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BEFORE THE ARIZONA CORPORATION COM

COMMISSIONERS

RECEIVED

BOB STUMP, Chairman  
GARY PIERCE  
BRENDA BURNS  
SUSAN BITTER SMITH  
BOB BURNS

2014 MAY 15 P 3:42

AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY FOR  
AUTHORITY TO REFINANCE LONG-TERM  
DEBT.

DOCKET NO. W-02113A-13-0047

DECISION NO. 74388

NOTICE OF COMPLIANCE FILING

In compliance with Decision No. 74388, Chaparral City Water Company, Inc. hereby  
files as a compliance item in this docket, a copy of the loan document.

RESPECTFULLY SUBMITTED on May 15, 2014.

*Sandra L. Murrey*  
Sandra L. Murrey

Rate Analyst  
EPCOR Water Arizona, Inc.  
2355 W. Pinnacle Peak Rd, Suite 300  
Phoenix, AZ 85027

Original and 13 copies filed  
on May 15, 2014, with:

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

Copies of the foregoing **emailed**  
on May 15, 2014 to:

Brian K. Bozzo  
Compliance and Enforcement Manager  
Utilities Division  
1200 West Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission  
DOCKETED

MAY 15 2014

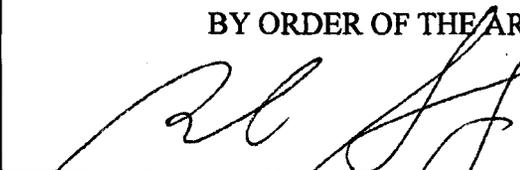
DOCKETED BY *[Signature]*

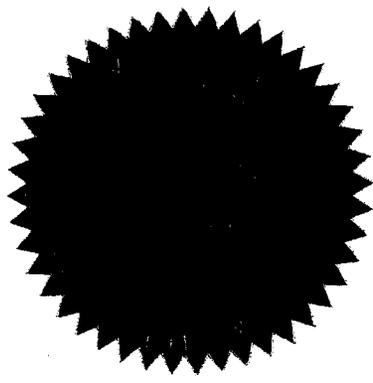
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IT IS FURTHER ORDERED that Chaparral City Water Company shall file, within 60 days of the execution of any refinancing transaction authorized herein, with Docket Control, as a compliance item in this matter, a copy of the loan documents.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

		
CHAIRMAN	COMMISSIONER	
		
COMMISSIONER	COMMISSIONER	COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19<sup>th</sup> day of March 2014.

  
\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_  
TJ:ru

**CHAPARRAL CITY WATER COMPANY**

**PROMISSORY NOTE**

**Dated** April 15, 2014

**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 \$4,545,000 in the lawful money of the United States of America (USD FOUR MILLION FIVE HUNDRED FORTY FIVE THOUSAND DOLLARS AND ZERO CENTS).

**4. Term and Maturity**

The term of the loan is nine approximately eight (8) years and eight (8) months, with a final maturity date of December 1, 2022.

**5. Repayment**

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

**6. Interest**

The Borrower agrees to pay interest at the rate of 4.565% per annum and payable annually and in arrears, on **December 1st** of each year commencing on **December 1, 2014**, 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).

**"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.

**“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.

## 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 constating 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.
- 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 Constating 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:

- (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.

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**

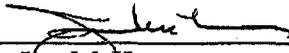
This Note shall be construed, interpreted and enforced in accordance with, and the rights and obligations of the parties shall be governed by the laws of the State of Delaware and the federal

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.]

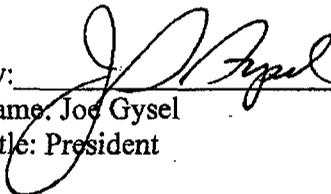
The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the 15<sup>th</sup> day of April, 2014.

**CHAPARRAL CITY WATER COMPANY**

By:   
Name: Jim McKee  
Title: Vice-President, Corporate Services

The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the 15<sup>th</sup> day of April, 2014.

**EPCOR WATER (USA) INC.**

By:   
Name: Joe Gysel  
Title: President

**Schedule A - Payment Schedule to Chaparral Water Company Promissory Note**

<b>Date</b>	<b>Interest Rate</b>	<b>Principal Payment</b>	<b>Interest Payment</b>	<b>Total Payment</b>	<b>Principal Balance</b>
15-Apr-14					\$4,545,000
1-Dec-14	4.5650%	\$405,000	\$130,740	\$535,740	\$4,140,000
1-Dec-15	4.5650%	\$430,000	\$188,991	\$618,991	\$3,710,000
1-Dec-16	4.5650%	\$450,000	\$169,826	\$619,826	\$3,260,000
1-Dec-17	4.5650%	\$475,000	\$148,819	\$623,819	\$2,785,000
1-Dec-18	4.5650%	\$500,000	\$127,135	\$627,135	\$2,285,000
1-Dec-19	4.5650%	\$530,000	\$104,310	\$634,310	\$1,755,000
1-Dec-20	4.5650%	\$555,000	\$80,335	\$635,335	\$1,200,000
1-Dec-21	4.5650%	\$585,000	\$54,780	\$639,780	\$615,000
1-Dec-22	4.5650%	\$615,000	\$28,075	\$643,075	\$0
<b>Total</b>		<b>\$4,545,000</b>	<b>\$1,033,011</b>	<b>\$5,578,011</b>	