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AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 **COMMISSIONERS**

10 BOB STUMP, CHAIRMAN
11 GARY PIERCE
12 BRENDA BURNS
13 SUSAN BITTER-SMITH
14 BOB BURNS

Arizona Corporation Commission

DOCKETED

DEC 09 2014

DOCKETED BY 

15 **APPLICATION OF NACO WATER**
16 **COMPANY, LLC FOR A PERMANENT**
17 **INCREASE TO ITS WATER RATES**

DOCKET NO: W-02860A-13-0399

RESPONSE TO ISSUES RAISED IN
THE PROCEDURAL ORDER DATED
OCTOBER 31, 2014

19
20 Naco Water Company, L.L.C. (“Company” or “Naco”), hereby responds to the
21 issues raised in the procedural order dated October 31, 2014. The procedural order
22 requests Naco address the following:
23

- 24 **1. How does Naco treat the Debt Service Reserve Fund (“Reserve Fund”) and**
25 **the Repair and Replacement Fund (“Repair Fund”) for accounting purposes?**

26 Naco treats both the Reserve Fund and Repair Fund (collectively “Funds”) as
27 assets on its balance sheets. The unfunded portion of the Repair Fund is tracked as a
28

1 liability.

2 **2. How will Naco use and account for the Funds at the end of the WIFA loan?**

3
4 When the amount in the Funds is equal to the amount of principal owed, WIFA
5 will take the money in the Funds and retire the debt. Put another way, WIFA will
6 withdraw any unused portion of the Funds to pay the remaining debt. For example,
7 suppose Naco has \$10,000 in Funds, a monthly payment of \$1,000, and an outstanding
8 debt of \$11,000. WIFA will take Naco's \$1,000 the monthly payment and then sweep
9 the Funds to close the loan. Thus, the Funds are used to pay debt. Assets would be
10 reduced and liability would be reduced to zero.
11
12

13 **3. Estimate new monthly debt service payment when WIFA reamortizes the**
14 **loan.**

15
16 WIFA does not plan on reamortizing the loan. While the Company's revenues
17 have been insufficient to meet its financial commitment to pay both the debt service and
18 Repair Fund requirements, WIFA has been taking money from the Repair Fund to service
19 the debt. Accordingly, no payments have been missed to date. However, Naco still has
20 payments due in account payables due to lack of money in the Repair Fund.
21

22 Regarding the 1999 loan, Company deposits for the Repair Fund (Account 1314)
23 and the Debt Service (Account 1313) go to the same UBS Bank Account xx0983. There
24 has been enough money in Account xx0983 to pay WIFA for the debt service. However,
25 the Repair Fund is left underfunded, and the shortfall is recorded as accounts payable
26 when due and payable to UBS. The books show \$92,174.76 in the UBS account, but the
27 account has only actually \$79,746.08 with the remaining \$12,428.68 being carried as
28

1 accounts payable.

2 Regarding the 2007 loan, Company deposits for the Repair Fund (Account 1317)
3 and the Debt Service (Account 1316) go to the same UBS Bank Account xx7723. Like
4 the 1999 loan, while there has been enough money to pay the debt service, there is not
5 enough money to fully fund the Repair Fund. Thus, the books show \$19,098.86 in the
6 UBS account, but the account actually has a balance of \$11.65 with the remaining
7 \$19,087.21 being carried as an accounts payable.
8

9
10 **4. As requested by Staff, direct the Company to document and explain all**
11 **instances when WIFA requests and takes money from the Funds.**
12

13 As indicated above, WIFA withdraws money from the account to meet the debt
14 service. WIFA does not ask permission to take money from the account. The problem is
15 that the Company's revenues are insufficient to deposit enough money into the account to
16 meet the Fund requirement in addition to the debt service requirement.
17

18 **5. How much does Naco owe Southwestern Utility Management**
19 **("Southwestern")?**
20

21 Including the amount due on December 10, 2014, Naco owes Southwestern
22 \$55,432.21. *See Attachment 1.*
23

24 **6. Is Naco current on its property taxes?**

25 Naco is current on its property taxes.

26 ////

27 ////

1 RESPECTFULLY SUBMITTED this 9th day of December, 2014.

2 **MOYES SELLERS & HENDRICKS LTD.**

3
4 

5 Steve Wene

6 Original and 13 copies of the foregoing
7 filed this 9th day of December, 2014, with:

8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

12 

ATTACHMENT 1

NACO WATER COMPANY LLC

Southwestern Utility Management Outstanding Invoices

Naco Water Co.	Invoice	01/09/2014	5917	02/08/2014	5,334.31
	Invoice	02/10/2014	5982	03/12/2014	6,097.66
	Invoice	03/10/2014	6043	04/09/2014	4,789.48
	Invoice	04/08/2014	6108	05/08/2014	4,656.00
	Invoice	05/08/2014	6229	06/07/2014	4,881.60
	Invoice	06/09/2014	6288	07/09/2014	4,668.40
	Invoice	07/08/2014	6346	08/07/2014	5,160.68
	Invoice	08/06/2014	6405	09/05/2014	4,758.92
	Invoice	09/10/2014	6466	10/10/2014	4,734.76
	Invoice	10/08/2014	6522	11/07/2014	5,517.94
	Invoice	11/10/2014	6580	12/10/2014	4,832.46
Total Naco Water Co.					<u>55,432.21</u>