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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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DOCKET NO. W-01944A-13-0215

ORIGINAL

PROCEDURAL ORDER

IN THE MATTER OF THE APPLICATION OF LAGO DEL ORO WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES FOR UTILITY SERVICE BASED THEREON.

BY THE COMMISSION:

On June 27, 2013, Lago Del Oro Water Company ("LDO" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase ("Rate Case"). The Rate Case is set for hearing on April 3, 2014.

On July 10, 2013, LDO filed an Application with the Commission for authority to: (1) issue evidence of indebtedness in an amount not to exceed \$3,900,000; and (2) encumber its real property and utility plant as security for such indebtedness ("Finance Application").<sup>1</sup> On February 10, 2014, the Commission's Utilities Division ("Staff") filed a Staff Report in the Finance Application docket recommending conditional approval of the financing request.

There are no intervenors in either docket.

The purpose of the proposed financing request is to reimburse shareholders for the purchase of a portion of LDO's utility plant that occurred in 2012. The utility plant was put into service between 1997 and 2009.<sup>2</sup> The Company states that by issuing debt related to the purchase of the assets, the Company will have a more balanced capital structure which will be to the benefit of ratepayers in setting rates. Staff recommends approval of the financing request with modification to reduce the principal amount of the loan to the net book value of the plant purchased.

<sup>1</sup> Docket No. W-01944A-13-0242.

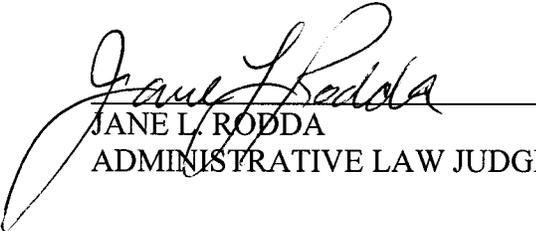
<sup>2</sup> See Rimback Direct Testimony filed in the Rate Case docket.

1 Neither party requested consolidation of the Finance Application and Rate Case. The Finance  
2 Application will impact the Company's capital structure and cost of capital, which are significant  
3 issues in the Rate Case. The purchase of the plant in question so many years after the plant was put  
4 into service is an unusual transaction that receives very little discussion in the Finance Application or  
5 in the testimony filed to date in the Rate Case. Given the interconnection of issues between the  
6 Finance Application and the Rate Case, the parties are requested to provide explanation why the  
7 Finance Application and Rate Case should not be consolidated. The Company has expressed concern  
8 about a potential for rising interest rates that would affect the cost of debt as a reason for processing  
9 the Finance Application quickly, and if this is one of the reasons for not consolidating the matters, the  
10 parties should also provide explanation why such concerns should outweigh the direct impact of the  
11 proposed debt financing on the rate-making process.

12 IT IS THEREFORE ORDERED that **each party** shall provide a position statement on  
13 whether the matters should be consolidated by **March 7, 2014**.

14 IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive  
15 any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

16 DATED this 26<sup>th</sup> day of February, 2014.

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19   
JANE L. RODDA  
ADMINISTRATIVE LAW JUDGE

20 Copies of the foregoing mailed  
21 this 26<sup>th</sup> day of February, 2014 to:

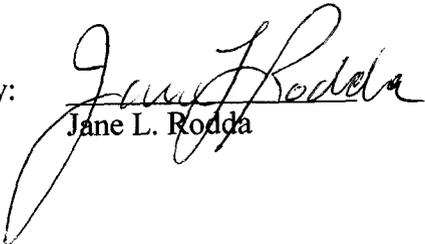
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By:   
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