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January 10, 2007

Arizona Corporation Commission
DOCKETED
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DOCKETED BY

HAND DELIVERY
Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Re: Utility Source, LLC; Docket No WS-04235A-06-07-303

Dear Commissioner Mayes:

This filing is in response to your letter to the Parties in the subject Docket dated December 31, 2007, in which you requested that the Parties file proposed phased rates implementing Judge Wolfe's Recommended Opinion and Order revenue levels.

The Company believes such a solution is ill-advised, counterproductive, unfair, not supported by the record, and extremely detrimental to the Company and ultimately to its customers. Therefore, the Company is respectfully not filing proposed phased in rates.

You may recall that the record in this proceeding reflects that the "traditional" methodology of filing a rate application that would have been strictly in accordance with ACRR R-14-2-103, would have required an approximate 300% increase in the existing rates. This application is not for a startup company or in a new Certificate of Convenience and Necessity context. The Company has been offering service for over four years and has extensive historical data on which to set rates, hence it has the right to a Fair Return on its Fair Value Rate Base.

However, the Company acknowledges that that would be a large increase, and to ameliorate that impact the Company proposed, and Staff concurred, with the inclusion of future customers over which to spread the revenue requirement. For that reason the Company added 350 nonexistent customers anticipated in the Flagstaff Meadows Unit Three Subdivision to the ratemaking calculus, as well as including Well # 4 which is needed to serve those customers. At the time of the hearing on the application it had been determined that the zoning for Flagstaff Meadows Unit Three was approved at only 276 units. We now know that the builder has totally "pulled off" the project due to the downturn in the real estate market. The bottom line is that the Company probably will not see any of that growth for two or three years at the earliest. Phasing in the

Recommended Opinion and Order revenue levels would assure the Company of another couple of year of significant losses and delay the Company's receipt of the Recommended Opinion and Order revenue levels so that it would be three years before those authorized levels were realized. In other words, the Recommended Order's proposed increase is already a form of phasing in. To require the Company to suffer an additional phase in is, as stated, inappropriate.

Mr. Bourassa was asked at the hearing about phasing in the Staff's recommended revenue level to further lessen the impact on customers. He testified, in effect, that such a phasing would be "double dipping" on the transition. The nonexistent customers included in the application already reduce the legitimate increase by over one half. It is patently unfair to further spread that much needed and justified increased over an extended time period. The "shock", if any, is not caused by the proposed rates, but by the inappropriately low existing rates. There is nothing in the record to support further phasing of these increases, but Mr. Bourassa clearly explained why further phasing is ill-advised and unfair.

Further, reducing the cash flow by phasing in the increase will clearly result in a negative Operating Margin for the Company. As Mr. Bourassa testified, the Staff's revenue level, as adopted by the Recommended Order, does not provide a positive Operating Margin. In addition to it being unfair, it highlights the concern raised in Intervenor Hitesman's December 31, 2007 letter in this docket as to the viability of the Company. Such reductions would also be unproductive in that they would certainly trigger an almost immediate filing of a new rate case application, in which the Company would not propose any proforma adjustment due to the condition of the housing market.

If the Commission is inclined to phase in an increase, it should first remove the 350 nonexistent customers and Well # 4 and establish the "traditional" revenue increase of nearly 290% for both the Water and Wastewater Divisions. Only then should the Commission consider phasing in that revenue requirement.

We would urge the Commission to reject any consideration of phasing in the rate increase, and adopt the Recommended Opinion and Order or amend the Recommended Order to remove the 350 proforma customers and Well # 4 and then phase that revenue requirement.

The Company thanks you for your consideration.

Sincerely,

Richard L. Sallquist

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