ORIGINAL

E000051106

MEMORANDUM

TO: Docket Control

FROM: Ranelle S. Paladino
Briton A. Baxter
Utilities Division Co-Directors

DATE: April 28, 2026

RE: IN THE MATTER OF THE APPLICATION OF INSCRIPTION CANYON WATER COMPANY FOR APPROVAL OF FINANCING. (DOCKET NO. W-21093A-26-0041).

Attached is the Staff Report for Inscription Canyon Water Company's Application requesting authorization to enter into long-term debt Financing. Staff recommends authorization of the requested financing application for Inscription Canyon Water Company in an amount not to exceed $895,000 with conditions.

Any party who wishes may file comments to the Staff Report by efiling at https://efiling.azcc.gov/ or filing an original and the appropriate number of copies in accordance with the Filing Requirements available at https://www.azcc.gov/hearing/filing-requirements with the Commission's Docket Control on or before May 8, 2026.

RSP BAB:JAV:ym/MD

Originator: Jacob A. Veaughn

Attachments

ACC - Docket Control - Received: 04/28/2026 04:11 PM
ACC - Docket Control - Docketed: 4/28/2026 4:25 PM

On this 28th day of April 2026, the foregoing document was filed with Docket Control as a Staff Report, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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By: Yesica Magdaleno

Yesica Magdaleno
Administrative Support Specialist

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

INSCRIPTION CANYON WATER COMPANY

DOCKET NO. W-21093A-26-0041

IN THE MATTER OF THE APPLICATION OF INSCRIPTION CANYON WATER COMPANY FOR APPROVAL OF FINANCING

APRIL 28, 2026

STAFF ACKNOWLEDGMENT

The Staff Report for Inscription Canyon Water Company, Docket No. W-21093A-26-0041, was the responsibility of the following Staff members: Mr. Jacob A. Veaughn, Public Utilities Analyst was responsible for the financial review and analysis. Mr. Dylan Thayer, Water/Wastewater Engineer, was responsible for the engineering and technical analysis. Mr. Al Amezcua, Public Utilities Consumer Analyst, was responsible for Commission policies/rules and reviewing customer complaints filed with the Commission.

EXECUTIVE SUMMARY
OF
JACOB A. VEAUGHN
INSCRIPTION CANYON WATER COMPANY
W-21093A-26-0041

Inscription Canyon Water Company ("ICWC" or "Company") is a Class D Arizona public service corporation and a non-profit corporation providing water utility service to approximately 1,200 customers located approximately 12 miles northwest of Prescott in Yavapai County, Arizona. The Company's current rates were approved by the Arizona Corporation Commission ("Commission") in Decision No. 79037 (July 14, 2023).

On February 23, 2026, ICWC filed an application with the Commission for approval of financing. The Company is requesting authorization to borrow up to $895,000 with a 20-year amortization from one of the following organizations: Co-Bank, the Water Infrastructure Finance Authority of Arizona ("WIFA"), or a private institution.

The Company currently has no outstanding long-term debt. ICWC proposes to use the $895,000 proceeds of the debt financing for the following projects:

- Project 1: Replacement of Inscription Canyon Ranch ("ICR") well one $375,000
- Project 2: Backup generators for well sites $200,000
- Project 3: Backflow prevention valve at Golf Course $80,000
- Project 4: Supervisory Control and Data Acquisition ("SCADA") expansion $100,000
- Project 5: System Tie-in (across Williamson Valley Road) $140,000

Commission Utilities Division Staff ("Staff") recommends the Commission authorize ICWC's request to issue long term debt in an amount not to exceed $895,000, with a lender to be identified, at an interest rate not to exceed eight percent. The Company's pro forma Debt Service Coverage indicates that ICWC would have sufficient cash flow to meet all obligations under the proposed interest rate. Staff concludes that issuance of the proposed debt financing to ICWC for the purposes stated within the financing application is compatible with the public interest, should not impair the Company's ability to provide services, and is generally consistent with sound financial practices.

Staff Recommends:

1. That the Commission approve the Company's application to incur long-term debt with CoBank, WIFA, or a lender that offers the most favorable interest rate and

terms, in an amount not to exceed $895,000, at an interest rate no greater than eight percent with a 20-year term.

2. That the Company be authorized to pledge its assets and revenues in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 in connection with a loan agreement.

3. That the Company be directed to file as a compliance item in this Docket, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

4. That the Company be directed to provide Staff with a copy of any loan documents executed pursuant to the authorizations granted herein.

5. That the Company be directed to file as a compliance item in this Docket, within 60 days of the execution of any financing transaction authorized herein, a funding plan for any reserve account required as a part of the related financing.

6. That the approval of the debt be rescinded if the Company has not drawn funds from the loan within two years of the date of the Decision resulting from this proceeding.

7. That the Company ensure that the system information for ICR and Talking Rock are corrected and updated in the 2026 Annual Report and in the information provided to Staff in the next rate case.

8. That the Company evaluate ICR's water use data collection and recording practices to ensure accurate tracking of ICR's water use data for its 2026 Annual Report and the next rate case.

9. That the Company file an updated Curtailment Tariff within 60 days of a Decision in this matter, in a new docket.

10. That the Company file an updated Cross-Connection/Backflow Prevention Tariff within 60 days of a Decision in this matter, in a new docket.

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SCHEDULES

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INTRODUCTION

On February 23, 2026, Inscription Canyon Water Company ("ICWC" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for approval of financing. The Company is requesting authorization to borrow up to $895,000 with a 20-year amortization from one of the following organizations: Co-Bank, the Water Infrastructure Finance Authority of Arizona ("WIFA"), or a private institution.

The Company currently has no outstanding long-term debt. ICWC proposes to use the $895,000 proceeds of the debt financing for the following projects:

- Project 1: Replacement of Inscription Canyon Ranch ("ICR") well one $375,000
- Project 2: Backup generators for well sites $200,000
- Project 3: Backflow prevention valve at Golf Course $80,000
- Project 4: Supervisory Control and Date Acquisition ("SCADA") expansion $100,000
- Project 5: System Tie-in (across Williamson Valley Road) $140,000

Commission Utilities Division Staff ("Staff") recommends authorizing ICWC's request to issue long term debt in an amount not to exceed $895,000 with a lender to be identified at an interest rate not to exceed eight percent. The Company's pro forma Debt Service Coverage ("DSC") indicates that ICWC would have sufficient cash flow to meet all obligations under the proposed interest rate. Staff concludes that issuance of the proposed debt financing to ICWC for the purposes stated within the financing application is compatible with the public interest, should not impair the Company's ability to provide services, and is generally consistent with sound financial practices.

NOTICE

The Company docketed its notice of its financing application on April 1, 2026. The Affidavit of Publication states that notice was provided as an insert in its customers' bills and that the notice was also posted on the Company's website.

COMPANY BACKGROUND

Inscription Canyon Water Company is a Class D Arizona public service corporation and a non-profit corporation providing water utility service to approximately 1,200 customers located approximately 12 miles northwest of Prescott in Yavapai County, Arizona. The Company's current rates were approved by the Commission in Decision No. 79037 (July 14, 2023).

CONSUMER SERVICES

The Commission's Utilities Division Consumer Services Division reported that the Company is in Good Standing. A search of the Utilities Division Consumer Services database from January 1, 2023, to March 11, 2026, shows zero complaints.

ENGINEERING ANALYSIS

Inscription Canyon has requested Commission approval of financing for several capital improvement projects. These projects include a well replacement, the installation of backup generators at all well sites, the installation of a backflow prevention valve, an expansion of the Company's SCADA systems, and the installation of a tie-in for two of the Company's water systems. The Company's proposed capital improvement projects along with its anticipated costs are shown in Staff's Engineering Report, (Attachment A, Table 1).

Staff agrees with the Company's justification provided in its application for all proposed projects. Staff concludes that the scope and associated cost of the proposed projects are reasonable to provide safe and reliable service to customers. Staff recommends approval of ICWC's request to acquire financing in the amount of $895,000 for the proposed capital improvement projects. No rate base determinations are being made at this time.

DESCRIPTION OF PROPOSED FINANCING

The Company requests authorization to issue long term debt in an amount not to exceed $895,000 with a 20-year amortization.

The Company seeks to incur long term debt with one of the following lenders: CoBank, WIFA or another private lender that offers the most favorable interest rate and terms.

At the time the Company filed this application, CoBank's standard DSC requirement was 1.1 for loans with a 20-year term. CoBank requires a debt service reserve equal to 50 percent of a loan's annual debt service. With the proposed loan requirements, ICWC's DSC would be 3.04, which results in a debt service reserve fund of $44,917.

Assuming an interest rate of eight percent and a term of 20 years, the Company's total annual debt service would be approximately $89,834, with annual payments comprised of $70,916 in interest and $19,917 in principal for the first 12 months under the proposed loan agreement.

FINANCIAL ANALYSIS

Capital Structure and Rate Base

The Company's current capital structure is comprised of 100 percent equity. Staff notes that the Company's current Utility Plant in Service ("UPIS") is funded through contributions.

Due to the Company's UPIS being funded via contributions, which are not recoverable investments in the typical rate making formula, ICWC had a negative Fair Value Rate Base of $2,451,712 in its last rate proceeding, requiring the Company's rates to be set based on operating margin.[1]

This application represents the first time the Company has requested to invest in capital improvements using debt. Commission approval of the requested financing will improve the Company's rate base. Staff notes that the Company will require additional financing to maintain a positive rate base sufficient for designing rates under the traditional rate base/rate of return formula.

Interest and Debt Service Coverage

Staff examined the effects of the proposed financing on the Company's DSC. In addition, Staff's financial analysis was based on the current standard covenants as required by CoBank and WIFA which was used for the purpose of determining the requirements to fund the Company.

Under the requirements of a loan from CO-Bank, ICWC would be expected to fund the reserve within one year of the execution of the proposed financing. The additional funds required to fulfill this obligation results in a DSC ratio of 2.03 in the first year of the loan, and a DSC of 3.04 in all subsequent years.

Under a WIFA loan the Company would be required to pay an additional amount to the lender equal to 20 percent of the Company's annual debt service reserve for the first five years after the execution of the loan. The annual debt service surcharge would be equal to $17,967 with a DSC of 2.53 for the first five years of the loan and a DSC of 3.04 in all subsequent years.

ICWC's 2025 annual revenue was $865,654, with a net income of $57,130. Staff believes that this provides the Company with sufficient cash to pay operating expenses, contingencies, principal and interest. Staff recommends that the Company file, as a compliance item in the docket, a funding plan for any required reserve within 60 days of the execution of the associated loan in this proceeding.

CONCLUSION AND RECOMMENDATIONS

Staff recommends authorizing ICWC's request to issue long term debt in an amount not to exceed $895,000, with a lender to be identified, at an interest rate not to exceed eight percent. The Company's pro forma DSC indicates that ICWC would have sufficient cash flow to meet all obligations under the proposed eight percent interest rate. Staff concludes that issuance of the proposed debt financing for the purposes stated within the financing application is compatible with the public interest, should not impair the Company's ability to provide services, and is generally consistent with sound financial practices.

[1] See Commission Decision No. 79037.

Staff Recommends:

1. That the Commission approve the Company's application to incur long-term debt with CoBank, WIFA, or a lender that offers the most favorable interest rate and terms, in an amount not to exceed $895,000, at an interest rate no greater than eight percent with a 20-year term.

2. That the Company be authorized to pledge its assets and revenues in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 in connection with a loan agreement.

3. That the Company be directed to file as a compliance item in this Docket, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorizations granted.

4. That the Company be directed to provide Staff with a copy of any loan documents executed pursuant to the authorizations granted herein.

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7. That the Company ensure that the system information for ICR and Talking Rock are corrected and updated in the 2026 Annual Report and in the information provided to Staff in the next rate case.

8. That the Company evaluate ICR's water use data collection and recording practices to ensure accurate tracking of ICR's water use data for its 2026 Annual Report and the next rate case.

9. That the Company file an updated Curtailment Tariff within 60 days of a Decision in this matter, in a new docket.

10. That the Company file an updated Cross-Connection/Backflow Prevention Tariff within 60 days of a Decision in this matter, in a new docket.

Inscription Canyon Water Company
Docket No. W-21093A-26-0041
Application For Financing

FINANCIAL ANALYSIS

2025 AUDITED FINANCIAL STATEMENTS
INCLUDING IMMEDIATE EFFECTS OF THE PROPOSED DEBT FINANCING

		[A]	[B]	[C]	[D]
		12/31/2025	*Pro Forma at 8 %*	*Pro Forma at 8% CoBank*	*Pro Forma at 8% WIFA*
1	Operating Margin	$57,726	$57,726	$57,726	$57,726
2	Depreciation & Amort.	144,481	144,481	144,481	144,481
3					
4	Interest on LTD	0	70,916	70,916	70,916
5	Unsecured Interest on LTD	0	0	0	0
6	Secured Interest on LTD	$0	$70,916	$70,916	$70,916
7	Principal Repayment on LTD	0	18,917	18,917	18,917
8	Debt Service Reserve funding	0	0	44,917	17,967
9					
10	**DSC**				
11	[1+2+4] ÷ [4+7]	NM[1]	3.04	2.03	2.53

Column [A] is based on Company financial year ended December 31, 2025.

Column [B] represents pro forma adjustments to reflect the approved requested financing at eight percent.
Column [C] represents pro forma adjustments to reflect the approved requested financing at eight percent, with inclusion of CoBank reserve costs.
Column [D] represents pro forma adjustments to reflect the approved requested financing at eight percent, with inclusion of WIFA reserve costs.

Inscription Canyon Water Company
Docket No. W-21093A-26-0041
Application For Financing

WIFA LOAN DATA:

Loan Amount Requested $	895,000.00		
Down Payment:	$0		
Amount Financed:	$895,000		
Number of years:	20	**Compounding Periods:**	12
Interest rate (r):	8.00%	**APR:**	8.30%

LOAN AMORTIZATION SCHEDULE

			Payments					
Period	**Loan payment (1)**	**Beginning-of-month principal (2)**	**Interest [r * (2)] (3)**	**Principal [(1) - (3)] (4)**	**End-of-month principal [(2) - (4)] (5)**	**Annual Interest (6)**	**Annual Principal (7)**	**Annual Debt Payment (8)**
1	$7,486.14	$895,000.00	$5,966.67	$1,519.47	$893,480.53			
2	7,486.14	893,480.53	5,956.54	1,529.60	891,950.93			
3	7,486.14	891,950.93	5,946.34	1,539.80	890,411.13			
4	7,486.14	890,411.13	5,936.07	1,550.06	888,861.06			
5	7,486.14	888,861.06	5,925.74	1,560.40	887,300.66			
6	7,486.14	887,300.66	5,915.34	1,570.80	885,729.86			
7	7,486.14	885,729.86	5,904.87	1,581.27	884,148.59			
8	7,486.14	884,148.59	5,894.32	1,591.81	882,556.78			
9	7,486.14	882,556.78	5,883.71	1,602.43	880,954.35			
10	7,486.14	880,954.35	5,873.03	1,613.11	879,341.24			
11	7,486.14	879,341.24	5,862.27	1,623.86	877,717.37			
12	7,486.14	877,717.37	5,851.45	1,634.69	876,082.69	70,916.35	18,917.31	89,833.66

ATTACHMENT A

M E M O R A N D U M

TO: Jacob Veaughn
Public Utilities Analyst II
Utilities Division

FROM: Dylan Thayer
Utilities Engineer
Utilities Division

DATE: March 24, 2026

RE: IN THE MATTER OF THE APPLICATION OF INSCRIPTION CANYON WATER COMPANY FOR APPROVAL OF FINANCING. (DOCKET NO. W-21093A-26-0041).

INTRODUCTION

On February 23, 2026, Inscription Canyon Water Company ("Inscription Canyon" or "Company") submitted an application to the Arizona Corporation Commission ("Commission") requesting approval of financing for several capital improvement projects totaling $895,000. These projects include a well replacement, the installation of backup generators at all well sites, the installation of a backflow prevention valve, an expansion of the Company's Supervisory Control and Data Acquisition ("SCADA") systems, and the installation of a tie-in for two of the Company's water systems.

Inscription Canyon is a Class D utility that provides water service to approximately 1,200 customers in Yavapai County. The Company's original Certificate of Convenience & Necessity ("CC&N") was established in Decision No. 59263, dated August 30, 1995. The CC&N was modified to its current area in Decision No. 64667, dated March 25, 2002. The Company's current rates were approved in Commission Decision No. 79037, dated July 14, 2023.

DESCRIPTION OF THE WATER SYSTEMS

The names and Arizona Department of Environmental Quality ("ADEQ") Public Water System ("PWS") Numbers of the water systems operated by Inscription Canyon are listed below.

- Inscription Canyon Ranch - ADEQ PWS No. AZ0413303
- Talking Rock - ADEQ PWS No. AZ0413263

Inscription Canyon Ranch consists of two wells, two storage tanks, and a distribution system with 481 meters in 2024. This system is described in detail in Tables 1 – 4. Talking Rock consists of three wells, two storage tanks, and a distribution system with 542 meters in 2024. This system is described in detail in Tables 5 – 8. Staff is unable to detail each system's booster pumps and mains based on the Company's 2024 Annual Report. The Company's 2024 Annual Report is not updated with accurate information for the two systems. Several plant description tables are incorrect, empty, or duplicated with information that is not applicable for both systems. Staff recommends that the Company ensure that system information for Inscription Canyon Ranch and Talking Rock is corrected and updated in the 2026 Annual Report and in the information provided to Staff in the next rate case.

Table 1: Inscription Canyon Ranch – Wells

Well Name	ADWR* Well ID	Pump Horsepower	Pump Yield (gpm**)	Casing Depth (feet)	Casing Diameter (inches)	Year Drilled	Active?
Well 1	55-542062	75	400	300	8	1994	Yes
Well 2	55-575291	75	400	300	8	1999	Yes
	Total	**150**	**800**				

**Arizona Department of Water Resources*
***gallons per minute*

Table 2: Inscription Canyon Ranch – Storage Tanks

Material	Capacity (gallons)	Quantity	Total Storage
Steel	210,000	1	210,000
Steel	350,000	1	350,000
	Total	**2**	**560,000**

Table 3: Inscription Canyon Ranch – Meters

Size (inches)	Quantity	# > 1,000,000 Gallons	# > Ten Years Old	% > 1,000,000 Gallons	% > Ten Years Old
5/8 x 3/4	416	0	0	0%	0%
1	63	0	0	0%	0%
2	2	0	0	0%	0%
Total	**481**	**0**	**0**		

Table 4: Inscription Canyon Ranch – Fire Hydrants[1]

Size	Quantity
Standard	150
Other	0
Total	**150**

Table 5: Talking Rock – Wells

Well Name	ADWR Well ID	Pump Horsepower	Pump Yield (gpm*)	Casing Depth (feet)	Casing Diameter (inches)	Year Drilled	Active?
Well 1	55-584177	30	325	300	8	2001	Yes
Well 2	55-589659	30	270	275	8	2002	Yes
Well 3	55-589660	30	230	250	8	2001	Yes
	Total	**90**	**825**				

Table 6: Talking Rock – Storage Tanks

Material	Capacity (gallons)	Quantity	Total Storage
Steel	300,000	2	600,000
	Total	**2**	**600,000**

Table 7: Talking Rock – Meters

Size (inches)	Quantity	# > 1,000,000 Gallons	# > Ten Years Old	% > 1,000,000 Gallons	% > Ten Years Old
5/8 x 3/4	348	0	0	0%	0%
1	187	0	0	0%	0%
1 1/2	3	0	0	0%	0%
2	4	1	0	25%	0%
Total	**542**	**1**	**0**		

[1] Based on the Engineering Report in the last rate case.

Table 8: Talking Rock – Fire Hydrants[2]

Size	Quantity
Standard	140
Other	0
Total	**140**

ANALYSIS OF THE WATER SYSTEMS

Water Use

Figures 1 and 2 present the Company's 2024 water consumption data. Inscription Canyon Ranch experienced a high monthly water use of 349 gallons per day per connection ("gpd/c") in July and a low monthly water use of 115 gpd/c in March, for an average annual use of 227 gpd/c. Talking Rock experienced a high monthly water use of 1,143 gallons per day per connection ("gpd/c") in July and a low monthly water use of 92 gpd/c in February, for an average annual use of 639 gpd/c. Talking Rock's average daily demand per connection is especially high during the summer months, but this is to be expected as a significant portion of the system is dedicated to serving the Talking Rock Golf Course.

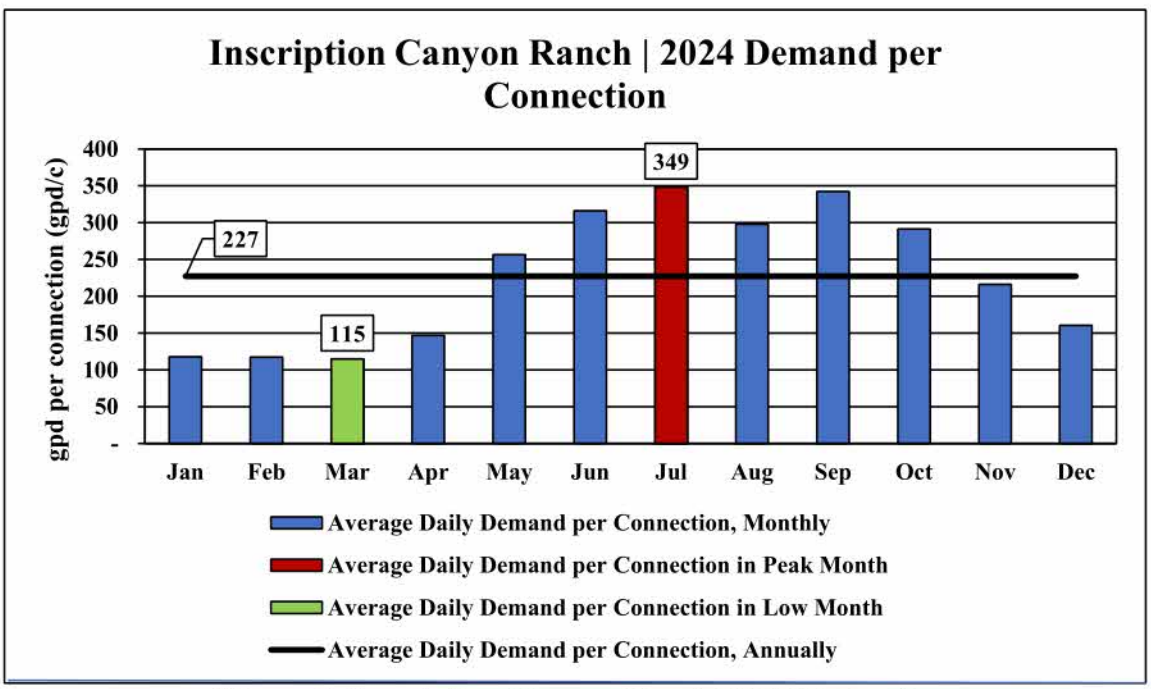

Figure 1: Inscription Canyon Ranch 2024 Water Use

[2] Based on the Engineering Report in the last rate case.

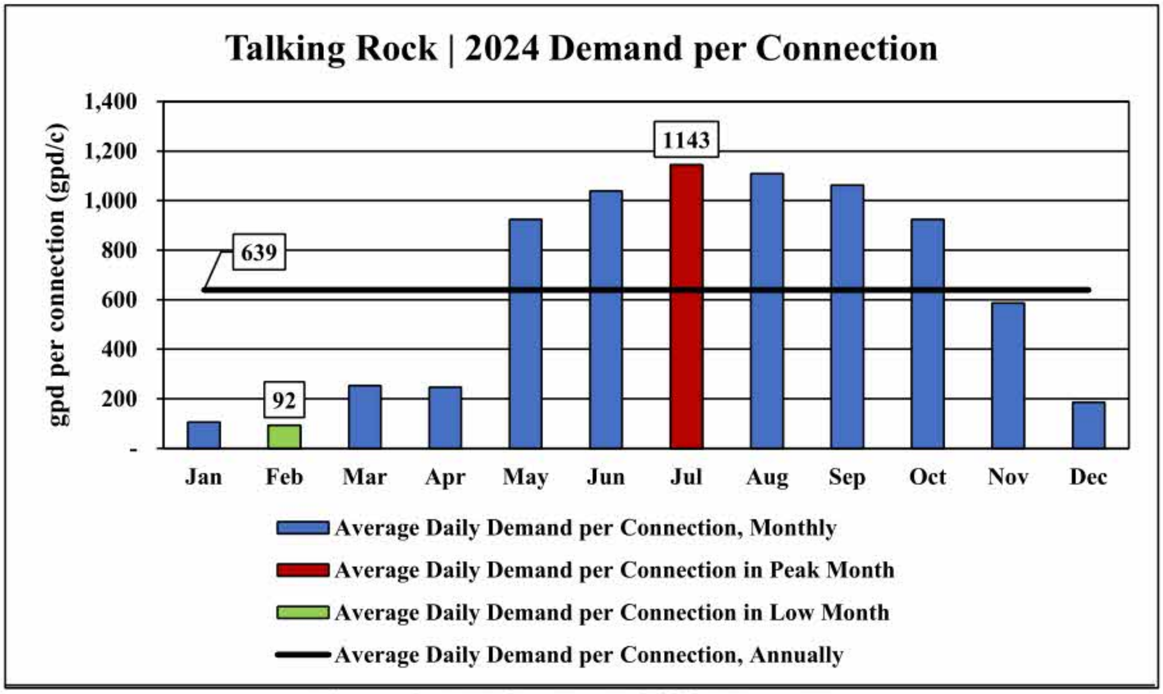

Figure 2: Talking Rock 2024 Water Use

Water Loss

Below are the formulas that Staff uses to calculate water loss:

$$Water\ Loss\ (in\ \%) = \frac{[(Pumped + Purchased) - Authorized\ Use] - Sold}{Pumped + Purchased} \times 100$$

In 2024, Inscription Canyon Ranch reported 43,042,153 gallons pumped from wells, zero gallons purchased from other systems, 4,480,000 gallons of authorized use, and 39,993,300 gallons sold. The resulting water loss calculation is negative and therefore the Company's water use data is unreliable to determine the system's actual water loss. In particular, Staff notes that Inscription Canyon Ranch's annual authorized use is 10.4 percent of water pumped. This percentage is higher than what Staff typically sees and inaccuracies in the Company's authorized use estimations may be contributing to the negative water loss calculation. Staff recommends that the Company evaluate Inscription Canyon Ranch's water use data collection and recording practices to ensure accurate tracking of Inscription Canyon Ranch's water use data for its 2026 Annual Report and the next rate case.

In 2024, Talking Ranch reported 134,050,336 gallons pumped from wells, zero gallons purchased from other systems, 1,290,000 gallons of authorized use, and 130,585,300 gallons sold. The resulting water loss is 2,175,036 gallons, or 2.6 percent of water pumped. Figure 3 shows Talking Rock's 2024 water loss in gallons and percent. In general, Staff recommends that water systems have water loss of no more than 10 percent. Staff concludes that Talking Rock had acceptable water loss in 2024.

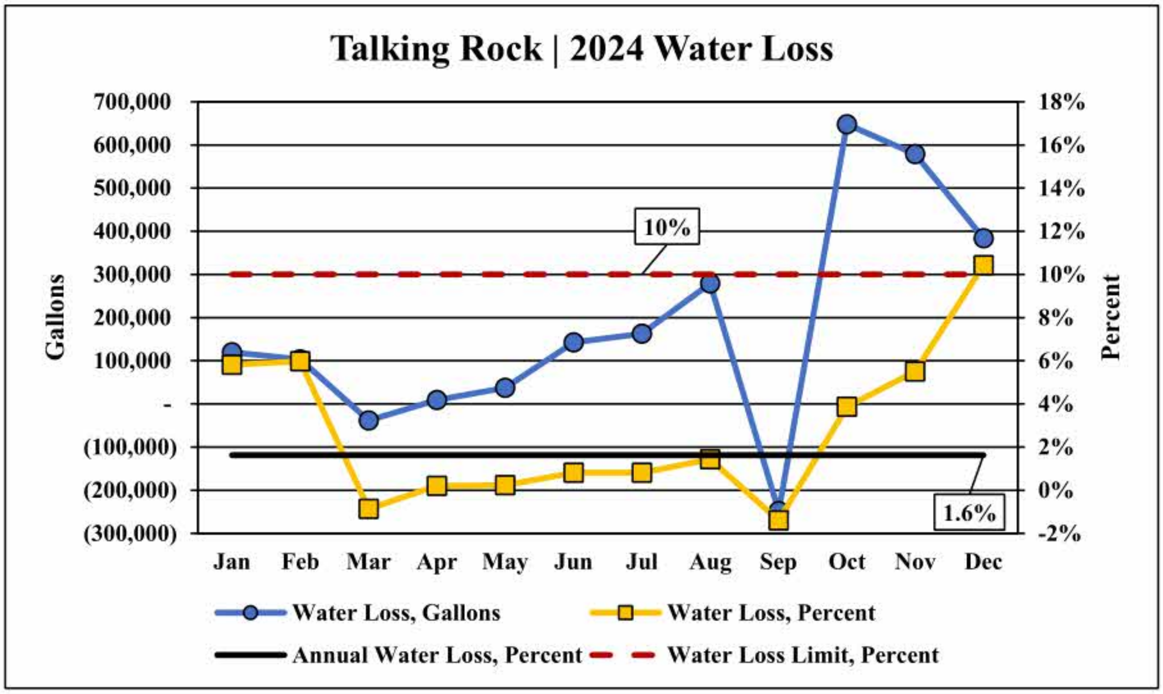

Figure 3: Talking Rock 2024 Water Loss

Storage Capacity

Figures 4 and 5 show each system's average daily demand and required minimum storage capacity[3] compared to its storage capacities.[4]

[3] Arizona Administrative Code ("A.A.C.") R18-5-503 states that water systems must have storage equal to the average daily demand in the peak month. Staff also includes fire flow where applicable in the required minimum storage capacity calculation per local fire district requirements.
[4] A.A.C. R18-5-503 states that water systems with multiple wells may use their total daily production capacity minus the largest producing well to count towards the storage requirement, referred to by Staff as adjusted storage capacity.

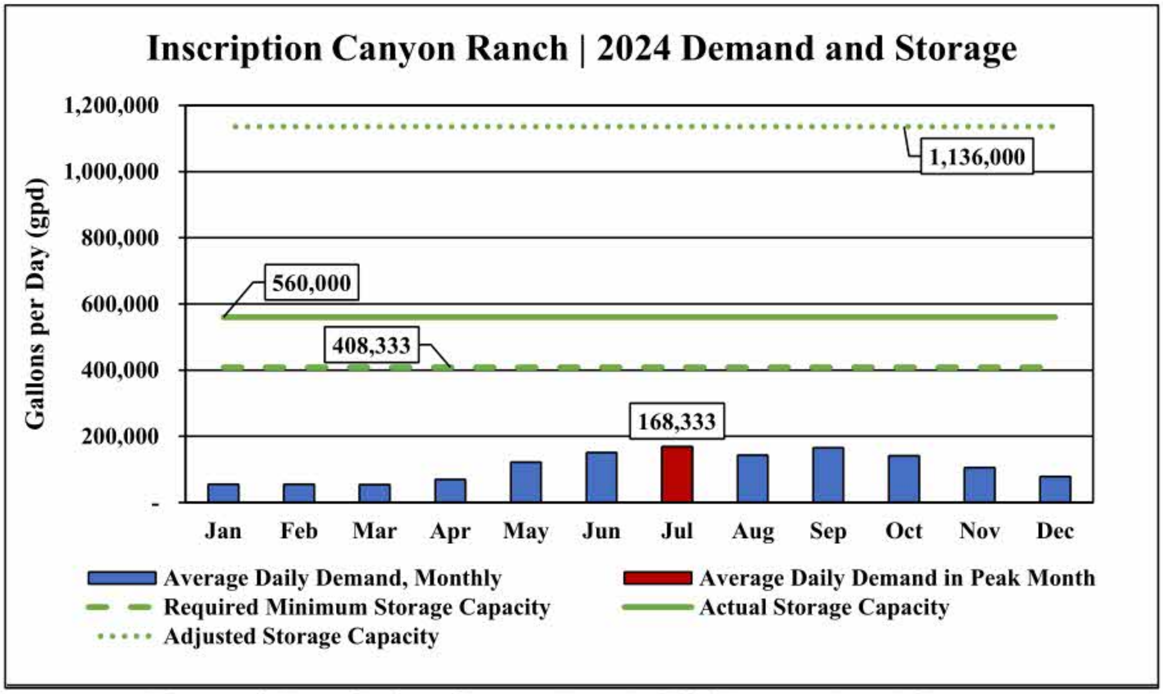

Figure 4: Inscription Canyon Ranch 2024 Demand and Storage

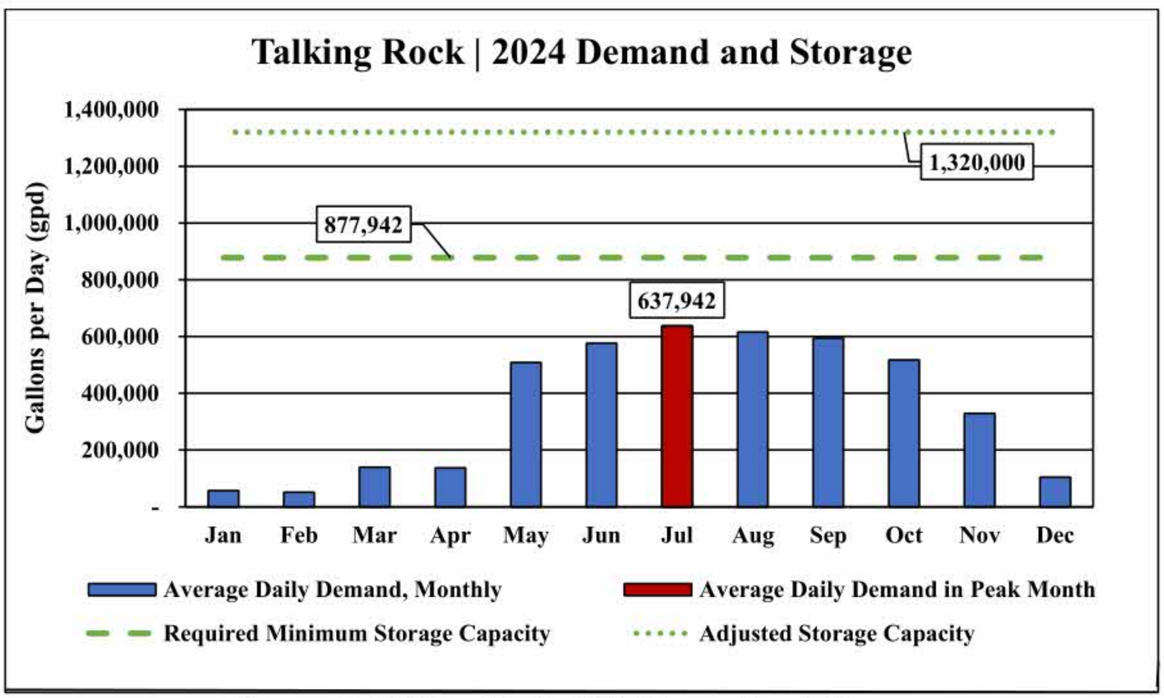

Figure 5: Talking Rock 2024 Demand and Storage

In 2024, both systems have storage capacity above their required minimum storage capacity. Staff concludes that Inscription Canyon Ranch and Talking Rock have sufficient storage capacity to serve their current customer base.

Production Capacity

Figures 6 and 7 show each system's average daily demand and required minimum production capacity[5] compared to its total production capacity and firm production capacity.[6]

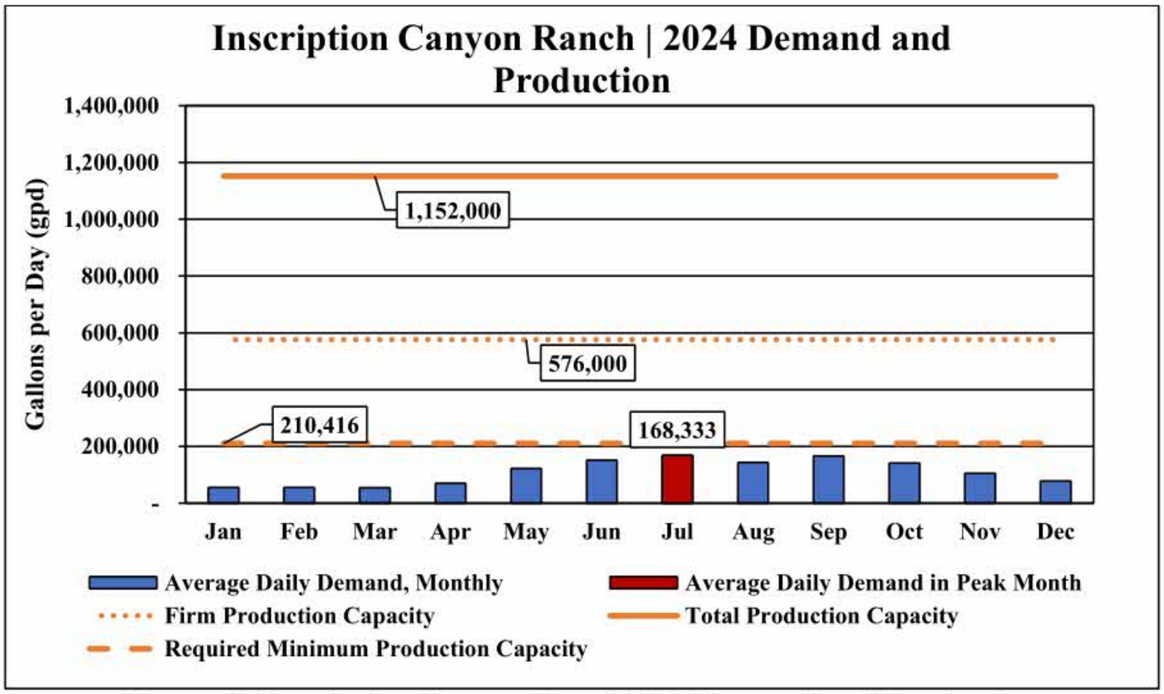

Figure 6: Inscription Canyon Ranch 2024 Demand and Production

[5] The required minimum production capacity was calculated by multiplying the average daily demand for the peak month by a peaking factor of 1.25.
[6] Firm production capacity is defined as the total production capacity minus the largest producing well.

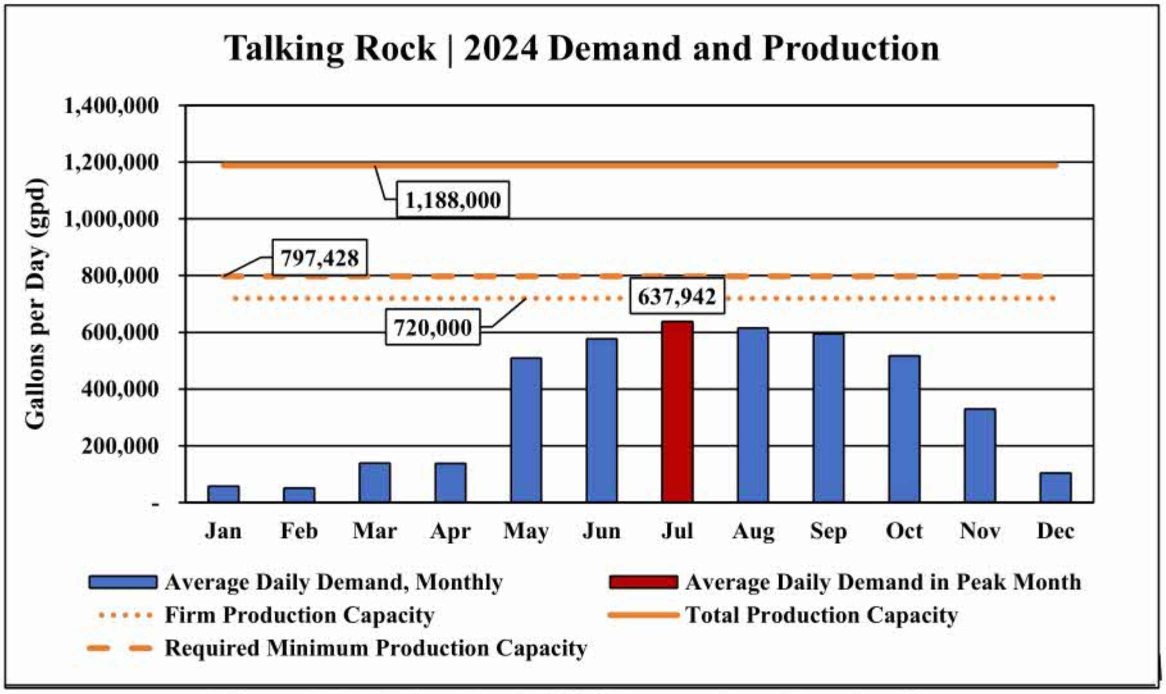

Figure 7: Talking Rock 2024 Demand and Production

In 2024, both systems have a total production capacity above their required minimum production capacity. Staff concludes that Inscription Canyon Ranch and Talking Rock have sufficient production capacity to serve their current customer base.

COMPLIANCE

Arizona Department of Environmental Quality

According to ADEQ Compliance Status Reports completed on March 19, 2026, ADEQ has determined that Inscription Canyon Ranch and Talking Rock are currently delivering water that meets water quality standards required by Code of Federal Regulations Title 40, Part 141 and A.A.C. Title 18, Chapter 4.

Staff concludes that the Inscription Canyon Ranch and Talking Rock are in compliance with ADEQ.

Arizona Department of Water Resources

The Company is not located within an ADWR Active Management Area. According to Water Provider Compliance Reports completed on March 12, 2026, Inscription Canyon Ranch and Talking Rock are compliant with ADWR requirements governing water providers and/or community water systems.

Staff concludes that Inscription Canyon Ranch and Talking Rock are in compliance with ADWR.

Commission

According to a review of the Commission Utilities Division Compliance Database completed on March 17, 2026, Inscription Canyon is in compliance with all trackable Commission requirements.

Staff concludes that Inscription Canyon is in compliance with the Commission.

TARIFFS

Curtailment Tariff

The Company has an approved Curtailment Tariff on file at the Commission that became effective on November 6, 2020. On March 19, 2026, Staff updated the Curtailment Tariff template. Staff recommends that the Company file an updated Curtailment Tariff within 60 days of a Decision in this matter, in a new docket.

Cross-Connection/Backflow Prevention Tariff

The Company has an approved Cross-Connection/Backflow Prevention Tariff on file at the Commission that became effective on November 6, 2020. As of March 2026, Staff has updated the Cross-Connection/Backflow Prevention Tariff template. Staff recommends that the Company file an updated Cross-Connection/Backflow Prevention Tariff within 60 days of a Decision in this matter, in a new docket.

FINANCING REQUEST ANALYSIS

Inscription Canyon has requested Commission approval of financing for several capital improvement projects. These projects include a well replacement, the installation of backup generators at all well sites, the installation of a backflow prevention valve, an expansion of the Company's SCADA systems, and the installation of a tie-in for two of the Company's water systems.

The Company's proposed capital improvement projects along with their anticipated costs are shown in Table 1.

Table 1: Inscription Canyon Proposed Capital Improvement Projects

Proposed Capital Improvement Projects	Company's Proposed Costs
Well 1 replacement for Inscription Canyon Ranch	$375,000
Backup generators for all well sites	200,000
Backflow prevention valve at Talking Rock golf course	80,000
SCADA expansion	100,000
Tie-in between Inscription Canyon Ranch and Talking Rock systems	140,000
Total	**$895,000**

Staff agrees with the Company's justification provided in its application for all proposed projects. Staff concludes that the scope and associated cost of the proposed projects are reasonable to provide safe and reliable service to customers. Therefore, Staff recommends that the Commission approve Inscription Canyon's request to acquire financing in the amount of $895,000 for the proposed capital improvement projects. No ratemaking treatment of these projects is being recommended at this time.

CONCLUSIONS & RECOMMENDATIONS

Staff concludes that:

1. Inscription Canyon Water Company is a Class D water utility company.

2. The Inscription Canyon Ranch water system consists of two wells, two storage tanks, and a distribution system with 481 meters in 2024.

3. The Talking Rock water system consists of three wells, two storage tanks, and a distribution system with 542 meters in 2024.

4. Inscription Canyon Ranch's water loss cannot be determined using the Company's 2024 water use data.

5. Talking Rock had a water loss of approximately 2.6 percent during 2024, which is within the acceptable limit of 10 percent recommended by Staff.

6. Inscription Canyon Ranch and Talking Rock have sufficient storage capacities to serve their current customer bases.

7. Inscription Canyon Ranch and Talking Rock have sufficient production capacities to serve their current customer bases.

8. Inscription Canyon Ranch and Talking Rock are in compliance with ADEQ.

9. Inscription Canyon Ranch and Talking Rock are in compliance with ADWR.

10. Inscription Canyon is in compliance with the Commission.

11. The Company has an approved Curtailment Tariff on file at the Commission that became effective on November 6, 2020.

12. The Company has an approved Cross-Connection/Backflow Prevention Tariff on file at the Commission that became effective on November 6, 2020.

13. The scope and associated cost of the proposed projects are reasonable to provide safe and reliable service to customers.

Staff recommends that:

1. The Company ensure that system information for Inscription Canyon Ranch and Talking Rock are corrected and updated in the 2026 Annual Report and in the information provided to Staff in the next rate case.

2. The Company evaluate Inscription Canyon Ranch's water use data collection and recording practices to ensure accurate tracking of Inscription Canyon Ranch's water use data for its 2026 Annual Report and the next rate case.

3. The Company file an updated Curtailment Tariff within 60 days of a Decision in this matter, in a new docket.

4. The Company file an updated Cross-Connection/Backflow Prevention Tariff within 60 days of a Decision in this matter, in a new docket.

5. The Commission approve Inscription Canyon's request to acquire financing in the amount of $895,000 for the proposed capital improvement projects.