OPEN MEETING AGENDA ITEM

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BEFORE THE ARIZONA CORPORATION COMMISSION

ORIGINAL

IN THE MATTER OF THE APPLICATION OF LITTLE PARK WATER COMPANY, AN ARIZONA CORPORATION, FOR A PERMANENT RATE INCREASE	DOCKET NO: W-02192A-13-0336 COMPANY COMMENTS RE: RECOMMENDED ORDER AND OPINION DATED FEBRUARY 25, 2014

Arizona Corporation Commission
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Little Park Water Company ("Company") hereby files its comments regarding the Recommended Order and Opinion, dated February 25, 2014, which are set forth in Attachment 1.

RESPECTFULLY SUBMITTED this 6th day of March, 2014.

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Little Park Water Company

Nicholas Gudovic

Operations Manager

Little Park Water Company
Exceptions to Recommended Order and Opinion Dated February 25, 2014
Docket No. W-02192A-13-0336

Attachment 1.

Little Park Water Company ("LPW" or the "Company") provides the following comments/exceptions to the Recommended Order and Opinion ("ROO") filed on February 25, 2014 in Docket No. W-02192A-13-0336:

The Company continues to take exception to the revenue requirement and operation margin set forth in the ROO and requests that the Commission adopt an operating margin of at least 17 percent.

LPW finds the ROO's underlying conclusions about revenue erosion and future increases in operating expenses disconcerting. For example, the ROO states on page 8, paragraph 35 "There is no indication that Staff's recommended rates would lead to operating losses." But, the facts do not support this conclusion. There is no dispute to the fact that the Company's test year revenues were nearly $10,000 lower than the authorized revenues in the prior rate case due to reductions in water usage. This is a revenue loss of over 11 percent from the authorized revenues in LPW's prior rate case. The increase in rates, particularly the highest commodity rates in the instant case, will lead to further reductions in water use and further reductions in revenues and ultimately to financial losses. Continued revenue erosion from inverted tier rates is well documented even though utilities already had inverted tier rates from earlier rate cases. See for example, Rio Rico Utilities (Docket No. WS-0267A-12-0196), Litchfield Park Service Company (Docket No. W-01427A-13-0043), and Chaparral City Water Company (Docket No. W-02113A-13-0118). For the ROO to suggest as it does on page 8, lines 11 and 12, "The most dramatic effect of conservation oriented rates would naturally be felt after such a structural change [of implementing inverted tier rates]" is disturbing and dismisses LPW's concerns that revenue erosion will continue to occur and/or that revenue erosion will have a substantial impact on LPW's ability to earn its authorized return and to avoid financial losses. The net income under the ROO revenue requirement is less than $1,700 which does not provide a sufficient earning cushion. At half the revenue erosion that occurred since the last case, or $5,000, LPW will incur a financial loss.

The ROO dismisses LPW's concerns about increases in operating expenses. The Company has agreed to implement three BMP's for which there is no consideration of the implementation and the on-going costs in the current case. The ROO again seems to dismiss the Company's concerns by stating on page 12, lines 4 and 5: "The Company may seek recovery of the costs associated with these tariffs, once they are known and measurable, in its next rate case." Seeking the costs in the next rate case is an after-the-fact exercise. In the intervening years, the Company will have to absorb the costs, further deteriorating its already slim $1,700 net income.

Additionally, other operating expenses are likely to increase simply due to inflation. At an annual inflation factor of just 2 percent, the Company's $1,700 of net income will be nearly wiped out in just one year.[1]

The ROO adds insult to injury and sets a new standard for the adequacy of rates by inferring that it is cash flow rather than the ability of a utility to have a reasonable opportunity to earn its authorized return, maintain its financial credit, and attract capital is the standard. For example, on page 8, lines 15 through 20: "The Company's focus on net income in its objection to Staff's recommend revenue level does not take into account the non-cash expense associated with depreciation expense that is being recovered through rates. Staff's recommended revenue results in an annual cash flow after debt service of $15,723. After accounting for the Company's refunds of Advances in Aid of Construction, the Company would have an unencumbered cash flow of $9,666." While cash flow is an important consideration, LPW would remind the Commission that depreciation expense is a real expense and represents the real loss of plant-in-service value from the use of plant used to provide utility service to its customers. That said, there is a very high likelihood of continued financial losses which are not sustainable. LPW has incurred losses for many years and even after its last rate case and expects to incur further losses under the ROO rates.

In conclusion, the Company does not believe it is in the public interest for a utility to not recover its cost of service and to incur losses which will deteriorate its financial condition and undermine its ability to maintain its credit and to attract capital. The revenue requirement authorized in the ROO is inadequate and will force the Company to file for new rate within a relatively short period of time. The Company requests an operating margin of at least 17 percent.

[1] The Staff recommend operating expenses (exclusive of income taxes) from Schedule PNT-1 is $78,857. At an inflation rate of 2%, operating expense would increase by $1,577 (78,857 x 2%).