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March 25, 2005

HAND DELIVERY

Ms. Colleen Ryan
Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

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AZ CORP COMMISSION
DOCUMENT CONTROL

Re: Virgin Mountain Utilities Company; Docket No. W-03551A-04-0325; Objections to Staff Report

Dear Ms. Ryan:

Virgin Mountain Utilities Company (the "Company") hereby files its Objections to the Staff Report dated March 15, 2005 in the subject Docket. The Company disagrees with the recommendations of the Staff in this Docket.

Predicting market acceptance of a the new housing development is difficult today, and was even more difficult in 1999 when the original Certificate of Convenience and Necessity ("CC&N") was issued. The Developer believed at that time of forming the Company that subdivision development would occur in the original CC&N area. As the Commission has seen, it is not uncommon for actual development, especially in the rural counties of Arizona, to take longer than the development in metropolitan areas.

Although the market conditions are improving in the Virgin Mountain area, it is still not as robust is in the Phoenix area. However, there are existing homes requesting water service now, and other development activity in the subdivided area in the requested CC&N area. The Company has filed dozens of Requests for Service in this Docket to that effect. As the Commission knows, growth promotes growth. It is anticipated that when those customers are added in the new area, the original area growth will follow.

The Company does not have all required approvals for a distribution system from the Arizona Department of Environmental Quality ("ADEQ") at this time, because the development has not yet started in the existing CC&N area. It cannot obtain the

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distribution system approval without customers and that plant. The requested area will start the growth and permit the Company to obtain the required approvals.

When granted the requested area, the Company will move ahead with required ADEQ approvals and construct the backbone system sufficient to meet the need of customers in the newly requested area. The Company is now in the process of updating its Approval to Construct for the Water Plant. It has constructed the Water Plant sufficient to supply standpipe water for construction water purposes as requested to date. With the Requests for Service in the new area, the Company is looking forward to installing the distribution system and adding additional production and storage facilities.

The Company does have the ability to provide service within the subject area as acknowledged in the Staff Report. It will provide that service to the new area based on the demand in place at this time. The Company is expecting to have an updated Approval to Construct and the System ID Number very soon. Tom Stoddard has a Grade 1 Water Distribution System Operator Certificate, and a Grade 1 Water Treatment Plant Operator Certificate. Also, the Company does have an Arizona Department of Water Resources ("ADWR") Application for Physical Availability Demonstration ("PAD") letter dated March 26, 2002. The Letter of Adequacy has not yet been issued, but will be obtained as the existing CC&N area is subdivided. The Company has a Mohave County Franchise issued January 6, 1997, that includes the existing and proposed CC&N areas. The Company has a form of Line Extension Agreement consistent with the Commission's Rules and Regulations ready for utilization with the developers. All these items will be presented as exhibits in the scheduled hearing in this matter.

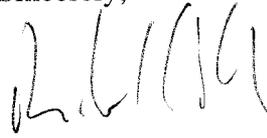
The Staff Report references the Beaver Dam Water Company as having a new CC&N in the vicinity. However, to the best of the Company's knowledge, Beaver Dam has no customers south of the Virgin River at this time. That new area is remote from the other Beaver Dam plant that is located several miles across the Virgin River. The Company believes that interconnection of that plant to this area would be physically difficult and financially not feasible.

The Company is of the opinion that it is the best entity to provide water service to its existing and proposed CC&N area, and it is ready, willing and able to do so upon the Commission's approval.

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The Company will present the above, as well as other pertinent information regarding the Application, at the hearing scheduled for April 26, 2005.

Sincerely,

A handwritten signature in black ink, appearing to read "R. L. Sallquist". The signature is written in a cursive style with some loops and flourishes.

Richard L. Sallquist

Cc: Hearing Division
Legal Division
Utilities Division
Tom Stoddard