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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION  
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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 asserted that the leased plant had an original cost of \$250,000, but did not provide source documents for the plant. In Decision No. 74608, the Commission ordered the following (emphasis added):

**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  
2 Staff's recommendations for Commission action on the application.<sup>1</sup>

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

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

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

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

21 Because the financing application apparently did not conform to the requirements of Decision  
22 No. 74608, both because the loan term was shorter than had been approved and because no source  
23 documentation was filed with the financing application,<sup>2</sup> a Procedural Order was issued on February  
24 6, 2015, directing VSF to make a filing explaining the apparent inconsistencies between its financing  
25 application and the requirements of the Decision and, to the extent possible and appropriate, resolving  
26 those inconsistencies. Specifically, VSF was directed:

27 <sup>1</sup> Decision No. 74608 at 21-22.

28 <sup>2</sup> The Procedural Order set forth verbatim the ordering paragraphs from Decision No. 74608 containing the requirements, but did not spell out the inconsistencies in the Procedural Order ordering paragraph.

1 IT IS THEREFORE ORDERED that VSF shall, by **February 27,**  
2 **2015,** make a filing in this docket explaining the apparent inconsistencies  
3 between its financing application and the requirements of Decision No.  
4 74608; providing supplementary information or documentation to resolve  
5 any inconsistencies if possible and appropriate; and addressing whether  
6 VSF believes that modification of Decision No. 74608 is necessary.

7 On February 27, 2015, VSF made a Filing in Response to Procedural Order ("Filing"). In the  
8 Filing, VSF explained why the loan term for which approval is requested in the financing application  
9 is shorter than the loan term as approved in Decision No. 74608. VSF did not, however, address why  
10 no source documents were provided with its financing application or whether VSF believes that  
11 modification of Decision No. 74608 is necessary due to the inconsistency of its financing application  
12 with the requirement to provide source documentation.

13 IT IS THEREFORE ORDERED that VSF shall, by **March 24, 2015,** make a filing in this  
14 docket explaining why no source documents were provided with its financing application, providing  
15 source documentation to the extent that it is available, and addressing whether VSF believes that  
16 modification of Decision No. 74608 is necessary due to any remaining inconsistency between  
17 Decision No. 74608 and its financing application.

18 IT IS FURTHER ORDERED that **Staff's deadline** to review and file a Staff response to  
19 VSF's Filing and the VSF filing required herein is hereby **extended to April 14, 2015.**

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

23 DATED this 9<sup>th</sup> day of March, 2015.

24   
25 SARAH N. HARPRING  
26 ADMINISTRATIVE LAW JUDGE  
27  
28

1 Copies of the foregoing mailed  
this 9<sup>th</sup> day of March, 2015, to:

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