

ORIGINAL



0000149005

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: October 18, 2013

RE: STAFF REPORT FOR HOLIDAY ENTERPRISES, INCORPORATED DBA
HOLIDAY WATER COMPANY'S APPLICATIONS FOR A RATE
INCREASE AND FINANCING (DOCKET NOS. W-01896A-13-0238 & W-
01896A-13-239)

Arizona Corporation Commission
DOCKETED

OCT 18 2013

DOCKETED BY	
-------------	--

Attached is the Staff Report for Holiday Enterprises, Inc.'s application for a permanent rate increase and authorization for financing. Staff recommends approval of the rate application using Staff's recommended rates and charges and conditional approval of the Financing application.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before October 28, 2013.

SMO:MJR:red

Originator: Mary J. Rimback

RECEIVED
2013 OCT 18 A 9:02
AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Holiday Enterprises, Inc. dba Holiday Water Company.
Docket Nos. W-01896A-13-0238 & W-01896A-13-0239

Ms. Carol Cowan
Holiday Enterprises, Inc. dba Holiday Water Company
PO Box 1251
Tombstone, Arizona 85638

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**HOLIDAY ENTERPRISES, INC., DBA HOLIDAY WATER COMPANY
DOCKET NOS. W-01896A-13-0238 & W-01896A-13-0239**

**APPLICATION FOR A
PERMANENT RATE INCREASE
AND
FINANCING**

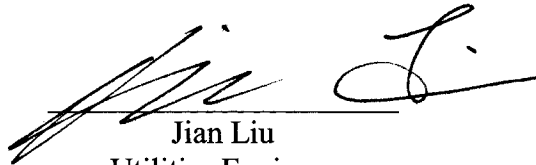
OCTOBER 18, 2013

STAFF ACKNOWLEDGMENT

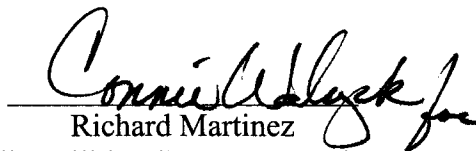
The Staff Report for Holiday Enterprises, Inc. dba Holiday Water Company, Docket Nos. W-01896A-13-0238 and W01896A-13-0239 is the responsibility of Staff members listed below. Mary J. Rimback is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analysis. Jian Liu is responsible for the engineering and technical analysis. Richard Martinez is responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Mary J Rimback
Public Utility Analyst



Jian Liu
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
HOLIDAY ENTERPRISES, INC. DBA HOLIDAY WATER COMPANY
DOCKET NOS. W-01896A-13-0238 AND W-01896A-13-0239

Holiday Enterprises, Inc. dba Holiday Water Company (“Holiday” or “Company”) is a for-profit Arizona “S” Corporation and a Class D public service corporation serving potable water to approximately 153 customers in a development located in the northeast part the City of Tombstone, in Cochise County, Arizona.

On July 3, 2013, the Company filed an application for a permanent rate increase. Concurrent with that filing, Holiday also filed a financing application. A Procedural Order, dated August 23, 2013, consolidated the rate and financing cases.

The Company proposed operating revenue of \$94,222 an increase of \$38,399, or 68.79 percent, over test year revenue of \$55,823 to provide a \$47,247 operating income on its proposed \$28,482 fair value rate base (“FVRB”) which is its original cost rate base (“OCRB”)¹. The Company’s proposed rates result in a 50.14 percent operating margin. The Company proposed rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 4,500 gallons, by \$14.72 or 62.72 percent from \$23.46 to \$38.18.

Staff recommends permanent rates that produce total operating revenue of \$70,485, an increase of \$13,948, or 24.67 percent, over the Staff-adjusted test year revenue of \$56,537, to provide a \$10,573 operating income on the \$43,359 Staff-adjusted FVRB. Staff’s recommended rates result in a 15.00 percent operating margin. Staff’s recommended rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer, with a median usage of 4,500 gallons, by \$0.54 or 2.30 percent from \$23.46 to \$24.00.

The Company’s financing application seeks approval for a \$225,000, 20-year amortizing loan from the Water Infrastructure Finance Authority of Arizona (“WIFA”) to finance plant upgrades.

Cash flow from operations is insufficient to cover debt service on the proposed loan; thus, in addition to Staff’s recommended permanent rates, the Company would need an additional source of funds to meet its obligations. Staff determined that additional surcharge revenues of \$21,436 would be needed to provide the Company \$12,470 of uncommitted cash flow, resulting in a 2.11 Debt Service Coverage (“DSC”). Additional surcharge revenues of \$21,436 combined with Staff’s recommended \$13,948 increase in permanent rates represent a 62.58 percent increase over Staff adjusted test year revenues of \$56,537. The combined increase of \$35,384 (\$21,436 + \$13,948) provides sufficient cash flow to meet obligations. An \$11.43 per 5/8 x 3/4-inch meter equivalent monthly infrastructure surcharge would provide the needed additional \$21,436 under Staff’s assumed loan terms. The infrastructure surcharge combined

¹ The Company miscalculated the rates needed to generate the revenue proposed by the Company. The Company provided alternative commodity rates via email on July 22, 2013 and these are used in the Staff Report. The rates proposed by the Company include the WIFA loan coverage. Staff does not include the WIFA loan in permanent rates but, rather, allows a separate, finite surcharge rate to cover the proposed WIFA loan.

with Staff's recommended permanent rates would increase the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 4,500 gallons by \$11.97, or 51.01 percent, from \$23.46 to \$35.43 (Schedule MJR-5.2).

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Table B of the Engineering Report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$225,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA.
- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2015.
- Granting the Company authorization to charge a WIFA surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.
- Directing the Company to file as a compliance item in this Docket, within 30 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.
- Directing the Company to provide to the Utilities Division, upon Staff request, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein.
- Directing the Company to file in this Docket, upon filing of the loan closing notice, an application requesting to implement an associated surcharge.
- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal payments),

WIFA reserve and incremental income taxes using the current customer count at the time of the loan closing.

- Directing that upon Commission approval of the WIFA surcharge, the Company shall open an interest-bearing account into which all WIFA surcharge funds collected from customers will be deposited.
- Directing that funds from this account shall be used solely to repay the WIFA loan.
- Directing the Company to file its next general rate case no later than June 30, 2018, using a test year ending December 31, 2017.
- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- Authorizing Holiday to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Holiday, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date, in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.
- Staff recommends that the Company monitor its water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 15 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.
- Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The

templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

- Staff recommends that the Company file by May 31, 2015, as a compliance item in this docket, a copy of the Approval of Construction ("AOC") issued by the ADEQ for its two new wells and three storage tanks.

TABLE OF CONTENTS

	PAGE
FACT SHEET.....	1
SUMMARY OF RATE FILING.....	3
COMPANY BACKGROUND.....	3
CONSUMER SERVICES.....	4
COMPLIANCE ISSUES.....	4
ENGINEERING ANALYSIS.....	4
RATE BASE.....	5
OPERATING INCOME.....	6
REVENUE REQUIREMENT.....	7
RATE DESIGN.....	7
FINANCIAL ANALYSIS – LOAN AUTHORIZATION REQUEST.....	8
<i>PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING.....</i>	<i>8</i>
<i>DEBT SERVICE COVERAGE AND CASH FLOW ANALYSIS.....</i>	<i>9</i>
<i>LOAN SURCHARGE.....</i>	<i>9</i>
<i>CAPITAL STRUCTURE.....</i>	<i>10</i>
<i>ENCUMBRANCE.....</i>	<i>10</i>
STAFF RECOMMENDATIONS.....	10

SCHEDULES

SUMMARY OF FILING.....	MJR-1
RATE BASE.....	MJR-2
STATEMENT OF OPERATING INCOME.....	MJR- 3
RATE DESIGN.....	MJR-4
TYPICAL BILL ANALYSIS (WITHOUT SURCHARGE).....	MJR-5.1
TYPICAL BILL ANALYSIS (WITH SURCHARGE).....	MJR-5.2
WIFA LOAN ANALYSIS.....	MJR-6.1
TERMS OF PROPOSED WIFA LOAN.....	MJR-6.2
CASH FLOW ANALYSIS.....	MJR-7
CALCULATION OF WIFA SURCHARGE.....	MJR-8

ATTACHMENT

ENGINEERING REPORT.....	ATTACHMENT A
-------------------------	--------------

FACT SHEET

Company Statistics:

Current Rates: Decision No. 60408 dated October 1, 1997.

Type of Ownership: S-Corporation.

Location: The Company's service area is located in the northeast part of the City of Tombstone, Cochise County, Arizona.

Rates:

Rate Application Docketed: July 3, 2013
 Current Test Year Ended: December 31, 2012
 Application Found Sufficient: July 31, 2013

	<u>Current Rates</u>	<u>Company² Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$15.00	\$27.00	\$15.00
Gallons in Minimum	0	0	0
Commodity Charge: Excess of minimum, charge per 1,000 gallons:			
0 to 3,000 Gallons	\$ 1.88	\$ 2.10	1.75
3,001 to 10,000 Gallons	\$ 1.88	\$ 3.25	2.50
Over 10,001 Gallons	\$ 1.88	\$ 4.20	4.17
Typical residential bill based On median usage of 4,500 gallons	\$23.46	\$38.18	\$24.00

²The Company included coverage of the WIFA loan in proposed rates, Staff does not include the WIFA loan in rates, but rather allows a separate, finite surcharge rate to cover the proposed WIFA loan. The Company proposed rates were provided via email on July 22, 2013.

FACT SHEET (CONT'D)

Customers:

Number of customers in the prior test year (12/31/1996):	116
Number of customers in the current test year (12/31/2012):	153
Current year customers by meter size: 5/8 X 3/4 – inches:	151
Seasonal customers:	zero
Customer notification mailed	July 3, 2013
No. of customer complaints January 1, 2010 through September 5, 2013:	3
Percentage of complaints to customer base:	.019%

SUMMARY OF RATE FILING

The test year results, as adjusted by Staff, for Holiday Enterprises, Incorporated, dba Holiday Water Company ("Holiday" or "Company") show total operating revenue of \$56,537 and operating expenses of \$57,671 resulting in a \$1,134 operating loss, to provide no rate of return on the \$43,359 Staff-adjusted original cost rate base ("OCRB"). Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base ("FVRB") equal to the OCRB.

The Company proposed revenue of \$94,222, is shown on page 6 of the application. The amount requested includes coverage of debt service on a proposed Water Infrastructure Finance Authority of Arizona ("WIFA") loan. The Company's proposed rates, approximate the requested operating revenues of \$94,222. The amount requested produces an increase of \$38,399 or 68.79 percent over test year revenue of \$55,823 to provide a \$47,247 operating income and a 165.88 percent rate of return on its proposed \$28,482 FVRB and OCRB. Since the rate base is too small to produce sufficient revenue at a reasonable rate of return, Staff utilized cash flow to determine the revenue requirement. The Company's proposed rates result in a 50.14 percent operating margin. The Company's proposed rates as corrected on July 22, 2013, would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer, with a median usage of 4,500 gallons, by \$14.72 or 62.72 percent, from \$23.46 to \$38.18.(Schedule MJR-5.1).

Staff recommends permanent rates that produce total operating revenue of \$70,485, an increase of \$13,948 or 24.67 percent, over the Staff-adjusted test year revenue of \$56,537, to provide a \$10,573 operating income and a 24.39 percent rate of return on the \$43,359 Staff-adjusted FVRB. Staff's recommended rates result in a 15.00 percent operating margin. Under Staff's recommended rate design for permanent rates, the typical monthly bill for a 5/8 x 3/4-inch meter customer with a median usage of 4,500 gallons would increase \$0.54, or 2.30 percent, from \$23.46 to \$24.00.

Holiday is a small water provider, which serves a development located in the northeast part of Tombstone in Cochise County, Arizona. During the test year ended December 31, 2012, Holiday provided water to 153 customers. Out of the total, 151 were served by 5/8 X 3/4 inch meters and 2 were served by 1-inch meters.

Holiday's business functions are currently conducted through a management contract with one of the owners. The office is located in the owner's home. The test year reflected salaries and wages to non-owners; this practice is not contemplated going forward.

COMPANY BACKGROUND

Holiday is a for-profit Arizona S-Corporation and a Class D public service corporation serving potable water to approximately 153 customers in the City of Tombstone, Cochise County, Arizona. The certificate of convenience and necessity ("CC&N") for the water system

was granted in Decision No. 35142, dated April 1, 1964. Current rates were established in Decision No. 60408 dated September 26, 1997.

Holiday has a Use Agreement for an emergency interconnect with the City of Tombstone, Arizona. The Agreement is used to keep up with daily demands of the water system. The Company used water from the City of Tombstone two months in the test year (August and September of 2012) at a cost of \$156. Through June 30, 2013, the Company used water from the City of Tombstone 3 months at a cost of \$623.

Holiday filed both its application for a permanent rate increase ("Application") and its financing application on July 3, 2013. A Procedural Order dated August 23, 2013, consolidated the rate and financing cases. Staff deemed the Company's rate application sufficient and notified Holiday by letter on July 31, 2013. The Company mailed a combined rate and financing application Notice to customers on July 3, 2013.

CONSUMER SERVICES

A review of the Consumer Service records showed that for the period January 1, 2010, through September 5, 2013, 3 complaints were filed against the Company:

2011	2 Complaints – Quality of Service Outages
2012	1 Complaint – Quality of Service-Pressure

All complaints have been resolved and closed.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("A.A.C.") R14-2-409(B)(2)

COMPLIANCE ISSUES

The Company has no delinquent compliance items with the Arizona Corporation Commission ("ACC" or "Commission") Utilities Division. The Company is current on its property tax obligations.

The Company has a Certificate of Compliance Letter of Good Standing from the Arizona Department of Revenue as of August 28, 2013.

ENGINEERING ANALYSIS

The Company received a WIFA grant in the amount of \$34,850 (60 percent of the cost) to hire an engineer/contacter to provide technical assistance in addressing issues noticed by the Arizona Department of Environmental Quality ("ADEQ") on September 10, 2012. The Study addresses the noticed issues of water pressure and storage at the utility. Details of Staff's review of the system are presented in the attached Staff Engineering Report.

A private engineering firm completed a study of the Holiday system and recommended construction and improvements to the system estimated at \$225,000. The Company requested authorization for a \$225,000, 20-year amortizing loan from WIFA to fund the recommended construction and improvements to the system.

Staff concludes that the installation of Holiday's proposed construction and improvements is appropriate, and that the \$225,000 is reasonable. However, Staff makes no "used and useful" determination regarding improvements to be funded by the financing for rate base or ratemaking purposes.

Holiday Water has an approved Backflow Prevention tariff on file with the ACC.

The Company's Curtailment tariff will be docketed by October 2013.

RATE BASE

Staff's three rate base adjustments result in a net increase to the Company's proposed rate base by \$14,877 from \$28,482 to \$43,359, as shown in Schedule MJR-2, page 1. Details of Staff's adjustments are explained below.

Plant Adjustment – In adjustment A, Staff increased plant in the amount of \$3,332. The adjustment included changes to conform to the 1996 test year rate case Decision No. 60408 (increase of \$8,130), a decrease in 2008 additions (\$1,229) to conform to supporting documentation, and a decrease for Meters (\$3,569) to remove a Back Flow Device owned by the City of Tombstone. The result in particular plant accounts is as shown in schedule MJR-2, page 2:

- increase Organization \$300
- decrease Land & land rights \$300
- increase Pumping Equipment \$6,535
- increase Storage tanks \$876
- decrease Meters of \$4,079.

Accumulated Depreciation – In adjustment B, Staff decreased Accumulated Depreciation by \$5,935, from \$95,130 to \$89,195, as shown in Schedule MJR-2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 1997-2012 using a ½-year convention for Additions and Retirements, and subtracting accumulated depreciation for recorded plant retirements.

Working Capital – In adjustment C, Staff included a cash working capital allowance of \$5,610 based on the formula method, as shown in Schedule MJR-2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, and purchased power and expenses plus one twenty-fourth of purchased power and water expenses.

OPERATING INCOME

Staff's thirteen operating income adjustments increase the Company's proposed total operating revenues by \$714 from \$55,823 to \$56,537 and increase the total operating expenses by \$10,696, from \$46,975 to \$57,671, as shown in Schedule MJR-3, page 1. Details of Staff's adjustments are discussed below.

Metered Water Revenue – Adjustment A increases Metered Water Revenue by \$714 to match billing determinants calculation.

Salaries and Wages – Adjustment B decreases this account by \$6,146 to remove salaries paid through April 15, 2012 to reflect a change from salaried employees to a management contract to provide services previously provided by salaried employees.

Purchased Water – Adjustment C increases the cost of purchased water by \$852 to reflect increased costs for water purchased from the City of Tombstone.

Repairs and Maintenance – Adjustment D increases the cost by \$2,387 to normalize the cost of repairs and maintenance to the average of four years of repairs and maintenance.

Office Supplies and Expense – Adjustment E increases the cost by \$1,562 to normalize the cost of office supplies and expense to the average of four years of office supplies and expense.

Outside Services – Adjustment F increases this account by \$11,015 to recognize a change from salaried employees to a full year of a Management Contract for services, remove tax preparation services, and annualize Certified Operator costs.

Water Testing – Adjustment G increases water testing expenses by \$359 to reflect Staff's recommended amount of \$1,913. See Engineering Report.

Rents – Adjustment H increases Rents by \$1,000 to allow for Office space.

Rate Case Expense – Adjustment I increases Rate Case Expense by \$333 to allow for Rate Case Expense of \$1,000 normalized over three years.

Depreciation – Adjustment J increases this account by \$2,234 from \$1,249 to \$3,483 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts, as shown in Schedule MJR-3, page 4.

Taxes Other than Income – Adjustment K removes \$470 of payroll taxes to reflect the Company changing from salaried employees to a Management Contract.

Property Tax – Adjustment L decreases this account by \$2,267 to reflect Holiday’s application of the modified version of the Arizona Department of Revenue’s (“ADOR”) property tax methodology which the Commission has consistently adopted.

Income Taxes – Adjustment M decreases this account by \$163 to allow for Staff calculated income taxes on the test year operating loss.

REVENUE REQUIREMENT

Staff recommends total operating revenue from permanent rates of \$70,485, an increase of \$13,948, or 24.67 percent, over the Staff-adjusted test year revenue of \$56,537. Staff’s recommended revenue provides an operating income of \$10,573 and a 15.00 percent operating margin as shown in Schedule MJR-1. Staff did not derive the revenue requirement by applying a rate of return on rate base because the Company’s extremely low rate base did not produce sufficient revenues for the Company’s operating needs. Staff’s recommended revenue is sufficient to cover operating and maintenance expense and to manage contingencies, but is not sufficient to provide debt service on the Company’s proposed loan (see finance discussion below).

RATE DESIGN

Schedule MJR-4 presents a complete list of the Company’s present, proposed, and Staff’s recommended rates and charges.

The present rate structure includes a monthly minimum charge that increases by meter size and a \$1.88 per 1,000 gallons commodity rate for all gallons and for all meter sizes. No gallons are included in the monthly minimum charge for any meter size.

The Company proposes a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all meter sizes with break-over points at 3,000 gallons and 10,000 gallons for all meter sizes. The proposed rates represent increases over present rates to both the monthly minimum charges and the commodity rates for all meter sizes. As proposed by the Company, the monthly minimum charge for a 5/8 x 3/4-inch meter would increase from \$15.00 to \$27.00. The Company’s proposed rates would increase the typical residential bill, with a median usage of 4,500 gallons, by \$14.72 (62.72 percent), from \$23.46 to \$38.18, (Schedule MJR-5.1).

Staff recommends a rate structure that includes a monthly minimum charge that increases by meter size and an inverted three-tier commodity rate for all 5/8 x 3/4-inch and 3/4-inch meters, and a two-tier commodity rate for larger meters. Staff recommends break-over points that increase by meter size. Staff recommends a greater ratio among the monthly minimum charges for the various meter sizes and among the commodity tier rates than those proposed by the Company. Under Staff’s recommended rate design for permanent rates the typical monthly

residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 4,500 gallons would increase by \$0.54, or 2.30 percent, from \$23.46 to \$24.00 (Schedule MJR-5.1).

The Company proposes increases to all its service line and meter installation charges. Staff recommends approval of increases to the service line and meter installation charges, as shown in Schedule MJR-4, page 2.

The Company proposes increases of \$20 each to Establishment (\$40); Reconnection – Delinquent (\$40); Meter test (\$45); and a \$13 increase to Meter Re-read (\$25); a \$15 increase to Non-Sufficient Funds (“NSF”) checks (\$25) and addition of an After Hours Service Charge (\$50). Staff recommends smaller increases based on typical service charges in Arizona

Staff recommends removal of the Establishment (After Hours) service charge. This charge is not necessary as Staff is recommending one charge for Establishment and a separate charge for all After Hours Services. Staff recommends the addition of an after-hour service charge of \$40. An after-hour service charge is appropriate when it is at the customer’s request. Such a charge compensates the utility for additional expenses incurred when providing after-hours service. This charge is in addition to the charge for any utility service provided after hours at the customer’s request. Staff recommends inserting the words (if correct) after Meter Re-read and Meter test tariffs. Staff’s recommended water system service charges are shown in Schedule MJR-4, page 2.

FINANCIAL ANALYSIS – LOAN AUTHORIZATION REQUEST

Purpose and Description of the Requested Financing

As mentioned previously, Holiday received a WIFA grant for \$34,850 (60 percent of costs) to hire an engineer/contractor to provide technical assistance in addressing issues noticed by ADEQ. Holiday subsequently applied to WIFA for a \$225,000 loan to fund the cost of water pumping, storage and pressure issues. The recommended improvements include:

Drill a new well and install a 5,000-gallon storage tank	\$112,000
Purchase a private well, install booster station and two 10,000 gallon storage tanks	\$ 63,000
Purchase used John Deere backhoe and install two pressure sustaining valves	\$ 15,000
Contingency	\$ 35,000
Total	\$225,000

Staff found the plan to be appropriate and estimated the cost at \$225,000. No “used and useful” determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

WIFA advised that the Company would receive a typical loan based on the prime rate (currently 3.25 percent) plus 2.00 percent and a 75 percent subsidy rate, or an interest rate of 3.94 percent.³ The typical WIFA loan is for 20 years with a 19.5-year amortization (interest only for the first six months). As shown in Schedule MJR-6.2, the annual debt service (principal and interest) on a \$225,000, 20-year loan at 3.94 percent per annum is \$16,272. WIFA also requires funding of a Reserve Fund or Replacement Fund equal to 20 percent of the debt service, in this instance \$3,255. Thus, the total annual cash requirement for this loan is \$19,527 plus, incremental income taxes of \$1,909...

Debt Service Coverage and Cash Flow Analysis

Staff calculated a pro forma 0.98 Debt Service Coverage (“DSC”) using Staff’s recommended permanent rates, as shown in Schedule MJR-6.1. This pro forma DSC shows that cash flow from operations is insufficient to cover debt service on the proposed loan; accordingly, the Company would need a source of funds other than that provided by permanent rates to meet all obligations associated with the proposed loan. Staff prepared the cash flow analysis presented in Schedule MJR-7 and determined that the Company would need additional funds of \$19,528, representing a 34.54 percent increase over test year revenues of \$56,537, to meet all of its obligations including debt service on the proposed loan and the WIFA “Debt Service Reserve Fund” and to provide uncommitted cash flow of \$12,470 for contingencies. As shown in Schedule MJR-6.1, Staff’s recommended \$70,485 permanent revenue combined with \$19,528 of infrastructure surcharge revenue provides a 2.11 DSC. WIFA’s minimum DSC requirement is 1.20.

Loan Surcharge

An \$11.43 per month 5/8 x 3/4-inch meter equivalent⁴ infrastructure surcharge would provide the \$19,528 plus incremental income taxes of \$1,919 of additional funds needed under Staff’s assumed loan terms. The infrastructure surcharge combined with Staff’s recommended permanent rates would increase the typical monthly residential bill for a 5/8 x 3/4-inch meter customer with a median usage of 4,500 gallons by \$11.97, or 51.01 percent, from \$23.46 to \$35.43 (Schedule MJR-5.2). Since the first payment on a WIFA loan becomes due six months after closing, a time window is available for the Company to obtain the loan, submit the loan documents to the Commission and obtain authorization to implement a loan surcharge after the final terms of the loan become known.

³ $(3.25\% + 2.00\%) \times .75 = 3.94\%$.

⁴ See Schedule MJR-8 for the infrastructure surcharge of other meter sizes.

Capital Structure

As reported in its rate application, Holiday's capital structure as of December 31, 2012, consisted of 0.0 percent short-term debt, 0.0 percent long-term debt, and 100.0 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$225,000, 19.5-year amortizing loan at 3.94 percent per annum ((prime rate, 3.25 percent + 2.00 percent) x subsidy rate, 0.75), and it is composed of 2.7 percent short-term debt, 78.3 percent long-term debt and 18.9 percent equity.

Encumbrance

A.A.C. R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. Arizona Revised Statutes ("A.R.S.") § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service; thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

STAFF RECOMMENDATIONS

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule MJR-4.
- In addition to collection of its regular rate and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax, per Arizona Administrative Code ("A.A.C.") Rule 14-2-409(D)(5).
- Directing the Company to docket with the Commission a schedule of its approved rates and charges within 30 days after the date the Decision in this matter is issued.
- Authorizing the depreciation rates shown in Table B of the Engineering Report.
- Granting the Company authorization to incur an 18- to 22-year amortizing loan in an amount not to exceed \$225,000 pursuant to a loan agreement with WIFA and at an interest rate not to exceed that available from WIFA.
- Establishing an expiration date for any unused authorization to incur debt granted in this proceeding at December 31, 2015.

- Granting the Company authorization to charge a WIFA surcharge to become effective at a date and in a manner as subsequently authorized by the Commission.
- Directing the Company to file as a compliance item in this Docket, within 30 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.
- Directing the Company to provide to the Utilities Division, upon Staff request, a copy of any WIFA loan documents executed pursuant to the authorizations granted herein.
- Directing the Company to file in this Docket, upon filing of the loan closing notice, an application requesting to implement an associated surcharge.
- Directing Staff to calculate the appropriate WIFA surcharge and prepare and file a recommended order for Commission consideration within 30 days of the filing of a surcharge implementation request by the Company and to calculate the surcharge based on the actual loan debt service (interest and principal payments), WIFA reserve and incremental income taxes using the current customer count at the time of the loan closing.
- Directing that upon Commission approval of the WIFA surcharge, the Company shall open an interest-bearing account into which all WIFA surcharge funds collected from customers will be deposited.
- Directing that funds from this account shall be used solely to repay the WIFA loan.
- Directing the Company to file its next general rate case no later than June 30, 2018, using a test year ending December 31, 2017.
- Authorizing the Company to pledge its assets in the State of Arizona pursuant to Arizona Revised Statutes § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan.
- Authorizing Holiday to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.
- Directing Holiday, as a compliance item in this case, to notify its customers of the authorized rates and charges approved in this proceeding, and their effective date,

in a form acceptable to Staff, by means of an insert in its next regular scheduled billing and to file copies with Docket Control within 10 days of the date notice is sent to customers.

- Staff recommends that the Company monitor its water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 15 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.
- Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
- Staff recommends that the Company file by May 31, 2015, as a compliance item in this docket, a copy of the Approval of Construction ("AOC") issued by the ADEQ for its two new wells and three storage tanks.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed ¹	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$55,101	\$55,815	\$93,500	\$69,763
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	722	722	722	722
Total Operating Revenue	\$55,823	\$56,537	\$94,222	\$70,485
Operating Expenses:				
Operation and Maintenance	\$40,740	\$52,102	\$40,740	\$52,102
Depreciation	1,249	3,483	1,249	3,483
Taxes Other than Property and Income	470	0	470	0
Property Taxes	4,516	2,249	4,516	2,804
Income Tax	0	(163)	0	1,523
Total Operating Expense	\$46,975	\$57,671	\$46,975	\$59,912
Operating Income/(Loss)	\$8,848	(\$1,134)	\$47,247	\$10,573
Rate Base	\$28,482	\$43,359	\$28,482	\$43,359
Rate of Return - On Rate Base	31.07%	N/M	165.88%	24.39%
² Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
³ Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
⁴ Operating Margin	15.85%	N/M	50.14%	15.00%

NOTES:

- ¹ Company proposed rates which included an amount for payment on a WIFA Loan in rates. Staff proposes rates without a WIFA Loan. Separate, surcharge rates are proposed to allow for the WIFA Loan Debt Service..
- ² The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
- ³ The Debt Service Coverage Ratio represents the ratio of cash available for debt servicing to interest and principal.
- ⁴ Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			Staff
	Company	Adjustment		
Plant in Service	\$130,466	\$3,332	A	\$133,798
Less:				
Accum. Depreciation	95,130	(5,935)	B	89,195
Net Plant	\$35,336	\$9,267		\$44,603
Less:				
Plant Advances	\$0	\$0		\$0
Customer Security Deposits	3,848	0		3,848
Total Advances	\$3,848	\$0		\$3,848
Contributions Gross	\$10,989	\$0		\$10,989
Less:				
Amortization of CIAC	7,983	0		7,983
Net CIAC	\$3,006	\$0		\$3,006
Total Deductions	\$6,854	\$0		\$6,854
Plus:				
1/24 Power	\$0	\$451	C	\$451
1/8 Operation & Maint.	0	5,159	C	5,159
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$5,610		\$5,610
Rate Base	\$28,482	\$14,877		\$43,359

Explanation of Adjustment:

- A See Schedule MJR-2, Page 2 PLANT ADJUSTMENTS
- B See Schedule MJR-2, Page 3 ACCUMULATED DEPRECIATION ADJUSTMENTS
- C Holiday did not request a cash working capital allowance. Staff calculated a cash working capital allowance using Staff adjusted operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$300 ¹	\$300
302 Franchises	370	0	370
303 Land & Land Rights	750	(300) ^{1,2}	450
304 Structures & Improvements	2,252	0 ^{1,2}	2,252
307 Wells & Springs	4,435	0	4,435
310 Power Generated Equipment	0	0	0
311 Pumping Equipment	18,385	6,535 ¹	24,920
320.1 Water Treatment Equipment	0	0	0
320.2 Solution Chemical Feeders	0	0	0
330 Distribution Reservoirs and Standpipe	0	0	0
330.1 Storage Tanks	8,766	876 ¹	9,642
330.2 Pressure Tanks	3,040	0	3,040
331 Transmission & Distribution Mains	64,100	0	64,100
333 Services	6,082	0	6,082
334 Meters & Meter Installations	22,286	(4,079) ^{1,3}	18,207
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
340.1 Computers & Software	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
TOTALS	\$130,466	\$3,332	\$133,798

Explanation of Adjustment A:

	Company	Staff	Adjustment	Subtotal
301 Organization				
¹ Decision No. 60408 Beginning Balance	\$ -	\$ 300	\$ 300	<u>\$ 300</u>
303 Land & Land Rights				
¹ Decision No. 60408 Beginning Balance	\$ -	\$ 450	\$ 450	<u>\$ 450</u>
² To Conform with supporting documents	\$ 750	\$ -	\$ (750)	<u>\$ (300)</u>
304 Structures & Improvements				
¹ Decision No. 60408 Beginning Balance	\$ -	\$ 479	\$ 479	<u>\$ 479</u>
² To Conform with supporting documents	\$ 479	\$ -	\$ (479)	<u>\$ -</u>
311 Pumping Equipment				
¹ Decision No. 60408 Beginning Balance	\$ 577	\$ 7,112	\$ 6,535	<u>\$ 6,535</u>
330 Storage Tanks				
¹ Decision No. 60408 Beginning Balance	\$ 5,722	\$ 6,598	\$ 876	<u>\$ 876</u>
334 Meters				
¹ Decision No. 60408 Beginning Balance	\$ 4,798	\$ 4,288	\$ (510)	<u>\$ (510)</u>
³ City of Tombstone Backflow	\$ 3,569	\$ -	\$ (3,569)	<u>\$ (4,079)</u>
Subtotal Plant Adjustments				\$ 3,332
¹ To Conform to Decision 60408 Beginning Balance			\$ 8,130	
² To Conform to supporting documents			\$ (1,229)	
³ Remove City of Tombstone Backflow			\$ (3,569)	
Total Adjustments to Plant				\$ 3,332

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$95,130
Accumulated Depreciation - Per Staff	<u>89,195</u>
Total Adjustment	<u><u>(\$5,935)</u></u>

Explanation of Adjustment:

- B - To reflect plant adjustments, application of the authorized depreciatio rates and removal of depreciation accrued on fully depreciated plant and to recognize retirements.

	<u>Accumulated</u>	Depreciation	Per	Per	
	<u>Depreciation Balances</u>	Rates Decision	Company	Staff	
		No. 60408			
301	Organization	n/a	-	-	
302	Franchises	n/a	370	-	(370)
303	Land & Land Rights	n/a	-	-	
304	Structures & Improvements	5.00%	582	612	30
307	Wells & Springs	5.00%	4,435	4,256	(180)
310	Power Generation Equipment		-	-	
311	Pumping Equipment	5.00%	5,346	(620)	(5,966)
320	Water Treatment Equipment	5.00%	-	-	
320.1	Water Treatment Plant		-	-	
320.2	Solution Chemical Feeders		-	-	
330	Dist. Reservoirs & Standpipes	5.00%	-	-	
330.1	Storage Tanks		5,938	6,826	888
330.2	Pressure Tanks		2,128	2,204	76
331	Transmission & Distribution M.	5.00%	60,687	61,521	834
333	Services	5.00%	4,437	4,594	157
334	Meters & Meter Installation	5.00%	11,207	11,112	(95)
335	Hydrants	5.00%	-	-	
336	Backflow Prevention Devices	0.00%	-	-	
339	Other Plant & Misc Equipment	0.00%	-	-	
340	Office Furniture & Equipment	25.00%	-	(270)	(270)
340.1	Computers & Software	0.00%	-	-	
341	Transportation Equipment	20.00%	-	(1,040)	(1,040)
342	Stores Equipment	0.00%	-	-	
343	Tools, Shop, & Garage Equipt	5.00%	-	-	
344	Laboratory Equipment	0.00%	-	-	
345	Power Operated Equipment	5.00%	-	-	
346	Communication Equipment	5.00%	-	-	
347	Miscellaneous Equipment		-	-	
309	Flowhead Meters		-	-	
348	Other Tangible Plant	5.00%		0	
			<u>\$ 95,130</u>	<u>\$ 89,195</u>	<u>\$ (5,935)</u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments		Staff Adjusted
Revenues:				
461 Metered Water Revenue	\$55,101	\$714 A		\$55,815
460 Unmetered Water Revenue	0	0		0
474 Other Water Revenues	722	0		722
Total Operating Revenue	\$55,823	\$714		\$56,537
Operating Expenses:				
601 Salaries and Wages	\$6,146	(\$6,146) B		\$0
610 Purchased Water	148	\$852 C		1,000
615 Purchased Power	9,830	\$0		9,830
618 Chemicals	0	\$0		0
620 Repairs and Maintenance	2,801	\$2,387 D		5,188
621 Office Supplies & Expense	1,058	\$1,562 E		2,620
630 Outside Services	13,030	\$11,015 F		24,045
635 Water Testing	1,554	\$359 G		1,913
641 Rents	2,552	\$1,000 H		3,552
650 Transportation Expenses	2,476	\$0		2,476
657 Insurance - General Liability	0	\$0		0
659 Insurance - Health and Life	0	\$0		0
666 Rate Case Expense	0	\$333 I		333
675 Miscellaneous Expense	1,145	\$0		1,145
403 Depreciation Expense	1,249	\$2,234 J		3,483
408 Taxes Other Than Income	470	(\$470) K		0
408.11 Property Taxes	4,516	(\$2,267) L		2,249
409 Income Tax	0	(\$163) M		(163)
Total Operating Expenses	\$46,975	\$10,696		\$57,671
OPERATING INCOME/(LOSS)	\$8,848	(\$9,982)		(\$1,134)

STAFF ADJUSTMENTS

<p>A - METERED WATER REVENUE - Per Company</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">Billing Determinants generate higher metered revenue than Company Application</p>	<p>\$55,101</p> <p>55,815</p> <hr style="border: 0.5px solid black;"/>	<p>\$714</p> <hr style="border: 0.5px solid black;"/>
<p>B - SALARIES AND WAGES - Per Company</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">Remove Salaries and Wages from Test Year Replaced with Management Contract</p>	<p>\$6,146</p> <p>0</p> <hr style="border: 0.5px solid black;"/>	<p>(\$6,146)</p> <hr style="border: 0.5px solid black;"/>
<p>C - PURCHASED WATER - Per Company</p> <p style="padding-left: 40px;">Update amount Five Months @ \$200/mos DR 3.2</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">Water Purchased from City of Tombstone</p>	<p>148</p> <p>1,000</p> <hr style="border: 0.5px solid black;"/>	<p>\$852</p> <hr style="border: 0.5px solid black;"/>
<p>D - REPAIRS AND MAINTENANCE - Per Company</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">Normalize Repair and Maintenance 4-years average 2008-2011</p>	<p>\$2,801</p> <p>5,188</p> <hr style="border: 0.5px solid black;"/>	<p>\$2,387</p> <hr style="border: 0.5px solid black;"/>
<p>E - OFFICE SUPPLIES AND EXPENSES - Per Company</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">Normalize Office Supplies and Expenses 4-years average 2008-2011</p>	<p>\$1,058</p> <p>2,620</p> <hr style="border: 0.5px solid black;"/>	<p>\$1,562</p> <hr style="border: 0.5px solid black;"/>
<p>F - OUTSIDE SERVICES - Per Company</p> <p style="padding-left: 40px;">Annualize Mgmt Fee (\$18,000-\$4,350)</p> <p style="padding-left: 40px;">Remove Tax Preparation</p> <p style="padding-left: 40px;">Annualize Certified Operator</p> <p style="padding-left: 40px;">Per Staff</p>	<p>\$13,030</p> <p>13,650</p> <p>(2,818)</p> <p>183</p> <p>\$ 24,045</p> <hr style="border: 0.5px solid black;"/>	<p>\$11,015</p> <hr style="border: 0.5px solid black;"/>
<p>G - WATER TESTING - Per Company</p> <p style="padding-left: 40px;">Per Staff</p> <p style="padding-left: 40px;">To recognize the average on-going water testing expenses.</p>	<p>\$1,554</p> <p>1,913</p> <hr style="border: 0.5px solid black;"/>	<p>\$359</p> <hr style="border: 0.5px solid black;"/>

STAFF ADJUSTMENTS (Cont.)

H - RENT - per Company	2,552	
Add Office Rent	1,000	
Per Staff	3,552	<u>\$1,000</u>
To Recognize Management use of home office.		
I - REGULATORY RATE CASE EXPENSE - Per Company	\$0	
Per Staff	333	<u>\$333</u>
To recognize rate case.		
J - DEPRECIATION - Per Company	\$1,249	
Per Staff	3,483	<u>\$2,234</u>
To reflect application of Staff's depreciation rates to Staff's depreciable plant balances by account.		
K - TAXES OTHER THAN INCOME - Per Company	\$470	
Per Staff	0	<u>(\$470)</u>
To remove Employee payroll taxes		
L - PROPERTY TAX - Per Company	\$4,516	
Per Staff	2,249	<u>(\$2,267)</u>
To reflect the most recent property tax bill.		
M - INCOME TAXES - per Company	\$0	
Per Staff	(163)	<u>(\$163)</u>
To reflect allowance for Income taxes. Staff recommended base rates include \$1,351 for income taxes. Staff recommended rates including surcharge include \$1,847 for income taxes.		

Holiday Enterprises, Inc. dba Holiday Water Company

Docket Nos. W-01896A-13-0238 & W-01896A-13-0239
 Test Year Ended December 31, 2012

OPERATING INCOME ADJUSTMENT D - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED	[D]	[E]	[F]
1	Depreciation Expense	\$ 1,249	\$ 2,234	\$ 3,483			
Line No.	ACCT NO. DESCRIPTION	Company Proposed PLANT IN SERVICE BALANCE	STAFF PLANT BALANCE	Fully Depreciated Plant	STAFF DEPR. PLANT BALANCE	STAFF RECOMMENDED RATE	STAFF RECOMMENDED EXPENSE
1	Plant In Service						
2	301 Organization	\$ -	300		\$ 300	0.00%	\$ -
3	302 Franchises	370	370		370	0.00%	-
4	303 Land & Land Rights	750	450		450	0.00%	-
5	304 Structures & Improvements	2,252	2,252	479	1,773	3.33%	59
6	307 Wells & Springs	4,435	4,435	4,435	-	3.33%	-
7	310 Power Generating Equipment	-	-	-	-	5.00%	-
8	311 Pumping Equipment	18,385	24,920	3,885	21,035	12.50%	2,629
9	320.1 Water Treatment Plants	-	-	-	-	3.33%	-
10	320.2 Solution Chemical Feeders	-	-	-	-	20.00%	-
11	330 Dist. Reservoirs & Standpipes	-	-	-	-	-	-
12	330.1 Storage Tanks	8,766	9,642	6,598	3,044	2.22%	68
13	330.2 Pressure Tanks	3,040	3,040	-	3,040	5.00%	152
14	331 Transmission & Distribution Mains	64,100	64,100	54,519	9,581	2.00%	192
15	333 Services	6,082	6,082	3,340	2,742	3.33%	91
16	334 Meters & Meter Installations	22,286	18,207	4,289	13,918	8.33%	1,159
17	335 Hydrants	-	-	-	-	2.00%	-
18	336 Backflow Prevention Devices	-	-	-	-	6.67%	-
19	339 Other Plant and Misc. Equipment	-	-	-	-	6.67%	-
20	340 Office Furniture & Equipment	-	-	-	-	6.67%	-
21	341 Transportation Equipment	-	-	-	-	20.00%	-
22	343 Tools Shop & Garage Equipment	-	-	-	-	5.00%	-
23	344 Laboratory Equipment	-	-	-	-	10.00%	-
24	345 Power Operated Equipment	-	-	-	-	5.00%	-
25	346 Communication Equipment	-	-	-	-	10.00%	-
26	347 Miscellaneous Equipment	-	-	-	-	10.00%	-
27	348 Other Tangible Plant	-	-	-	-	0.00%	-
28		-	-	-	-	-	-
29		-	-	-	-	-	-
30	Subtotal General	\$ 130,466	\$ 133,798	\$ 77,545	\$ 56,253		\$ 4,350
31	Less: Non-depreciable Account(s)	1,120	1,120		1,120		
32	Depreciable Plant (L29-L30)	\$ 129,346	\$ 132,678		\$ 55,133		
33							
34	Contributions-in-Aid-of-Construction (CIAC)					\$ 10,989	
35	Weighted Average Depreciation/Amortization Rate					7.8905%	
36	Less: Amortization of CIAC (L32 x L33)						\$ 867
37	Depreciation Expense - STAFF						\$ 3,483
38							
39	Pro Forma Depreciation Expense Calculation						
40							
41	Plant in Service	\$ 133,798					
42	Less: Non-depreciable plant	1,120					
43	Fully depreciated plant	77,545					
44	Depreciable Plant	\$ 55,133					
45	Times: Staff weighted average depreciation rate	7.8905%					
46	Depreciation expense before amortization of CIAC	4,350					
47	Less: Amortization of CIAC	867					
48	Test Year Depreciation - Staff	3,483					
49	Depreciation expense - Company	1,249					
50	Staff recommended adjustment	\$ 2,234					

OPERATING INCOME ADJUSTMENT H - PROPERTY TAXES S-CORP

LINE NO.	Property Tax Calculation	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED	[C] STAFF W/SURCHARGE
1	Staff Adjusted Test Year Revenues - 2012	\$ 56,537	\$ 70,485	\$ 90,013
2	Weight Factor	2	2	2
3	Subtotal (Line 1 * Line 2)	\$ 113,073	\$ 140,971	180,027
4a	Staff Adjusted Test Year Revenues - 2012	56,537		
4b	Staff Recommended Revenue, Per Schedule MJR-1		70,485	90,013
5	Subtotal (Line 4 + Line 5)	\$ 169,610	\$ 211,456	270,040
6	Number of Years	3	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 56,537	\$ 70,485	90,013
8	Department of Revenue Multiplier	2	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 113,073	\$ 140,971	180,027
10	Plus: 10% of CWIP -		-	-
11	Less: Net Book Value of Licensed Vehicles		-	-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 113,073	\$ 140,971	180,027
13	Assessment Ratio	19.0%	19.0%	19.0%
14	Assessment Value (Line 12 * Line 13)	21,484	\$ 26,784	34,205
15	Composite Property Tax Rate (Company Property Tax + Assessment Value)	10.4683%	10.4683%	10.4683%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 2,249		
17	Company Proposed Property Tax	4,516		
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (2,267)		
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 2,804	\$ 3,581
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 2,249	\$ 2,804
21	Increase/(Decrease) to Property Tax Expense		\$ 555	\$ 777
22	Increase/(Decrease) to Property Tax Expense		\$ 555	
23	Increase in Revenue Requirement		13,949	
24	Increase/(Decrease) to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		3.977946%	

References:
Col [A]: Company
Col [B]: Staff Report

S-Corp Tax Calculation

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
1	Required Operating Income (Schedule Summary Schedule 1)	\$ 10,573			
2	Adjusted Test Year Operating Income (Loss) (Schedule 1)	\$ (1,134)			
3	Required Increase in Operating Income (L18 - L19)		\$ 11,708		
4					
5	Income Taxes on Recommended Revenue (Col. (D), L35)	\$ 1,523			
6	Income Taxes on Test Year Revenue (Col. (B), L35)	\$ (163)			
7	Required Increase in Revenue to Provide for Income Taxes (L21 - L22)		\$ 1,686		
8					
9	Recommended Revenue Requirement (Schedule MJR-1)	\$ 70,485			
10	Uncollectible Rate (Line 10)	0.0000%			
11	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
12	Adjusted Test Year Uncollectible Expense	\$ -			
13	Required Increase in Revenue to Provide for Uncollectible Exp. (L26 - L27)		\$ -		
14	Property Tax with Recommended Revenue (Schedule MJR-3 p 5 OF 6)	\$ 2,804			
15	Property Tax on Test Year Revenue (Schedule MJR-3 p 5 of 6)	\$ 2,249			
16	Increase in Property Tax Due to Increase in Revenue (L30-31)		\$ 555		
17					
18	Total Required Increase in Revenue (L3 + L7 + L13 + L16)		\$ 13,949		
19	<u>Calculation of Income Tax:</u>				
		Test Year		Staff W/O Debt Recommended	Staff Pro Forma W/O Surcharge
20	Revenue (Schedule MJR-1 and MJR-7) and Pro-Forma Schedule 6.1	\$ 56,537	\$ 13,949	\$ 70,485	\$ 70,485
21	Operating Expenses Excluding Income Taxes	\$ 57,835	\$ -	\$ 58,389	\$ 58,389
22	Interest MJR 6.1	\$ -	\$ -	\$ -	\$ 8,724
23	Arizona Taxable Income (L20 - L21 - L22)	\$ (1,298)		\$ 12,096	\$ 3,372
24	50% of Income	\$ (649)		\$ 6,048	\$ 1,686
25	Arizona State Income Tax Rate up to \$20,000	2.59%		2.59%	2.59%
26	Arizona Income Tax (L25 x L26)	\$ (17)		\$ 157	\$ 44
27	Federal Taxable Income (L24 - L25)	\$ (649)		\$ 6,048	\$ 1,686
28	Federal Tax on First Income Bracket (\$1 - \$8,700) @ 10%	\$ (65)		\$ 605	\$ 169
29	Total Federal Income Tax	\$ (65)		\$ 605	\$ 169
30	Combined Federal and State Income Tax (L26 + L29)	\$ (82)		\$ 761	\$ 212
31	Total 2 partners each 50% owners	\$ (163)		\$ 1,523	\$ 425
32	Applicable Federal Income Tax Rate [Col. (D), L29 - Col. (B), L29] / [Col. (C), L27 - Col. (A), L27]				10.0%
		604.80	6,048.01		
		(64.89)	(648.89)		
		669.69	6,696.90	10%	

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-		
	Rates	Company	Staff	
5/8" x 3/4" Meter	\$15.00	\$27.00	\$15.00	
3/4" Meter	17.50	31.00	22.50	
1" Meter	20.00	35.50	37.50	
1½" Meter	35.00	62.00	75.00	
2" Meter	50.00	88.50	120.00	
3" Meter	65.00	115.00	240.00	
4" Meter	80.00	141.50	375.00	
6" Meter	100.00	177.00	750.00	
Gallons Included in Minimum	0	0	0	
Commodity Rate Charge--Company Commodity rates as ADJUSTED 7/22/2013				
<i>5/8" x 3/4" Meter</i>				
<i>Company</i>				
Tier 1	From 0 to 3,000 gallons	1.88	2.10	1.75
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25	2.50
Tier 3	Over 10,000 gallons	1.88	4.20	4.17
<i>3/4" Meter</i>				
<i>Company</i>				
Tier 1	From 0 to 3,000 gallons	1.88	2.10	1.75
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25	2.50
Tier 3	Over 10,000 gallons	1.88	4.20	4.17
<i>1" Meter</i>				
<i>Company</i>				
Tier 1	From 0 to 3,000 gallons	1.88	2.10	
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25	
Tier 3	Over 10,000 gallons	1.88	4.20	
<i>Staff</i>				
Tier 1	First 15,000 gallons			2.50
Tier 2	Over 15,000 gallons			4.17
<i>1½" Meter</i>				
<i>Company</i>				
Tier 1	From 0 to 3,000 gallons	1.88	2.10	
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25	
Tier 3	Over 10,000 gallons	1.88	4.20	
<i>Staff</i>				
Tier 1	First 25,000 gallons			2.50
Tier 2	Over 25,000 gallons			4.17
<i>2" Meter</i>				
<i>Company</i>				
Tier 1	From 0 to 3,000 gallons	1.88	2.10	
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25	
Tier 3	Over 10,000 gallons	1.88	4.20	
<i>Staff</i>				
Tier 1	From 0 to 45,000 gallons			2.50
Tier 2	Over 45,000 gallons			4.17

RATE DESIGN

Tier 1	From 0 to 3,000 gallons	1.88	2.10
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25
Tier 3	Over 10,000 gallons	1.88	4.20
<i>Staff</i>			
Tier 1	First 45,000 gallons		2.50
Tier 2	Over 45,000 gallons		4.17

4" Meter

Company

Tier 1	From 0 to 3,000 gallons	1.88	2.10
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25
Tier 3	Over 10,000 gallons	1.88	4.20

Staff

Tier 1	First 90,000 gallons		2.50
Tier 2	Over 90,000 gallons		4.17

6" Meter

Company

Tier 1	From 0 to 3,000 gallons	1.88	2.10
Tier 2	From 3,001 to 10,000 gallons	1.88	3.25
Tier 3	Over 10,000 gallons	1.88	4.20

Staff

Tier 1	First 120,000 gallons		2.50
Tier 2	Over 120,000 gallons		4.17

Service Line and Meter Installation Charges

			Service Line	Meter Installation	Total
5/8" x 3/4" Meter	\$330.00	\$520.00	\$ 415.00	\$ 105.00	\$ 520.00
3/4" Meter	375.00	620.00	415.00	205.00	620.00
1" Meter	440.00	730.00	465.00	265.00	730.00
1½" Meter	660.00	995.00	520.00	475.00	995.00
2" Meter	1,155.00	1,795.00	800.00	995.00	1,795.00
3" Meter	1,625.00	2,635.00	1,015.00	1,620.00	2,635.00
4" Meter	2,540.00	4,000.00	1,430.00	2,570.00	4,000.00
6" Meter	4,875.00	7,075.00	2,150.00	4,925.00	7,075.00

Service Charges

Establishment	\$20.00	\$40.00	\$30.00
Establishment (After Hours)	50.00	N/A	NT
Reconnection (Delinquent)	20.00	40.00	30.00
Meter Test (If Correct)	25.00	45.00	35.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	10.00	25.00	20.00
Deferred Payment	1.50%	***	***
Meter Re-Read (If Correct)	12.00	25.00	20.00
Late Fee	1.50%	1.50%	1.50%
After Hours Service Charge	N/A	50.00	40.00

NT = No Tariff

Monthly Service Charge for Fire Sprinkler

4" or Smaller	\$0.00	****	****
6"	0.00	****	****
8"	0.00	****	****
10"	0.00	****	****
Larger than 10"	0.00	****	****

- * Per Commission Rules (R14-2-403.B)
- ** Months off system times the minimum (R14-2-403.D)
- *** 1.5% on the unpaid balance per month
- **** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Typical Bill Analysis (without Staff Surcharge for WIFA Loan)
As of 7/22/2013 e-mail

General Service 5/8 x 3/4-Inch Meter

Company Proposed ¹	Gallons	Present Rates	Proposed Rates ¹	Dollar Increase	Percent Increase
Average Usage	8,100	\$ 30.23	\$ 49.88 ¹	\$ 19.65	65.00%
Median Usage	4,500	23.46	38.18 ¹	\$ 14.72	62.72%
Staff Recommended (without Surcharge)					
Average Usage	8,100	\$ 30.23	\$ 33.00	\$ 2.77	9.17%
Median Usage	4,500	23.46	24.00	\$ 0.54	2.30%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 15.00	\$ 27.00	80.00%	\$ 15.00	0.00%
1,000	16.88	29.10	72.39%	16.75	-0.77%
2,000	18.76	31.20	66.31%	18.50	-1.39%
3,000	20.64	33.30	61.34%	20.25	-1.89%
4,000	22.52	36.55	62.30%	22.75	1.02%
5,000	24.40	39.80	63.11%	25.25	3.48%
6,000	26.28	43.05	63.81%	27.75	5.59%
7,000	28.16	46.30	64.42%	30.25	7.42%
8,000	30.04	49.55	64.95%	32.75	9.02%
9,000	31.92	52.80	65.41%	35.25	10.43%
10,000	33.80	56.05	65.83%	37.75	11.69%
11,000	35.68	60.25	68.86%	41.92	17.49%
12,000	37.56	64.45	71.59%	46.09	22.71%
13,000	39.44	68.65	74.06%	50.26	27.43%
14,000	41.32	72.85	76.31%	54.43	31.73%
15,000	43.20	77.05	78.36%	58.60	35.65%
16,000	45.08	81.25	80.24%	62.77	39.24%
17,000	46.96	85.45	81.96%	66.94	42.55%
18,000	48.84	89.65	83.56%	71.11	45.60%
19,000	50.72	93.85	85.04%	75.28	48.42%
20,000	52.60	98.05	86.41%	79.45	51.05%
25,000	62.00	119.05	92.02%	100.30	61.77%
30,000	71.40	140.05	96.15%	121.15	69.68%
35,000	80.80	161.05	99.32%	142.00	75.74%
40,000	90.20	182.05	101.83%	162.85	80.54%
45,000	99.60	203.05	103.87%	183.70	84.44%
50,000	109.00	224.05	105.55%	204.55	87.66%
75,000	156.00	329.05	110.93%	308.80	97.95%
100,000	203.00	434.05	113.82%	413.05	103.47%

¹ On July 22, 2013, the Company Proposed alternative rates more closely matching the requested revenue of \$94,222. Company proposed rates include an amount for a debt service on a proposed WIFA Loan.

Typical Bill Analysis (with Staff Surcharge)

General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,100	\$ 30.23	\$ 49.88	\$ 19.65	65.00%
Median Usage	4,500	23.46	38.18	\$ 14.72	62.72%
Staff Recommended (with Surcharge)					
Average Usage	8,100	\$ 30.23	\$ 44.43	\$ 14.20	46.97%
Median Usage	4,500	23.46	35.43	\$ 11.97	51.01%

Present & Proposed Rates
General Service 5/8 x 3/4-Inch Meter

Gallons Consumption	Present Rates	Company Proposed Rates	% Increase	Staff Recommended Rates	% Increase
-	\$ 15.00	\$ 27.00	80.00%	\$ 26.43	76.18%
1,000	16.88	29.10	72.39%	28.18	66.92%
2,000	18.76	31.20	66.31%	29.93	59.52%
3,000	20.64	33.30	61.34%	31.68	53.47%
4,000	22.52	36.55	62.30%	34.18	51.76%
5,000	24.40	39.80	63.11%	36.68	50.31%
6,000	26.28	43.05	63.81%	39.18	49.07%
7,000	28.16	46.30	64.42%	41.68	48.00%
8,000	30.04	49.55	64.95%	44.18	47.06%
9,000	31.92	52.80	65.41%	46.68	46.23%
10,000	33.80	56.05	65.83%	49.18	45.49%
11,000	35.68	60.25	68.86%	53.35	49.51%
12,000	37.56	64.45	71.59%	57.52	53.13%
13,000	39.44	68.65	74.06%	61.69	56.41%
14,000	41.32	72.85	76.31%	65.86	59.38%
15,000	43.20	77.05	78.36%	70.03	62.10%
16,000	45.08	81.25	80.24%	74.20	64.59%
17,000	46.96	85.45	81.96%	78.37	66.88%
18,000	48.84	89.65	83.56%	82.54	68.99%
19,000	50.72	93.85	85.04%	86.71	70.95%
20,000	52.60	98.05	86.41%	90.88	72.77%
25,000	62.00	119.05	92.02%	111.73	80.20%
30,000	71.40	140.05	96.15%	132.58	85.68%
35,000	80.80	161.05	99.32%	153.43	89.88%
40,000	90.20	182.05	101.83%	174.28	93.21%
45,000	99.60	203.05	103.87%	195.13	95.91%
50,000	109.00	224.05	105.55%	215.98	98.14%
75,000	156.00	329.05	110.93%	320.23	105.27%
100,000	203.00	434.05	113.82%	424.48	109.10%

WIFA LOAN FINANCIAL ANALYSIS

Test Year Income Statement, Capital Structure and Pro Forma Based on Audit
Including Immediate Effects of the Proposed Debt

INCOME STATEMENT					
		<i>Pro Forma</i> <u>Permanent Rates</u>	Incremental <u>Taxes</u>	<i>Pro Forma</i> <u>With Surcharge</u>	Total Revs
Operating Revenue:	g	\$70,485		\$70,485	90,013.40
Operating Expenses:					
Purchased Water/Pumping Power		\$10,830		\$10,830	
Admin. & General		31,695		31,695	
Maintenance & Testing		9,577		9,577	
Depreciation	d	3,483		3,483	
Property Taxes		2,804	777	3,581	
Other taxes		0		0	
Income Taxes S-Corp	f	425	1,909	2,333	
Total Operating Expense		<u>\$58,389</u>		<u>\$61,499</u>	
Operating Income	a	\$12,096		\$8,986	
Loan Surcharge	b	\$0		<u>19,528</u>	
Interest Expense	c	<u>8,724</u>		<u>8,724</u>	
Net Income		<u>\$3,372</u>		<u>\$19,790</u>	
Principal Repayment	e	7,549		7,549	
Reserve/Replacement Deposit (e)		3,255		3,255	
¹ TIER (Times Interest Earned Ratio)					
[(a) + (b) + (f)] ÷ (c)		1.44		3.54	
² DSC (Debt Service Coverage)					
[(a) + (b) + (d) + (f)] ÷ [(c) + (e)]		0.98		2.11	
³ CCR (Cash Coverage Ratio)					
[(a) + (b) + (d) + (f)] ÷ (c)		1.83		3.94	
⁴ Operating Margin					
[(a) + (b)] ÷ [(b) + (g)]		17.16%		31.68%	
CAPITAL STRUCTURE					
Short-term Debt		\$7,549	2.7%	\$7,549	2.7%
Long-term Debt		\$217,451	78.3%	\$ 217,451	78.3%
Common Equity		\$52,588	18.9%	\$52,588	18.9%
Total Capital		\$277,588	100.0%	\$277,588	100.0%

¹ The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.

² The Debt Service Coverage Ratio represents the ratio of cash available for debt servicing to interest and principal.

³ The Cash Coverage Ratio represents the amount of cash available to pay interest expense

⁴ Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

TERMS OF PROPOSED WIFA LOAN

Terms and Conditions

Loan Amount	\$225,000
Term (No. of Years)	20.00
Combined Interest & Fee Rate	
Interest Rate Index	5.25%
Subsidy Rate Index	75.00%
Combined Interest & Fee Rate	3.94%
Coverage Requirement	20.00%
Debt Service Reserve Requirement	\$16,272.69
Number of Years Debt Service Reserve Funded	5

Monthly Fixed payment to WIFA

Years 1 through 5

Monthly Fixed Payments to WIFA	\$1,356.06
Monthly Debt Service Reserve Deposit	\$271.21
Monthly Replacement Fund Deposit	\$0.00
Total Monthly Fixed Payment	\$1,627.27

Years 6 through 20

Monthly Fixed Payments to WIFA	\$1,356.06
Monthly Debt Service Reserve Deposit	0.00
Monthly Replacement Fund Deposit	\$ 271.21
Total Monthly Fixed Payment	\$1,627.27

Annual Fiscal Impact

Year	Annual Debt Service	Reserve Fund Deposit	Replacement Fund Deposit	Total Annual Fiscal Impact
1	\$16,272.69	\$3,254.54	\$0.00	\$19,527.22
2	16,272.69	3,254.54	0.00	19,527.22
3	16,272.69	3,254.54	0.00	19,527.22
4	16,272.69	3,254.54	0.00	19,527.22
5	16,272.69	3,254.54	0.00	19,527.22
6	16,272.69	0.00	3,254.54	19,527.22
7	16,272.69	0.00	3,254.54	19,527.22
8	16,272.69	0.00	3,254.54	19,527.22
9	16,272.69	0.00	3,254.54	19,527.22
10	16,272.69	0.00	3,254.54	19,527.22
11	16,272.69	0.00	3,254.54	19,527.22
12	16,272.69	0.00	3,254.54	19,527.22
13	16,272.69	0.00	3,254.54	19,527.22
14	16,272.69	0.00	3,254.54	19,527.22
15	16,272.69	0.00	3,254.54	19,527.22
16	16,272.69	0.00	3,254.54	19,527.22
17	16,272.69	0.00	3,254.54	19,527.22
18	16,272.69	0.00	3,254.54	19,527.22
19	16,272.69	0.00	3,254.54	19,527.22
20	16,272.69	0.00	3,254.54	19,527.22
21	0.00	0.00	0.00	0.00
22	0.00	0.00	0.00	0.00
23	0.00	0.00	0.00	0.00
24	0.00	0.00	0.00	0.00
25	0.00	0.00	0.00	0.00
26	0.00	0.00	0.00	0.00
27	0.00	0.00	0.00	0.00
28	0.00	0.00	0.00	0.00
29	0.00	0.00	0.00	0.00
30	0.00	0.00	0.00	0.00
	\$325,453.72	\$16,272.69	\$48,818.06	\$390,544.46

Holiday Enterprises, Inc. dba Holiday Water Company

Docket Nos. W-01896A W-01896A-13-0238 & W-01896A-13-0239
 Test Year Ended December 31, 2012

Schedule MJR-7

Page 1 of 1

CASH FLOW ANALYSIS

Line No.		Staff Recommended W/O Proposed Loan	Pro Forma With Proposed Loan and Surcharge
Cash Inflows			
1	461 Metered Water Revenue	\$69,763	\$69,763
2	460 Unmetered Water Revenue	\$0	0
3	474 Other Water Revenues	\$722	722
4	Revenue - Surcharge for 1.95 DSC (\$10,000 Cash Flow)	0	\$ 19,528
5	Total Revenue	<u>\$70,485</u>	<u>\$90,013</u>
Cash Outflows			
6	601 Salaries and Wages	\$0	\$0
7	610 Purchased Water	1,000	1,000
8	615 Purchased Power	9,830	9,830
9	618 Chemicals	0	0
10	620 Repairs and Maintenance	5,188	5,188
11	621 Office Supplies & Expense	2,620	2,620
12	630 Outside Services	24,045	24,045
13	635 Water Testing	1,913	1,913
14	641 Rents	3,552	3,552
15	650 Transportation Expenses	2,476	2,476
16	657 Insurance - General Liability	0	0
17	659 Insurance - Health and Life	0	0
18	666 Rate Case Expense	333	333
19	675 Miscellaneous Expense	1,145	1,145
20	403 Depreciation Expense	3,483	3,483
21	408 Taxes Other Than Income	0	0
22	408.11 Property Taxes	2,249	3,581
23	409 Income Tax	1,523	2,333
24	Total Expenses	<u>\$59,357</u>	<u>\$61,499</u>
25	Operating Income	\$11,128	\$28,514
26	Plus: Depreciation Expense	3,483	3,483
27	Less: Loan Payment Interest	0	8,724
28	Less: Loan Payment Principal	0	7,549
29	AIAC Refunds	0	0
30	Cash Flow from Operations before WIFA Reserve	<u>\$14,611</u>	<u>\$15,725</u>
31	WIFA Reserve (20% of Principal and Interest)	0	3,255
32	Cash Flow from Operations after WIFA Reserve	<u><u>\$14,611</u></u>	<u><u>\$12,470</u></u>

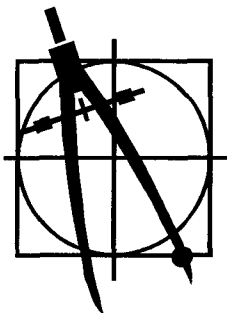
CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Infrastructure Surcharge Based on AWWA Meter Multiplier

Additional Revenue Required for:		Surcharge	Incremental	
Debt Service:	2.11		Income Taxes	
Cash Flow:	\$ 12,470	\$ 19,528	\$ 1,909	\$ 21,437
Total Equivalent Annual Bills				1,876
5/8"x 3/4" Meter Surcharge Amount	\$21,437 / x 1.0 =			\$ 11.43
3/4" Meter Surcharge Amount	\$21,437 / x 1.5 =			\$ 17.14
1" Meter Surcharge Amount	\$21,437 / x 2.5 =			\$ 28.57
1 1/2" Meter Surcharge Amount	\$21,437 / x 5.0 =			\$ 57.13
2" Meter Surcharge Amount	\$21,437 / x 8.0 =			\$ 91.41
3." Meter Surcharge Amount	\$21,437 / x 16.0 =			\$ 182.83
4" Meter Surcharge Amount	\$21,437 / x 25.0 =			\$ 285.67
6" Meter Surcharge Amount	\$21,437 / x 50.0 =			\$ 571.34

Meter Size	Number of Customers ¹	Meter Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	151	1	151	1,816	\$ 11.43	\$ 137.12	\$ 20,751
3/4" Meter	-	1.5	-	-	17.14	\$ 205.68	\$ -
1" Meter	2	2.5	5	60	28.57	\$ 342.80	\$ 686
1 1/2" Meter	-	5	-	-	57.13	\$ 685.61	\$ -
2" Meter	-	8	-	-	91.41	\$ 1,096.97	\$ -
3" Meter	-	16	-	-	182.83	\$ 2,193.94	\$ -
4" Meter	-	25	-	-	285.67	\$ 3,428.03	\$ -
6" Meter	-	50	-	-	571.34	\$ 6,856.05	\$ -
TOTAL	153		156	1,876			\$ 21,437

¹ As of Test Year.

**Engineering Report for Holiday Water Company****Docket Nos. W-01896A-13-0238 (Rates) &
W-01896A-13-0239 (Financing)****By: Jian Liu
Utilities Engineer
October 10, 2013****CONCLUSIONS**

1. Arizona Department of Environmental Quality ("ADEQ") reported that the Holiday Water drinking water system (Public Water System ("PWS") Number 02-018) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated July 12, 2013).
2. The Company is not located in any Active Management Area ("AMA") and is not subject to any Arizona Department of Water Resources ("ADWR") AMA reporting and conservation requirements. ADWR reported that Holiday Water is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 10, 2013).
3. A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated August 2, 2013).
4. Holiday Water has an approved Backflow Prevention Tariff on file with the Commission.
5. Staff concludes that the Holiday Water does not have adequate production capacity and storage capacity to serve the existing customer base and reasonable growth. Holiday Water proposed several capital improvement projects to correct these system deficiencies. Please see financial application section for more details.
6. Staff has reviewed the Company's proposed plant additions and the associated cost estimates and concludes that they are reasonable and appropriate. However, no "used and useful" determination of the proposed plant was made, and no

particular future treatment should be inferred for rate making or rate base purposes.

RECOMMENDATIONS

1. Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual National Association of Regulatory Utility Commissioners category.
2. Staff recommends the annual water testing expense of \$1,913 (rounded) be used for purposes of this application.
3. Staff recommends that the Company file as a compliance item in this docket by May 31, 2015, a copy of the Approval of Construction ("AOC") issued by the ADEQ for its plant additions.
4. Staff recommends that the Company monitor its water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 15 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.
5. Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission's review and consideration. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.
6. Staff recommends that the charges listed under "Company proposed and Staff Recommended" in Table C be adopted.

TABLE OF CONTENTS

	PAGE
A. LOCATION OF COMPANY	1
B. DESCRIPTION OF THE WATER SYSTEMS.....	1
C. WATER USE.....	2
<i>WATER SOLD</i>	2
<i>NON-ACCOUNT WATER</i>	3
D. GROWTH.....	4
E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE (“ADEQ”).....	4
<i>COMPLIANCE</i>	4
<i>WATER TESTING EXPENSE</i>	4
<i>TABLE A. WATER TESTING COST</i>	5
F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE	5
G. ACC COMPLIANCE	5
H. DEPRECIATION RATES	5
<i>TABLE B. DEPRECIATION RATES</i>	6
I. OTHER ISSUES	7
1. <i>CURTAILMENT, BACKFLOW PREVENTION AND BEST MANAGEMENT PRACTICE (“BMP”) TARIFFS</i>	7
2. <i>SERVICE LINE AND METER INSTALLATION CHARGES</i>	7
<i>TABLE C. SERVICE LINE AND METER INSTALLATION CHARGES</i>	7
3. <i>FINANCING APPLICATION</i>	8
<i>FIGURE 1. COUNTY MAP</i>	10
<i>FIGURE 2. CERTIFICATED AREAS</i>	11

A. LOCATION OF COMPANY

Holiday Enterprises Incorporated dba Holiday Water Company (“Holiday Water” or the “Company”) is an Arizona public service corporation authorized to provide water service within portions of Cochise County, Arizona. On July 3, 2013, the Company filed applications with the Arizona Corporation Commission (“Commission” or “ACC”) to increase its rates for water service in Docket No. W-01896A-13-0238 and to approve its financing through Water Infrastructure Finance Authority (“WIFA”) in the amount of \$225,000 in Docket No. W-01896A-13-0239. Per a Procedural Order dated August 27, 2013, Docket Nos. W-01896A-13-0238 and W-01896A-13-0239 were consolidated. Holiday Water provides service to approximately 150 active connections. Figure 1 shows the location of Holiday Water within Cochise County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEMS

The plant facilities were visited on September 18, 2013, by Jian Liu, Staff Utilities Engineer, in the accompaniment of Carol E. Cowan, President of the Company. The Company operates the water system which consists of a well, two storage tanks, one booster pump, one pressure tank, and a distribution system.

Detailed plant facility listings are as follows:

Well Data

ADWR ID	Pump Hp	Pump Gallons Per Minute (“GPM”)	Casing Size	Casing Depth (Feet)	Meter Size	Year Drilled
55-603454	10	30	8”	505	1.5	1963
Total Production	-	30	-	-	-	

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity (HP)	Quantity
5,000	1	2,000	1	7.5	1
20,000	1				
Total 25,000					

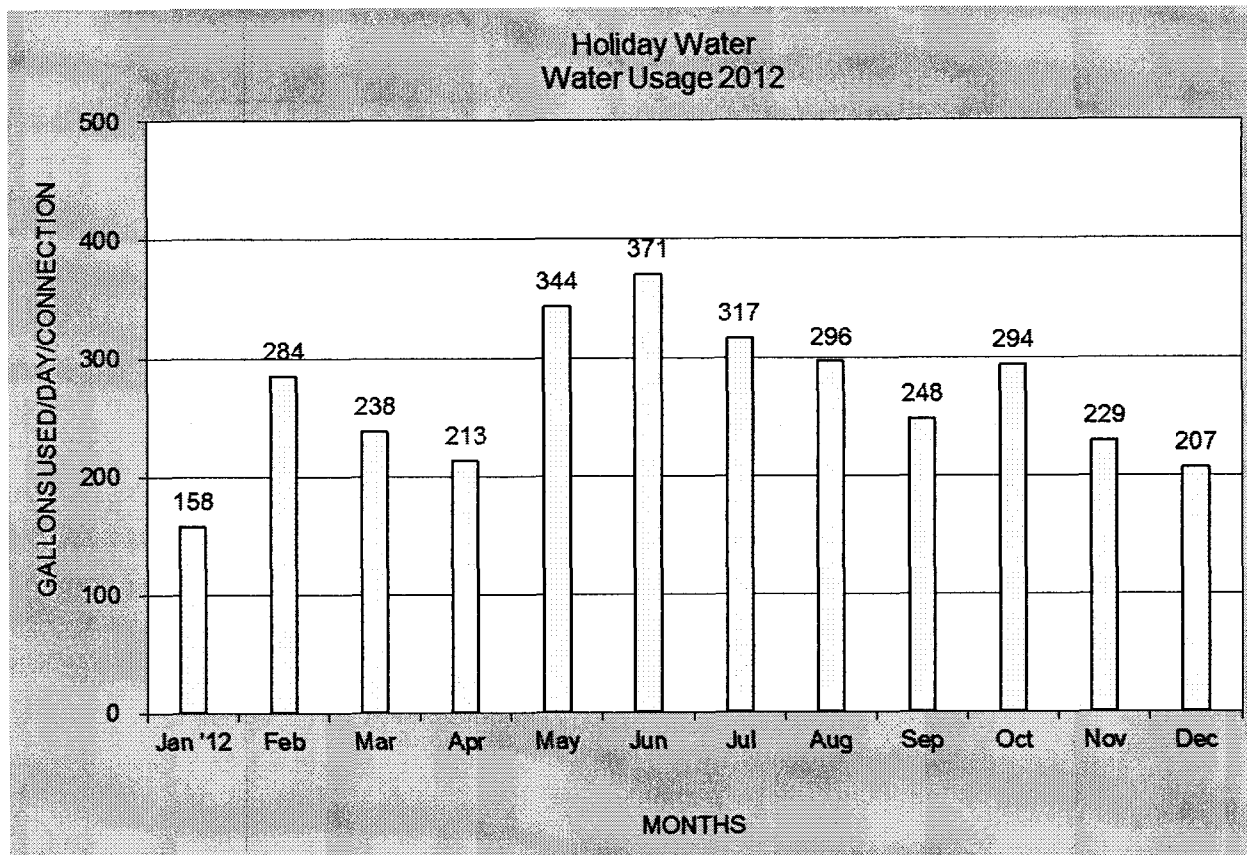
Mains		Customer Meters		Fire Hydrants
Size (inches)	Length (feet)	Size (inches)	Quantity	Quantity
1.5	2,374	5/8x3/4	158	None
2	4,430	3/4		
3	3,100	1	2	
4	7,460	1.5		
6	1,800	2	1	
		Total Metered Connections	161	

Holiday Water has an interconnection with the City of Tombstone, and can pump water from a private well if needed. This private well was drilled by one of its customers. Holiday Water proposed to buy this well in Company's financing application.

C. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2012 is presented below. The high monthly domestic water use was 371 gal/day per service connection in June and the low monthly domestic water use was 158 gal/day per service connection in January. The average annual use was 267 gal/day per service connection.



Non-Account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing.

The Company reported the same quantity of gallons pumped and gallons sold for the test year 2012 which suggests that the water use data reported is invalid.

Staff recommends that the Company monitor its water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 15 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10 percent the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it

should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 15 months of the effective date of the order issued in this proceeding.

D. GROWTH

In December 2012, the Company had 153 customers. Holiday Water estimates that the customer base will remain the same (with little or no growth) for the next 5 years.

Staff concludes that the Holiday Water does not have adequate production capacity and storage capacity to serve the existing customer base and reasonable growth. Holiday Water proposed several capital improvement projects to correct these system deficiencies. Please see financial application section for more details.

**E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE
("ADEQ")**

Compliance

ADEQ reported that the Holiday Water drinking water system (Public Water System Number 02-018) is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated July 12, 2013)

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$1,554 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs.

Table A. Water Testing Cost

Monitoring (PWS 13-020)	Cost per test/sample	Quantity of tests per 3 years	Annual Cost
Total coliform (2 samples monthly)	\$20	72	\$480
Sampling Fees (2 samples monthly)	\$25		\$600
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$653 (rounded)
Lead & Copper	\$45	12	\$180
Total			\$1,913

Note: ADEQ’s MAP invoice for the 2012 Calendar Year was \$653.49

Staff recommends the annual water testing expense of \$1,913 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is not located in any Active Management Area (“AMA”) and is not subject to any ADWR AMA reporting and conservation requirements. ADWR reported that Holiday Water is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated October 10, 2013).

G. ACC COMPLIANCE

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated August 2, 2013).

H. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	3	33.33
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Curtailment, Backflow Prevention and Best Management Practice (“BMP”) Tariffs

Holiday Water has an approved Backflow Prevention tariff on file with the ACC.

The Company has informed Staff that it will be filing with the Commission a revised curtailment tariff based on Staff’s template that is available on the Commission’s website later this month.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket and within 90 days of the effective date of a decision in this proceeding, at least three BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission’s review and consideration. The templates created by Staff are available on the Commission’s website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

2. Service Line and Meter Installation Charges

The Company proposes to increase its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are within Staff’s recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Staff recommends that the charges listed under “Company proposed and Staff Recommended” in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Current Charges	Company proposed & Staff recommended Service Line Charges	Company proposed & Staff recommended *Meter Charges	Company proposed & Staff recommended Total Charges
5/8 x3/4-inch	330	\$415	\$105	\$520
3/4-inch	375	\$415	\$205	\$620
1-inch	440	\$465	\$265	\$730
1-1/2-inch	660	\$520	\$475	\$995
2-inch	1,155	\$800	\$995	\$1,795
3-inch	1,625	\$1,015	\$1,620	\$2,635

4-inch	2,540	\$1,430	\$2,570	\$4,000
6-inch	4,875	\$2,150	\$4,925	\$7,075

*Note: 1. Meter charge includes meter box or vault.

3. *Financing Application*

On July 3, 2013, the Company filed an application with the Commission to approve its financing through WIFA in the amount of \$225,000 for the following capital improvement projects:

- Drill a new well at main well location and install an additional 5,000 gallons of storage.
- Purchase a private well and its well site to serve higher elevation customers.
- Install Booster Station and two- 10,000 gallon storage tanks to assist with having sufficient storage & establishing individual pressure zones.
- Install two Pressure Sustaining Valves at key locations to establish 2 pressure zones.
- Purchase used John Deere Backhoe for use by the water company.

Holiday Water received a WIFA grant to address lack of storage capacity and low water pressure issues in 2012. The Company hired Tres Rios Consulting Engineers, Inc. (“Tres Rios”) to complete an Engineering Analysis of the Company’s water system.

The Holiday Water service area has significant topographical relief from numerous hills and valleys. When operating the Company’s only Well, the areas to the extreme north and east tend to have water pressures that drop below 20-psi (some lower than 15-psi) due to the change in elevation, according to Tres Rios.

The following table lists the proposed plant additions and their associated costs:

Proposed Project Descriptions	Company Cost Estimates
Drill a new well and install a 5,000 Gallon Storage Tank	\$112,000
Purchase a private well Install Booster Station and 2- 10,000 gallon storage tanks	\$63,000
Purchase used John Deere Backhoe and Install 2 Pressure Sustaining Valves	\$15,000
Contingency	\$35,000
Total	\$225,000

Staff has reviewed the Company's proposed plant additions and the associated cost estimates listed above and concludes that they are reasonable and appropriate. However, no "used and useful" determination of the proposed plant was made, and no particular future treatment should be inferred for rate making or rate base purposes.

Staff recommends that the Company file as a compliance item in this docket within 18 months of the effective date of the order in this proceeding a copy of the Approval of Construction ("AOC") issued by the ADEQ for its 2 new wells and 3 storage tanks.

Holiday Water Company
Docket Nos. W-01896A-13-0238 (Rates) &
W-01896A-13-0239 (Financing)

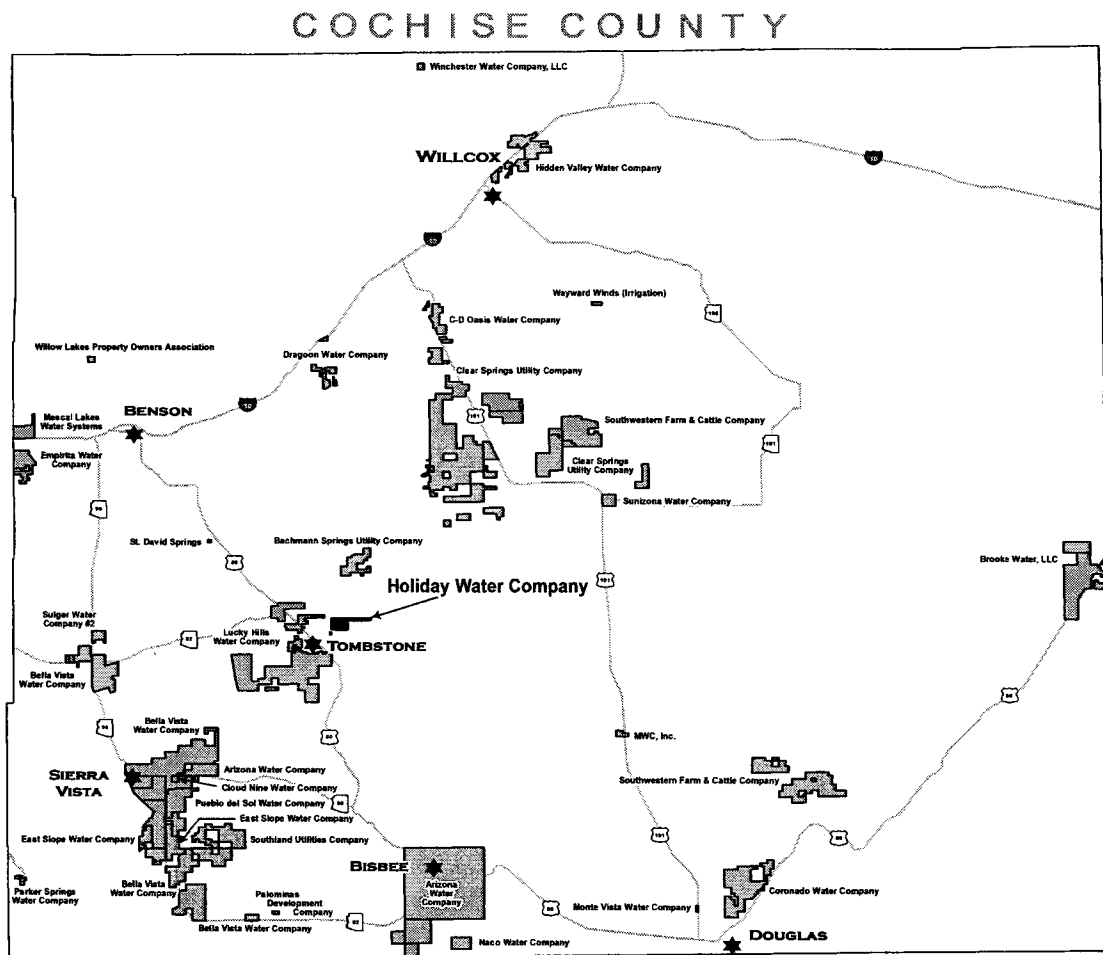


Figure 1. County Map

Holiday Water Company
 Docket Nos. W-01896A-13-0238 (Rates) &
 W-01896A-13-0239 (Financing)

COCHISE COUNTY

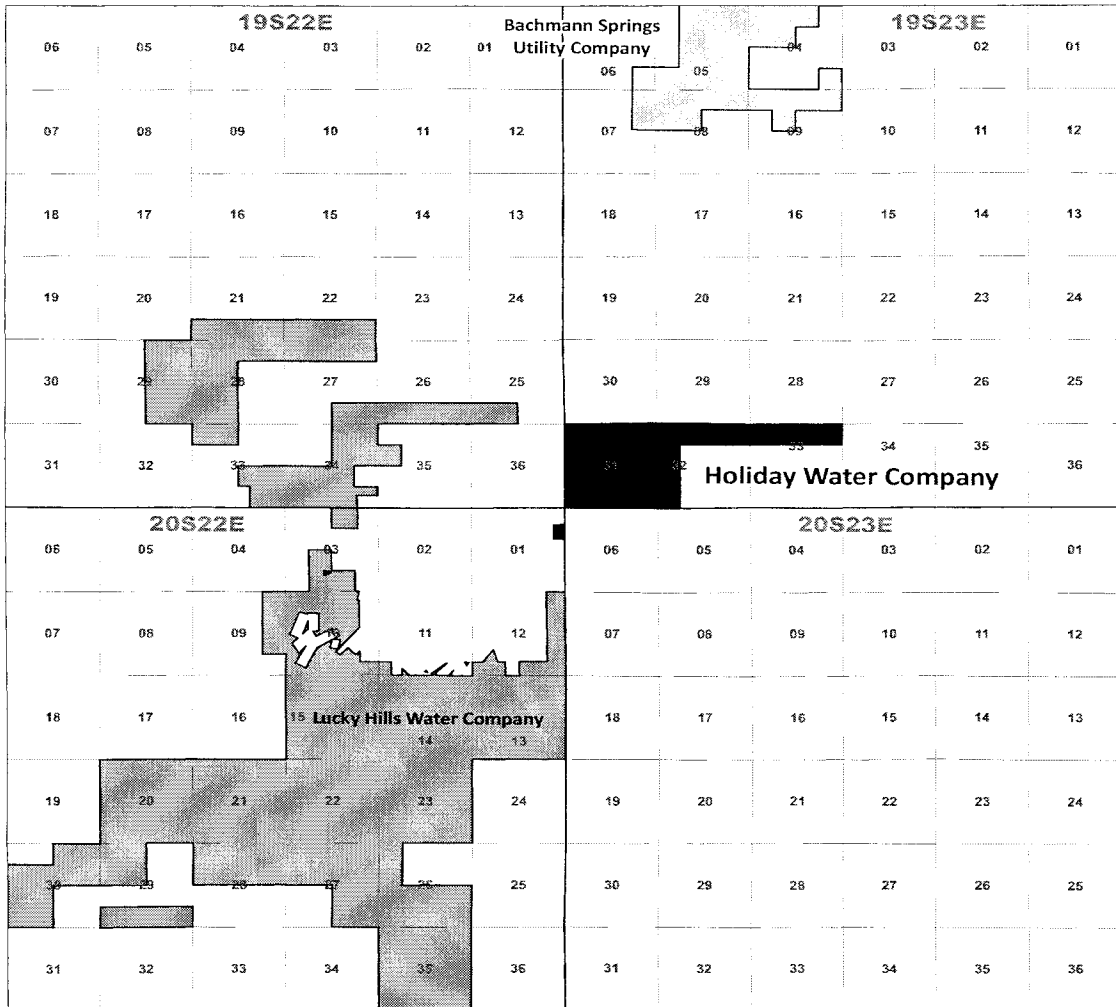


Figure 2. Certificated Areas