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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF UTILITY SOURCE, LLC, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER AND WASTEWATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.	Docket No. WS-04235A-13-0331

RUCO'S REPLY BRIEF

The Residential Utility Consumer Office ("RUCO") hereby files its Reply Brief in the matter of Utility Source, L.L.C. ("Utility Source," or "Company") application for a revenue increase. RUCO will only reply to arguments not addressed in its Closing Brief or to supplement any points made already– so to the extent RUCO does not respond in this Reply Brief to any argument made, RUCO refers the Commission to its Closing Brief on the subject which in essence is also RUCO's reply to the arguments raised by the Company and the other intervenors.

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1) **RATEBASE**

Contributions in Aid of Construction ("CIAC")

The Company argues that RUCO's recommendation has violated the law since it fails to respect previous Commission decisions. While RUCO sees the wisdom of consistency in Commission decisions as well as precedent, RUCO has never argued that the Commission is bound by a previous decision on an issue. In fact, until this case, RUCO has never seen any party make this argument. The Company's citation to A.R.S. §40-252 is misplaced. The Commission's decision is conclusive, but that says nothing about the Commission's actions in a future case. Circumstances may change – new Commissioners may be elected – there is no law that RUCO is aware of that binds the Commission to a position in a future rate case. Given the Company's concerns about adherence to prior Commission decisions, RUCO does not understand how the Company could have possibly charged a customer for a hook-up fee when, in its CC&N application, the Commission rejected the Company's request to collect hook-up fees. RUCO-1. The Commission should reject this misguided interpretation of the law.

RUCO supports Intervenor Nielsen's approach to reclassify certain plant as CIAC - Mr. Nielsen is right – the Company has not responded to Staff, RUCO and intervenors' data requests detailing the original costs documentation for major portions of its plant. Nielsen-3 at 15. The Company, not the other parties, has the burden of supporting its case – which it has failed on this issue. It is therefore entirely reasonable under the circumstances of this case to impute the CIAC where the plant is known to exist and the Company fails to account for it properly. Mr. Nielsen's view, if anything, is conservative and supported by the record.

The Company complains that Nielsen's position is based on conjecture. Company Brief at 4. Perhaps true, but what else can it be if the Company will not provide the information?

The ratepayers should not be burdened in any way by the Company's failure to provide information and/or support its case. In doing so, the Company acts at its own peril.

2) OPERATING EXPENSES

The Company takes the position that many of RUCO's adjustments to operating expenses should not be approved because the Company does not share office and employees with other companies. Company Brief at 6. The Company portrays the business as acting independently of other business being conducted there and to the extent there is any overlap it is incidental. Company Brief at 6. With respect, RUCO believes otherwise.

Mr. Nielsen's case on this issue is compelling. See Nielsen 3 at 8-15. The Company does not even have a sign outside its main premises related to the business – the only sign is a visitor sign for the Pecans subdivision with hours. Nielsen 3 at 10. There are ten or so companies affiliated with that address. Nielsen-3 at 9. It is counter-intuitive to think that a small company with 325 customers would need to run a relatively large office full time with staff to run its business. That fact is borne out by the fact that the Company's bookkeeper, Ms. Perry, is listed with Commission filings as the secretary for the Pecans Homeowners Association. Id. at 10. The number of the business is also listed in various real estate listings as the contact number. Id. at 11. No, this business and address is not being exclusively used for the provision of water service and there is no way around it – RUCO's adjustments reflect a proper allocation and should be approved by the Commission.

3) OTHER ISSUES – STANDPIPE

RUCO's recommendation is not inconsistent with the Company – all RUCO is recommending is in addition to what the Company is recommending - the Company file a yearly report by September 30th of each year which shows the revenue generated by month from the Company's standpipe. RUCO-4 at 16. If the Company is over-earning, it can be trued-up, and any excess be refunded to ratepayers in the Company's next rate case. Id.

4) COST OF CAPITAL

RUCO has little to add here that was not said before. It is worth noting – in response to the claim by the Company of all the risk it faces like any small utility – that the Company has a 100 percent equity structure. Transcript at 490. It is a basic tenant that companies, regardless of size, who are leveraged with debt are subject to more risk than companies without debt. Id. The present Company is no exception and it has not had any debt for at least the last three years.

In short, the Company is similar to most water companies – there is nothing extraordinary about it. The fact that it has a 100 percent equity structure, if anything makes it less ordinary – and less risky.

5) CONCLUSION

For all of the above reasons, the Commission should adopt RUCO's recommendations.

RESPECTFULLY SUBMITTED this 17th day of April, 2015.

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