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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

2007 NOV 27 A 9:37

ARIZONA CORPORATION COMMISSION  
SECRET CONTROL

APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR AUTHORITY TO INCUR LONG-TERM DEBT THROUGH ITS AFFILIATE, AMERICAN WATER CAPITAL CORPORATION

DOCKET NO. WS-01303A-06-0283

DECISION NO. 68994

Arizona Corporation Commission

DOCKETED

NOV 27 2007

DOCKETED BY NR

**NOTICE OF COMPLIANCE FILING**

Decision No. 68994 approved the application of Arizona-American Water Company ("Arizona-American") to incur \$165,450,000 in new debt to pay off two promissory notes and finance two capital projects. To date, Arizona-American has executed three promissory notes in the amount of \$159,000,000 under this financing authority, leaving \$6,450,000 authorized but not incurred.

Decision No. 69730 approved the application of Arizona-American to incur \$10 million in long-term debt from its affiliate American Water Capital Corporation ("AAWC") to finance the partial repayment of \$25 million in previously approved long-term debt.

Together, the two Decisions authorize Arizona-American to issue up to \$16,450,000 in additional debt. In compliance, Arizona-American hereby files a copy of the attached executed promissory note in the amount of \$16,450,000. Please note that Decision No. 69730 authorized Arizona-American to incur debt with an interest rate not to exceed 6.5%. Unfortunately, largely because of recent turmoil in the capital markets, the actual interest rate of the promissory note is slightly higher - 6.593%. However, unless the Commission authorizes otherwise, Arizona-

American will not seek recovery of the interest expense exceeding the Commission-authorized 6.5% interest rate.

**RESPECTFULLY SUBMITTED** on November 27, 2007.



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Arizona-American Water  
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Original and 13 copies filed  
on November 27, 2007, with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Copies of the foregoing mailed  
on November 27, 2007, to:

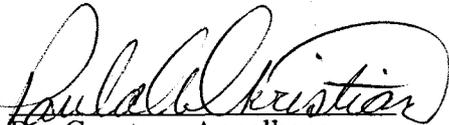
Lyn Farmer  
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A handwritten signature in cursive script, appearing to read "Paul A. Kristian". The signature is written in black ink and is positioned above the typed name "By: Courtney Appelhans".

By: Courtney Appelhans

PROMISSORY NOTE  
FOR LONG-TERM BORROWINGS  
6.593% Maturity - October 15, 2037

**\$16,450,000**

**October 22, 2007**

FOR VALUE RECEIVED, **Arizona-American Water Company**, an Arizona corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Road, Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **Sixteen Million Four Hundred Fifty Thousand dollars (\$16,450,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

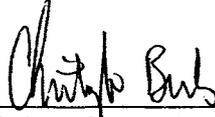
If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

**Arizona-American Water Company**

By:   
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Christopher Buls  
VP of Finance