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BEFORE THE ARIZONA CORPORATION COMMISSION

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- 3 KRISTIN K. MAYES, Chairman
- 4 GARY PIERCE
- 5 PAUL NEWMAN
- 6 SANDRA D. KENNEDY
- 7 BOB STUMP

7 IN THE MATTER OF THE APPLICATION OF
 8 H2O, INC. FOR A DETERMINATION OF THE
 9 CURRENT FAIR VALUE OF ITS UTILITY
 10 PROPERTY AND FOR AN INCREASE IN ITS
 11 WATER RATES AND CHARGES FOR UTILITY
 12 SERVICES.

DOCKET NO. W-02234A-07-0557

**NOTICE OF FILING STAFF'S
SURREBUTTAL TESTIMONY**

11 Staff of the Arizona Corporation Commission hereby files the Surrebittal Testimony of
 12 Brendan C. Aladi in the above-referenced matter.

13 RESPECTFULLY submitted this 10th day of April, 2009.

14
 15 Charles H. Hains, Attorney
 16 Legal Division
 17 1200 West Washington Street
 18 Phoenix, Arizona 85007

18 Original and thirteen (13) copies
 19 of the foregoing were filed this
 20 10th day of April, 2009 with:

20 Docket Control
 21 Arizona Corporation Commission
 1200 West Washington Street
 22 Phoenix, Arizona 85007

23 Copy of the foregoing mailed
 24 this 10th day of April, 2009 to:

24 Richard L. Sallquist
 25 SALLQUIST DRUMMOND & O'CONNOR
 26 1430 East Missouri, Suite B-125
 Phoenix, Arizona 85014
 Attorneys for H2O, Inc.

Arizona Corporation Commission

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APR 10 2009

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28 Rosanna Osorio

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
H2O, INC. AN ARIZONA CORPORATION, FOR A)
DETERMINATION 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

SURREBUTTAL

TESTIMONY

OF

BRENDAN C. ALADI

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 10, 2009

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EXECUTIVE SUMMARY
H2O, INC.
DOCKET NO. W-02234A-07-0557

The Surrebuttal Testimony of Staff witness Brendan C. Aladi addresses the following issues:

Revenue Requirement, Rate Base and Test Year Operating Income – Staff recommends a \$3,218,705 revenue requirement, a \$159,937 or 4.73 percent decrease from adjusted test year revenue of \$3,378,642. Staff's recommended revenue provides a 10.0 percent operating margin. H2O, Inc. ("H2O" or "Company") has a negative \$500,901 fair value rate base (same as original cost). The Company's rebuttal testimony proposes a \$3,244,489 revenue requirement, a \$134,153 or 3.97 percent decrease from adjusted test year revenue of \$3,378,642 to provide an 11.46 percent rate of return on a fair value rate base (same as original cost) of \$1,995,695.

Response to the Rebuttal Testimony of Mr. Thomas J. Bourassa:

1. AIAC/CIAC in Rate Base – Staff continues to advocate including unexpended AIAC and CIAC and CIAC pertaining to CWIP as components of the rate base. Including these items in the rate base calculation reduces the rate base, and is consistent with rate-making principles.
2. Net Deferred Income Tax Debit - Staff continues to advocate \$1,292,799 for a Net Deferred Income Tax Debit (addition to rate base). The Company has not supported its proposal to change the basis of its estimated accumulated deferred income taxes from a 34.90 percent income tax rate in its direct testimony to 38.50 percent income tax rate in its rebuttal testimony. Staff disagrees with the Company omission of a portion of its CIAC in the estimation and the Net CIAC balance.
3. Operating Margin – Staff continues to recommend an operating margin of 10.0 percent. Due to the \$500,901 negative rate base, an operating income cannot be determined based on rate of return.
4. CAP Surcharge – The Company has not responded to Staff data requests essential for evaluating the proposed CAP Surcharge, accordingly, Staff does not recommend it.
5. Off-site Capacity Reservation Charge (Hook-up) Fee – Hook-up fees contribute significantly to the Company's having a negative rate base, and Staff does not recommend any hook-up fee.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Brendan Aladi. I am a Public Utilities Analyst III employed by the Arizona
4 Corporation Commission (“Commission”) in the Utilities Division (“Staff”). My business
5 address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst III.**

8 A. I am responsible for the examination and verification of financial and statistical
9 information included in utility rate applications, financing applications, Certificate of
10 Convenience and Necessity (“CC&N”) applications, and various other matters. In
11 addition, I develop revenue requirements; prepare written reports, testimonies, and
12 schedules that include Staff recommendations to the Commission. I am also responsible
13 for testifying at formal hearings on these matters.

14
15 **Q. Are you the same Brendan Aladi who previously submitted pre-filed direct testimony**
16 **in this case?**

17 A. Yes, I am.

18
19 **PURPOSE OF SURREBUTTAL TESTIMONY**

20 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

21 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
22 Staff, to the Rebuttal Testimony of Mr. Thomas J. Bourassa, who represents H2O, Inc.
23 (“H2O” or “Company”).

1 **Q. Did Staff attempt to address every issue raised by the Company in its Rebuttal**
2 **Testimony?**

3 A. No. This testimony is limited to certain issues as outlined below. Silence on any
4 particular issue raised in the Company's Rebuttal Testimony does not indicate that Staff
5 agrees with the Company's stated Rebuttal position on the issue. I rely on my Direct
6 Testimony unless modified by this Surrebuttal Testimony. Staff's recommendations are
7 shown in the attached Surrebuttal Schedules BCA-1 through BCA-23.¹

8
9 **Q. What issues will Staff address?**

10 A. Staff will address the issues listed below that are discussed in the Rebuttal Testimony of
11 Company witness Mr. Thomas J. Bourassa.

12 Rate Base:

- 13
14 1. AIAC/CIAC not expended and CIAC funding CWIP;
15 2. Net Deferred Income Tax Debit;

16 Revenue Requirement:

- 17 1. Operating Margin Vs Rate of Return

18 Tariffs:

- 19
20 1. CAP Surcharge
21 2. Off-site Capacity Reservation Charge (Hook-up Fee)

22
23 **SUMMARY OF RECOMMENDATIONS**

24 **Q. Please provide a summary of Staff's Surrebuttal recommendations for H2O.**

25 A. Staff recommends a revenue requirement of \$3,218,705, a \$159,937 or 4.73 percent
26 decrease from test year revenues of \$3,378,642. Staff's recommended revenue provides
27 an operating income of \$321,871 for a 10.0 percent operating margin. Staff's
28 recommended rate base of negative \$500,901 is a \$2,445,086 decrease from the

¹ The Company's proposed amounts reflect its initial application and are not updated to reflect its rebuttal position.

1 Company's proposed rate base of \$1,944,185. Staff's adjusted test year operating income
2 is \$418,139, a \$121,785 increase from the Company's proposed \$296,354.
3

4 **Staff Test Year and Recommended Revenue**

5

	<u>Staff As Adjust</u> <u>Test Year</u>	<u>Staff</u> <u>Recommended</u>	<u>Incr/Decr</u> <u>in Dollars</u>	<u>% Increase/</u> <u>Decrease</u>
6 Revenue Requirement	\$3,378,642	\$3,218,705	(\$159,937)	-4.73%

7
8
9
10

11 **Rate Base - Company Proposed and Staff Recommended**

12

	<u>Company</u> <u>Proposed</u>	<u>Staff</u> <u>Recommended</u>	<u>Staff</u> <u>Adjustment</u>	<u>% Increase/</u> <u>Decrease</u>
13 Rate Base	\$1,944,185	(\$500,901)	(\$2,445,086)	-126%

14
15
16
17

18 **RESPONSE TO REBUTTAL TESTIMONY OF THOMAS J. BOURASSA**

19 ***RATE BASE***

20 ***Revenue Requirement***

21 **Q. What are the return on equity and rate of return that the Company is requesting in**
22 **its rebuttal testimony?**

23 **A.** The Company is requesting a 12.00 percent return on equity and an overall 11.46 percent
24 rate of return.

25

26 **Q. What are the return on equity and rate of return that the Company requested in its**
27 **direct testimony?**

28 **A.** The Company requested a 10.75 percent return on equity and an overall 10.28 percent rate
29 of return.

1 **Q. What rate of return is Staff recommending?**

2 A. Staff continues to recommend an operating margin of 10.0 percent. The concept of a rate
3 of return is not meaningful when applied to a negative rate base. Due to the \$500,901
4 negative rate base, an operating income cannot be determined based on a rate of return.

5
6 **Q. What is the revenue requirement adjustment that the Company is proposing in its
7 rebuttal filing?**

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

10

11 **Q. How does this compare with the Company's direct filing?**

12 A. In the direct filing, the Company requested a decrease in revenue of \$154,861, a decrease
13 of 4.58 percent, for total revenue of \$3,224,906.

14

15 **Q. What revenue requirement is Staff recommending?**

16 A. Staff recommends a revenue requirement of \$3,218,705, a \$159,937 or 4.73 percent
17 decrease from test year revenues of \$3,378,642.

18

19 ***Unexpended AIAC/CIAC and CIAC in CWIP***

20 **Q. Please describe how CIAC and AIAC relate to plant in service and rate base.**

21 A. CIAC and AIAC represent funds or plant provided to the Company by parties other than
22 investors. Typically, funds received as CIAC or AIAC are used to build plant which may
23 ultimately be in rate base. Plant that is used and useful for the provision of utility service
24 is a component of rate base. CIAC and AIAC are also components of rate base. As
25 components of rate base, plant differs from CIAC and AIAC in that plant increases rate
26 base and CIAC and AIAC decrease rate base. Plant that is under construction ("CWIP")

1 is normally not a component of the rate base calculation. Thus, funds received as CIAC or
2 AIAC that are funding CWIP are included in the rate base calculation while the CWIP is
3 not included in the rate base calculation. As a result, the plant included in the rate base
4 calculation may not equal CIAC and AIAC funds received.

5

6 **Q. Please describe the Company's position.**

7 A. The Company states that it has received CIAC and AIAC for plant not yet completed and
8 reflected in its rate base. The Company further indicates that since CWIP is not an
9 addition to rate base, then related CIAC should not be a reduction in the rate base
10 calculation.

11

12 **Q. Is the Company's position a departure from traditional ratemaking practices?**

13 A. Yes. The Company's position is a departure from traditional rate-making practices.

14

15 **Q. Please explain.**

16 A. The Company has use of the funds advanced or contributed by others, regardless of how
17 the funds are used; investors commit less funds for utility purposes. Accordingly, the
18 Company's rate base should be reduced by the CIAC and AIAC regardless of how it is
19 used. The fact that the associated CWIP is not in rate base is irrelevant. CWIP is one
20 example of how not recognizing CIAC and AIAC as a deduction in the calculation of rate
21 base results in excess earnings. The Company can record an allowance for funds used
22 during construction ("AFUDC") to CWIP balances to earn a return on construction
23 expenditures funded by CIAC and AIAC. AFUDC is a form of earnings. Thus, the
24 Company is earning on funds not provided by investors. Reducing rate base by CIAC and
25 AIAC preserves the ratemaking balance and removes this excess earnings potential.

1 **Q. What does Staff recommend?**

2 A. Staff recommends including all AIAC and CIAC balances in the calculation of rate base,
3 including those unexpended or funding CWIP to properly reflect a reduction to rate base.
4 Staff's recommends a \$34,405 adjustment to increase AIAC and a \$2,859,339 adjustment
5 to properly reflect CIAC.

6

7 *Tariffs*

8 CAP Surcharge

9 **Q. Staff, in its direct testimony, reserved the right to present its recommendation**
10 **regarding the Company's proposal to introduce a CAP Surcharge in supplemental**
11 **testimony, what is Staff's recommendation?**

12 A. On January 27, 2009, Staff sent its 7th data request (Attachment A) to the Company.
13 Responses to Staff DR 7 are essential to Staff's evaluation of the Company's proposed
14 CAP Surcharge. The Company has not provided responses to Staff DR 7. Accordingly,
15 Staff does not recommend a CAP Surcharge at this time.

16

17 Off-site Capacity Reservation Charge (Hook-up Fee)

18 **Q. Does the off-site capacity reservation charge (Hook-up Fee) have an impact on rate**
19 **base?**

20 A. Yes, hook-up fee collections are a deduction in the calculation of rate base and contribute
21 significantly to the Company having a negative rate base.

22

23 **Q. Does Staff have any other comment regarding the Company's off-site capacity**
24 **reservation charge (Hook-up Fee)?**

25 A. Yes. On February 11, 2009, Staff sent its 8th data request to the Company. The Company
26 has not provided a response to Staff DR 8.

1 **Q. What does Staff recommend?**

2 A. Staff does not recommend approval of an off-site capacity reservation charge (hook-up
3 fee).

4

5 **Q. Does this conclude your surrebuttal testimony?**

6 A. Yes, it does.

H2O, Inc.
Docket No. W-02234A-07-0557
Test Year December 31, 2006

SURREBUTTAL TESTIMONY OF BRENDAN C. ALADI

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REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base - Fair Value equals Original Cost	\$ 1,944,185	\$ 1,944,185	\$ (500,901)	\$ (500,901)
2	Adjusted Operating Income (Loss)	\$ 296,354	\$ 296,354	\$ 418,139	\$ 418,139
3	Current Rate of Return (L2 / L1)	15.24%	15.24%	NMF	NMF
4	Required Rate of Return	10.28%	10.28%	NMF	NMF
5	Required Operating Income: Col. A & B (L1 * L4); Col. C & D 10% Operating Margin	\$ 199,823	\$ 199,823	\$ 321,871	\$ 321,871
6	Operating Income Deficiency/(Excess) (L5 - L2)	\$ (96,531)	\$ (96,531)	\$ (96,269)	\$ (96,269)
7	Gross Revenue Conversion Factor	1.6043	1.6043	1.6614	1.6614
8	Required Revenue Increase/(Decrease) (L7 * L6)	\$ (154,861)	\$ (154,861)	\$ (159,937)	\$ (159,937)
9	Adjusted Test Year Revenue	\$ 3,379,767	\$ 3,379,767	\$ 3,378,642	\$ 3,378,642
10	Proposed Annual Revenue (L8 + L9)	\$ 3,224,906	\$ 3,224,906	\$ 3,218,705	\$ 3,218,705
11	Required Increase/(Decrease) in Revenue (%)	-4.58%	-4.58%	-4.73%	-4.73%
12	Rate of Return on Equity (%)	10.75%	10.75%	NMF	NMF

References:

Columns [A] and [B]: Company Schedules A-1, A-2, & D-1
Columns [C] and [D]: STAFF Schedules BCA-2, BCA-3 and BCA-11

NMF - Not Meaningful

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	39.8084%					
5	Subtotal (L3 - L4)	60.1916%					
6	Revenue Conversion Factor (L1 / L5)	1.661361					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 23)	38.5989%					
9	One Minus Combined Income Tax Rate (L7 - L8)	61.4011%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)	0.0000%					
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	6.9680%					
14	Federal Taxable Income (L12 - L13)	93.0320%					
15	Applicable Federal Income Tax Rate (Line 55)	34.0000%					
16	Effective Federal Income Tax Rate (L14 x L15)	31.6309%					
17	Combined Federal and State Income Tax Rate (L13 +L16)		38.5989%				
<u>Calculation of Effective Property Tax Factor</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	38.5989%					
20	One Minus Combined Income Tax Rate (L18-L19)	61.4011%					
21	Property Tax Factor (BCA-16, L21)	1.9698%					
22	Effective Property Tax Factor (L20*L21)		1.2095%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			39.8084%			
24	Required Operating Income (Schedule BCA-1, Line 5)	\$ 321,871					
25	Adjusted Test Year Operating Income (Loss) (Schedule BCA-11, Line 28)	418,139					
26	Required Increase in Operating Income (L24 - L25)		\$ (96,269)				
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 202,339					
28	Income Taxes on Test Year Revenue (Col. [B], L52)	262,857					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		(60,518)				
30	Recommended Revenue Requirement (Schedule BCA-1, Line 10)	\$ 3,218,705					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required increase in Revenue to Provide for Uncollectible Exp. (L32-L33)						
35	Property Tax with Recommended Revenue (BCA-20, Col B, L16)	\$ 196,234					
36	Property Tax on Test Year Revenue (BCA-16, Col A, L16)	199,385					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		(3,150)				
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ (159,937)				

	Test Year		
39	\$ -	\$ 3,378,642	\$ -
40	\$ -	\$ 2,697,646	\$ -
41	\$ -	\$ -	\$ -
42	\$ -	\$ 680,996	\$ -
43	6.9680%	6.9680%	6.9680%
44	\$ -	\$ 47,452	\$ -
45	\$ -	\$ 633,545	\$ -
46	\$ -	\$ 7,500	\$ -
47	\$ -	\$ 6,250	\$ -
48	\$ -	\$ 8,500	\$ -
49	\$ -	\$ 91,650	\$ -
50	\$ -	\$ 101,505	\$ -
51	\$ -	\$ 215,405	\$ -
52	\$ -	\$ 262,857	\$ -

	Staff Recommended		
	\$ -	\$ 3,218,705	\$ -
	\$ -	\$ 2,694,495	\$ -
	\$ -	\$ -	\$ -
	\$ -	\$ 524,210	\$ -
	6.9680%	6.9680%	6.9680%
	\$ -	\$ 36,527	\$ -
	\$ -	\$ 487,683	\$ -
	\$ -	\$ 7,500	\$ -
	\$ -	\$ 6,250	\$ -
	\$ -	\$ 8,500	\$ -
	\$ -	\$ 91,650	\$ -
	\$ -	\$ 51,912	\$ -
	\$ -	\$ 165,812	\$ -
	\$ -	\$ 202,339	\$ -

Calculation of Income Tax:

39	Revenue (Schedule BCA-10, Col. [C], Line 4 & Sch. BCA-1, Col. [D] Line 10)	\$ -	\$ 3,378,642	\$ -
40	Operating Expenses Excluding Income Taxes	\$ -	\$ 2,697,646	\$ -
41	Synchronized Interest (L56)	\$ -	\$ -	\$ -
42	Arizona Taxable Income (L39 - L40 - L41)	\$ -	\$ 680,996	\$ -
43	Arizona State Income Tax Rate	6.9680%	6.9680%	6.9680%
44	Arizona Income Tax (L42 x L43)	\$ -	\$ 47,452	\$ -
45	Federal Taxable Income (L42 - L44)	\$ -	\$ 633,545	\$ -
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ -	\$ 7,500	\$ -
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ -	\$ 6,250	\$ -
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -	\$ 8,500	\$ -
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -	\$ 91,650	\$ -
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	\$ 101,505	\$ -
51	Total Federal Income Tax	\$ -	\$ 215,405	\$ -
52	Combined Federal and State Income Tax (L44 + L51)	\$ -	\$ 262,857	\$ -

53 Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]
55
56

34.0000%

Calculation of Interest Synchronization: Not Applicable in This Docket
57 Rate Base (Schedule BCA-3, Col. (C), Line 17
58 Weighted Average Cost of Debt
59 Synchronized Interest (L45 X L46)

Water
\$ (500,901)
0.0000%
NMF

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	\$ 12,987,344	\$ 9,070	\$ 12,996,414
2	1,491,666	6,283	1,497,949
3	<u>\$ 11,495,678</u>	<u>\$ 2,787</u>	<u>\$ 11,498,465</u>
LESS:			
4	\$ 6,449,776	\$ 2,859,339	\$ 9,309,115
5	683,565	-	683,565
6	<u>5,766,211</u>	<u>2,859,339</u>	<u>8,625,550</u>
7	3,031,454	34,405	3,065,859
8	1,600,755	-	1,600,755
9	-	-	-
ADD:			
10	-	-	-
11	846,927	445,872	1,292,799
12	-	-	-
13	-	-	-
17	<u>\$ 1,944,185</u>	<u>\$ (2,445,085)</u>	<u>\$ (500,901)</u>

References:

Column [A], Company Schedule B-1
Column [B]: Column [C] - Column [A]
Column [C]: Schedule BCA-4 Column [H].

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED Revised Schedule B-2	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) STAFF ADJUSTED
PLANT IN SERVICE:											
1		Intangible Plant									
2	301.00	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	302.00	Franchises	131,452	-	-	-	-	-	-	-	131,452
4	303.00	Land & Land Rights	7,954	-	-	-	-	-	-	-	7,954
5		Subtotal Intangible	139,406	-	-	-	-	-	-	-	139,406
6											
7		Source of Supply									
8	304.00	Structures & Improvements	\$ 538,179	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 538,179
9	305.00	Collecting and Impounding Res.	-	-	-	-	-	-	-	-	-
10	306.00	Lake River and Other Intakes	-	-	-	-	-	-	-	-	255,856
11	307.00	Wells and Springs	255,856	-	-	-	-	-	-	-	-
12	308.00	Infiltration Galleries and Tunnels	-	-	-	-	-	-	-	-	-
13	309.00	Supply Mains	-	-	-	-	-	-	-	-	-
14	310.00	Power Generating Equipment	-	-	-	-	-	-	-	-	4,437,582
15	311.00	Electric Pumping Equipment	4,437,582	-	-	-	-	-	-	-	-
16	312.00	Collecting & Impounding Reservoirs	-	-	-	-	-	-	-	-	-
17	313.00	Lakes, Rivers, Other Intakes	-	-	-	-	-	-	-	-	-
18		Subtotal Source of Supply	\$ 5,231,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,231,617
19											
20		Water Treatment									
21	320.00	Water Treatment Equipment	\$ 51,404	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,404
22	321.00	Structures & Improvements	-	-	-	-	-	-	-	-	-
23	323.00	Other Power Production	-	-	-	-	-	-	-	-	-
24	325.00	Electric Pumping Equipment	-	-	-	-	-	-	-	-	-
25	326.00	Diesel Pumping Equipment	-	-	-	-	-	-	-	-	-
26	328.10	Gas Engine Pumping Equipment	-	-	-	-	-	-	-	-	-
27		Subtotal Water Treatment	51,404	-	-	-	-	-	-	-	51,404
28											
29		Transmission & Distribution									
30	330.00	Distribution Reservoirs & Standpipe	\$ 2,706,417	\$ 6,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,713,063
31	331.00	Transmission and Distribution Mains	1,647,121	-	2,424	-	-	-	-	-	1,649,545
32	332.00	Services	207,500	-	-	-	-	-	-	-	207,500
33	334.00	Meters	2,290,426	-	-	-	-	-	-	-	2,290,426
34	335.00	Hydrants	45,343	-	-	-	-	-	-	-	45,343
35	336.00	Backflow Prevention Devices	-	-	-	-	-	-	-	-	-
36	339.00	Other Plant and Miscellaneous Equipment	-	-	-	-	-	-	-	-	-
37		Subtotal Transmission & Distribution	6,896,807	6,646	2,424	-	-	-	-	-	6,905,877
38											
39		General Plant									
40	340.00	Office Furniture and Equipment	\$ 90,771	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90,771
41	340.10	Computer and Software	-	-	-	-	-	-	-	-	121,240
42	341.00	Transportation Equipment	121,240	-	-	-	-	-	-	-	-
43	342.00	Stores Equipment	-	-	-	-	-	-	-	-	52,616
44	343.00	Tools and Work Equipment	52,616	-	-	-	-	-	-	-	-
45	344.00	Laboratory Equipment	-	-	-	-	-	-	-	-	29,589
46	345.00	Power Operated Equipment	29,589	-	-	-	-	-	-	-	224,500
47	346.00	Communications Equipment	224,500	-	-	-	-	-	-	-	-
48	347.00	Miscellaneous Equipment	-	-	-	-	-	-	-	-	149,414
49	349.00	Other Tangible Plant	149,414	-	-	-	-	-	-	-	-
50		Plant Held for Future Use	-	-	-	-	-	-	-	-	668,110
51		Subtotal General Plant	668,110	-	-	-	-	-	-	-	668,110
52											
53		Total	12,987,344	6,646	2,424	-	-	-	-	-	12,996,414
54	Add:		-	-	-	-	-	-	-	-	-
55			-	-	-	-	-	-	-	-	-
56			-	-	-	-	-	-	-	-	-
57	Less:		-	-	-	-	-	-	-	-	-
58			-	-	-	-	-	-	-	-	-
59			12,987,344	6,646	2,424	6,283	-	-	-	-	12,996,414
60	Total Plant in Service		\$ 12,987,344	\$ 6,646	\$ 2,424	\$ 6,283	\$ -	\$ -	\$ -	\$ -	\$ 1,497,949
61	Less: Accumulated Depreciation		1,491,666	-	-	(6,283)	-	-	-	-	1,498,465
62	Net Plant in Service (L59 - L 60)		\$ 11,495,678	\$ 6,646	\$ 2,424	\$ (6,283)	\$ -	\$ -	\$ -	\$ -	\$ 11,498,465
63											
64	LESS:										
65	Contributions in Aid of Construction (CIAC)		\$ 6,449,776	\$ -	\$ -	\$ -	\$ 2,859,339	\$ -	\$ -	\$ -	\$ 9,309,115
66	Less: Accumulated Amortization		683,565	-	-	-	-	-	-	-	683,565
67	Net CIAC (L25 - L26)		\$ 5,766,211	\$ -	\$ -	\$ -	\$ 2,859,339	\$ -	\$ -	\$ -	\$ 8,625,550
68	Advances in Aid of Construction (AIAC)		3,031,454	-	-	-	-	34,405	-	-	3,065,859
69	Customer Deposits		1,600,755	-	-	-	-	-	-	-	1,600,755
70	Deferred Income Tax Credits		-	-	-	-	-	-	-	-	-
71											
72											
73											
74											
75	ADD:										
76	Unamortized Finance Charges		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 445,872	\$ -	\$ 1,292,799
77	Deferred Income Tax Debits		846,927	-	-	-	-	-	-	-	-
78	Working Capital		-	-	-	-	-	-	-	-	-
79	Intentionally Left Blank		-	-	-	-	-	-	-	-	-
80	Original Cost Rate Base		\$ 1,944,165	\$ 6,646	\$ 2,424	\$ (6,283)	\$ (2,859,339)	\$ (34,405)	\$ 445,872	\$ -	\$ (500,901)

ADJ #	References:
1	Schedule BCA-5
2	Schedule BCA-6
3	Schedule BCA-7
4	Schedule BCA-8
5	Schedule BCA-9
6	Schedule BCA-9.1

H2O, Inc.
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RATE BASE ADJUSTMENT #1 - RECLASSIFICATION OF MISCELLANEOUS EXPENSE TO PLANT

LINE	Acct.		[A]	[B]	[C]
<u>NO.</u>	<u>No.</u>	<u>DESCRIPTION</u>	<u>COMPANY</u>	<u>STAFF</u>	<u>STAFF</u>
			<u>PROPOSED</u>	<u>ADJUSTMENTS</u>	<u>RECOMMENDED</u>
1	330	Distribution Reservoirs and Standpipes	\$ 2,706,417	\$ 6,646	\$ 2,713,063

References:

- Col [A]: Company Schedule C-1
- Col [B]: Col [C] - Col [A]
- Col [C]: BCA Testimony

RATE BASE ADJUSTMENT #2 - RECLASSIFICATION OF REPAIRS AND MAINTENANCE EXPENSE TO PLANT

<u>LINE</u>	<u>Acct.</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1	331	Transmission and Distribution Mains	<u>\$ 1,647,121</u>	<u>\$ 2,424</u>	<u>\$ 1,649,545</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

H2O, Inc.
Docket No. W-02234A-07-0557
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RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION

<u>Line No.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Accumulated Depreciation	<u>\$ 1,491,666</u>	<u>\$ 6,283</u>	<u>\$ 1,497,949</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

RATE BASE ADJUSTMENT #4 - CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION

<u>Line No.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Beginning Balance Contribution in aid of Construction	<u>\$ 6,449,776</u>	<u>\$ 2,859,339</u>	<u>\$ 9,309,115</u>
	<u>CIAC Adjustment Schedules</u>			
	Add:			
	CIAC - Cash in various bank accounts		\$ 2,360,596	
	Expended CIAC included in CWIP		498,743	
			<u>\$ 2,859,339</u>	

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
[C] = BCA Testimony

RATE BASE ADJUSTMENT #5 - ADVANCES-IN-AID-OF-CONSTRUCTION

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY AS FILED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Advance in Aid of Construction	<u>\$ 3,031,454</u>	<u>\$ 34,405</u>	<u>\$ 3,065,859</u>

References

- [A]: Assets per the Company's rate application
- [B]: Col [C] - Col [A] Assets that were validated during audit.
- [C]: BCA Testimony

RATE BASE ADJUSTMENT #6 - DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
	Accumulated Deferred Income tax	\$ 846,927	\$ 445,872	\$ 1,292,799
1	AIAC End of Year (Tax Basis)		\$ 4,666,614	
2	AIAC End of Year (Accounting Basis)		-	
3	Timing Difference		4,666,614	
4	Tax rate		34.90%	
5	Accumulated Defered Income Tax Debit			\$1,628,648
6	Accounting basis at end of year (Note 1)		\$ 2,872,915	
7	Tax basis of capital assets at end of year (Note 1)		3,835,234	
8	Timing Difference		\$ 962,319	
9	Tax rate		34.90%	
10	Accumulated Defered Income Tax Credit			\$ 335,849
11	Net Deferred Income Tax (L5 - L10)			\$1,292,799

Note 1 - Calculation of Plant Book and Tax Basis

	<u>Tax</u>	<u>Book</u>
Plant in Service (from BCA-3)		\$ 12,996,414
CIAC (from BCA-3)		(9,309,115)
Amort. on CIAC (From BCA-3)		683,565
Asset Cost	\$ 4,933,687	\$ 4,370,864
Accum. Depr. (from BCA-3)	(1,098,453)	(1,497,949)
Net Book Value	\$ 3,835,234	\$ 2,872,915

References

- [A]: Accumulated DIT per the Company's rate application
- [B]: Col [C] - Col [A]
- [C]: BCA Testimony

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Metered Water Sales	\$ 3,171,070	\$ -	\$ 3,171,070	\$ (159,937)	\$ 3,011,133
2	Water Sales - Unmetered	-	-	-	-	-
3	Other Operating Revenue	208,697	(1,125)	207,572	-	207,572
4	Total Operating Revenues	\$ 3,379,767	\$ (1,125)	\$ 3,378,642	\$ (159,937)	\$ 3,218,705
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	11,687	23,976	-	23,976
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 Expenses	187,311	(19,124)	168,187	-	168,187
21	Depreciation Expense	471,243	(210,061)	261,182	-	261,182
22	Taxes Other than Income	63,002	-	63,002	-	63,002
23	Property Taxes	197,405	1,980	199,385	(3,150)	196,234
24	Income Taxes	171,332	91,525	262,857	(60,518)	202,339
25	Intentionally Left blank(Rounding)	-	-	-	-	-
27	Total Operating Expenses	3,083,413	(122,910)	2,960,503	(63,668)	2,896,834
28	Operating Income (Loss)	\$ 296,354	\$ 121,785	\$ 418,139	\$ (96,269)	\$ 321,871

References:

- Column (A): Company Schedule C-1
- Column (B): Schedule BCA-11
- Column (C): Column (A) + Column (B)
- Column (D): Schedules BCA-1 and BCA-2
- Column (E): Column (C) + Column (D)

HZO, Inc.
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SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ.#1	(C) ADJ.#2	(D) ADJ.#3	(E) ADJ.#4	(F) ADJ.#5	(G) ADJ.#6	(H) ADJ.#7	(I) ADJ.#8	(J) ADJ.#9	(K) ADJ.#10	(L) ADJ.#11	(M) STAFF ADJUSTED
1	REVENUES:													
2	Metered Water Sales	\$ 3,171,070												\$ 3,171,070
3	Water Sales - Unmetered	208,697												208,697
4	Other Operating Revenue		(1,125)											
5	Total Operating Revenues	\$ 3,379,767	\$ (1,125)											\$ 3,378,642
6	OPERATING EXPENSES:													
7	Salaries and Wages	\$ 790,693												\$ 790,693
8	Purchased Water	77,793												77,793
9	Purchased Power	253,894				7,455								261,349
10	Chemicals	4,229												4,229
11	Repairs and Maintenance	169,792			(2,424)									167,368
12	Office Supplies and Expense	75,119						(3,948)						71,171
13	Outside Services	66,331												66,331
14	Water Testing	12,289								11,687				23,976
15	Rents	175,063												175,063
16	Transportation Expenses	214,459												214,459
17	Insurance - General Liability	52,245												52,245
18	Insurance - Health and Life	61,213												61,213
19	Reg. Comm. Exp. - Rate Case	40,000												40,000
20	Miscellaneous Expenses	187,311		(6,646)		(7,455)	(5,023)		(210,061)					168,187
21	Depreciation Expense	471,243												471,243
22	Taxes Other than Income	63,002												63,002
23	Property Taxes	197,405									1,980			199,385
24	Income Taxes	171,332										91,525		262,857
25	Intentionally Left Blank (Rounding)	\$ 3,083,413												\$ 3,083,413
26	Total Operating Expenses	\$ 2,963,354	\$ (6,546)	\$ (2,424)	\$ (2,424)	\$ (7,455)	\$ (5,023)	\$ (3,948)	\$ (210,061)	\$ 11,687	\$ 1,980	\$ 91,525	\$ -	\$ 2,960,503
27	Operating Income (Loss)		\$ (1,125)	\$ 6,546	\$ 2,424	\$ -	\$ 5,023	\$ 3,948	\$ 210,061	\$ (11,687)	\$ (1,980)	\$ (91,525)	\$ -	\$ 418,139

ADJ.#	References
1	Schedule BCA-12
2	Schedule BCA-13
3	Schedule BCA-14
4	Schedule BCA-15
5	Schedule BCA-16
6	Schedule BCA-17
7	Schedule BCA-18
8	Schedule BCA-19
9	Schedule BCA-20
10	Schedule BCA-21

OPERATING INCOME ADJUSTMENT #1 - REMOVAL OF SALES TAX FROM OTHER WATER REVENUES

<u>LINE</u> <u>NO.</u>	<u>Acct.</u> <u>No.</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1		Other Water Revenue	<u>\$ 208,697</u>	<u>\$ (1,125)</u>	<u>\$ 207,572</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

Remove sales tax from other water revenues to treat it as a pass-through item.

OPERATING INCOME ADJUSTMENT #2 - RECLASSIFICATION OF MISC. EXPENSES TO PLANT ACCOUNT

LINE NO.	Acct. No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	675	Miscellaneous Expense	<u>\$ 174,833</u>	<u>\$ (6,646)</u>	<u>\$ 168,187</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: Testimony BCA

Reclassify \$6,646 from miscellaneous expenses to
Distribution Reservoirs and Standpipes

OPERATING INCOME ADJUSTMENT #3 - RECLASSIFICATION OF REPAIRS AND MAINTENANCE EXPENSE TO PLANT ACCOUNT

<u>Line</u> <u>No.</u>	<u>Acct.</u> <u>#</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>	
1	620	Repairs and Maintenance Expense	<u>\$ 169,792</u>	<u>\$ (2,424)</u>	<u>\$ 167,368</u>	\$ (2,424)

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

OPERATING INCOME ADJUSTMENT #4 - RECLASSIFICATION OF MISC. EXPENSE TO PURCHASED POWER EXPENSE

LINE NO.	Acct. No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Miscellaneous Expense	\$ 187,311	\$ (7,455)	\$ 179,856
2		Purchased Power	\$ 253,894	7,455	\$ 261,349
3		Total	<u>\$ 441,205</u>	<u>\$ -</u>	<u>441,205</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

The Company erroneously posted purchased power expense to miscellaneous expense.

OPERATING INCOME ADJUSTMENT #5 - REMOVAL OF LATE TAX FILING PENALTY FROM MISC. EXPENSE

LINE NO.	Acct. No.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1		Miscellaneous Expense	<u>\$ 179,856</u>	<u>\$ (5,023)</u>	<u>\$ 174,833</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: BCA Testimony

Remove late tax filing penalty from miscellaneous expense.

OPERATING INCOME ADJUSTMENT #6 - REMOVAL OF UNNECESSARY EXPENSE

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Office Supplies Expense	<u>\$ 75,119</u>	<u>\$ (3,948)</u>	<u>\$ 71,171</u>

References:

- Col [A]: Company Schedule C-1
- Col [B]: Col [C] - Col [A]
- Col [C]: BCA Testimony

OPERATING INCOME ADJUSTMENT #7 - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] AMOUNT	[B] PROJECTED RATE	[C] DEPRECIATION EXPENSE
Plant in Service					
1	301	Organization	\$ -	0.00%	\$ -
2	302	Franchises	131,452	0.00%	\$ -
3	303	Land and Land Rights	7,954	0.00%	\$ -
4	304	Structures & Improvements	538,179	3.33%	\$ 17,921
5	305	Collecting & Impounding Reservoirs	-	2.50%	\$ -
6	306	Lakes, Rivers, Other Intakes	-	2.50%	\$ -
7	307	Wells and Springs	255,856	3.33%	\$ 8,520
8	308	Infiltration Galleries and Tunnels	-	6.67%	\$ -
9	309	Supply Mains	-	2.00%	\$ -
10	310	Power Generation Equipment	-	5.00%	\$ -
11	311	Electric Pumping Equipment	4,437,582	12.50%	\$ 554,698
12	320	Water Treatment Equipment	51,404	3.33%	\$ 1,712
13	330	Distribution Reservoirs & Standpipes	2,713,063	2.22%	\$ 60,230
14	331	Transmission & Distribution Mains	1,649,545	2.00%	\$ 32,991
15	333	Services	207,500	3.33%	\$ 6,910
16	334	Meters & Meter Installation	2,290,426	8.33%	\$ 190,792
17	335	Hydrants	45,343	2.00%	\$ 907
18	336	Backflow Prevention Devices	-	6.67%	\$ -
19	339	Other Plant & Misc. Equipment	-	6.67%	\$ -
20	340	Office Furniture & Equipment	90,771	6.67%	\$ 6,054
21	341	Transportation Equipment	121,240	20.00%	\$ 24,248
22	342	Stores Equipment	-	4.00%	\$ -
23	343	Tools, Shop & Garage Equipment	52,616	5.00%	\$ 2,631
24	344	Laboratory Equipment	-	10.00%	\$ -
25	345	Power Operated Equipment	29,569	5.00%	\$ 1,478
26	346	Communication Equipment	224,500	10.00%	\$ 22,450
27	347	Miscellaneous Equipment	-	10.00%	\$ -
28	348	Other Tangible Plant	149,414	10.00%	\$ 14,941
29					
30		Subtotal General	\$ 12,996,414		\$ 946,484
31		Less: Non-depreciable Account(s) (L2 + L3)	139,406		
32		Depreciable Plant (L29-L30)	\$ 12,857,008		
33					
34		Contributions-in-Aid-of-Construction (CIAC)	\$ 9,309,115		
35		Composite Depreciation/Amortization Rate	7.36%		
36		Less: Amortization of CIAC (L34 x L35)			\$ 685,302
37		Depreciation Expense - STAFF [Col. (C), L30 - L36]			\$ 261,182

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
38	Depreciation Expense	\$ 471,243	\$ (210,061)	\$ 261,182

OPERATING INCOME ADJUSTMENT #8 - WATER TESTING

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Water Testing Expense	<u>\$ 12,289</u>	<u>\$ 11,687</u>	<u>\$ 23,976</u>

References:

Col [A]: Company Schedule C-1

Col [B]: Col [C] - Col [A]

Col [C]: BCA Testimony

OPERATING INCOME ADJUSTMENT #9 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]
		STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2006	\$ 3,378,642	\$ 3,378,642
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 6,757,284	\$ 6,757,284
4	Staff Recommended Revenue	3,378,642	\$ 3,218,705
5	Subtotal (Line 4 + Line 5)	\$ 10,135,926	\$ 9,975,989
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 3,378,642	\$ 3,325,330
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 6,757,284	\$ 6,650,659
10	Plus: 10% of CWIP	-	-
11	Less: Net Book Value of Licensed Vehicles	9,321	9,321
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 6,747,963	\$ 6,641,338
13	Assessment Ratio	23.00%	23.00%
14	Assessment Value (Line 12 * Line 13)	\$ 1,552,031	\$ 1,527,508
15	Composite Property Tax Rate - Obtained from ADOR	12.8467%	12.8467%
16	Staff Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 199,385	
17	Company Proposed Property Tax	197,405	
18	Staff Test Year Adjustment (Line 16 - Line 17)	\$ 1,980	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 196,234
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 199,385
21	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement		\$ (3,150)
22	Increase (Decrease) in Property Tax Due to Increase in Revenue Requirement (Line 21)		\$ (3,150)
23	Increase (Decrease) in Revenue Requirement		\$ (159,937)
24	Increase in Property Tax Per Dollar Increase in Revenue (Line 22 / Line 23)		1.96983%

REFERENCES:

- Line 15: Composite Tax Rate obtained from Arizona Department of Revenue
- Line 17: Company Schedule C-1 Page 2
- Line 21: Line 19 - Line 20
- Line 23: Schedule BCA-1

H2O, Inc.
Docket No. W-02234A-07-0557
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OPERATING INCOME ADJUSTMENT #10- INCOME TAXES

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Income Tax Expense	<u>\$ 171,332</u>	<u>\$ 91,525</u>	<u>\$ 262,857</u>

References:

Col [A]: Company Schedule C-1
Col [B]: Col [C] - Col [A]
Col [C]: Schedule BCA-2, Line 52

RATE DESIGN

Monthly Usage Charge

Residential, Commercial

Irrigation and Construction

Gallons in the minimum

5/8" x 3/4" Meter

3/4" Meter

1" Meter

1.5" Meter

2" Meter

3" Meter

4" Meter

6" Meter

Irrigation 3/4"

Irrigation 1"

Irrigation 1.5"

Irrigation 2"

Construction 2"

Construction 3"

Present Rates	Company Proposed	Staff Recommended
1,000	-	-
\$ 15.00	\$ 11.70	\$ 10.40
18.00	17.55	15.60
37.00	29.25	25.90
75.00	58.50	51.90
120.00	93.60	83.00
N/T	187.20	166.10
N/T	292.50	259.50
N/T	585.00	519.00
18.00	17.55	15.60
37.00	29.25	25.90
75.00	58.50	51.90
120.00	93.60	83.00
120.00	93.60	-
N/T	187.20	-

Commodity Charges

No Gallons included in any Minimum

Excess of Minimum - per 1,000 Gallons

5/8" x 3/4" Meter

3/4" Meter

1" Meter

1.5" Meter

2" Meter

3" Meter

4" Meter

6" Meter

Irrigation 3/4"

Irrigation 1"

Irrigation 1.5"

Irrigation 2"

Construction 2"

Construction 3"

	Present		Company Proposed			Staff Recommended		
	1st Tier	2nd Tier	1st Tier	2nd Tier	3rd Tier	1st Tier	2nd Tier	3rd Tier
\$	1.78	2.11	1.20	1.60	2.05	1.43	2.15	2.58
20,000	Infinite	Infinite	4,000	10,000	Infinite	3,000	10,000	Infinite
20,000	Infinite	Infinite	4,000	10,000	Infinite	3,000	10,000	Infinite
20,000	Infinite	Infinite	25,000	25,000	Infinite	25,000	25,000	Infinite
20,000	Infinite	Infinite	50,000	50,000	Infinite	50,000	50,000	Infinite
20,000	Infinite	Infinite	80,000	80,000	Infinite	80,000	80,000	Infinite
N/T	N/T	N/T	160,000	160,000	Infinite	160,000	160,000	Infinite
N/T	N/T	N/T	250,000	250,000	Infinite	250,000	250,000	Infinite
N/T	N/T	N/T	500,000	500,000	Infinite	500,000	500,000	Infinite
20,000	Infinite	4000	10,000	10,000	Infinite	3,000	10,000	Infinite
20,000	Infinite	Infinite	25,000	25,000	Infinite	25,000	25,000	Infinite
20,000	Infinite	Infinite	50,000	50,000	Infinite	50,000	50,000	Infinite
20,000	Infinite	Infinite	80,000	80,000	Infinite	80,000	80,000	Infinite
20,000	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite
N/T	N/T	N/T	Infinite	Infinite	Infinite	Infinite	Infinite	Infinite

Service Line and Meter Installation Charges

5/8" x 3/4" Meter

3/4" Meter

1" Meter

1.5" Meter

2" Meter

2" Turbine Meter

2" Compound Meter

3" Meter

3" Turbine Meter

3" Compound Meter

4" Meter

4" Turbine Meter

4" Compound Meter

6" Meter

6" Turbine Meter

6" Compound Meter

8" Meter and Larger

	Present Rates			Company Proposed			Staff Recommended		
	Total	Service Line	Meter Install	Total	Service Line	Meter Install	Total	Service Line	Meter Install
285.00	385.00	135.00	520.00	415.00	105.00	520.00	320.00	385.00	215.00
320.00	385.00	215.00	600.00	415.00	205.00	620.00	360.00	435.00	255.00
360.00	435.00	255.00	690.00	465.00	265.00	730.00	545.00	470.00	465.00
915.00	N/T	N/T	N/T	N/T	N/T	N/T	915.00	N/T	N/T
N/T	630.00	965.00	1,595.00	800.00	995.00	1,795.00	N/T	N/T	N/T
N/T	630.00	1,690.00	2,320.00	800.00	1,840.00	2,640.00	N/T	N/T	N/T
1,150.00	N/T	805.00	1,470.00	2,275.00	1,015.00	1,620.00	2,635.00	805.00	1,470.00
N/T	845.00	2,265.00	3,110.00	1,135.00	2,495.00	3,630.00	N/T	N/T	N/T
1,885.00	N/T	1,170.00	2,350.00	3,520.00	1,430.00	2,570.00	4,000.00	1,170.00	2,350.00
N/T	1,230.00	3,245.00	4,475.00	1,610.00	3,545.00	5,155.00	N/T	N/T	N/T
3,780.00	N/T	1,730.00	4,545.00	6,275.00	2,150.00	4,925.00	7,075.00	1,730.00	4,545.00
N/T	1,770.00	6,280.00	8,050.00	2,270.00	6,820.00	9,090.00	N/T	N/T	N/T
N/T	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost	N/T	At Cost	At Cost

Service Charges

Establishment
Establishment (After Hours)
Reconnection (Delinquent)
Reconnection (Delinquent)- After Hours
Meter Test (if Correct)
Deposit - Residential Note 1
Deposit - Non - Residential Note 2
Deposit Interest - Note 3
Re-Establishment (Within 12 Months)- Note 4
Re-Establishment (After Hours)- Note 4
NSF Check
Deferred Payment, per Month
Meter Re-Read (if Correct)
Late Charge per Month
Company Locks Damaged by Customer- Note 5
Mains Damaged by Customer- Note 5
Charge of Moving Customer Meters -
Per Customer Request
After hours service charge

	Present	Company Proposed	Staff Recommended
	15.00	15.00	15.00
25.00	25.00	25.00	
15.00	15.00	15.00	
N/A	15.00	15.00	
25.00	25.00	25.00	
(1)	(1)	(1)	
(2)	(2)	(2)	
(3)	(3)	(3)	
(4)	(4)	(4)	
(4)	(4)	(4)	
15.00	25.00	25.00	
12%	1.50%	1.50%	
10.00	10.00	10.00	
N/T	1.50%	1.50%	
N/T	(5)	(5)	
N/T	(5)	(5)	
N/T	Cost	Cost	
N/T	Refer to above charges	Cost	

- Note 1 Per Commission Rules (R14-2-403.B) Two times the average bill.
- Note 2 Per Commission Rules (R14-2-403.B) Two and one-half times the average bill
- Note 3 Per Commission Rules (R14-2-403.B)
- Note 4 Months off system times the minimum (R14-2-403.D)
- Note 5 Per Commission Rules (R14-2-407.B)

CAP Surcharge

Currently there is no authorized CAP surcharge. The Company proposes the following CAP surcharge in addition to all other commodity charges and will be adjusted annually to recover the acquisition and purchased water costs of the Company associated with the right to receive 147 acre feet of Central Arizona Project water each year for delivery to customers. The surcharge will include a 10 year amortization of the acquisition cost plus the projected annual fixed costs of the contract and the delivery costs. Surcharge will be computed annually based on gallons sold and true-up at the end of each year with any over and under recovery of actual costs during the year included in the next years surcharge computation. Staff recommends denial of the CAP surcharge.

Off-Site Capacity Reservation Charge (Hook-up Fee)

5/8" x 3/4" Meter
3/4" Meter
1" Meter
1 1/2" Meter
2" Meter
3" Meter
4" Meter
6" Meter

Present Rates	Company Proposed	Staff Recommended
875.00	875.00	-
1,050.00	1,050.00	-
1,750.00	1,750.00	-
3,500.00	3,500.00	-
5,600.00	5,600.00	-
10,500.00	10,500.00	-
17,500.00	17,500.00	-
35,000.00	35,000.00	-

NT = No Tariff

H2O, Inc.
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TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN USAGE - CURRENT RATES

LINE NO.	CUSTOMER CLASS	CURRENT					
		AVERAGE		MEDIAN			
		USAGE	DOLLARS	USAGE	DOLLARS	USAGE	DOLLARS
1	Residential 5/8"	3,553	\$ 21.32	2,500	\$ 19.45		
2	Residential 3/4"	8,333	\$ 32.83	6,500	\$ 29.57		
3	Residential 1"	25,908	\$ 85.07	17,500	\$ 68.15		
4	Residential 1.5"	47,726	\$ 169.10	34,500	\$ 141.20		
5	Residential 2"	44,800	\$ 207.93	46,500	\$ 211.52		
6	Residential 3"	NOT USED					
7	Residential 4"	NOT USED					
8	Residential 6"	NOT USED					
9	Residential 8"	NOT USED					
12	Commerical 5/8"	17,617	\$ 46.36	1,500	\$ 17.67		
13	Commerical 3/4"	23,309	\$ 60.58	11,500	\$ 38.47		
14	Commerical 1"	20,642	\$ 73.95	8,500	\$ 52.13		
15	Commerical 1.5"	38,917	\$ 150.51	34,000	\$ 140.14		
16	Commerical 2"	176,813	\$ 486.48	46,500	\$ 211.52		
17	Commerical 3"	NOT USED					
18	Commerical 4"	NOT USED					
19	Commerical 6"	NOT USED					
20	Commerical 8"	NOT USED					
23	Irrigation 3/4"	10,282	\$ 36.30	6,500	\$ 29.57		
24	Irrigation 1"	97,197	\$ 235.48	43,000	\$ 121.13		
25	Irrigation 1.5"	139,711	\$ 363.19	76,000	\$ 228.76		
26	Irrigation 2"	326,818	\$ 802.99	219,128	\$ 575.76		
27	Construction 2"	341,750	\$ 834.49	1,500	\$ 122.67		
28	Construction 3"	NOT USED					
29	Intentially Left Blank	NOT USED					
30	Intentially Left Blank	NOT USED					
31	Intentially Left Blank	NOT USED					

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN USAGE - COMPANY PROPOSED

LINE NO.	CUSTOMER CLASS	COMPANY PROPOSED					
		AVERAGE	INCREASE	PERCENT	MEDIAN	INCREASE	PERCENT
32	Residential 5/8"	\$ 15.61	\$ (5.71)	-26.79%	\$ 14.35	\$ (5.11)	-26.25%
33	Residential 3/4"	\$ 28.76	\$ (4.07)	-12.40%	\$ 25.82	\$ (3.75)	-12.67%
34	Residential 1"	\$ 70.27	\$ (14.80)	-17.40%	\$ 56.39	\$ (11.77)	-17.26%
35	Residential 1.5"	\$ 133.16	\$ (35.94)	-21.25%	\$ 111.97	\$ (29.23)	-20.70%
36	Residential 2"	\$ 162.41	\$ (45.52)	-21.89%	\$ 165.21	\$ (46.30)	-21.89%
37	Residential 3"	NOT USED					
38	Residential 4"	NOT USED					
39	Residential 6"	NOT USED					
40	Residential 8"	NOT USED					
43	Commerical 5/8"	\$ 41.38	\$ (4.97)	-10.73%	\$ 13.14	\$ (4.53)	-25.62%
44	Commerical 3/4"	\$ 58.75	\$ (1.84)	-3.03%	\$ 34.51	\$ (3.96)	-10.30%
45	Commerical 1"	\$ 61.42	\$ (12.53)	-16.95%	\$ 41.97	\$ (10.16)	-19.50%
46	Commerical 1.5"	\$ 119.05	\$ (31.47)	-20.91%	\$ 111.17	\$ (28.97)	-20.67%
47	Commerical 2"	\$ 417.52	\$ (68.96)	-14.17%	\$ 165.21	\$ (46.30)	-21.89%
48	Commerical 3"	NOT USED					
49	Commerical 4"	NOT USED					
50	Commerical 6"	NOT USED					
51	Commerical 8"	NOT USED					
54	Irrigation 3/4"	\$ 32.01	\$ (4.29)	-11.82%	\$ 25.82	\$ (3.75)	-12.67%
55	Irrigation 1"	\$ 216.55	\$ (18.94)	-8.04%	\$ 105.34	\$ (15.79)	-13.04%
56	Irrigation 1.5"	\$ 320.88	\$ (42.31)	-11.65%	\$ 190.15	\$ (38.61)	-16.88%
57	Irrigation 2"	\$ 614.32	\$ (188.66)	-23.50%	\$ 504.37	\$ (71.39)	-12.40%
58	Construction 2"	\$ 791.33	\$ (43.16)	-5.17%	\$ 93.80	\$ (28.88)	-23.54%
59	Construction 3"	NOT USED					
60	Intentially Left Blank	NOT USED					
61	Intentially Left Blank	NOT USED					
62	Intentially Left Blank	NOT USED					

TYPICAL BILL ANALYSIS AVERAGE AND MEDIAN USAGE - STAFF RECOMMENDED

LINE NO.	CUSTOMER CLASS	STAFF RECOMMENDED					
		AVERAGE	INCREASE	PERCENT	MEDIAN	INCREASE	PERCENT
63	Residential 5/8"	\$ 15.89	\$ (5.44)	-25.49%	\$ 13.98	\$ (5.47)	-28.11%
64	Residential 3/4"	\$ 31.37	\$ (1.47)	-4.47%	\$ 25.27	\$ (4.30)	-14.53%
65	Residential 1"	\$ 81.99	\$ (3.07)	-3.61%	\$ 63.53	\$ (4.63)	-6.79%
66	Residential 1.5"	\$ 155	\$ (14.59)	-8.63%	\$ 126.08	\$ (15.12)	-10.71%
67	Residential 2"	\$ 179	\$ (28.61)	-13.76%	\$ 182.98	\$ (28.54)	-13.49%
68	Residential 3"	NOT USED					
69	Residential 4"	NOT USED					
70	Residential 6"	NOT USED					
71	Residential 8"	NOT USED					
74	Commerical 5/8"	\$ 49.40	\$ 3.04	6.56%	\$ 12.55	\$ (5.12)	-28.98%
75	Commerical 3/4"	\$ 68.49	\$ 7.91	13.05%	\$ 39.25	\$ 0.78	2.02%
76	Commerical 1"	\$ 70.28	\$ (3.67)	-4.97%	\$ 44.18	\$ (7.96)	-15.26%
77	Commerical 1.5"	\$ 135.57	\$ (14.94)	-9.93%	\$ 125.00	\$ (15.14)	-10.80%
78	Commerical 2"	\$ 504.68	\$ 18.20	3.74%	\$ 182.98	\$ (28.54)	-13.49%
79	Commerical 3"	NOT USED					
80	Commerical 4"	NOT USED					
81	Commerical 6"	NOT USED					
82	Commerical 8"	NOT USED					
85	Irrigation 3/4"	\$ 35.56	\$ (0.75)	-2.06%	\$ 28.50	\$ (1.07)	-3.62%
86	Irrigation 1"	\$ 265.85	\$ 30.36	12.89%	\$ 126.07	\$ 4.94	4.08%
87	Irrigation 1.5"	\$ 390.76	\$ 27.57	7.59%	\$ 226.45	\$ (2.31)	-1.01%
88	Irrigation 2"	\$ 892.01	\$ 89.03	11.09%	\$ 613.48	\$ 37.72	6.55%
89	Construction 2"	\$ 881.72	\$ 47.22	5.66%	\$ 3.87	\$ (118.80)	-96.85%
90	Construction 3"	NOT USED					
91	Intentially Left Blank						
92	Intentially Left Blank						
93	Intentially Left Blank						

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



ARIZONA CORPORATION COMMISSION

MICHAEL P. KEARNS
Interim Executive Director
RECEIVED

JAN 28 2009

January 27, 2009

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

AZ CORP COMM
Director Utilities
Sent via U.S. Mail & E-mail to:
dick@sd-law.com

Re: Staff's **Seventh** Set of Data Requests to H2O, Inc.
Docket No. W-02234A-07-0557

Dear Mr. Sallquist:

Please treat this as Staff's **Seventh** Set of Data Requests to H2O, Inc. in the above matter.

For purposes of this data request set, the words "Company," "you," and "your" refer to H2O, Inc. and any representative, including every person and/or entity acting with, under the control of, or on behalf of H2O, Inc. For each answer, please identify by name, title, and address each person providing information that forms the basis for the response provided.

These data requests are continuing, and your answers or any documents supplied in response to these data requests should be supplemented with any additional information or documents that come to your attention after you have provided your initial responses.

Please respond within **ten** calendar days of your receipt of the copy of this letter. However, if you require additional time, please let us know.

Please provide one hard copy as well as searchable PDF, DOC or EXCEL files (via email or electronic media) of the requested data directly to each of the following addressees via overnight delivery services to:

- (1) Brendan Aladi, Utilities Division, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.
- (2) Charles H. Hains, Attorney, Arizona Corporation Commission, 1200 West Washington Street, Phoenix, Arizona 85007.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles H. Hains".

Charles H. Hains
Attorney, Legal Division
(602) 542-3402

CHH:sab
Enclosure
cc: Brendan C. Aladi

**ARIZONA CORPORATION COMMISSION
STAFF'S SEVENTH SET OF DATA REQUESTS TO
H2O, INC.
DOCKET NO. W-02234A-07-0557
JANUARY 27, 2009**

Subject: All information responses should ONLY be provided in searchable PDF, DOC or EXCEL files via email or electronic media.

- BCA 7.1 Please provide a copy of H2O current contract with the Central Arizona Project (CAP) for the water allocation, and explain why the Company needs CAP water.
- BCA 7.2 Please provide an analysis of the current ratio of CAP versus groundwater used to supply H2O customers for the test year.
- BCA 7.3 Please provide a narrative (and schedule if necessary) explaining how many acre feet of CAP water H2O purchased and sold during the test year and provide a copy of supporting documentation.
- BCA 7.4 Please provide a narrative explaining how the Company proposes to breakout CAP water costs. Fixed or/and Variable cost?
- BCA 7.5 Please provide a narrative explaining specifically if CAP water costs are included in cost of service in the current rate case.
- BCA 7.6 Please, explain if H2O anticipates replacing or supplementing the current source with CAP water.
- BCA 7.7 Please explain and quantify what costs, if any, will be avoided by using CAP water.
- BCA 7.8 Please explain what period (January through December) the Company will use for true up.
- BCA 7.9 Please explain the process used to determine the amortization period and why is ten years the appropriate amortization period.
- BCA 7.10 Please explain how the Company proposes to breakout the surcharge, between the monthly minimum charge and the commodity charge.