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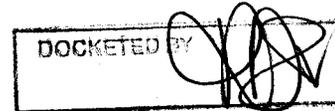
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January 28, 2011

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

JAN 28 2011



CERTIFIED MAIL

Mr. Paul D. Levie, President
2465 Shane Drive
Prescott, Arizona 86305

RE: CHINO MEADOWS II WATER COMPANY, INC. – APPLICATION FOR A RATE INCREASE, DOCKET NO. W-02370A-10-0519

LETTER OF DEFICIENCY

Dear Mr. Levie:

In reference to your rate application received on December 30, 2010, this letter is to inform you that your application has not met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.

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

You have 15 calendar days, or until February 14, 2011, to correct the deficiencies or make other arrangements with Staff to remedy your rate application. If the corrections or other arrangements are not made by the above date, Staff will request your docket number be administratively closed. Docket Control will retain one copy of the original application for Commission records. You may file an original and sixteen copies of an updated application at a later date.

The Staff person assigned to your application is Crystal Brown. She can be reached at (602) 542-0564, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

Nancy Scott
Chief of Financial & Regulatory Analysis Section
Utilities Division

NLS:CSB:tdp

CHINO MEADOWS II WATER COMPANY
DOCKET NO. W-02370A-10-0519
DEFICIENCY LIST

1. Schedule A-1, Computation of Increase in Gross Revenue Requirement – The adjusted operating income shown on Schedule A-1, line 2, in the amount of a negative \$6,594.35 is not the same as the operating income shown on Schedule C-1 in the amount of a negative \$2,322.93. Please explain the difference and provide a corrected schedule(s) if necessary.
2. Schedule D-1, Summary Cost of Capital – Please provide a Schedule D-1 that correlates to the 10.81 percent cost of capital shown on Schedule A-1.
3. Schedule E-5, Detail of Utility Plant – Please provide a Schedule E-5.
4. Schedule E-9, Notes to Financial Statements – Please provide a discussion of income tax treatment, normalization or flow-through.
5. Schedule H-5, Bill Count – Please provide the information required for the bill count in the format prescribed by the Administrative Code. As part of your response, please provide the total number of bills by block and for the year.
6. Metered Water Revenue – Based on the bill count provided, Staff calculated metered revenue of \$339,906.19. However, the income statement shows metered revenue of \$344,259.80. Please reconcile the difference and/or provide a corrected bill count. As part of your response, please provide a copy of your general ledger for the test year.

DATA REQUESTS

7. Metered Water Revenue – The 2009 metered water revenue reported in your 2009 Utilities Annual Report is \$339,738 whereas the metered water revenue reported in the application is \$344,260; a difference of \$4,522. Please reconcile the difference.
8. Bill count – Please explain why there are no bills with zero usage in the bill count provided in the application
9. Schedule D-1, Summary Cost of Capital – Referring to Schedule D-1,
 - a. Please explain the difference between Common Equity and Short Term Equity.
 - b. Please explain the \$48,083.74 increase in Short Term Equity from the End of Test Year to End of Projected Year.
10. Please provide the Arizona Department of Environmental Quality (ADEQ) compliance status report.
11. Please submit the utility's most recent ADEQ annual sampling fee invoice for its Monitoring Assistance Program, if the water utility participates in the program.

CHINO MEADOWS II WATER COMPANY
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12. Please provide the amount of water sold and the amount of water pumped during the last 12 months should be provided. Please note if fire hydrants or fire flow is provided.
13. Please provide an inventory of the major plant in service. Major plant in service includes, but is not limited to, surface water treatment plants, wells, groundwater treatment equipment (i.e. iron removal, disinfection, etc), storage tanks, booster pumps, pressure tanks, distribution mains, and meters.
14. How many connections does the Company expect to add each year for the next five years beginning in 2010?
15. Please provide a copy of the Arizona Department of Water Resources ("ADWR") Water Provider Compliance Status Report.