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AZ CORP COMMISSION
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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 SUMMARY OF TESTIMONIES**

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

Respectfully submitted this 1st day of May 2009.

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

Arizona Corporation Commission
DOCKETED
MAY - 1 2009
DOCKETED BY

By ______________________
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Original and fifteen copies of the foregoing filed this 1st day of May 2009 with:

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

Copies of the foregoing Hand Delivered this 1st day of May 2009 to:

Chairman Kristian K. Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Commissioner Gary Pierce
Arizona Corporation Commission
1200 West Washington
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Commissioner Paul Newman
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H2O, Inc.

Docket No. W-02234A-07-0557

Summary of Testimony of Thomas J. Bourassa

Mr. Bourassa is a Certified Public Accountant providing various accounting and consulting services to businesses, including utilities. He has prepared or has assisted in the preparation of rate applications for a number of Arizona water and wastewater utilities. In this rate proceeding, Mr. Bourassa was responsible for preparing, and is sponsoring, Schedules A through H of the standard filing requirements for Class B water utilities, as set forth in A.A.C. R14-2-103, and for the overall development of the revenue requirement for H2O, Inc. ("H2O" or "Company") in this case.

Mr. Bourassa filed direct, rebuttal and rejoinder testimony, which generally addresses the following aspects of H2O's rate application:

(1) Revenue Requirement.
(2) Rate Base (original cost, reconstruction cost and fair value).
(3) Revenues and Expenses (including depreciation and taxes).
(4) Cost of Capital
(5) Rates and Rate Design.

A summary of the key issues addressed in Mr. Bourassa's pre-filed testimony follows:

I. REVENUE REQUIREMENT

The parties' respective revenue requirements as of the rejoinder stage of this proceeding are as follows:

	Revenue Req.	Revenue Incr.	% Increase
Staff Surrebuttal	\$3,218,705	\$(159,937)	-4.73%
Company Rejoinder	\$3,244,489	\$(135,153)	-3.97%

The Company proposes its original cost rate base ("OCRB") be used as its fair value rate base ("FVRB") to determine the revenue requirement.

II. RATE BASE

A. Overview of Rate Base

The parties' respective rate bases as of the rejoinder stage of this proceeding are as follows:

	OCRB	FVRB
Staff Surrebuttal	$ (500,901)	$ (500,901)
Company Rejoinder	$1,995,695	$1,996,695

B. Plant-in-Service and Accumulated Depreciation

H2O and Staff agree on the plant-in-service of $12,996,414 and accumulated depreciation of $1,497,949. The Company has accepted Staff's adjustments to plant in service and accumulated depreciation.

D. AIAC and CIAC Balances

H2O and Staff disagree in the balance of advances-in-aid of construction ("AIAC") and contributions-in-aid of construction ("CIAC") in rate base. The disagreement between the parities is a difference over the inclusion of unexpended hook-up fees in rate base as CIAC and unexpended developer advances in rate base as AIAC. The Company proposes to exclude $34,405 of unexpended AIAC and $2,660,967 of unexpended CIAC because to not do so would result in a rate base mismatch. The unexpended amounts of CIAC and AIAC are for future plant necessary to serve future customers. Normally AIAC and CIAC have a zero impact on rate base. CIAC is revenue neutral because there is no depreciation recovery and the amount of CIAC offsets the costs of plant-in-service in rate base. Since the plant-in-service costs are not in rate base, the unexpended AIAC and CIAC should not be included in rate base or a mismatch will occur.

C. Deferred Income Taxes

Both Staff and H2O include deferred income taxes ("DIT") in rate base. The difference in the amount of DIT proposed by each of the parties is primarily due to difference in the AIAC and CIAC balances. However, Mr. Bourassa points out that Staff uses an incorrect tax rate in its computation. Staff should have used a tax rate of 38.6 percent rather than the 34.9 percent it used as the 38.6 percent is the tax rate used in the determination of the revenue requirement and is the expected tax rate going forward. Mr. Bourassa states that using the expected tax rate for determining DIT is a requirement of the *Statement of Financial Accounting Standards No. 109 –* Accounting for Income Taxes).

G. Working Capital

The Company is in agreement with Staff to set working capital to zero. RUCO proposes negative working capital, however, RUCO offers no lead-lag study, which would be needed to accurately show the revenue and expense leads and lags and a working capital amount. Therefore, the best course of action is to allow zero working capital, which both Staff and the Company have done.

III. REVENUES AND EXPENSES

A. Overview of Income Statement

Some of the Company's more notable adjustments to the test year in order to normalize revenues and expenses and to take into account known and measurable changes include :

(1) Annualizing depreciation expense using account specific depreciation rates based on Staff's typical and customary rates rather than the previously approved 5.0% composite rate;
(2) Increasing property and income taxes to reflect proposed revenues;
(3) Inclusion of rate case expense amortized over 3 years;
(4) Annualizing purchased power, salaries and wages, and postage.
(5) Removal of unnecessary consulting fees.

A number of additional adjustments were made at the rebuttal stage based on the positions of the other parties. Notable adjustments include:

(1) Removal of sales taxes included in revenues;
(2) Removal of capitalized expenses;
(3) Removal of late filing fees;
(4) Removal of unnecessary expenses.

With these various adjustments based on known and measurable changes, the Company's proposed adjusted test year level of operating expenses is equal to $3,067,520. While the Company has accepted Staff's proposed adjustments to revenues and expenses, there remain differences in the levels of depreciation expense, property taxes, and income taxes.

B. Depreciation Expense

H2O's level of depreciation expense and Staff's level of depreciation expense differ due to the difference in the rate base treatment of unexpended hook-up fees (CIAC).

C. Property Taxes

The Company and Staff agree on the method to be used to determine property taxes, which methodology uses proposed revenues and follows the Arizona Department of Revenue property tax calculation. The difference between the Company and Staff on the recommended property tax expense level is due to the different revenue levels recommended.

D. Income Taxes

The Company's level of income taxes reflects the Company's proposed level of revenues and expenses. The difference between the Company and Staff on the recommended level of income taxes is due to the different revenue and expense levels recommended.

IV. COST OF CAPITAL

H2O is the only party to prepare a cost of capital analysis in this case. Because Staff's recommended rate base is negative, Staff proposes a 10 percent operating margin approach in the determination of the revenue requirement. H2O's updated cost of capital analysis indicated that a return on equity ("ROE") of 12.0 percent is appropriate, within the ranges produced by the analysis and conservative when H2O's extremely small size and other business risks are considered. The Company's weighted cost of capital ("WACC") is 11.46 percent. The 11.46 percent WACC is the return the Company proposes to be applied to the Company's proposed fair value rate base.

IV. RATE DESIGN

Staff and H2O propose similar rate designs. Like the Company, Staff proposes an inverted tier rate design to encourage conservation. A three tier design is proposed for the 5/8 inch and ¾ inch meters whereas a two tier design is proposed for the 1 inch and larger meters with zero gallons included in the monthly minimum. The break-over points for the various meter sizes are the same for both the Company and Staff with the exception of the first break-over point for the 5/8 inch and ¾ inch meters. Staff proposes a 3,000 gallon first tier break-over point for the 5/8 inch and ¾ inch meters whereas the Company proposes a 4,000 gallon first tier break-over point.

Mr. Bourassa points out that Staff's rate design shifts more revenues to the commodity rates which will result in less revenue stability. 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.

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

Staff proposes to eliminate the Company's current Off-Site Capacity Reservation Charge (Hook-up fee or "HUF"). The Company disagrees. Since the Company is small and has limited access to capital, the Company believes that the HUF is helpful in funding plant capacity necessary to serve growth. Had the Company not collected the HUF's in advance, it would have had to raise the necessary capital through long-term debt which has a cost and would have resulted in a much higher rate base and much higher rates. It is only by the inappropriate treatment of unexpended HUF's by Staff that Staff's rate base is negative.

B. CAP Surcharge

The Company is not seeking a CAP surcharge.