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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - Chairman
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

2014 FEB 28 A 10:38

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

FEB 28 2014

DOCKETED BY [Signature]

IN THE MATTER OF THE APPLICATION OF LAGO DEL ORO WATER COMPANY, AN ARIZONA CORPORATION FOR AUTHORITY TO: (1) ISSUE EVIDENCE OF INDEBTEDNESS IN AN AMOUNT NOT TO EXCEED \$3,900,000 IN CONNECTION WITH THE PURCHASE OF EUQITY; AND (2) ENCUMBER REAL PROPERTY AND PLANT AS SECURITY FOR SUCH INDEBTEDNESS.

DOCKET NO. W-01944A-13-0242

ORIGINAL

PROCEDURAL ORDER

BY THE COMMISSION:

On July 10, 2013, Lago Del Oro Water Company ("LDO" or the "Company") 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"). On June 27, 2014, LDO filed an Application for a rate increase ("Rate Case").¹ There are no intervenors in either docket.

On October 9, 2013, LDO filed an Amendment to the Finance Application which attached an updated Preliminary Term Sheet from Wells Fargo Bank.

On December 20, 2013, LDO filed an affidavit of publication verifying that it had notice of its Finance Application published in the *Arizona Daily Star* on October 4, 2013, and in the *San Manuel Miner* on October 9, 2013.

On February 10, 2014, the Commission Utilities Division ("Staff") filed a Staff Report in which Staff recommends conditional approval of the financing request.

On February 14, 2014, LDO filed a Response to Staff Report in which LDO states that it is in full agreement with Staff's recommendations and respectfully requests that this matter go before the

¹ Docket No. W-01944A-13-0215. The Rate Case is set for hearing to commence on April 3, 2014.

1 Commission as soon as possible in order to obtain the financing at the currently low interest rates.

2 The purpose of the proposed financing request is to reimburse shareholders for the purchase
3 of a portion of LDO's utility plant that occurred in 2012. The utility plant was put into service
4 between 1997 and 2009.² The Company states that by issuing debt related to the purchase of the
5 assets, the Company will have a more balanced capital structure which will be to the benefit of
6 ratepayers in setting rates. Staff recommends approval of the financing request with modification to
7 reduce the principal amount of the loan to the net book value of the plant purchased.

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

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

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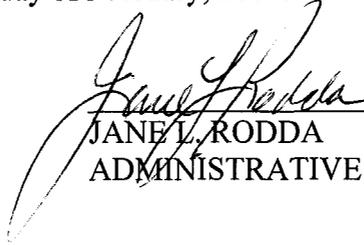
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28 ² See Rimback Direct Testimony filed in the Rate Case docket.

1 IT IS FURTHER ORDERED that the Administrative Law Judge may rescind, alter, amend,
2 or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at
3 hearing.

4 DATED this 26th day of February, 2014.

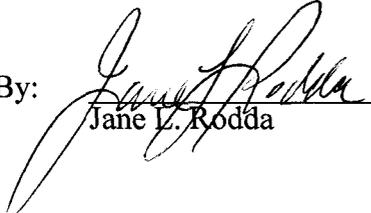
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6 JANE L. RODDA
7 ADMINISTRATIVE LAW JUDGE
8

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10 Copies of the foregoing mailed/delivered
this 27th day of February, 2014, to:

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By: 
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