00
3	Reconnection (Deliquent)	$ 15.00	$ 15.00
4	Reconnection (Deliquent and After Hours)	N/A	$ 15.00
5	Meter Test	$ 25.00	$ 25.00
6	Deposit Requirement (Residential)	(a)	(a)
7	Deposit Requirement (None Residential Meter)	(a)	(a)
8	Deposit Interest	(b)	(b)
9	Re-Establishment (With-in 12 Months)	(c)	(c)
10	Re-Establishment (After Hours)	(c)	(c)
11	NSF Check	$ 15.00	$ 15.00
12	Deferred Payment, Per Month	1.00%	1.50%
13	Meter Re-Read	$ 10.00	$ 10.00
14	Charge of Moving Customer Meter -		
15	Customer Requested per Rule R14-2-405B	Cost	Cost
16	After hours service charge, per Rule R14-2-403D	Refer to	Refer to
17		Above	Above
18		Charges	Charges
19	Late Charge per month	N/A	1.5%
20	Off-site Facilities Hook-up Fee (See H-3, page 5)	(d)	(d)
21	CAP Purchased Water Surcharge	N/A	(e)
22	Company Locks Damaged by Customer	(f)	(f)
23	Mains Damaged by Customer	(f)	(f)
24			

25 (a) Residential - two times the average bill. Non-residential - two and one-half times the average bill.
26 (b) Interest per Rule R14-2-403(B).
27 (c) Minimum charge times number of full months off the system. per Rule R14-2-403(D).
28 (d) New water installations. May be assessed only once per parcel, service connection, or lot within a sub-
29 division. Purpose is to equitably apportion the costs of constructing additional off-site facilities to provide
30 water production, delivery, storage, and presssure among all new service connections.
31 (e) The CAP surcharge is in addition to all other commodity charges and will be adjusted annually to recover
32 the acquistion and purchased water costs of the Company associated with the right to receive 147 acre
33 feet of Central Arizona Project water each year for delivery to customers. The surcharge will include a 10 year
34 amortization of the acquistion cost plus the projected annual fixed costs of the contract and the delivery costs.
35 Surcharge will be computed annually based on gallons sold and trued-up at the end of each year with any
36 over or under recovery of actual costs during the year included in the next years surcharge computation.
37
38 (f) Per Commission Rule R14-2-407(B).
39
40
41 IN ADDITION TO THE COLLECTION OF REGULAR RATES, THE UTILITY WILL COLLECT FROM
42 ITS CUSTOMERS A PROPORTIONATE SHARE OF ANY PRIVILEGE, SALES, USE, AND FRANCHISE
43 TAX. PER COMMISSION RULE 14-2-409D(5).
44
45 ALL ADVANCES AND/OR CONTRIBUTIONS ARE TO INCLUDE LABOR, MATERIALS, OVERHEADS,
46 AND ALL APPLICABLE TAXES, INCLUDING ALL GROSS-UP TAXES FOR INCOME TAXES, IF APPLICABLE.
47
48
49

H2O, Inc.
Test Year Ended December 31, 2006
Meter and Service Line Charges

Exhibit
Schedule H-3
Page 4
Witness: Bourassa
REVISED

Meter and Service Line Charges

Meter Size	Present Service Line Charge	Present Meter Install-ation Charge	Total Present Charge	(a) Proposed Service Line Charge	Proposed Meter Install-ation Charge	(a) Total Proposed Charge
5/8 x 3/4 Inch			$ 285.00	$ 385.00	$ 135.00	$ 520.00
3/4 Inch			320.00	385.00	215.00	600.00
1 Inch			360.00	465.00	265.00	730.00
1 1/2 Inch			545.00	520.00	475.00	995.00
2 Inch			915.00	N/A	N/A	N/A
2 Inch / Turbine			N/T	800.00	995.00	1,795.00
2 Inch / Compound			N/A	800.00	1,840.00	2,640.00
3 Inch			1,150.00	N/A	N/A	N/A
3 Inch / Turbine			N/T	1,015.00	1,520.00	2,535.00
3 Inch / Compound			N/T	1,135.00	2,495.00	3,630.00
4 Inch			1,885.00	N/A	N/A	N/A
4 Inch / Turbine			N/T	1,430.00	2,570.00	4,000.00
4 Inch / Compound			N/T	1,610.00	3,545.00	5,155.00
6 Inch			3,780.00	N/A	N/A	N/A
6 Inch / Turbine			N/T	2,150.00	4,925.00	7,075.00
6 Inch / Compound			N/T	2,270.00	6,820.00	9,090.00
8 Inch & Larger			N/T	At Cost	At Cost	At Cost

N/T = No Tariff

(a) As meters and service lines are now taxable income for income purposes, The Company shall collect income taxes on the meter and service line charges. Any tax collected will be refunded each year as the meter deposit is refunded.

H2O, Inc.
Test Year Ended December 31, 2006
Capacity Reservation Charges

Exhibit
Rebuttal Schedule H-3
Page 5
Witness: Bourassa

Line No.			
1			
2	**Off-site Capacity Reservation Charge (Hook-up Fee)**		
3			
4			
5	Meter Size	Present	Proposed
6	5/8 x 3/4 Inch	$ 875.00	$ 875.00
7	3/4 Inch	$ 1,050.00	$ 1,050.00
8	1 Inch	$ 1,750.00	$ 1,750.00
9	1 1/2 Inch	$ 3,500.00	$ 3,500.00
10	2 Inch	$ 5,600.00	$ 5,600.00
11	3 Inch	$ 10,500.00	$ 10,500.00
12	4 Inch	$ 17,500.00	$ 17,500.00
13	6 Inch and larger	$ 35,000.00	$ 35,000.00
14			
15			
16			
17			
18	N/T = No Tariff		
19			
20			

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF H2O, INC. FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES FOR UTILITY SERVICE.	DOCKET NO. W-02987A-07-0557

REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

(COST OF CAPITAL)

I. INTRODUCTION AND QUALIFICATIONS.

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive, Phoenix, Arizona 85029.

Q. ARE YOU THE SAME THOMAS J. BOURRASSA THAT FILED DIRECT TESTIMONY ON RATE BASE, INCOME STATEMENT, REVENUE REQUIREMENT AND RATE DESIGN IN THIS DOCKET?

A. Yes, and all of my background information and testimony regarding my qualifications is contained in that portion of my direct testimony.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY SET FORTH IN THIS VOLUME I?

A. The purpose of this rebuttal testimony is to respond as appropriate to the direct testimony of Mr. Brendan Aladi on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"). I will also update my cost of capital analysis and recommended rate of return set forth in my direct testimony using recent financial data.[1]

II. SUMMARY OF REBUTTAL TESTIMONY AND THE COMPANY'S REVISED REQUESTED COST OF CAPITAL

Q. PLEASE SUMMARIZE YOUR UPDATED COST OF CAPITAL ANALYSIS.

A. Since the filing of the Company's direct testimony, the cost of equity has increased substantially, as indicated by the Discounted Cash Flow ("DCF") model

[1] My rebuttal testimony relating to the H2O, Inc.'s rate base, income statement (revenue and operating expenses), required increase in revenue, and rate design and proposed rates and charges for services are set forth in a separate volume.

and the Capital Asset Pricing Model ("CAPM"). The table below summarizes the results of my updated analysis using those models:

	Range	Midpoint
DCF Constant Growth (earnings growth)	10.6% - 15.6%	13.1%
DCF Constant Growth (sustainable growth)	8.3% - 11.9%	10.1%
Two-Stage Growth Model	10.3% - 13.6%	12.0%
DCF Average Results	**9.7% - 13.7%**	**11.7%**
CAPM Historical Market Risk Premium		9.7%
CAPM Current Market Risk Premium		23.5%
Average CAPM Results	**9.3% - 23.5%**	**16.4%**
Average Overall Results	**9.5% - 18.6%**	**14.1%**

The schedules containing my updated cost of capital analysis are attached as Exhibit D-1.

Q. PLEASE SUMMARIZE YOUR RECOMMENDED COST OF DEBT AND EQUITY, AND YOUR RECOMMENDED RATE OF RETURN ON RATE BASE AT THIS STAGE OF THE PROCEEDINGS.

A. The Company's recommended capital structure consists of 9.5 percent debt and 90.5 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated cost of capital analysis, I am recommending a cost of equity of 12.0 percent for the Company. The Company's recommended cost of debt is 9.5 percent.

Based on my 12.0 percent recommended cost of equity, the Company's weighted average cost of capital ("WACC") is 11.46 percent, as shown on Rebuttal Schedule D-1. I recommend that the WACC be used as the rate of return and applied to the Company's fair value rate base ("FVRB") to compute the Company's required operating income.

Q. IS YOUR REBUTTAL COST OF EQUITY RECOMMENDATION HIGHER THAN WHAT WAS SET FORTH IN YOUR DIRECT TESTIMONY?

A. Yes. In my direct testimony relating to the cost of capital which was filed almost one year ago, I recommended a cost of equity of 10.75 percent based on financial information from February 2008. My current recommendation, 12.0 percent, is based on current financial information. The methodologies that I have used are the same. However, key inputs into the DCF and CAPM models have changed over the past year. For example, the current market risk premium has increased substantially reflecting the current economic environment under which all business must raise capital.

Q. WHY ARE YOU RECOMMENDING A COST OF EQUITY OF ONLY 12.0 PERCENT, WHEN YOUR FINANCIAL MODELS INDICATE THAT A HIGHER EQUITY RETURN IS APPROPRIATE?

A. The midpoint of the range of cost of equity estimates is 14.1 percent, as shown above. Given H2O's relatively small size, the regulatory methods and policies used in this jurisdiction (which increase investment risk), and other firm-specific factors, it is my opinion that at the present time, a cost of equity of 14.1 percent is

warranted and could be easily supported by the available data. Even so, I am recommending only 12.0 percent to reflect H2O's lower financial risk compared to the publicly traded water utilities in my sample group.

Q. PLEASE SUMMARIZE THE COST OF DEBT AND EQUITY RECOMMENDED BY STAFF, AND ITS RESPECTIVE RECOMMENDATIONS FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.

A. Staff is recommended an operating margin approach. This is because Staff is recommending a negative rate base. Consequently, Staff has not provided a cost of capital analysis nor has it directly responded to my direct testimony on the cost of capital. Accordingly, Staff is recommending an operating margin of 10 percent.[2]

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

[2] *See* Staff Schedule BCA-1.

REBUTTAL SCHEDULES
(COST OF CAPITAL)

H2O, Inc.
Test Year Ended December 31, 2006
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Adjusted End of Test Year Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	End of Projected Year Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	240,387	9.50%	6.27%	0.60%	229,931	8.40%	6.29%	0.53%
2									
3	Stockholder's Equity[1,2,3]	2,290,145	90.50%	12.00%	10.86%	2,506,879	91.60%	12.00%	10.99%
4									
5	Totals	2,530,532	100.00%		11.46%	2,736,810	100.00%		11.52%
6									
7									
8	[1] Adjusted per Direct $2043,049.								
9	[2] Increase Equity for rebuttal adjustment to CIAC		$	(57,428)					
10	[3] Increase Equity for rebuttal adjustment to DIT		$	304,524					
11									
12	SUPPORTING SCHEDULES:								RECAP SCHEDULES:
13	Rebuttal D-1								
14	Rebuttal D-3								
15	Rebuttal D-4								
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									

H2O, Inc.
Test Year Ended December 31, 2006
Cost of Long Term Debt

Exhibit
Rebuttal Schedule D-2
Page 1
Witness: Bourassa

Line No.	Description of Debt	End of Test Year Amount Outstanding	End of Test Year Annual Interest	End of Test Year Interest Rate	End of Test Year Weighted Cost	End of Projected Year Amount Outstanding	End of Projected Year Annual Interest	End of Projected Year Interest Rate	End of Projected Year Weighted Cost
1	Long-term Debt (Decision 56327)	32,444	2,920	9.00%	1.21%	32,444	2,920	9.00%	1.27%
2	WIFA Loan (Decision 62620)	207,943	12,144	5.84%	5.05%	197,487	11,533	5.84%	5.02%
3		-	-	0.00%	0.00%	-	-	0.00%	0.00%
4		-	-	0.00%	0.00%	-	-	0.00%	0.00%
5		-	-	0.00%	0.00%	-	-	0.00%	0.00%
6		-	-	0.00%	0.00%	-	-	0.00%	0.00%
7		-	-	0.00%	0.00%	-	-	0.00%	0.00%
8		-	-	0.00%	0.00%	-	-	0.00%	0.00%
9		-	-	0.00%	0.00%	-	-	0.00%	0.00%
10		-	-	0.00%	0.00%	-	-	0.00%	0.00%
11									
12									
13	Totals	$ 240,387	$ 15,064		6.27%	$ 229,931	$ 14,453		6.29%
14									
15	SUPPORTING SCHEDULES								
16									
17									
18									
19									
20									
21									

H2O, Inc.
Test Year Ended December 31, 2006
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line No.	Description of Issue	End of Test Year Shares Outstanding	End of Test Year Amount	End of Test Year Dividend Requirement	End of Projected Year Shares Outstanding	End of Projected Year Amount	End of Projected Year Dividend Requirement
1							
2							
3	NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING						
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17	SUPPORTING SCHEDULES:			RECAP SCHEDULES:			
18				Rebuttal D-1			
19							
20							

H2O, Inc.
Test Year Ended December 31, 2006
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

Line No.	
1	
2	The Company is proposing a return on equity of 12.0 percent.
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	SUPPORTING SCHEDULES: RECAP SCHEDULES:
18	Rebuttal D-1
19	
20	

H2O, Inc.
Summary of Results

Exhibit D-1
Rebuttal Schedule D-4.0
Witness: Bourassa

Line No.	Method	Low	High	Midpoint
1				
2				
3				
4	Method	Low	High	Midpoint
5	DCF Constant Growth	10.6%	15.6%	13.1%
6	DCF Sustainable Growth	8.3%	11.9%	10.1%
7	DCF Two-Stage	10.3%	13.6%	12.0%
8				
9	Average DCF Results	9.7%	13.7%	11.7%
10				
11	CAPM	9.3%	23.5%	16.4%
12				
13	Average DCF and CAPM Results	9.5%	18.6%	14.1%
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

H2O, Inc.
Selected Characteristics of Water Utilities

Exhibit D-1
Rebuttal Schedule D-4.1
Witness: Bourassa

Line No.	Company	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating
1	1. American States	80%	$ 308.5	$ 714.6	NR	A2
2	2. Aqua America	85%	$ 616.2	$ 2,507.4	AA-	NR
3	3. California Water	97%	$ 396.1	$ 970.2	NR	NR
4	4. Connecticut Water	85%	$ 61.4	$ 243.7	AAA	NR
5	5. Middlesex	90%	$ 90.8	$ 312.4	A	NR
6	6. SJW Corp.	95%	$ 218.4	$ 483.7	NR	NR
7						
8	Average	89%	$ 281.9	$ 872.0		
9						
10	H2O, Inc.	100%	$ 3.4	$ 11.8	NR	NR

Source: AUS Utility Reports (February 2009)

H2O, Inc.
Capital Structures of Water Utilities

Exhibit D-1
Rebuttal Schedule D-4.2
Witness: Bourassa

No.	Company	Book Value Long-Term Debt	Book Value Common Equity	Market Value Long-Term Debt	Market Value Common Equity
1					
2					
3					
4	1. American States	47.0%	53.0%	31.4%	68.6%
5	2. Aqua America	55.4%	44.6%	32.6%	67.4%
6	3. California Water	43.0%	57.0%	25.7%	74.3%
7	4. Connecticut Water	47.9%	52.1%	33.3%	66.7%
8	5. Middlesex	49.8%	50.2%	40.8%	59.2%
9	6. SJW Corp.	47.7%	52.3%	31.6%	68.4%
10					
11	Average	48.5%	51.5%	32.6%	67.4%
12					
13	H2O, Inc.	9.5%	90.5%	N/A	N/A
14					
15					
16					
17	Source: Value Line Analyzer Data (February 20, 2009)				
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					

H2O, Inc.
Comparisons of Past and Future Estimates of Growth

Exhibit D-1
Rebuttal Schedule D-4.3
Page 1
Witness: Bourassa

Line No.	Company	Five-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth[1]
1	1. American States	8.84%	5.66%	2.82%	13.51%	8.25%
2	2. Aqua America	6.73%	7.31%	7.82%	6.20%	7.75%
3	3. California Water	14.51%	5.53%	0.88%	10.46%	8.50%
4	4. Connecticut Water	0.29%	3.38%	1.19%	1.41%	9.05%
5	5. Middlesex	-0.05%	6.96%	1.52%	7.60%	8.00%
6	6. SJW Corp.	17.82%	8.91%	7.02%	7.39%	12.75%
7						
8	GROUP AVERAGE	8.02%	6.29%	3.54%	7.76%	9.05%
9	GROUP MEDIAN	7.79%	6.31%	2.17%	7.50%	8.38%

[1] See Rebuttal Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

H2O, Inc.
Comparisons of Past and Future Estimates of Growth

Exhibit D-1
Rebuttal Schedule D-4.4
Page 1
Witness: Bourassa

Line No.	Company	Ten-year historical compound annual changes: Price	Book Value	DPS	EPS	Average Future Growth[1]
1	1. American States	9.72%	4.83%	1.76%	3.13%	8.25%
2	2. Aqua America	9.75%	9.00%	6.97%	6.77%	7.75%
3	3. California Water	8.42%	3.51%	0.90%	3.22%	8.50%
4	4. Connecticut Water	6.28%	3.78%	1.22%	1.93%	9.05%
5	5. Middlesex	7.37%	4.35%	1.91%	2.17%	8.00%
6	6. SJW Corp.	14.89%	5.89%	6.11%	5.58%	12.75%
7						
8						
9	GROUP AVERAGE	9.40%	5.23%	3.15%	3.80%	9.05%
10	GROUP MEDIAN	9.07%	4.59%	1.84%	3.17%	8.38%

[1] See Rebuttal Schedule D-4.5

Sources:
Value Line Data
Yahoo Finance

H2O, Inc.
Analysts Forecasts of Earnings Per Share Growth

Exhibit D-1
Rebuttal Schedule D-4.5
Witness: Bourassa

Line No.		(1)	(2)		(3)	(4)
		EPS GROWTH				Average
	Company	Zacks	Morningstar	Yahoo	Value Line	Growth (G) (Cols 1-3)
1	1. American States	11.00%	7.00%	4.00%	11.00%	8.25%
2	2. Aqua America	8.00%	7.50%	7.50%	8.00%	7.75%
3	3. California Water	8.00%	8.00%	10.00%	8.00%	8.50%
4	4. Connecticut Water					9.05%
5	5. Middlesex	8.00%		8.00%	8.00%	8.00%
6	6. SJW Corp.	13.00%	15.00%	10.00%	13.00%	12.75%
7						
8						
9	GROUP AVERAGE	9.60%	9.38%	7.90%	9.60%	9.05%
10	GROUP MEDIAN					8.38%

Sources:
Value Line Investment Analyzer Data February 20, 2009
Zacks Investment Research Website February 20, 2009
Morningstar Website February 20, 2009
Yahoo Finance Website February 20, 2009

H2O, Inc.
Estimates of Sustainable Growth

Exhibit D-1
Rebuttal Schedule D-4.6
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
1						
2						
3						Average
4						Sustainable
5		Retention	Rate	br	sv	Growth
6	Company	Ratio	of Return	Growth	Growth	(Cols 3+4)
7	1. American States	0.50	12.50%	6.30%	2.23%	8.53%
8	2. Aqua America	0.40	12.00%	4.80%	0.63%	5.43%
9	3. California Water	0.51	11.00%	5.60%	1.46%	7.07%
10	4. Connecticut Water					
11	5. Middlesex					
12	6. SJW Corp.					
13						
14						
15	GROUP AVERAGE	0.47	11.83%	5.57%	1.44%	7.01%
16	GROUP MEDIAN	0.50	12.00%	5.60%	1.46%	7.07%
17						
18	Sources:					
19	Value Line Data					
20						
21						
22						
23						

H2O, Inc.
Estimates of sv Growth

Exhibit D-1
Rebuttal Schedule D-4.7
Witness: Bourassa

Line No.	Company	(1) Stock Financing Rate	(2) Current Market to Book Ratio	(3) v	(4) sv Growth
7	1. American States	4.62%	1.93	0.48	2.23%
8	2. Aqua America	1.03%	2.57	0.61	0.63%
9	3. California Water	2.71%	2.18	0.54	1.46%
10	4. Connecticut Water				na
11	5. Middlesex				na
12	6. SJW Corp.				na
15	GROUP AVERAGE	2.79%	2.23	0.54	1.44%
16	GROUP MEDIAN	2.71%	2.18	0.54	1.46%

18 Sources:
19 Value Line Data

H2O, Inc.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model
Using Projected EPS Growth

Exhibit D-1
Rebuttal Schedule D-4.8
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)
1						Indicated
2						Cost of
3			Next			Equity
4		Spot	Year's	Dividend		k=Div Yld + g
5	Company	Price (Po)	Div (D1)	Yield	Growth (g)[1]	(Cols 3+4)
6	1. American States	33.91	1.08	3.18%	8.25%	11.4%
7	2. Aqua America	18.79	0.54	2.87%	7.75%	10.6%
8	3. California Water	40.30	1.18	2.93%	8.50%	11.4%
9	4. Connecticut Water	22.01	0.89	4.05%	9.05%	13.1%
10	5. Middlesex	14.48	0.71	4.92%	8.00%	12.9%
11	6. SJW Corp.	25.41	0.73	2.86%	12.75%	15.6%
12						
13						
14	GROUP AVERAGE			3.47%	9.05%	12.5%
15	GROUP MEDIAN					12.2%
16						
17	[1] See Rebuttal Schedules D-4.5					
18						
19	Sources:					
20	Value Line Investment Analyzer Data February 20, 2009					
21	Yahoo Finance Website February 20, 2009					
22						
23						

H2O, Inc.
Discounted Cash Flow Analysis (Water)
Constant Growth DCF Model - Sustainable Growth

Exhibit D-1
Rebuttal Schedule D-4.9
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1								Indicated
2								Cost of
3			Next		Sustainable Growth[1]			Equity
4		Spot	Year's	Dividend			br+sv	k=Div Yld + g
5	Company	Price (Po)	Div (D1)	Yield	br	vs	Growth (g)	(Cols 3+6)
6	1. American States	33.91	1.08	3.18%	6.30%	2.23%	8.53%	11.7%
7	2. Aqua America	18.79	0.54	2.87%	4.80%	0.63%	5.43%	8.3%
8	3. California Water	40.30	1.18	2.93%	5.60%	1.46%	7.07%	10.0%
9	4. Connecticut Water	22.01	0.89	4.05%			7.01%	11.1%
10	5. Middlesex	14.48	0.71	4.92%			7.01%	11.9%
11	6. SJW Corp.	25.41	0.73	2.86%			7.01%	9.9%
12								
13								
14	GROUP AVERAGE			3.47%			7.01%	10.5%
15	GROUP MEDIAN							10.5%
16								
17								
18	[1] See Schedule D-4.6 and D-4.7							
19								
20								
21	Sources:							
22	Value Line Investment Analyzer Data February 20, 2009							
23	Yahoo Finance Website February 20, 2009							
24								

H2O, Inc.
Discounted Cash Flow Analysis (Water)
Two-Stage Growth - Projected

Exhibit D-1
Rebuttal Schedule D-4.10
Witness: Bourassa

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Next		Projected Growth Rates			Indicated
		Spot	Year's	Yield	Near	Long		Cost of
	Company	Price(P_0)	Div (D_1)	(D_1/P_0)	Term[1]	Term (GDP)	Average[2]	Equity
1	1. American States	33.91	1.08	3.18%	8.25%	6.80%	7.77%	11.0%
2	2. Aqua America	18.79	0.54	2.87%	7.75%	6.80%	7.44%	10.3%
3	3. California Water	40.30	1.18	2.93%	8.50%	6.80%	7.94%	10.9%
4	4. Connecticut Water	22.01	0.89	4.05%	9.05%	6.80%	8.31%	12.4%
5	5. Middlesex	14.48	0.71	4.92%	8.00%	6.80%	7.60%	12.5%
6	6. SJW Corp.	25.41	0.73	2.86%	12.75%	6.80%	10.79%	13.6%
7	GROUP AVERAGE			3.47%			8.31%	11.8%
8	GROUP MEDIAN							11.7%

[1] See Rebuttal Schedule D-4.5
[2] Near term growth given weighting of .67

H2O, Inc.
Market Betas

Exhibit D-1
Rebuttal Schedule D-4.11
Witness: Bourassa

Line No.		Company	
1		Company	
2	1.	American States	0.95
3	2.	Aqua America	0.90
4	3.	California Water	1.05
5	4.	Connecticut Water	0.80
6	5.	Middlesex	0.80
7	6.	SJW Corp.	1.05
8		Average	**0.93**
9			
10	Source:		
11	Value Line Investment Analyzer Data February 20, 2009		
12			
13			
14			
15			
16			

H2O, Inc.
Computation of Current Market Risk Premium

Exhibit D-1
Rebuttal Schedule D-4.12
Witness: Bourassa

Line No.	Month	Dividend Yield	+	Growth	=	Expected Market Return	-	Monthly Average 30 Year Treasury Rate	=	Market Risk Premium
1										
2										
3	**Month**	Yield	+	Growth	=	Return	-	Treasury Rate	=	Premium
4	Dec 2007	2.61%	+	13.51%	=	16.12%	-	4.52%	=	11.60%
5	Jan 2008	2.67%	+	15.19%	=	17.86%	-	4.33%	=	13.53%
6	Feb	2.74%	+	16.47%	=	19.21%	-	4.52%	=	14.69%
7	March	2.85%	+	17.64%	=	20.49%	-	4.39%	=	16.10%
8	April	2.69%	+	15.73%	=	18.42%	-	4.44%	=	13.98%
9	May	2.73%	+	15.51%	=	18.24%	-	4.60%	=	13.64%
10	Jun	3.13%	+	18.51%	=	21.64%	-	4.69%	=	16.95%
11	Jul	3.15%	+	18.61%	=	21.76%	-	4.57%	=	17.19%
12	Aug	3.06%	+	17.08%	=	20.14%	-	4.50%	=	15.64%
13	Sept	3.07%	+	19.30%	=	22.37%	-	4.27%	=	18.10%
14	Oct	4.31%	+	30.53%	=	34.84%	-	4.17%	=	30.67%
15	Nov	4.97%	+	35.02%	=	39.99%	-	4.00%	=	35.99%
16	Dec 2008	4.44%	+	29.62%	=	34.06%	-	2.87%	=	31.19%
17	Jan 2009	4.86%	+	30.02%	=	34.88%	-	3.13%	=	31.75%
18										
19	Recent 12 Mon Avg	3.50%	+	22.00%	=	25.50%	-	4.18%	=	21.32%
23										
24	Short-term Trends									
25	Recent Nine Months Avg	3.75%	+	23.80%	=	27.55%	-	4.09%	=	23.46%
26	Recent Six Months Avg	4.12%	+	26.93%	=	31.05%	-	3.82%	=	27.22%
27	Recent Three Months Avg	4.76%	+	31.55%	=	36.31%	-	3.33%	=	32.98%
28										
29	Sources									
30	Value Line Investment Analyzer Software Data - Value Line 1700 Stocks									
31	Federal Reserve									

H2O, Inc.
Test Year Ended December 31, 2006
Capital Asset Pricing Model (CAPM)

Exhibit D-1
Rebuttal Schedule D-4.13
Witness: Bourassa

Line No.		Rf	+	beta[3]	x	Rp	=	k
1								
2								
3	Historical Market Risk Premium CAPM[1]	2.3%	+	0.93	x	7.5% [4]	=	9.3%
4								
5	Current Market Risk Premium CAPM[2]	3.7%	+	0.93	x	21.3% [5]	=	23.5%
6								
7								
8	Average							16.4%
9								
10								
11								

12 [1] Federal Reserve February 19, 2009 average of 5, 7 and 10 year Treasury rates (Rf)
13 [2] Federal Reserve February 19, 2009 30 year Treasury rate (Rf)
14 [3] Value Line Investment Analyzer data. See Sched. D-4.11
15 [4] Historical Market Risk Premium from (Rp) MorningStar SBBI 2008 Yearbook Table A-2 Intermediate-Horizon ERP 1926-2007
16 [5] Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks
17 and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Sched. D-4.12.
18
19
20