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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission
DOCKETED

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AZ. CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
VERDE SANTA FE WASTEWATER CO., INC.
FOR APPROVAL OF FINANCING TO ISSUE
LONG-TERM DEBT INSTRUMENTS AND TO
ENCUMBER ITS REAL PROPERTY AND
UTILITY PLANT AS SECURITY.

DOCKET NO. SW-03437A-14-0377

PROCEDURAL ORDER

BY THE COMMISSION:

On July 30, 2014, in Docket No. SW-03437A-13-0292 ("rate case"), the Commission issued Decision No. 74608, authorizing a rate increase for Verde Santa Fe Wastewater Co., Inc. ("VSF") and requiring VSF to file, within 90 days after the effective date of the Decision, a financing application designed to result in VSF's obtaining ownership of plant VSF had been leasing from Pivotal Utility Management ("Pivotal"), an affiliated entity. In the rate case, VSF had asserted that the leased plant had an original cost of \$250,000, but had not provided source documents for the plant. In Decision No. 74608, the Commission ordered the following:

IT IS FURTHER ORDERED that Verde Santa Fe Wastewater Co., Inc. shall, within 90 days after the effective date of this Decision, as a compliance item in this docket, file a financing application designed to result in Verde Santa Fe Wastewater Co., Inc.'s obtaining ownership of the plant items, with an asserted original cost of \$250,000, that Verde Santa Fe Wastewater Co., Inc. has been leasing from Pivotal Utility Management. Specifically, Verde Santa Fe Wastewater Co., Inc. shall request Commission authorization to enter into long-term debt in the form of a note receivable issued by Pivotal Utility Management in an amount equal to the net book value of the plant and with a term of 14 years and an interest rate of 5 percent. Verde Santa Fe Wastewater Co., Inc. shall include with its financing application the source documents supporting the net book value of the plant.

IT IS FURTHER ORDERED that the Commission's Utilities Division shall review the financing application filed by Verde Santa Fe Wastewater Co., Inc., along with the supporting documents, and shall

1 make a filing in the docket upon completion of its review, providing
Staff's recommendations for Commission action on the application.¹

2 On October 29, 2014, in this docket, VSF filed with the Commission an application requesting
3 authorization to incur long-term debt in the form of a note receivable in an amount not to exceed
4 \$137,500, for a term not to exceed 11 years, at an interest rate not to exceed 5 percent, and to
5 encumber its real property and utility plant as security for such indebtedness ("financing
6 application"). With the financing application, VSF included a board resolution authorizing VSF to
7 submit the financing application to the Commission; providing for replacement of the VSF-Pivotal
8 lease agreement with a loan agreement; and providing for transfer of ownership of the leased
9 equipment to VSF upon execution of the loan agreement. The docketed financing application did not,
10 however, include source documentation supporting the net book value of the plant.

11 On November 26, 2014, VSF filed an Affidavit of Publication showing that notice of the
12 financing application had been published in the *Sedona Red Rock News* on November 7, 2014.

13 On January 26, 2015, VSF filed a Notice of Change of Address for VSF's counsel.

14 On January 29, 2015, the Commission's Utilities Division ("Staff") filed a Staff Report
15 recommending approval of VSF's financing application. Staff stated that the estimated cost for the
16 plant was reasonable and appropriate, but indicated that the breakdown of costs had been taken from
17 a data response in the rate case. Staff did not address whether it had received and been able to review
18 source documents for the plant. Staff also did not address the shorter term of the loan (11 years
19 versus 14 years).

20 Because the financing application appears not to conform to the requirements of Decision No.
21 74608, it is reasonable and appropriate to require VSF to make a filing explaining the apparent
22 inconsistencies between its financing application and the requirements of the Decision and, to the
23 extent possible and appropriate, resolving those inconsistencies. Further, to the extent that VSF is
24 unable to comply with any requirement of Decision No. 74608, in spite of good faith efforts to do so,
25 or believes that the public interest would be better served if the requirement were modified, VSF
26 should explain its position in its filing and state whether it believes a modification of Decision No.

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28 ¹ Decision No. 74608 at 21-22.

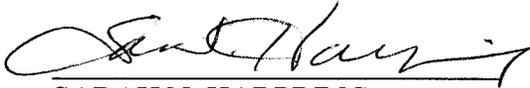
1 74608 is necessary. Additionally, Staff should be required to review and file a response to VSF's
2 filing made in this docket, with Staff's response to include both an analysis of VSF's filing and
3 Staff's recommendations for how the Commission should resolve any remaining inconsistencies
4 between Decision No. 74608 and VSF's financing application, including whether modification
5 pursuant to A.R.S. § 40-252 is necessary.

6 IT IS THEREFORE ORDERED that VSF shall, by **February 27, 2015**, make a filing in this
7 docket explaining the apparent inconsistencies between its financing application and the requirements
8 of Decision No. 74608; providing supplementary information or documentation to resolve any
9 inconsistencies if possible and appropriate; and addressing whether VSF believes that modification of
10 Decision No. 74608 is necessary.

11 IT IS FURTHER ORDERED that Staff shall review VSF's filing required herein and, by
12 **March 20, 2015**, file a Staff response including both an analysis of VSF's filing and Staff's
13 recommendations for how the Commission should resolve any remaining inconsistencies between
14 Decision No. 74608 and VSF's financing application, including whether modification of Decision
15 No. 74608 pursuant to A.R.S. § 40-252 is necessary.

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

19 DATED this 20th day of February, 2015.

21 
22 SARAH N. HARPRING
23 ADMINISTRATIVE LAW JUDGE
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1 Copies of the foregoing mailed
this 6th day of February, 2015, to:

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