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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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COMMISSIONER

2013 NOV 22 P 2:37
AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED

NOV 22 2013

DOCKETED BY 

IN THE MATTER OF THE APPLICATION
OF CHAPARRAL CITY WATER COMPANY,
AN ARIZONA PUBLIC SERVICE
CORPORATION, FOR AUTHORITY TO
REFINANCE LONG-TERM DEBT

DOCKET NO. ~~W~~-02113A-13-0047

FINANCING APPLICATION

**AMENDMENT TO FINANCING APPLICATION
CHAPARRAL CITY WATER COMPANY
November 22, 2013**

1 **Introduction.** As more fully set forth below, Chaparral City Water Company
2 (“CCWC” or “the Company”) hereby applies in accordance with A.R.S. § 40-301 *et. seq.*, for
3 authority **to refinance up to \$4.935 million** in remaining outstanding long-term debt previously
4 authorized by the Arizona Corporation Commission (“Commission”) in Decision No. 60473,
5 dated November 25, 1997. The replacement debt would flow from EPCOR Utilities Inc. to
6 EPCOR Power Development Corporation to EPCOR Water (USA) Inc. before reaching CCWC.
7 New debt was issued by EPCOR Utilities Inc. on February 23, 2012 in the total amount of \$300
8 million Canadian dollars. CCWC requests Commission approval for CCWC to borrow up to
9 \$4.935 million USD from that issue.

10 **Supporting Exhibits.** As more fully discussed below, CCWC provides the following
11 Exhibits in support of its Application:

- 1 • **Exhibit A** – IDA bonds of Maricopa County¹
- 2 • **Exhibit B** – Amended Draft of \$4.935 million CCWC Promissory Note
- 3 • **Exhibit C** – 2012 CCWC Audited Balance Sheet & Income Statement
- 4 • **Exhibit D** – Public Notice Published May 1, 2013
- 5 • **Exhibit E** – Draft Certificates of Board Resolutions from CCWC & EPCOR Water
6 (USA) Inc.²

7 1. **Company Description.** CCWC is an Arizona public service corporation engaged
8 in providing water utility service in a portion of Maricopa County, Arizona, pursuant to
9 certificates of public convenience and necessity granted by the Commission to CCWC. The
10 Company presently provides utility service to approximately 13,500 water customers. CCWC is
11 a subsidiary of EPCOR Water (USA) Inc.

12 2. **Principal Office.** The Company's principal business office is located at 2355
13 West Pinnacle Peak Road, Suite 300, Phoenix, Arizona 85027, and its telephone number is (623)
14 445-2455.

15 3. **Authorized Representative.** The persons authorized to receive notices and
16 communications regarding this Application are:

17 Sheryl L. Hubbard
18 Director, Regulatory & Rates
19 EPCOR Water (USA) Inc.
20 2355 W. Pinnacle Peak Rd., Suite 300
21 Phoenix, Arizona 85027
22 Telephone: (623) 445-2419
23 shubbard@epcor.com
24

25
26 Michael Hallam
27 Lewis Roca Rothgerber, LLP
28 40 North Central Avenue, Suite 1900
29 Phoenix, Arizona 85004
30 (602) 262-5340
31 mhallam@lrrlaw.com
32 Attorney for CCWC

¹ Only the cover page of the IDA bond agreement is included due to the length of the document (entire agreement is available in discovery).

² BOD approved resolutions will be submitted shortly.

1 All discovery and other requests for information concerning this Application should be
2 directed to Ms. Hubbard.

3 5. **Description of Lender.** Following approval by the Commission, CCWC intends
4 to indirectly borrow the requested funds from EPCOR Utilities Inc. based on similar terms
5 established with the IDA bonds with Maricopa County dated December 1, 1997. The reduction
6 in expenses to be realized by eliminating the CCWC external annual audit required by the IDA
7 bonds will be reflected in the cost of service requested in the pending CCWC rate application
8 (Docket No. W-02113A-13-0118).

9 6. **Background.** EPCOR Water (USA) Inc.'s ownership of CCWC began May 11,
10 2011. CCWC was re-capitalized at that time with the outstanding IDA bonds with Maricopa
11 County remaining with CCWC. CCWC has no other long-term debt. The IDA bonds have a
12 costly requirement that an annual external audit be performed.³ The annual external audit costs
13 averaged \$49,813 for the most recent three years⁴. The requirement for an external audit would
14 be eliminated after the refinancing. The IDA bonds otherwise mature December 2022 and the
15 replacement debt would mature on the same date. CCWC is willing to undertake the refinancing
16 so long as the all-in interest rate excluding the interest rate equivalent for the annual external
17 audit cost does not exceed the IDA's existing effective interest rate of 5.92%.⁵ By removing the
18 annual external audit costs and adding the minimal new issuance costs at EPCOR's standard 5
19 basis points or 0.05% interest rate, the new all-in interest rate would be 5.97% CCWC's
20 obligation is in USD terms and the Company bears no foreign exchange risk.

³ The audit requirement is stated in Section 5.04 of the IDA bonds agreement.

⁴ External audit costs: 2010, \$40,000 (actual); 2011, \$53,000 (actual); 2012, \$56,438 (actual).

⁵ The debt weighted average of the interest rates of the two remaining IDA series is 5.38%; plus the interest rate equivalent of a \$49,813 external audit cost is 1.01%; plus the interest rate equivalent of the continuing \$26,501 amortization of the IDA's issuance costs is 0.54%, for a total effective **existing** interest rate of 6.93%. Excluding the interest rate equivalent of a \$49,813 external audit cost of 1.01% results in a total effective **existing** interest rate of 5.92%.

1 7. **Purpose of Borrowing.** CCWC seeks to use the borrowing authority to pay off
2 the remaining balance of its existing IDA bonds⁶ using a portion of the remaining capacity of a
3 recent debt issue by CCWC's ultimate parent. The refinancing would only occur if the
4 transaction can be completed at an all-in effective interest rate of less than or equal to 5.97%.
5 CCWC would be able to eliminate the requirement for and cost of an external annual audit.
6 CCWC does not otherwise need the refinancing in order to fund its continuing on-going capital
7 expense program. A draft of CCWC's promissory note is in Exhibit B.

8 9. **Proposed Interest Rate.** CCWC calculates an all-in interest rate of 5.97% and
9 requests the Commission to authorize a maximum interest rate of 5.97%.

10 10. **Financing Term.** The replacement debt matures December 1, 2022.

11 11. **Debt Security.** The replacement debt will be issued on an unsecured basis.
12 CCWC requests the Commission explicitly acknowledge recoverability of the unamortized debt
13 issuance costs for the original IDA bonds and the additional new debt issuance costs in its
14 decision in this Application. The new note's interest rate and issuance costs (both old and new)
15 will not exceed 5.97% for subsequent ratemaking purposes.

16 12. **Financial Statements.** Exhibit C is a copy of CCWC's most recently available
17 (2012) audited balance sheet and income statement.

18 13. **Form of Public Notice.** A proposed form is included in Exhibit D.

19 14. **DSC and TIER.** As of December 2012, CCWC's Debt Service Coverage Ratio
20 ("DSC") was 5.50⁷ and its Times Interest Earned Ratio ("TIER") was 6.04⁸ (audited operating
21 income was \$1,770,154, interest expense was \$283,567 and depreciation and amortization
22 expense was \$1,852,898, income tax recovery was \$58,397 and repayment of principal in 2012
23 was \$365,000). The Company can adequately cover its expected debt payments from operating
24 cash flow.

⁶ The remaining balance on the 1997 Series A is \$4.205 million at 5.4% interest rate and on the 1997 Series B it is \$0.730 million at 5.3% interest rate until December 1, 2013 when the next principal payments are due. Section 3.13.(a) displays the principal redemption schedules.

⁷ DSC: $\$1,770,154 + \$1,852,898 - \$58,397 / \$283,567 + \$365,000 = 5.50$

⁸ TIER: $\$1,770,154 - \$58,397 / \$283,567 = 6.04$

1 15. **Corporate Powers.** CCWC includes in Exhibit E drafts of the certificates of
2 resolution of CCWC's and EPCOR Water (USA) Inc.'s Board of Directors that will shortly
3 authorize the refinancing.

4 16. **Compliance.** CCWC is not aware of any unfulfilled compliance requirements at
5 the Commission, the Arizona Department of Environmental Quality, or the Arizona Department
6 of Water Resources.

7 17. **Compatibility.** The proposed financing will reduce debt costs, therefore, the
8 requested financing approval is compatible with

- 9 • the public interest;
- 10 • sound financial practices; and
- 11 • the proper performance by CCWC of service as a public service corporation (and will
12 not impair the Company's ability to perform that service).

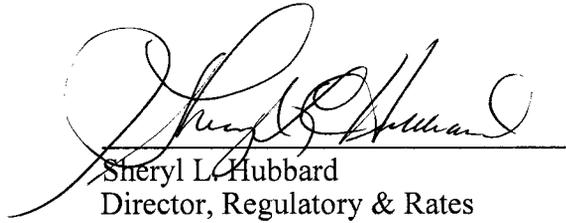
13 18. **Prompt & Expedited Approval.** The Company requests prompt and expedited
14 approval as a new CCWC rate case was filed in April 2013 and a window of opportunity exists
15 in that new rate case to update the case and capture the above described savings.

16 In the event the application is denied or the new all-in debt costs more than 5.97%, the
17 proposed refinancing will not occur. CCWC requests that the Commission **not** consolidate this
18 application's processing into the CCWC rate case because CCWC wants to complete the
19 transaction in time to eliminate the annual audit required by the IDA bonds.

20 19. **Requested Relief.** As more fully set forth in this Application, CCWC asks that
21 the Commission approve its request under A.R.S. § 40-301 *et. seq.*, to incur up to \$4.935 million
22 in replacement long-term debt at an annual all-in interest rate not to exceed 5.97%.

1 Respectfully submitted on November 22, by:

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14



Sheryl L. Hubbard
Director, Regulatory & Rates
EPCOR Water (USA) Inc.
2355 W. Pinnacle Peak Rd.
Suite 300
Phoenix, Arizona 85027
Telephone: (623) 445-2419
shubbard@epcor.com

1 **Original** and 13 copies filed
2 November 22, 2013, with:

3
4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8
9 **Copies** of the foregoing mailed on
10 November 22, 2013, to:

11
12 Legal Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007

16
17 Utilities Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

21
22 Lyn Farmer
23 Chief Hearing Officer
24 Arizona Corporation Commission
25 1200 West Washington
26 Phoenix, Arizona 85007

27
28 Residential Utility Consumer Office
29 1110 West Washington Street
30 Suite 220
31 Phoenix, Arizona 85007

32
33
34
35 By: 
36 Courtney Appelhans

Exhibit A – Outstanding CCWC IDA Bonds

EXECUTION

LOAN AND TRUST AGREEMENT

by and among

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF MARICOPA,

CHAPARRAL CITY WATER COMPANY

and

BANK ONE, ARIZONA, NA, as Trustee

The Industrial Development Authority of the County of Maricopa
Water System Improvement and Refunding Revenue Bonds
(Chaparral City Water Company Project)

\$7,600,000	\$1,320,000
Water System Improvement Revenue Bonds Series 1997A	Water System Refunding Revenue Bonds Series 1997B

Dated as of December 1, 1997

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note

CHAPARRAL CITY WATER COMPANY

AMENDED DRAFT PROMISSORY NOTE

Dated [February 28, 2013 or date of issuance]

To Mature December 1, 2022

FOR VALUE RECEIVED the undersigned, **CHAPARRAL CITY WATER COMPANY**, an Arizona corporation having its principal office at 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027 (the “**Borrower**”) hereby promises to pay to the order of **EPCOR Water (USA) Inc.**, a Delaware corporation (the “**Lender**”) at the City of Phoenix, Arizona the Principal Sum, such Principal Sum to be payable at maturity.

1. Loan

The Borrower and the Lender acknowledge that this promissory note (this “**Note**”) is being executed and delivered by the Borrower in favor of the Lender.

2. Use of Proceeds

The net proceeds will be used by the Borrower to refinance its existing external debt.

3. Principal Sum

For the purposes here of “**Principal Sum**” shall mean the sum of \$4,935,000 in the lawful money of the United States of America (USD FOUR MILLION NINE HUNDRED THIRTY FIVE THOUSAND DOLLARS AND ZERO CENTS).

4. Term and Maturity

The term of the loan is [9 years, or adjusted for date of issuance] with a final maturity date of December 1, 2022.

5. Repayment

The Borrower agrees to repay the Principal Sum in accordance with Schedule A.

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

6. Interest

The Borrower agrees to pay interest at the rate of 5.38% per annum and payable annually and in arrears, on **December 1st** of each year commencing on **December 1, 2013**, in accordance with Schedule A. Upon default in payment of any payment when due hereunder, in addition to any other remedy of the Lender, the undersigned covenants to pay interest on the entire unpaid balance of the principal amount and accrued interest and on subsequent overdue interest at the rate aforesaid, both before and after judgment, until paid in full.

7. Prepayment

The Borrower may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of this Note, in an amount not less than 5% of the Principal Sum then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, and the Make-Whole Amount (as hereinafter defined) determined for the prepayment date with respect to such principal amount. The Borrower will give the Lender written notice of each optional prepayment under this Section 7 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Note to be prepaid on such date, and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a senior officer of the Borrower as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Borrower shall deliver to the Lender a certificate of a senior officer of the Borrower specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

In the case of each prepayment of this Note pursuant to this Section 7, the principal amount to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the Make-Whole Amount, if any. From and after such date, unless the Borrower shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Once paid or prepaid in full, this Note shall be surrendered to the Borrower and cancelled and shall not be reissued, and no promissory note shall be issued in lieu of any prepaid principal amount of this Note.

The term “**Make-Whole Amount**” means an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“**Applicable Percentage**” means 0.475% (47.5 basis points).

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

“Business Day” means for the purposes of this Section 7, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed.

“Called Principal” means the amount of Principal Sum that is to be prepaid pursuant to this Section 7.

“Discounted Value” means, with respect to the Called Principal, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on this Note is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal, the sum of the (x) Applicable Percentage plus (y) the yield to maturity implied by (i) the yields reported as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding sentence, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of this Note.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

“Remaining Scheduled Payments” means, with respect to the Called Principal, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of this Note, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date.

“Settlement Date” means, with respect to the Called Principal, the date on which such Called Principal is to be prepaid pursuant to this Section 7. **Error! Reference source not found.**

8. Representation and Warranties of the Borrower

The Borrower represents and warrants:

- a) it is a corporation incorporated under the laws of the state of Arizona, and that it is duly registered or qualified to carry on business in all jurisdictions where the nature of its properties, assets or its business makes such registration or qualification necessary;
- b) the execution and delivery of this Note have been duly authorized by all necessary actions and does not (i) violate any law, regulation or rule by which it is bound, (ii) violate any provision of its constituting documents, by-laws or any unanimous shareholder agreement to which it is subject or (iii) result in a breach of, a default under, or the creation of any encumbrance on its properties and assets or under any agreement or instrument to which it is a party or by which it or any of its properties and assets may be bound or affected; and
- c) no event has occurred which constitutes, or which with giving of notice, lapse of time or other condition would constitute, a default having a material adverse effect on its financial condition under or in respect of any agreement, undertaking or instrument to which it or any of its properties or assets may be subject.

9. Covenants of the Borrower

- a) *Payment of Obligations.* The Borrower will duly and punctually pay all sums of money due and payable by it under this Note.
- b) *Maintenance of Existence.* The Borrower will take such action to preserve and maintain its existence and all of the material rights, qualifications, authorizations, privileges, licenses and franchises which are necessary in the normal conduct of its business, except where the failure to preserve and maintain such rights, qualifications, authorizations, privileges, licenses and franchises would not have a material adverse effect on the Borrower.

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

- c) *Other Information.* The Borrower will promptly provide to the Lender all information regarding the financial condition, business, property and operations of the Borrower that the Lender may reasonably request from time to time.
- d) *Records Access.* The Borrower will keep proper and adequate records and books of account in which true and complete entries are made in accordance with generally accepted accounting principles applied on a consistent basis, and upon reasonable notice, the Borrower will permit representatives of the Lender to examine, copy, make abstracts and audit relevant portions of its books, accounts and records, in each case, at the Borrower's expense.
- e) *Compliance with Constatting Documents and Law.* The Borrower will comply at all times and in all respects with its constating documents and by-laws and with all applicable laws and environmental standards, except where the failure to so comply with such Applicable Law would not have material adverse effect on the Borrower.
- f) *Payment of Taxes.* The Borrower will pay all taxes, rates and assessments, government charges or levies lawfully levied, assessed or imposed upon the Borrower or upon its properties or any part thereof, as and when the same become due and payable, except to the extent and for so long as the Borrower shall contest in good faith its obligation to do so, provided that in such case the Borrower shall satisfy the Lender that any such contestation will involve no forfeiture of any material part of the assets of the Borrower and that it will exhibit to the Lender, when required, the receipts and vouchers establishing such payment.
- g) *Notice of Default.* The Borrower will, upon obtaining knowledge thereof, provide prompt notice in writing to the Lender of any default of any of its obligations under this Note.
- h) *Notice of Litigation.* The Borrower will provide the Lender with prompt notice in writing of any action, suit, litigation or other proceeding which is commenced or, to the knowledge of any senior officer of the Borrower after due inquiry, threatened against the Borrower which would have a material adverse effect on the financial condition of the Borrower.

10. **Waiver of Demand, etc.**

The Borrower hereby waives presentment, demand, protest and notice of any kind in connection with the delivery, acceptance, performance and enforcement of the Note.

11. **Default**

This Note shall become and be due and payable as hereafter provided if any one or more of the following events (herein called "**Events of Default**") shall have occurred and be continuing:

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

- (a) if default shall be made in the due and punctual payment of the principal or interest of this Note when and as the same shall become due and payable whether at the maturity hereof, by acceleration or otherwise, and such default shall have continued unremedied for a period of fourteen (14) days after written notice thereof has been given to the Borrower by the Lender;
- (b) if default shall be made in the performance or observance of any of the covenants, agreements or condition contained in the Note and the default shall have continued unremedied for a period of thirty (30) days after written notice thereof has been given to the Borrower by the Lender;
- (c) if the Borrower defaults under any debt in excess of \$1,000,000 and as a result of which all such debt becomes due and payable immediately, or the creditor is entitled to exercise any remedies against the Borrower;
- (d) if the Borrower shall admit in writing its inability to pay its debts generally as they become due; file a petition in bankruptcy or a petition to take advantage of any insolvency act; make an assignment for the benefit of its creditors; consent to the appointment of a receiver of itself or of the whole or any substantial part of its property; on a petition in bankruptcy filed against it; or file a petition or answer seeking reorganization or arrangement under federal or state bankruptcy laws;
- (e) if a court of competent jurisdiction shall enter an order, judgment or decree appointing without consent of the Borrower, a receiver of the Borrower or of the whole or any substantial part of the property of the Borrower or approving a petition filed against the Borrower or seeking reorganization or arrangement of the Borrower under any applicable federal or state law or statute, and the order, judgment or decree shall not be vacated or set aside or stayed with thirty (30) days from the date of the entry thereof;
- (f) if under the provisions of any other law for the relief or aid of debtors, and court of competent jurisdiction shall assume custody and control of the Borrower or of the whole or any substantial part of the property of the Borrower and custody or control shall not be terminated or stayed within thirty (30) days from the date of assumption of custody or control; or
- (g) if there is a change in ownership of the Borrower.

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

The Principal Sum and all interest accrued and remaining outstanding at the time of such Event of Default, upon notice in writing given by the Lender to the Borrower, shall immediately become due and payable by the Borrower to the Lender, provided that such acceleration of the indebtedness of the Borrower to the Lender with respect the Event of Default listed in item (d) shall be effective immediately upon the occurrence of such Event of Default without the necessity of such notice being such by the Lender to the Borrower. The Lender may proceed to protect and enforce its right either by suit in equity and/or by action and law, whether for the specific performance of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or proceed to enforce the payment of this Note or to enforce any other legal or equitable rights of the Lender.

12. Notices

All notices and demands provided for herein shall be in writing and shall be personally delivered or mailed by prepaid registered mail to the Borrower at 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027 or to such other address as the Borrower may from time to time designate to the Lender by notice in the aforesaid manner. Any notice or demand so personally delivered shall be deemed to have been validly and effectively given and received on the date of such delivery. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.

13. Assignment

Neither the Borrower nor the Lender may assign any of their respective rights or obligations hereunder without the prior written consent of the Borrower (in the case of any assignment by the Lender) or the Lender (in the case of any assignment by the Borrower).

In addition, the Lender acknowledges that the Borrower may be amalgamated (any such amalgamated company being herein called “Amalco”). Upon such amalgamation Amalco shall possess, and be subject to, all rights, privileges, liabilities and obligations of the Borrower hereunder and all references to the Borrower shall be deemed to refer to “Amalco”.

14. Governing Law

This Note shall be construed, interpreted and enforced in accordance with, and the rights and obligations of the parties shall be governed by the laws of the State of Delaware and the federal laws of the United States of America applicable therein and each party hereby irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Arizona and all courts competent to hear appeals therefrom.

[Remainder of page intentionally left blank. Signature page to follow.]

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the ____ day of _____, 2013.

CHAPARRAL CITY WATER COMPANY

By: _____
Name: _____
Title: _____

The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the ____ day of _____, 2013.

EPCOR WATER (USA) INC.

By: _____
Name: _____
Title: _____

Exhibit B – Amended Draft of \$4.935 million CCWC Promissory Note – Cont.

Schedule A - Payment Schedule to Chaparral City Water Company "New" Promissory Note

Date	Interest Rate	Principal Payment	Interest Payment	Total Payment	Principal Balance
1-Dec-12					\$4,935,000
1-Dec-13	5.3800%	\$390,000	\$265,503	\$655,503	\$4,545,000
1-Dec-14	5.3800%	\$405,000	\$244,521	\$649,521	\$4,140,000
1-Dec-15	5.3800%	\$430,000	\$222,732	\$652,732	\$3,710,000
1-Dec-16	5.3800%	\$450,000	\$200,145	\$650,145	\$3,260,000
1-Dec-17	5.3800%	\$475,000	\$175,388	\$650,388	\$2,785,000
1-Dec-18	5.3800%	\$500,000	\$149,833	\$649,833	\$2,285,000
1-Dec-19	5.3800%	\$530,000	\$122,933	\$652,933	\$1,755,000
1-Dec-20	5.3800%	\$555,000	\$94,678	\$649,678	\$1,200,000
1-Dec-21	5.3800%	\$585,000	\$64,560	\$649,560	\$615,000
1-Dec-22	5.3800%	\$615,000	\$33,087	\$648,087	\$0
Total		<u>\$4,935,000</u>	<u>\$1,573,380</u>	<u>\$6,508,380</u>	

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement

**Chaparral City Water
Company**
Financial Statements
December 31, 2012

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
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December 31, 2012

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Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.



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INDEPENDENT AUDITORS' REPORT

To the Directors of Chaparral City Water Company

We have audited the accompanying financial statements of Chaparral City Water Company, which comprise the balance sheet and statement of capitalization as at December 31, 2012, the statements of income, changes in common stockholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chaparral City Water Company as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Yours truly,

Chartered Accountants
April 29, 2013
Edmonton, Canada

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Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Balance Sheet
December 31, 2012

Assets	
Utility plant (Note 3)	\$ 65,617,301
Less: accumulated depreciation	(25,734,123)
Construction work in progress	1,612,943
Net utility plant	<u>41,496,121</u>
Other Property and Investments	
Goodwill	3,321,058
Restricted cash	730,646
	<u>4,051,704</u>
Current Assets	
Cash and cash equivalents	4,931,943
Accounts receivable, net of allowance of \$43,794	473,164
Other accounts receivable	19,981
Unbilled revenues	344,987
Prepaid expenses and other current assets	259,580
Total current assets	<u>6,029,635</u>
Other Assets	
Regulatory assets – non-current (Note 2)	79,806
Debt issuance costs	265,006
Deferred income taxes	2,839,111
Total other assets	<u>3,183,923</u>
Total assets	<u>\$ 54,761,383</u>
Capitalization and Liabilities	
Common stockholder's equity	\$ 26,949,123
Long-term debt, less current maturities (Note 4)	4,545,000
Total capitalization	<u>31,494,123</u>
Commitments and contingencies (Note 8)	
Current Liabilities	
Long-term debt, current (Note 4)	390,000
Accounts payable	845,144
Intercompany payables due to related party (Note 5)	2,985,504
Regulatory liabilities (Note 2)	74,500
Accrued interest	22,147
Other	283,306
Total current liabilities	<u>4,600,601</u>
Other Credits	
Customer deposits	148,869
Intercompany payables due to related party (Note 5)	1,500,624
Advances for construction	3,933,916
Contributions in aid of construction, net	12,637,731
Regulatory liabilities (Note 2)	375,080
Other	70,439
Total other credits	<u>18,666,659</u>
Total capitalization and liabilities	<u>\$ 54,761,383</u>

The accompanying notes are an integral part of these financial statements

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Statement of Capitalization
December 31, 2012

Common stockholder's equity	
Common stock	\$ 4,603,140
Additional paid-in capital	19,006,566
Retained earnings	<u>3,339,417</u>
Total common stockholder's equity	26,949,123
Long-term debt	
Industrial Development Authority Bonds	
Series 1997A term bonds, due December 1, 2022 (5.40%)	4,205,000
Series 1997B term bonds, due December 1, 2022 (5.30%)	<u>730,000</u>
Total long-term debt	4,935,000
Less: current maturities	<u>(390,000)</u>
Long-term debt, less current maturities	<u>4,545,000</u>
Total capitalization	<u>\$ 31,494,123</u>

The accompanying notes are an integral part of these financial statements

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Statement of Income
Year Ended December 31, 2012

Operating revenues	
Sales of water	\$ 9,119,018
Operating expenses	
Water purchased	911,156
Power purchased for pumping	565,129
Other operation expenses	2,015,901
Administrative and general expenses	1,602,935
Maintenance	181,576
Depreciation	1,852,898
Property and other taxes	<u>219,269</u>
Total operating expenses	<u>7,348,864</u>
Operating income	<u>1,770,154</u>
Other income (expense)	
Other income	2,807
Interest expense	<u>(283,567)</u>
Total other income (expense)	<u>(280,760)</u>
Income from operations before income tax recovery	<u>1,489,394</u>
Income tax recovery (Note 6)	<u>58,397</u>
Net Income	<u>\$ 1,547,791</u>

The accompanying notes are an integral part of these financial statements

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Statement of Changes in Common Stockholder's Equity
Year Ended December 31, 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2012	\$4,603,140	\$14,959,074	\$3,292,250	\$ 22,854,464
Dividends on Common Stock	-	-	(1,500,624)	(1,500,624)
Transaction with shareholder	-	4,047,492	-	4,047,492
Net income	-	-	<u>1,547,791</u>	<u>1,547,791</u>
Balance, December 31, 2012	<u>\$4,603,140</u>	<u>\$19,006,566</u>	<u>\$ 3,339,417</u>	<u>\$ 26,949,123</u>

The accompanying notes are an integral part of these financial statements

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Statement of Cash Flows
Year Ended December 31, 2012

Cash flows from operating activities	
Net income	\$ 1,547,791
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,852,898
Net gain on sale of property	2,800
Provision for doubtful accounts	26,007
Income tax recovery	(58,397)
Amortization of debt issuance costs	26,501
Changes in operating assets and liabilities:	
Accounts receivable	(48,830)
Other accounts receivable	3,657
Unbilled revenues	(62,126)
Prepaid expenses and other current assets	(9,797)
Taxes receivable/payable	(367,118)
Regulatory asset/liabilities	24,163
Other assets/liabilities	(71,933)
Accounts payable	502,981
Intercompany receivables/payables	2,670,070
Customer deposits	(59,482)
Net cash flows provided by operating activities	<u>5,979,185</u>
Cash flows from investing activities	
Capital expenditures	(2,509,436)
Change in restricted cash	(8)
Net cash flows used in investing activities	<u>(2,509,444)</u>
Cash flows from financing activities	
Receipt of advances for and contributions in aid of construction	40,887
Refunds on advances for construction	(54,842)
Repayments of long-term debt	(365,000)
Net cash flows used in financing activities	<u>(378,955)</u>
Increase in cash and cash equivalents	3,090,786
Cash and cash equivalents at beginning of year	<u>1,841,157</u>
Cash and cash equivalents at end of year	<u>\$ 4,931,943</u>
Supplemental disclosure of cash flow information	
Interest paid	\$ 285,415
Income taxes paid, net of refunds	\$ -

The accompanying notes are an integral part of these financial statements

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company Notes to Financial Statements December 31, 2012

1. Summary of Significant Accounting Policies

Nature of Operations

Chaparral City Water Company ("CCWC" or "the Company") is an Arizona public utility company engaged principally in the purchase, treatment, distribution and sale of water. CCWC serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area. EPCOR Water (USA), Inc. owns 100% of the common stock of CCWC.

Basis of Presentation

The preparation of financial statements of CCWC is in accordance with accounting principles generally accepted in the United States of America and requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

Regulatory Accounting

CCWC's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Under such accounting guidance, rate regulated entities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in the statement of income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the statement of income in the period in which the same amounts are reflected in the rates charged for service. The amounts included as regulatory assets and liabilities that will be collected over a period exceeding one year are classified as long-term assets and liabilities as at December 31, 2012.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. CCWC's cash and cash equivalents are held with financial institutions with high credit standings.

Restricted Cash

In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest Note 4. The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. At December 31, 2012, CCWC had \$730,646 classified as non-current restricted cash on the balance sheet in connection with this debt service reserve.

Accounts Receivable

Accounts receivable are reported on the balance sheet net of any allowance for doubtful accounts ("the allowance"). The allowance is based on CCWC's evaluation of the receivable portfolio under

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

current conditions and review of specific problems and such other factors that, in management's judgment, requires recognition in estimating losses.

Utility Plant and Depreciation

CCWC capitalizes as utility plant the cost of additions and replacements of retired units. Such costs include labor, materials, and certain indirect charges.

Depreciation is computed utilizing the straight-line group method at rates based on the estimated useful lives of the assets as prescribed by the ACC. The composite provision for depreciation for CCWC was approximately 3.56% for the year ended December 31, 2012. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs, including cost of removal, are charged to the accumulated provision for depreciation.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with the accounting guidance for the impairment or disposal of long-lived assets. CCWC will recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from customer rates authorized by the ACC. An impairment loss is measured as the excess of the carrying value over the amounts recovered in customer rates. CCWC also periodically reviews its utility plant for possible impairment in accordance with the accounting guidance for regulated enterprises for accounting for abandonments and disallowances of plant costs.

Goodwill

In accordance with the provisions of Accounting Standards Codification Topic 350, Intangibles – Goodwill and Other (ASC 350), goodwill is tested for impairment at least annually and more frequently if circumstances indicate that it may be impaired. Accounting Standards Update (ASU) No. 2011-08 introduced a qualitative impairment assessment that may be used prior to performing step one of the two-step goodwill impairment test. The assessment determines whether it is more likely-than-not that the fair value of a reporting unit is less than its carrying amount. If determined that there is less than a 50% chance that the fair value of a reporting unit is less than its carrying amount, then performing the two step test is unnecessary.

At year end, CCWC performed a qualitative assessment to determine whether it was more likely than not that its book value of net assets were less than the fair value. CCWC considered relevant events and circumstances including macroeconomic conditions, industry and market conditions, cost factors, financial performance, and other relevant events.

At December 31, 2012, the \$3,321,058 of goodwill is not considered to be at risk of impairment.

Revenues

CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period.

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

Advances for Construction & Contributions in Aid of Construction

Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. There were \$562,878 of advances that expired and transferred to contributions in aid of construction during the year ended December 31, 2012. Contributions in aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

Fair Value of Financial Instruments

For cash and cash equivalents, accounts receivable, accounts payable and the current portion of long-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts. The table below estimates the fair value of long-term debt held by CCWC. Rates available to utility subsidiaries at December 31, 2012 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

	December 31, 2012	
	Carrying Amount	Fair Value
Financial liabilities:		
Long-term debt	\$ 4,935,000	\$ 5,642,391

Sales and Use Taxes

In addition to the collection of regular rates, CCWC separately charges and collects from its customers a proportionate share of any privilege, sales and use tax in accordance with ACC rules. CCWC bills and collects these taxes from its customers, which are then remitted to the state and local governments on a monthly basis. Because CCWC acts as an agent, these taxes are accounted for on a net basis. During the year ended December 31, 2012, CCWC billed its customers \$906,583 for these taxes.

Debt Issuance Costs

Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

Related Party Transactions

During the year ended December 31, 2012 CCWC benefited from shared services provided by EPCOR Utilities Inc. and its wholly owned subsidiaries, EPCOR Water Services Inc. and EPCOR Water (USA) Inc. These services include customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services. All transactions are in the normal course of operations and are based on normal commercial rates. As at December 31, 2012, total intercompany payables due to EPCOR and its affiliates were \$2,985,504.

Subsequent Events

CCWC has evaluated events and transactions that occurred after December 31, 2012 through April 29, 2013, which is the date these financial statements were issued.

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

New Accounting Pronouncements

Accounting standards that have been issued or proposed by the Financial Accounting Standards Board or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on CCWC's financial statements upon adoption.

2. Regulatory Matters

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. At December 31, 2012, CCWC's net regulatory liabilities are not accruing carrying costs. Regulatory assets, less regulatory liabilities, included in the balance sheet as at December 31, 2012 are as follows:

Regulatory assets - non-current	\$ 79,806
Regulatory liabilities:	
Asset retirement obligations	(69,753)
Proceeds on settlement of removal of wells	519,333
	449,580
Less: current portion	(74,500)
	<u>\$ 375,080</u>

Regulatory Assets – Non-Current:

In October 2009, the ACC issued an order to allow CCWC recovery of 50% of the Central Arizona Project ("CAP") M&I charges related to the additional allocation discussed in Note 3 and Note 8. The ACC order determines that 50% of the additional allocation was considered used and therefore the remaining 50% should be deferred for a period of 48 months. At December 31, 2012 the deferred regulatory balance above is included in other long term assets on the balance sheet.

Asset Retirement Obligations:

As more fully discussed in Note 3, as retirement costs have historically been recovered through rates at the time of retirement, upon implementing the accounting guidance for asset retirement obligations, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Proceeds on Settlement for Removal of Wells:

In 2005, in an agreement with the Fountain Hills Sanitary District ("FHSD"), CCWC agreed to permanently cease using one of its wells in order for the FHSD to secure an Aquifer Protection Permit for its recharge system. A regulatory liability of \$760,000 was established related to the proceeds on settlement for removal of the well, based on ACC rulings. The liability will be recognized into income over a 10 year period as prescribed by the ACC. The remaining regulatory liability related to the removal of the well is \$519,333.

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

3. Utility Plant

The following table reflects CCWC's utility plant by major class as at December 31, 2012:

Land	\$ 271,857
Intangible assets	1,282,734
Source of water supply	3,380,364
Pumping	6,116,712
Water treatment	7,144,157
Transmission and distribution	45,520,225
Other property and equipment	1,901,252
	<u>65,617,301</u>
Less: Accumulated depreciation	(25,734,123)
Construction work in progress	1,612,943
Net utility plant	<u>\$ 41,496,121</u>

As at December 31, 2012, the intangible assets included in Utility Plant consist of unamortized water rights for the additional CAP allocation to CCWC in the amount of 1,931 acre-feet per year. In November 2007, a final written agreement was executed and CCWC paid approximately \$1.3 million for these additional CAP water rights (see Note 9).

Asset Retirement Obligation

CCWC records the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, CCWC capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, CCWC either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. CCWC's legal obligations for retirement reflect principally the retirement of wells, which by law need to be properly capped at the time of removal. Retirement costs have historically been recovered through rates at the time of retirement. Accordingly, at implementation of the guidance for asset retirement obligations, the cumulative effect was reflected as a regulatory asset. The Company also reflects the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

For the year ended December 31, 2012, CCWC incurred accretion expense of \$3,536 which is included in depreciation expense in the statement of income.

4. Long-term Debt

Industrial Development Authority Bonds

Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority ("IDA") Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund, which had a balance of \$655,760 at December 31, 2012. Amounts are classified as noncurrent restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end.

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

As of December 31, 2012, CCWC was in compliance with all covenants under the loan and trust agreement.

Maturities of long-term debt outstanding at December 31, 2012 are as follows:

2013	\$	390,000
2014		405,000
2015		430,000
2016		450,000
2017		475,000
Thereafter		2,785,000
		<u>4,935,000</u>
Less: current portion		<u>(390,000)</u>
	\$	<u>4,545,000</u>

Repayment Contract

In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport CAP water to CCWC's property (the "Delivery Agreement"). The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund, which had a balance of \$74,886 at December 31, 2012. This amount is classified as part of noncurrent restricted cash on the balance sheet.

5. Dividend Limitations

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. On March 29, 2012, CCWC declared a \$1.5 million dividend payable to EPCOR Water (USA), Inc. which is included in intercompany payables due to related party in the balance sheet as at December 31, 2012.

The ability of CCWC to pay future dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately \$1.1 million is available to pay dividends at December 31, 2012.

6. Taxes on Income

The Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of Accounting Standards Codification Topic 740, *Income Taxes (ASC 740)*, as if the Company were a separate taxpayer rather than a member of the parent company's consolidated income tax return group. Differences between the Company's separate company income tax provision and cash flows attributable to income taxes pursuant to the provisions of the Company's tax sharing arrangement with the parent company will be recognized as capital contributions from, or dividends to, the parent company.

The Company applies the provisions of the accounting guidance for accounting for income taxes, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2012

consequences of events that have been recognized in the Company's financial statements or tax returns.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2012 are:

Deferred tax assets	
Other	\$ 149,029
Goodwill	2,428,360
Contributions and advances	4,919,869
	<u>7,497,258</u>
Deferred tax liabilities	
Fixed assets	<u>(4,658,147)</u>
Deferred income taxes, net	<u>\$ 2,839,111</u>

The initial recognition of the deferred tax asset for goodwill is recognized in equity as additional paid-in-capital, as the change in tax base was a result of transactions with the shareholder.

The current and deferred components of income tax expense (recovery) are as follows:

Current provision	
Federal	\$ -
State	-
Total current tax expense (recovery)	<u>-</u>
Deferred provision	
Federal	(58,397)
State	-
Total deferred tax expense (recovery)	<u>(58,397)</u>
Total income tax expense (recovery)	<u>\$ (58,397)</u>

EPCOR Water (USA), Inc. files one consolidated tax return which includes all of the subsidiary entities in the state of Arizona and New Mexico. There is no current provision as CCWC's taxable income was offset by net operating losses in the EPCOR Water (USA), Inc. consolidated federal and Arizona state income tax returns. The deferred provision is due to the tax affected changes in the deferred tax asset and liability accounts for the current year.

7. Employee Benefit Plans

For the period January 1, 2012 through September 30, 2012, CCWC employees participated in the TriNet 401(k) Plan – EPCOR Water (USA), Inc. (the "TriNet 401(k) Plan"). Eligible employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. On October 1, 2012 CCWC employees became eligible to participate in the EPCOR Water (USA), Inc. 401(k) Plan and all balances in the TriNet 401(k) Plan were transferred. Company contributions to the EPCOR Water (USA) 401(k) plan are based upon a percentage of individual employee contributions and totaled \$88,199.

Exhibit C – 2012 CCWC Audited Balance Sheet & Income Statement – Cont.

Chaparral City Water Company **Notes to Financial Statements** **December 31, 2012**

8. Commitments and Contingencies

CCWC obtains its water supply from one operating well and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdowns, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources stating that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 11,759 acre-feet per year for a minimum of 100 years. The 11,759 acre-feet is comprised of existing CAP allocation of 8,909 acre-feet per year, 350 acre-feet per year groundwater allowance, incidental recharge credits of 500 acre-feet per year, and a Central Arizona Groundwater Replenishment District contract of 2,000 acre-feet per year.

CCWC has a long-term water supply contract with the Central Arizona Conservation District (the "District") through December 2108, and is entitled to take 8,909 acre-feet of water per year from CAP. In connection with this long-term water supply contract, CCWC pays an annual charge based on its full allocation regardless of the amount of water delivered. The rate for such charge is set by the District and is subject to annual increases. Based on the District's published new rate schedules, the estimated remaining commitment under this contract is \$681,539 as at December 31, 2012.

Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. The Company believes that rate recovery, proper insurance coverage, and reserves are in place to insure against property, general liability, and workers' compensation claims incurred in the ordinary course of business. The Company is of the opinion that the outcome of such claims and litigation will not have a materially adverse effect upon CCWC's results of operations, financial position or cash flows.



**CHAPARRAL CITY
WATER COMPANY**

**PUBLIC NOTICE
OF AN APPLICATION OF CHAPARRAL CITY
WATER COMPANY
FOR AUTHORITY TO REFINANCE
LONG-TERM DEBT
DOCKET NO. WS-02113A-13-0047**

Chaparral City Water Company ("the Company") filed an Application with the Arizona Corporation Commission ("the Commission") for an order authorizing the Applicant to refinance up to \$4.935 million in long-term debt. The application is available for inspection during regular business hours at the office of the Commission at 1200 W. Washington, Phoenix, Arizona 85007, and the Company's offices in 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a written Motion to Intervene with the Commission, which must be served upon applicant or its counsel and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person/party upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant or its counsel.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice. For information about requesting intervention, visit the Commission's Website at <http://www.azcc.gov/divisions/utilities/forms/interven.pdf>.

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc.

Draft Resolution CCWC Board

**Chaparral City Water Company
(the “Corporation”)**

Resolutions of the Board of Directors Approving the Refinancing of the Corporation’s Long-term Debt

WHEREAS, the Corporation is obligated to repay certain Industrial Development Bonds referred to as (i) Series 1997A bonds in the current principal amount of US\$4,205,000, bearing interest at the rate of 5.40% per annum and due December 2022, and (ii) Series 1997B bonds in the current principal amount of US\$730,000, bearing interest at the rate of 5.30% per annum and due December 2022 (collectively, the “IDA Bonds”);

WHEREAS, the blended interest rate on the IDA Bonds is 5.38% per annum;

WHEREAS, the IDA Bonds require the Corporation to, among other things, provide audited annual financial statements at significant additional expense to the Corporation;

WHEREAS, the Corporation desires to borrow funds from EPCOR Water (USA) Inc. (“EWUS”) to prepay the IDA Bonds (the “Refinancing”) on terms approximately the same as the IDA Bonds and eliminate the requirement for audited annual financial statements; and

WHEREAS, the Refinancing will require (i) EWUS to have funds available to provide the Refinancing, (ii) EWUS to be willing and authorized to provide the Refinancing, and (iii) the approval of the Arizona Corporation Commission (the “ACC”);

NOW, THEREFORE,

Moved and Seconded, that the following Resolutions be approved:

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc. – Cont.

1. The Corporation is hereby authorized to borrow from EWUS a principal amount not to exceed US\$4,935,000 at an annual interest rate not to exceed 5.38% for a term of approximately 9 years and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the “EWUS Loan”), the proceeds of which are to be used by the Corporation to prepay the IDA Bonds in full at the closing of the EWUS Loan, with the foregoing authority subject to (i) EWUS having available the funds to extend the EWUS Loan to the Corporation and being willing and authorized to do so, and (ii) the approval of the ACC.
2. The officers of the Corporation are hereby authorized and directed to request a final order from the ACC approving the EWUS Loan and the Refinancing and to prosecute the related proceeding before the ACC, including the retention of legal counsel to represent the Corporation before the ACC in that proceeding.
3. If EWUS has funds available for the EWUS Loan and is willing and authorized to make the EWUS Loan, and if the ACC approves the EWUS Loan and the Refinancing, the officers of the Corporation are hereby severally authorized and directed to execute and deliver such promissory notes and other documents in the name and on behalf of the Corporation as are necessary to consummate the EWUS Loan and to pre-pay the IDA Bonds, in each case with such changes, additions and modifications to the promissory notes and other documents as the officer or officers of the Corporation executing and delivering the same shall approve, such execution and delivery to be conclusive evidence of such approval on behalf of the Corporation.
4. The officers of the Corporation are hereby severally authorized and empowered in the name and on behalf of the Corporation to do or cause to be done any and all additional acts and things as in the judgment of the officer taking the action may be necessary, appropriate or advisable to carry out the purposes and intent of the foregoing resolutions.
5. Any actions taken by any of the officers of the Corporation prior to the adoption of these resolutions that are within the authority conferred in the foregoing resolutions be, and the same hereby are, ratified,

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc. – Cont.

confirmed and approved in all respects as the authorized acts and deeds of the Corporation.

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc. – Cont.

Draft Resolution EWUS Board

**EPCOR Water (USA) Inc.
(the “Corporation”)**

Resolutions of the Board of Directors Approving the Borrowing and Lending Required to Refinance the Long-term Debt of Chaparral City Water Company

WHEREAS, Chaparral City Water Company, a subsidiary of the Corporation (“CCWC”), is obligated to repay certain Industrial Development Bonds referred to as (i) Series 1997A bonds in the current principal amount of US\$4,205,000, bearing interest at the rate of 5.40% per annum and due December 2022, and (ii) Series 1997B bonds in the current principal amount of US\$730,000, bearing interest at the rate of 5.30% per annum and due December 2022 (collectively, the “IDA Bonds”);

WHEREAS, the blended interest rate on the IDA Bonds is 5.38% per annum;

WHEREAS, the IDA Bonds require CCWC to, among other things, provide audited annual financial statements at significant additional expense to CCWC;

WHEREAS, CCWC desires to borrow funds from the Corporation to prepay the IDA Bonds (the “Refinancing”) on terms approximately the same as the IDA Bonds and eliminate the requirement for audited annual financial statements;

WHEREAS, the Refinancing will require (i) the Corporation to have funds available to provide the Refinancing, (ii) the Corporation to be willing and authorized to provide the Refinancing, and (iii) the approval of the Arizona Corporation Commission (the “ACC”); and

WHEREAS, to facilitate the Refinancing, the Corporation will be required to itself borrow from EPCOR Power Development Corporation (“EPDC”) the funds necessary for it to facilitate the Refinancing;

NOW, THEREFORE,

Moved and Seconded, that the following Resolutions be approved:

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc. – Cont.

1. If the ACC approves the Refinancing and the EWUS-to-CCWC Loan (as defined below), the Corporation is hereby authorized to borrow from EPDC a principal amount not to exceed US\$4,935,000 at an annual interest rate not to exceed 5.38% for a term of approximately 9 years and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the “EPDC-to-EWUS Loan”), the proceeds of which are to be used by the Corporation to extend credit to CCWC to facilitate the Refinancing.
 2. Subject to the closing of the EPDC-to-EWUS Loan, the Corporation is hereby authorized to lend to CCWC a principal amount not to exceed the principal amount of the EPDC-to-EWUS Loan at an annual interest rate not less than the annual interest rate of the EPDC-to-EWUS Loan, for a term not to exceed the term of the EPDC-to-EWUS Loan and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the “EWUS-to-CCWC Loan”); provided that CCWC must be obligated to use the proceeds of the EWUS-to-CCWC Loan to prepay the IDA Bonds in full at the closing of the EWUS-to-CCWC Loan.
 3. If the ACC approves the Refinancing and the EWUS-to-CCWC Loan, the officers of the Corporation are hereby severally authorized and directed to execute and deliver such promissory notes and other documents in the name and on behalf of the Corporation as are necessary to consummate the EPDC-to-EWUS Loan and the EWUS-to-CCWC Loan, in each case with such changes, additions and modifications to the promissory notes and other documents as the officer or officers of the Corporation executing and delivering the same shall approve, such execution and delivery to be conclusive evidence of such approval on behalf of the Corporation.
 4. The officers of the Corporation are hereby severally authorized and empowered in the name and on behalf of the Corporation to do or cause to be done any and all additional acts and things as in the judgment of the officer taking the action may be necessary, appropriate or advisable to carry out the purposes and intent of the foregoing resolutions.
 5. Any actions taken by any of the officers of the Corporation prior to the adoption of these resolutions that are within the authority conferred in the foregoing resolutions be, and the same hereby are, ratified,

Exhibit E – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc. – Cont.

confirmed and approved in all respects as the authorized acts and deeds of the Corporation.