

INSCRIPTION CANYON WATER COMPANY

July 6, 2023

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

Re: Inscription Canyon Water Company
Docket No. W-21093A-22-0296
Response to Hearing Division Amendment No. 1

Inscription Canyon Water Company's ("ICWC") initial rate request was well thought out, planned and what we felt was fair at the time. Details of the rate increase were pre-presented to the membership to assess sentiment, and they were well received. We were hesitant about using a 2021 test year because we were replacing a collapsed well and beginning to figure out capacity issues with the aquifer. As we proceeded with a 2021 test year, several revenue and ongoing cost issues were discovered, and were put on the record, only to be discounted.

Since we are a not-for-profit, member owned utility, we anticipated a better understanding of how we need to function. ICWC exists to serve its members and maintain a healthy utility to benefit them and protect home values. We are led by volunteers, not paid management, and therefore engineers and other professionals are needed to operate our water system. Instead, the expenses have been cut for services needed and the operating margin and cash flow reduced to a level where we will be "just getting by" and it is not clear to us why. It is like we are being penalized for trying to "do it right".

Per the table on the following page, the company original position proposed \$781,636 of revenue resulting in \$173,718 of cash flow. The current position of the ACC recommends \$721,636 of revenue and \$176,616 for available cash flow. Even though Staff recommended revenue decreases by \$60,000, available cash flow increases by almost \$3,000. How can cash flow increase when revenue decreases? ICWC will not have positive rate base anytime in the distant future, so we are dependent on cash flow to meet the demands of the system.

Filing	Metered Water Revenue	Total Revenue	Operating Income	Operating Margin	Advance Repay	Depr. Expense	Cash for Contingencies
Actual 2021 Test Year	\$658,639	\$664,919	(\$17,221)	-2.59%	\$71,132	\$154,185	\$65,832
Adjusted 2021 Test Year	\$690,356 ¹	\$696,636	(\$7,717)	-1.11%	\$71,132	\$168,519	\$89,670
Company Proposed	\$775,356 ²	\$781,636	\$76,331	9.77%	\$71,132	\$168,519	\$173,718
Original Staff Recommended	\$700,356 ³	\$706,636	\$78,388	11.09%	\$71,132	\$155,605	\$162,860
Company Rebuttal	\$753,475 ⁴	\$759,755	\$113,398	14.93%	\$85,958 ⁵	\$171,087	\$198,528
Staff Amended	\$715,356 ⁶	\$721,636	\$76,662	10.62%	\$71,132	\$171,086	\$176,616
Recommended Order ⁷	\$715,356	\$721,636	\$76,662	10.62%	\$71,132 (assumed)	\$171,086 (assumed)	\$176,616 (assumed)
Amendment to Recommended Order	<p>The purpose of the amendment was stated “to modify the adopted rate design to address a revenue shortfall identified by the Company in its exceptions filed on June 30, 2023, <u>and the Company’s concerns about declining golf course water usage.</u>”⁸ (emphasis added). The amended rates do not address our concerns about declining water provided to the golf course lake, and it is unclear why the golf course rate was lowered from \$1.48 per thousand gallons to \$1.46. The amended rates do correct the rate design so that \$715,356 of metered water revenue recommended for ICWC is produced. Nothing regarding the changing situation with the golf course has been addressed in this case. Amounts in the original Order are assumed unchanged except the metered water rates to be charged.</p>						

¹ The increase of \$31,717 from actual test year metered water revenue to the adjusted test year amount includes 1) a proforma adjustment to increase residential usage by \$19,836 for growth, and 2) a proforma adjustment for \$11,880 to estimate increased water revenue for additional gallons provided to the golf course. As stated on the record, the assumption regarding the new well and the gallons it could provide the golf course lake were flawed, as additional demands on the aquifer increase and the pumping capacity is limited.

² The original Company requested revenue increase was \$85,000.

³ The original Staff recommended revenue increase was only \$10,000 after adjusting several expenses and adopting both proforma revenue adjustments.

⁴ The Company accepted several of Staff’s adjustments, removed the proforma adjustment for the increase to revenue from the golf course lake, and reduced the requested total revenue increase to \$75,000 as a compromise.

⁵ 2022 amount of advance repayments; metered water revenue was annualized for the new customers, so this is a known increasing outflow of cash.

⁶ First indication the recommended rates did not produce the proposed revenue .

⁷ The rates recommended for metered water revenue in the original Order and amended Staff produced \$10,500 less revenue than the \$715,356 recommended.

⁸ Hearing division proposed amendment No. 1 filed July 3, 2023.

Although the Hearing amendment rates should produce the revenue ICWC is authorized, it is not enough to keep us from returning for another rate case very soon. Additionally, ICWC has not been allowed to recover the requested amount of rate case expense (which we voluntarily lowered by \$10,000) for this rate case which has had many issues. The Recommended Order states “*the Company failed to provide Staff with invoices in support of its requested rate case expense*” (Page 14, item 68). This is untrue since we provided Staff contracts, invoices and check copies to support more than \$25,000 of rate case expense. And, there are still more costs to be incurred once the Decision is final, for tariffs, customer notices and compliance filings.

ICWC is not being granted the revenue necessary to cover all expenses for continued operations and future planning. We do not feel our concerns have been addressed and the revenue provided will not be sufficient. The Commission has one last opportunity to help ICWC so this rate case is not a lost cause, and we implore it to do so.

Sincerely,

Mr. Mark Armstrong
President, Board of Directors
Inscription Canyon Water Company