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BEFORE THE ARIZONA CORPORATION COMMISSION

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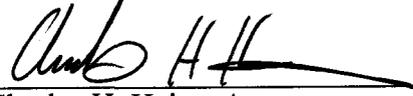
IN THE MATTER OF THE APPLICATION OF  
H2O, INC. FOR A DETERMINATION OF THE  
CURRENT FAIR VALUE OF ITS UTILITY  
PROPERTY AND FOR AN INCREASE IN ITS  
WATER RATES AND CHARGES FOR UTILITY  
SERVICES.

DOCKET NO. W-02234A-07-0557

**STAFF'S NOTICE OF FILING**

Staff of the Arizona Corporation Commission hereby provides notice of filing the Summaries  
of the Testimony of Brendan Aladi and Katrin Stukov in the above-referenced matter.

RESPECTFULLY submitted this 1<sup>st</sup> day of May, 2009.

  
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Legal Division  
1200 West Washington Street  
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Original and thirteen (13) copies  
of the foregoing were filed this  
1<sup>st</sup> day of May, 2009 with:

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

Copy of the foregoing mailed  
this 1<sup>st</sup> day of May, 2009 to:

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Arizona Corporation Commission  
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## Witness Summary for Brendan C. Aladi

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.

H20, Inc. ("H20" or "Company") has a negative \$363,842 fair value rate base (same as original cost). Staff proposes a \$3,218,705 revenue requirement, a \$159,937 or 4.73 percent decrease from adjusted test year revenue of \$3,378,642.

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.

Net Deferred Income Tax Debit - Staff recommends a \$1,429,858 for a Net Deferred Income Tax Debit (addition to rate base). Based on the Company's rejoinder explanation, Staff now accepts the Company's 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 38.60 percent income tax rate in its rebuttal testimony. Staff agrees with the Company's omission of a portion of its CIAC in the estimation and the Net CIAC balance.

Operating Margin - Staff continues to recommend an operating margin of 10.0 percent. Due to the \$363,842 negative rate base, an operating income cannot be determined based on rate of return.

CAP Surcharge - The Company has not responded to Staff data requests essential for evaluating the proposed CAP Surcharge, accordingly, Staff does not recommend it.

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.

## Witness Summary for Katrin Stukov

### **Staff Conclusions**

The Arizona Department of Environmental Quality ("ADEQ") has reported that the H2O's Public Water System ("PWS") #11-060 is currently delivering water that meets the water quality standards required by Arizona Administrative Code ("AAC"), Title 18, Chapter 4.

The Maricopa County Environmental Services Department ("MCESD"), as a formally delegated agent of the ADEQ, reported that H2O's PWS# 07-904 is currently delivering water that meets the water quality standards required by AAC, Title 18, Chapter 4.

MCESD has reported that the Town of Queen Creek's PWS# 07-033, which supplies water to H2O PWS # 07-904, is currently delivering water that meets the water quality standards required by AAC, Title 18, Chapter 4.

The H2O's water system PWS# 11-060 has a water loss of 10.1 percent, which is just above the recommended threshold amount of 10 percent.

The H2O water system's current well and storage capacities are adequate to serve the present customer base and a reasonable level of growth.

The Company is located in the Phoenix Active Management Area ("AMA") and is in compliance with Arizona Department of Water Resources ("ADWR") reporting requirements, and upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue the documentation stating whether or not the System Water Plan filed meets ADWR requirements.

The Company has no outstanding Arizona Corporation Commission ("ACC") compliance issues.

The Company has an approved curtailment plan and a backflow prevention tariffs.

### **Staff Recommendations**

The Company's water system PWS# 11-060 has water loss of 10.1 percent. Staff recommends that the Company evaluate this water system and prepare a report for corrective measures demonstrating how the Company will reduce its water loss to less than 10 percent. Water loss shall be reduced to less than 10 percent by December 31, 2009. If the Company finds that reduction of water loss to less than 10 percent is not cost-effective, the Company shall submit a detailed cost analysis and explanation demonstrating why water loss reduction to less than 10 percent is not cost effective. The Company shall file such report with Docket Control, as a compliance item in this docket, within six month of the effective date of the decision in this case.

Staff recommends that the Company file as a compliance item in this docket no later than December 31, 2009, a copy of the documentation issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.

Staff recommends its annual water testing expense estimate of \$23,976 be used for this proceeding.

Staff recommends that the Company adopt the depreciation rates delineated in Table C on a going forward basis.

Staff recommends approval of its service line and meter installation charges labeled "Staffs Recommendation" in Table D.