

**ORIGINAL**



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2016 MAY 11 P 3:58

AZ CORP COMMISSION  
DOCKET CONTROL

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**  
DOUG LITTLE, CHAIRMAN  
BOB STUMP  
BOB BURNS  
TOM FORESE  
ANDY TOBIN

Arizona Corporation Commission

**DOCKETED**

MAY 11 2016

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF  
INDIADA WATER COMPANY, INC., FOR  
APPROVAL OF A PERMANENT INCREASE  
IN ITS WATER RATES.

DOCKET NO. W-02031A-10-0168

IN THE MATTER OF THE APPLICATION OF  
ANTELOPE RUN WATER COMPANY FOR  
APPROVAL OF A PERMANENT INCREASE  
IN ITS WATER RATES.

DOCKET NO. W-02327A-10-0169

IN THE MATTER OF THE APPLICATION OF  
BOB B. WATKINS DBA EAST SLOPE  
WATER COMPANY FOR APPROVAL OF  
ITS PERMANENT INCREASE IN ITS  
WATER RATES.

DOCKET NO. W-01906A-10-0170

IN THE MATTER OF THE APPLICATION OF  
BOB B. WATKINS DBA EAST SLOPE  
WATER COMPANY, INDIADA WATER  
COMPANY, INC., AND ANTELOPE RUN  
WATER COMPANY FOR APPROVAL OF A  
TRANSFER OF ASSETS AND  
CERTIFICATES OF CONVENIENCE AND  
NECESSITY.

DOCKET NO. W-01906A-10-0171  
DOCKET NO. W-02031A-10-0171  
DOCKET NO. W-02327A-10-0171

1 IN THE MATTER OF THE APPLICATION OF  
2 BOB B. WATKINS DBA EAST SLOPE  
3 WATER COMPANY FOR AUTHORITY TO  
4 INCUR LONG-TERM DEBT.

DOCKET NO. W-01906A-10-0183

4 IN THE MATTER OF THE APPLICATION OF  
5 INDIADA WATER COMPANY, INC. FOR  
6 AUTHORITY TO INCUR LONG-TERM  
7 DEBT.

DOCKET NO. W-02031A-10-0184

7 IN THE MATTER OF THE APPLICATION OF  
8 ANTELOPE RUN WATER COMPANY FOR  
9 AUTHORITY TO INCUR LONG-TERM  
10 DEBT.

DOCKET NO. W-02327A-10-0185

**NOTICE OF PROPOSED  
REVISION TO INCLUDE  
DRILLING OF WELL AND  
APPLICATION TO AMEND  
DECISION 73091 REGARDING  
FINANCING**

13 Pursuant to Decision No. 75172 and A.R.S. § 40-252, East Slope Water Company,  
14 Inc. (“Company”) hereby files notice of proposed revision of scope of work to include  
15 the drilling of a well and requests authorization to borrow \$2,110,000 from CoBank,  
16 ACB, a federally chartered instrumentality of the United States, upon the terms discussed  
17 herein.  
18

19  
20 **Background**

21 On April 10, 2012, in Decision No. 73091, the Commission authorized the  
22 consolidation of three separate water companies into one, the East Slope Water  
23 Company. The primary reason for consolidation was to enable the Company to incur  
24 debt to make much-needed capital improvements. The initial estimated cost of these  
25 improvements was \$2,749,504. Afterwards, engineers reviewed the plans and changed  
26 the scope of the project, dropping the estimated cost to \$2,114,063. See Attachment 1  
27  
28

1 (Decision No. 75172, Exhibit A).

2 A critical improvement sought by the Company was the replacement of Well Nos.  
3 55-805790, 55-805791, and 55-805792, which are commonly referred to as Indiada Well  
4 Nos. 2, 3, and 4. The replacement well is necessary because the current wells cannot  
5 meet customer water demands in the summer. However, as the Commission knows,  
6 WIFA has taken the position that drilling the replacement well would require a National  
7 Environmental Policy Act (“NEPA”) Environmental Assessment, which is an expensive  
8 and time-consuming process and has not been approved by the Commission.  
9

10 Consequently, the scope of work set forth in Decision No. 75172 did not include the  
11 drilling of a new well. Nevertheless, understanding the Company’s position, the  
12 Commission stated the Company “may revise the scope of projects described in Exhibit  
13 A to include the drilling of a well provided it files notice of the proposed revision ... and  
14 the overall cost of the project does not exceed the loan amount approved in this matter.”  
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16 Decision No. 75172 at p. 6.

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Needing to drill the well, the Company researched other financing options, and in  
late 2015, the Company found CoBank, which is willing to loan the Company the  
necessary funds to drill the well and make other improvements. While CoBank’s interest  
rate is slightly higher than WIFA’s rate, the Company understands that making certain  
improvements will be less expensive if funded through CoBank rather than WIFA. The  
reason is that WIFA must follow federal laws commonly referred to as the American Iron  
and Steel Act and Davis-Bacon Wage Rate Act. Following these rules drive up project  
costs by approximately 20%, usually. In addition, CoBank will not require an

1 Environmental Assessment, which will save between \$35,000 and \$100,000, depending  
2 upon what is required. Thus, even though CoBank's interest rate will be slightly higher,  
3 the savings to the Company and its customers will be substantial and the water shortage  
4 will be resolved faster.

5  
6 To be clear, the Company is not requesting any additional funds. It is requesting  
7 that the Commission allow the Company to borrow \$1,016,600 from CoBank rather than  
8 WIFA. Further, due to the fact that lenders of such high amounts of money often insist  
9 upon being in first position in case of default, the Company may need to refinance the  
10 current WIFA indebtedness, which is why the proposed loan is for up to \$2,110,000.  
11 However, if CoBank and WIFA can agree to an equal creditor position, then there will be  
12 no need to refinance the existing loan and the Company will borrow no more than  
13 \$1,016,600 from CoBank.  
14  
15  
16

## 17 **INFORMATION REQUESTED**

### 18 **1. Applicant's Name and Address.**

19 East Slope Water Company, Inc.  
20 PO Box 85160  
21 Tucson, AZ 85754  
22 520-623-5172  
23 Physical address is 2015 North Forbes Blvd., Suite 107, Tucson, AZ.

### 24 **2. Person Authorized to Receive Communications.**

25 Steve Wene  
26 Moyes Sellers & Hendricks Ltd.  
27 1850 North Central Ave., Suite 1100  
28 Phoenix, Arizona 85004  
Telephone: (602) 604-2189  
Facsimile: (602) 274-9135  
swene@law-msh.com

1 **3. Financing Description.**

2 If the Commission authorizes the proposed debt, the Company will request that  
3 CoBank lend the Company up to \$2,110,000. Consistent with industry practice, CoBank  
4 cannot offer the actual finance terms until the Commission authorizes water providers  
5 like the Company to incur debt. To assist in the loan analysis, a copy of the proposed  
6 loan terms and note are set forth in Attachment 2. The interest rate will be offered at the  
7 time of closing. Currently, CoBank's rate on this loan would be 5.01%.

8 **4. Proceeds Statement.**

9 Gross proceeds will be \$2,110,000. There is a \$5,000 origination fee. The  
10 Company will net \$2,105,000 from the proposed loan.

11 **5. Plant to be Acquired Using Net Proceeds.**

12 The plant to be acquired has already been approved by the Commission in  
13 Decision No. 75172. The improvements to be made with funding from CoBank are set  
14 forth in Attachment 3. The Company also has compared the cost of these improvements  
15 with and without the application of the Davis-Bacon and American Steel Acts. The  
16 Company estimates that using CoBank to finance the improvements will save the  
17 Company and the customers more than \$200,000.

18 **6. Consistency with A.R.S. § 40-301 et seq.**

19 The proposed financing is: (a) within the Company's corporate powers,  
20 (b) compatible with the public interest; (c) compatible with sound financial practices; and  
21 (d) compatible with the proper performance by the applicant of service as a public service  
22 corporation and will not impair the Company's ability to perform that service.

23 **7. Service Fees.**

24 Under CoBank's terms, the Company anticipates paying a fixed interest rate of  
25 approximately 5.25% to 6.00%. This market rate loan is reasonable for the Commission  
26 to approve.

27 **8. Documents to be Executed in this Matter.**

28 There are no documents to be executed in the matter at this time.

1  
2 **Pro Forma Balance Sheet and Income Statement.**

3 The application was previously approved and the Company does not believe filing  
4 of these documents are necessary. However, if requested by Staff, the Company will  
5 provide these documents.

6 **10. Customer Notice.**

7 If required by the Commission, notice will be timely published in a newspaper of  
8 general circulation in the Company's service area. The Company will file with the  
9 Commission a copy of the actual notice published and an affidavit stating when it was  
10 published.

11 **REQUEST FOR APPROVAL**

12 As set forth in this Application, the Company requests that the Commission  
13 authorize the financing described herein.  
14

15 RESPECTFULLY SUBMITTED this 11<sup>th</sup> day of May, 2016.

16 **MOYES SELLERS & HENDRICKS LTD.**

17  
18   
19

20 Original and 13 copies of the foregoing were  
21 hand-delivered this 11<sup>th</sup> day of May, 2016 to:

22 Docket Control  
23 Arizona Corporation Commission  
24 1200 West Washington  
25 Phoenix, Arizona 85007

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27  
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# **ATTACHMENT 1**

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

SUSAN BITTER SMITH  
Chairman  
BOB STUMP  
Commissioner  
BOB BURNS  
Commissioner  
DOUG LITTLE  
Commissioner  
TOM FORESE  
Commissioner

Arizona Corporation Commission

**DOCKETED**

JUL 15 2015

DOCKETED BY 

IN THE MATTER OF THE APPLICATION  
OF BOB B.WATKINS DBA EAST SLOPE  
WATER COMPANY TO AMEND DECISION  
NO. 73091 PURSUANT TO A.R.S §40-252.

DOCKET NOS. W-02031A-10-0168  
W-02327A-10-0169  
W-01906A-10-0170  
W-01906A-10-0171  
W-02031A-10-0171  
W-02327A-10-0171  
W-01906A-10-0183  
W-02031A-10-0184  
W-02327A-10-0185

DECISION NO. 75172  
ORDER

Open Meeting  
July 7 and 8, 2015  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

**Introduction and Background**

1. Bob D. Watkins dba East Slope Water Company ("East Slope" or "Company") is certificated to provide water service as a public service corporation in the State of Arizona.

2. On April 4, 2012, the Arizona Corporation Commission ("Commission") issued Decision No. 73091 approving adjusted rates and a water infrastructure surcharge mechanism for East Slope. As part of the Decision, the Commission authorized the Company to obtain a 20-year amortizing loan in an amount not to exceed \$2,748,504 to finance the proposed improvement projects, and at an interest rate not to exceed that which is available from the Water Infrastructure Finance Authority of Arizona ("WIFA").

1           3.     On December 12, 2013, the Commission issued Decision No. 73615 which amended  
2 Decision No. 73091 to authorize the Company to obtain an interest only loan from WIFA, for a term  
3 not to exceed three years and in an amount not to exceed \$282,748, for the purpose of planning and  
4 designing improvements to the Company's water system. The Company shall then roll the  
5 outstanding balance of that loan into a second loan in an amount not to exceed a combined total of  
6 \$2,748,504 for the purpose of constructing improvements to the Company's water system. The length  
7 of the second loan coupled with the actual length of the first loan is equal to 20 years. Decision No.  
8 73615 also approved the infrastructure surcharge mechanism for the Company.

9           4.     The Company's current monthly infrastructure surcharge is \$0.23 for a customer with  
10 a 5/8 x 3/4-inch meter.

11           5.     On March 6, 2015, the Company filed an application to amend Decision No. 73091  
12 pursuant to A.R.S Section 40-252 to modify the scope of the improvement projects (outlined in  
13 Exhibit B of Decision No.73091) and to modify certain dates related to financing and construction of  
14 proposed improvement projects.

15           6.     On March 27, 2015, WIFA submitted a request to amend Decision No. 73091, to get  
16 approval of the revised project list, and to request that the calculation of the water infrastructure  
17 surcharge also include the debt service reserve.

18           7.     Staff reviewed the modified proposed improvement projects outlines in the attached  
19 Exhibit A and determined the projects are appropriate and the cost estimates of \$2,114,063 projected  
20 by the Company are reasonable. Staff made no used and useful determination of the proposed plant  
21 and no particular future treatment should be inferred for rate-making purposes.

22           8.     According to the memorandum, several wells in the West System have a tendency to  
23 dry up in low rainfall periods. The Memorandum concludes that the West System current well  
24 capacity is not sufficient to adequately meet existing demand and redundancy requirements. The  
25 Company proposes to install an emergency interconnect with the adjacent Pueblo Del Sol Water  
26 Company ("PDS"). Staff requested the Company provide the signed Interconnect Agreement  
27 between the Company and PDS. The Company responded that there is no such agreement in place.

28 ...

1 **Calculation of Infrastructure Surcharge**

2 9. Staff's calculation utilized the Company's customer billing determinants to compute  
3 the appropriate infrastructure surcharge based on meter size. Staff's infrastructure surcharge is  
4 calculated to be collected as a monthly surcharge in addition to the customary monthly minimum  
5 charge and does not include a commodity component.

6 10. Based on the estimated \$2,114,063 WIFA loan and the 5.25 percent combined interest  
7 and fee rate, the Company will be required to pay \$188,253 for Annual Principal and Interest and  
8 \$37,651 for Annual Debt Service Reserve. The WIFA loan surcharge also includes a component for  
9 the annual income tax. A Gross Revenue Conversion Factor of 1.318505, approved in Decision No.  
10 73091, was used to calculate the annual income tax component of surcharge revenue.

11 11. Staff has included the debt service reserve fund in the WIFA loan surcharge that  
12 customers will pay. The debt service reserve fund is a fund that the Company pays into for five years.  
13 After five years, the balance will equal one year of principal and interest payments for the loan.

14 12. Staff calculated a monthly infrastructure surcharge for a customer with a 5/8 x 3/4-  
15 inch meter at \$18.48.

16 13. An East Slope Water Company residential customer on a 5/8 x 3/4-inch meter using  
17 an average of 9,137 gallons would see a monthly increase of \$18.25, or 71.25 percent, from \$25.51 to  
18 \$43.76.<sup>1</sup>

19 14. An Indiada Water Company residential customer on a 5/8 x 3/4-inch meter using an  
20 average of 8,731 gallons would see a monthly increase of \$18.25, or 73.51 percent, from \$24.82 to  
21 \$43.07.

22 15. An Antelope Run Water Company residential customer on a 5/8 x 3/4-inch meter  
23 using an average of 11,839 gallons would see a monthly increase of \$18.25, or 55.62 percent, from  
24 \$32.81 to \$51.06.

25 ...

26

27 <sup>1</sup> Decision No. 73019 approved the consolidation of Indiada Water Company, Antelope Run Water and East Slope Water  
28 Company. East Slope Water Company was the remaining entity. Separate rates were maintained for East Slope, Indiada  
and Antelope Run customers.

1           16.    When the reserve fund is included in the WIFA surcharge, as Staff has done,  
 2 ratepayers will be effectively "prepaying" \$188,253 in funding that will eventually be used to either  
 3 make loan payments or to pay for future maintenance, or this balance will be refunded to the  
 4 Company. Ratepayers should ultimately be given credit for making these prepayments.

5           17.    Staff recommends modification of the loan authorizations approved in Decision  
 6 No.73091 via A.R.S §40-252 to approve the modified proposed improvement projects outlines in the  
 7 attached Exhibit A and to authorize the Company to obtain a seventeen-year amortizing consolidated  
 8 loan in an amount not to exceed \$2,114,063 for the purpose of constructing system improvements.

9           18.    Staff recommends approval of the infrastructure surcharges presented below:

10                           **MONTHLY INFRASTRUCTURE SURCHARGE**

11                           5/8"x 3/4" Meter	\$ 18.48
3/4" Meter	\$ 27.72
12                           1" Meter	\$ 46.20
1 1/2" Meter	\$ 92.40
13                           2" Meter	\$147.84
3." Meter	\$295.68
14                           4" Meter	\$462.00
6" Meter	\$924.00

15  
 16           19.    Staff has also recommended the following:  
 17                           Staff recommends the new infrastructure surcharge become effective when the  
 18 Company closes this portion of the WIFA loan.

19                           Staff recommends the cancellation of the current monthly infrastructure surcharge  
 20 when the new infrastructure surcharge becomes effective.

21                           Staff recommends that the Company place the surcharge funds in a separate, interest-  
 22 bearing account; and withdrawal access to that account is restricted to only WIFA  
 except for income tax withdrawals necessary to pay the associated income taxes.

23                           Staff recommends that the Company file with the Commission an infrastructure  
 24 surcharge tariff consistent with the rates reflected in schedule PNT-1.

25                           Staff recommends that the Company be required to file a follow-up rate case within  
 26 five years of the effective date of the surcharge approval. If the Company fails to  
 timely file the rate case, the WIFA infrastructure surcharge will automatically cease no  
 later than July 31, 2020.

27                           Staff recommends that the Company notify its customers of the infrastructure  
 28 surcharge tariff approved in this proceeding within 30 days of the effective date of the  
 Commission Decision, in a notice acceptable to Staff.

1 Staff recommends that the Company be required to file with Docket Control, as a  
2 compliance item in this docket, documentation which demonstrates the final loan  
3 details and customer count within 30 days of when the new infrastructure surcharge is  
4 first billed.

5 As per Staff Engineer's memo, Staff recommends that the Company be required to file  
6 with Docket Control, as a compliance item in this docket, documentation which  
7 demonstrates that the interconnect with Pueblo Del Sol Water Company will provide  
8 the West System as much water as needed by the Company to serve its customers.  
9 This documentation should be provided prior to the Company closing on any loan for  
10 these improvements or by October 2, 2015, whichever is earlier.

11 Staff recommends that the Company be required to file with Docket Control, as a  
12 compliance item in this docket, by July 1, 2016, copies of the Approvals of  
13 Construction ("AOC") for each of the proposed improvement projects, as delineated  
14 in the Proposed Capital Improvement Projects and Costs Table.

15 20. We find Staff's recommendations to be reasonable and will adopt them with certain  
16 modifications requested by the Company in its July 2, 2015 comments in this docket. We believe it is  
17 reasonable to extend the time for filing AOCs for each of the proposed improvement projects to  
18 March 31, 2017. We also believe the Company has proposed a reasonable process for future potential  
19 revisions of Exhibit A to include the drilling of a well.

#### 20 CONCLUSIONS OF LAW

21 1. Bob D. Watkins dba East Slope Water Company is a public service corporation within  
22 the meaning of Article XV of the Arizona Constitution and A.R.S. § 40-250 and 40-252.

23 2. The Commission has jurisdiction over Bob D. Watkins dba East Slope Water  
24 Company and of the subject matter of the application.

25 3. Pursuant to A.R.S. § 40-252, the Commission, having reviewed the record, concludes  
26 that it is in the public interest to approve the modifications to Decision No. 73091, as discussed  
27 herein.

28 4. The Commission further concludes that approval of an infrastructure surcharge  
recovery mechanism is consistent with the Commission's authority under the Arizona Constitution,  
Arizona ratemaking statutes, and applicable case law.

5. The Commission further concludes that it is in the public interest to approve the  
infrastructure surcharge for Bob D. Watkins dba East Slope Water Company, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Decision No. 73091 is amended to adopt modified proposed improvement projects outlined in the attached Exhibit A. East Slope Water Company may revise the scope of projects described in Exhibit A to include the drilling of a well provided it files notice of the proposed revision in this docket and the overall cost of the project does not exceed the loan amount approved in this matter. Staff shall review this filing and file its recommendation within 60 days.

IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company is hereby authorized to obtain a 17-year amortizing loan in an amount not to exceed \$2,114,063 to finance the modified proposed improvement projects, and at an interest rate not to exceed that which is available from WIFA.

IT IS FURTHER ORDERED that the infrastructure surcharge mechanism for Bob D. Watkins dba East Slope Water Company is approved, as discussed herein.

IT IS FURTHER ORDERED that Bob D. Watkins dba East Slope Water Company is hereby authorized and directed to file with the Commission's Docket Control, as a compliance item in this docket, within 30 days of the effective date of this Decision, a revised tariff setting forth the following infrastructure surcharges:

MONTHLY INFRASTRUCTURE SURCHARGE

5/8"x 3/4" Meter	\$ 18.48
3/4" Meter	\$ 27.72
1" Meter	\$ 46.20
1 1/2" Meter	\$ 92.40
2" Meter	\$147.84
3." Meter	\$295.68
4" Meter	\$462.00
6" Meter	\$924.00

IT IS FURTHER ORDERED that the new infrastructure surcharge become effective when Bob B. Watkins dba East Slope Water Company closes this portion of the WIFA loan.

IT IS FURTHER ORDERED that the current monthly infrastructure surcharge is cancelled when the new infrastructure surcharge becomes effective.

...

1           IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company shall  
2 place the surcharge funds in a separate, interest-bearing account; and withdrawal access to that  
3 account is restricted to only WIFA except for income tax withdrawals necessary to pay the associated  
4 income taxes.

5           IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file  
6 with Docket Control, as a compliance item in this docket, documentation which demonstrates the  
7 final loan details and customer count within 30 days of when the new infrastructure surcharge is first  
8 billed.

9           IT IS FURTHER ORDERED that the Bob B. Watkins dba East Slope Water Company file  
10 with Docket Control, as a compliance item in this docket documentation which demonstrates that the  
11 interconnect with Pueblo Del Sol Water Company will provide the West System as much water as  
12 needed by Bob B. Watkins dba East Slope Water Company to serve its customers. This  
13 documentation shall be provided by November 2, 2015.

14           IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company notify its  
15 customers of the infrastructure surcharge tariff approved in this proceeding within 30 days of the  
16 effective date of the Commission Decision, in a notice acceptable to Staff.

17           IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file with  
18 Docket Control, as a compliance item in this docket, by March 31, 2017, copies of the Approvals of  
19 Construction ("AOC") for each of the proposed improvement projects, as delineated in the Proposed  
20 Capital Improvement Projects and Costs Table.

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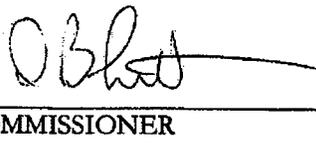
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IT IS FURTHER ORDERED that Bob B. Watkins dba East Slope Water Company file a rate case within five years of the effective date of the surcharge approval. If Bob B. Watkins dba East Slope Water Company fails to timely file the rate case, the WIFA infrastructure surcharge will automatically cease no later than July 31, 2020.

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

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

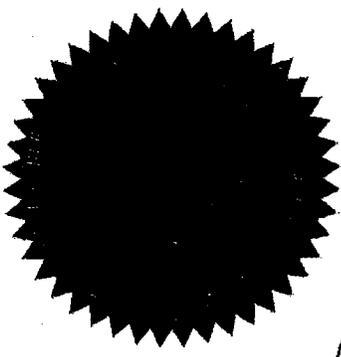
  
CHAIRMAN

  
COMMISSIONER

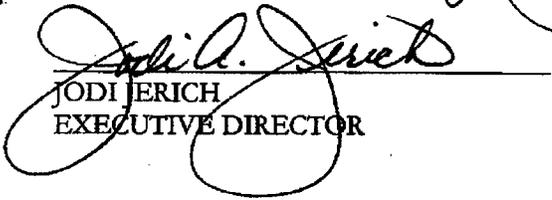
  
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IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 15th day of July, 2015.

  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:PNT:red\RRM

1 SERVICE LIST FOR: Bob D. Watkins dba East Slop Water Company  
2 DOCKET NO. W-02031A-10-0168 et al.

3 Mr. Steve Wene  
4 1850 North Central Avenue, Suite 1100  
5 Phoenix, Arizona 85004

6 Ms. Bonnie O'Connor  
7 2015 Forbes Boulevard, Suite 107  
8 Tucson, Arizona 85745

9 Mr. Steven M. Olea  
10 Director, Utilities Division  
11 Arizona Corporation Commission  
12 1200 West Washington Street  
13 Phoenix, Arizona 85007

14 Ms. Janice M. Alward  
15 Chief Counsel, Legal Division  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
18 Phoenix, Arizona 85007

19 Mr. Dwight Node  
20 Acting Chief Administrative Law Judge, Hearings Division  
21 Arizona Corporation Commission  
22 1200 West Washington Street  
23 Phoenix, AZ 85007

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## EXHIBIT A

Proposed Capital Improvement Projects and Costs Table					
Item No.	Item Description	Quantity	Unit Cost	Amount	Remarks
<b>Main System</b>					
1	Install new 6-inch PVC waterline and all appurtenances between Well No.3 to Camino Principal	7,250 lf	\$65	\$471,250	To improve system's water distribution, pressure and redundancy
2	Install new 6-inch DIP waterline and all appurtenances between Well No.3 to Camino Principal	300 lf	\$85	\$25,500	Ductile Iron Pipe is required at all wash crossings
3	Directional drill under roadways (HDPE)	180 lf	\$250	\$45,500	To comply with Cochise County right-of-way paved roads crossings
4	Install tie-ins (6-inch and 4-inch pipe) to existing system			\$35,000	To tie new 6-inch waterline into water system in several locations, including Well No.2 site
5	Miscellaneous piping tie-over and replacements between Wells No.4 and 1 sites including water main and service connections			\$22,000	To abandon old 2-inch lines and connect to existing 6-inch line
6	Install new PRV station as part of pipeline project referenced in Item No. 9	1	\$15,000	\$15,000	To regulate pressure in two separate pressure zones
7	Temporary water line for construction			\$23,000	
8	Install new 4-inch PVC waterline in Glenn Road	1,000 lf	\$50	\$50,000	To replace existing 2-inch line
9	Install new 6-inch PVC waterline and all appurtenances, tie-ins, crossings in Ramsey Road east of Well No.3	3,600 lf	\$85	\$306,000	To permanently interconnect main and RSP pressure zones and improve water flow from RSP facilities
10	Directional drill under roadways (HDPE)	200	\$250	\$50,000	To comply with Cochise County right-of-way paved roads crossings
	Subtotal			\$1,042,750	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$260,688	
	<b>Total Project Costs</b>			<b>\$1,303,438</b>	
<b>West System</b>					
1	Install new 100,000 gallon storage tank at Indiada Well No. 2 site	1	\$170,000	\$170,000	To improve system's storage capacity
2	Site work and piping at Indiada Well No. 2 site			\$35,000	As part of projects referenced in Item No. 1 and Item No.3
3	Booster and electrical upgrades at Indiada Well No. 2 site			\$25,000	To improve system pressure
4	Install new 6-inch DIP waterline and all appurtenances	2,100 lf	\$90	\$189,000	To connect new storage tank to the system
5	Install new 6-inch PVC waterline and all appurtenances in East Yaqui Street	1,400 lf	\$75	\$105,000	Interconnect to PDS to provide backup of water supply
6	Install new booster pump at Antelope Run Well No.1 site	1		\$45,000	To improve water distribution and redundancy
7	Install new pressure tank at Antelope Run Well No.1 site	1		\$20,000	To replace failing tank
8	Electrical upgrades at Antelope Run Well No.1 site			\$15,000	As part of projects referenced in Item No. 6
9	Install new 4-inch PVC waterline	300 lf	\$65	\$19,500	To improve system's water distribution, pressure and redundancy
10	Radio control system	1		\$25,000	To improve system operation
	Subtotal			\$648,500	
	Engineering, Permitting, Construction Services and Contingencies		25%	\$162,125	
	<b>Total Project Costs</b>			<b>\$810,625</b>	
	<b>Total for Main and West systems</b>			<b>\$2,114,063</b>	

# **ATTACHMENT 2**

## CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this “**Agreement**”), dated as of February 11, 2016 is entered into by and between **EAST SLOPE WATER COMPANY, INC.**, Tucson, Arizona, a corporation (the “**Borrower**”), and **COBANK, ACB**, a federally-chartered instrumentality of the United States (“**Lender**”).

### RECITALS

In consideration of the agreements set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Lender agree as follows:

**ARTICLE 1 Defined Terms; Accounting Principles.** Certain capitalized terms used in this Agreement bear the definitions given to them in this Agreement. References to accounting standards are to United States generally accepted accounting principles, consistently applied, or those required of the regulatory agency having jurisdiction over the Borrower, including but not limited to the system of accounts established by the United States Department of Agriculture acting through Rural Development or the Rural Utilities Service, or their predecessors (“RD/RUS”), if applicable or such other commission or body as may be agreeable to Lender (the “**Accounting Standards**”).

### ARTICLE 2 The Facilities.

**2.1 Promissory Note.** In the event the Borrower desires to borrow from Lender and Lender is willing to lend to the Borrower, or in the event the parties desire to consolidate any existing loans hereunder, the parties will enter into a promissory note (a “**Promissory Note**”). Each Promissory Note will set forth Lender’s commitment to make a loan or loans to the Borrower, the amount of the loan(s), the purpose of the loan(s), the interest rate or rate options applicable to the loan(s), the repayment terms of the loan(s), and any other terms and conditions applicable to the particular loan(s). Each Promissory Note will also contain the Borrower’s promise to make payments of interest on the unpaid principal balance of the loan(s), and fees and premiums, if any, and to repay the principal balance of the loan(s). Each loan will be governed by the terms and conditions contained in this Agreement and in the Promissory Note relating to that loan.

**2.2 Availability.** Loans will be made available on any day on which Lender and the Federal Reserve Banks are open for business (a “**Business Day**”) upon the telephonic or written request of an authorized employee of the Borrower. Requests for loans must be received by 12:00 p.m. Denver, Colorado time on the date the loan is desired. Loans will be made available by wire transfer of immediately available funds. Wire transfers will be made to such account or accounts as may be authorized by the Borrower.

**2.3 Security.** The Borrower’s obligations under this Agreement and each Promissory Note will be secured by a statutory first lien on all equity that the Borrower may now own or hereafter acquire or be allocated in Lender. In addition, except as otherwise provided in a Promissory Note or in a closing instruction letter signed by the parties (an “**Instruction Letter**”), the Borrower’s obligations hereunder and under each Promissory Note will be:



(a) secured by a first priority lien (subject only to exceptions approved in writing by Lender) on all real and personal property of the Borrower, whether now existing or hereafter acquired. The Borrower agrees to take such steps, including, without limitation, the execution and recordation or filing, as applicable, of mortgages, deeds of trust, security agreements, intercreditor or parity agreements, pledge agreements, control agreements, financing statements, and amendments to any of the foregoing, and such other instruments and documents as Lender may require to enable Lender to obtain, perfect, and maintain a lien on such property, and the payment of any applicable mortgage recording, documentary stamp, or intangible taxes; and

(b) guaranteed by an unsecured or secured, limited or continuing guarantee of payment, in form and substance and from such parties as may be required by Lender from time to time. If Lender requires such guarantee(s) to be secured by a lien on the real and/or personal property of a guarantor (a "**Guarantor**"), Borrower will cause each Guarantor to take such steps, including, without limitation, the execution and recordation or filing, as applicable, of mortgages, deeds of trust, security agreements, pledge agreements, control agreements, financing statements, and amendments to any of the foregoing, and such other instruments and documents as Lender may require to enable Lender to obtain, perfect, and maintain a lien on such property, and the payment of any applicable mortgage recording, documentary stamp, or intangible taxes.

**2.4 Payments Generally.** The Borrower's obligation to repay each loan will be evidenced by a Promissory Note. Lender will maintain a record of all loans, the interest accrued thereon, and all payments made with respect thereto, and such record will, absent proof of manifest error, be conclusive evidence of the outstanding principal and interest on the loans. Payments under each Promissory Note will be made by wire transfer of immediately available funds, by check, or by automated clearing house (ACH) or other similar cash handling processes as specified by separate agreement between the Borrower and Lender. Wire transfers will be made to ABA No. 307088754 for advice to and credit of "CoBANK" (or to such other account as Lender may direct by notice). The Borrower will give Lender telephonic notice no later than 12:00 p.m. Denver, Colorado time on the day the Borrower intends to pay by wire of such intent, and funds received after 3:00 p.m. Denver, Colorado time will be credited on the next Business Day. Checks will be mailed to CoBANK, Department 167, Denver, Colorado 80291-0167 (or to such other place as Lender may direct by notice). Credit for payment by check will not be given until the later of the next Business Day after receipt of the check or the day on which Lender receives immediately available funds. If any installment of principal or interest is due on a date that is not a Business Day, then such installment will be due and payable on the next Business Day.

**2.5 Broken Funding Surcharge.** Notwithstanding the terms of any Promissory Note giving the Borrower the right to repay any loan prior to the date it would otherwise be due and payable, the Borrower agrees to provide three Business Days' prior written notice for any prepayment of a fixed rate balance and to pay to Lender a broken funding surcharge in the amount set forth below in the event the Borrower: (a) repays any fixed rate balance prior to the last day of its fixed rate period (whether such payment is made voluntarily, as a result of an acceleration, or otherwise); (b) converts any fixed rate balance to another fixed rate or to a variable rate prior to the last day of the fixed rate period applicable to such balance; or (c) fails to borrow any fixed rate balance on the date scheduled therefor. The surcharge will be in an amount equal to the greater of (1) the sum of: (i) the present value of any funding losses imputed by Lender to have been incurred as a result of such payment, conversion or failure; plus (ii) a per annum yield of 0.50% of the amount repaid, converted or not borrowed for the period such amount was scheduled to have been outstanding at such fixed rate, or (2) \$300.00. Any surcharge will be determined and calculated in accordance with methodology established by Lender, a copy of which will be made

available upon request. Notwithstanding the foregoing, in the event of a conflict between the provisions of this section and of the broken funding charge section of a forward fix agreement between Lender and the Borrower, the provisions of the forward fix agreement will control.

**2.6 Taxes; Change in Law.** Any payment by the Borrower to Lender will be made net of any taxes (other than income and similar taxes imposed on or measured by Lender's overall net income). If any change in any law, rule, regulation, code, ordinance, order or the like to which the Borrower is subject, including, without limitation, all laws relating to environmental protection, and taxes (collectively, "**Laws**"), increases the cost of making or maintaining any loan (or any associated commitment to lend), or reduces the amount received or receivable by Lender hereunder then, upon request, the Borrower will pay to Lender such additional amount as will compensate Lender for such additional costs incurred or reduction suffered.

### **ARTICLE 3 Conditions Precedent.**

**3.1 Conditions to Initial Promissory Note.** Lender's obligation to extend credit under the initial Promissory Note hereunder is subject to the condition precedent that Lender receive, in form and substance satisfactory to Lender, each of the following, except as otherwise provided in a Promissory Note or in an Instruction Letter:

(a) **This Agreement.** A duly executed copy of this Agreement, the other Loan Documents (as defined below), the Instruction Letter accompanying this Agreement, and all instruments and documents contemplated hereby and thereby.

(b) **Banking Service Agreements.** A duly completed and executed copy of any banking service agreement, including any agreement relating to the provision by Lender of cash management services, required by Lender from time to time. Lender will be entitled to rely on (and will incur no liability to the Borrower in acting on) any request or direction furnished in accordance with the terms thereof.

**3.2 Conditions to Each Promissory Note.** Lender's obligations to extend credit under each Promissory Note hereunder, including the initial Promissory Note, is subject to the condition precedent that Lender receive, in form and substance satisfactory to Lender, each of the following, except as otherwise provided in a Promissory Note or in an Instruction Letter:

(a) **Promissory Note.** A duly executed copy of the Promissory Note and all instruments and documents contemplated by the Promissory Note.

(b) **Instruction Letter.** Any and all items or requirements detailed in an Instruction Letter.

(c) **Evidence of Perfection.** Such evidence as Lender may require that it has duly perfected liens as required under this Agreement.

(d) **Evidence of Authority.** Such certified board resolutions, certificates of incumbency, and other evidence that Lender may require that the Promissory Note, all instruments and documents executed in connection therewith, and, in the case of the initial Promissory Note hereto, this Agreement, the other Loan Documents (as defined below) and all instruments and documents executed in connection herewith and therewith, including any security documents, have been duly authorized and executed.

EAST SLOPE WATER COMPANY, INC.  
Tucson, Arizona  
**Agreement No. 00101315SLA**

(e) **Fees and Other Charges.** Any fees or other charges provided for herein, in the Promissory Note or in any invoice provided by Lender.

(f) **Insurance.** Such evidence as Lender may require that the Borrower is in compliance with Section 5.4 below.

(g) **Consents and Approvals.** Evidence as Lender may require that all regulatory and other consents and approvals referred to in Section 4.6 below have been obtained and are in full force and effect.

(h) **Opinion of Counsel.** An opinion of counsel to the Borrower (which counsel must be acceptable to Lender).

**3.3 Conditions to Each Loan.** Lender's obligation under each Promissory Note to make any loan to the Borrower thereunder is subject to the condition that no "**Event of Default**" (as defined in Section 8.1 below) or event that, with the giving of notice and/or the passage of time and/or the occurrence of any other condition, would ripen into an Event of Default (a "**Potential Default**") will have occurred and be continuing or would be caused by the making of such loan.

**ARTICLE 4 Representations and Warranties.** The execution by the Borrower of this Agreement and each Promissory Note hereunder, or any renewal or extension by Lender of any Promissory Note hereunder, will constitute a representation and warranty by the Borrower that:

**4.1 Instruction Letter; Loan Documents.** Each representation and warranty and all information set forth in any Instruction Letter and/or any of the Loan Documents (as defined below) and/or any other document submitted in connection with, or to induce Lender to enter into, such Promissory Note is correct in all material respects as of the date of such Promissory Note.

**4.2 Compliance; Legal Proceedings.** The Borrower and its subsidiaries and all property owned or leased or proposed to be acquired with the proceeds of any Promissory Note hereunder by the Borrower and/or its subsidiaries and all of its/their operations are in compliance with all applicable Laws and the terms of the Loan Documents and no Event of Default or Potential Default exists or is continuing. In addition, there are no pending legal, arbitration, or governmental actions or proceedings to which the Borrower or any subsidiary is a party or to which any of its or any subsidiaries' property is subject which, if adversely determined, might have a material adverse effect on the financial condition, operations, properties, profits, or business of the Borrower or any subsidiary, and to the best of the Borrower's knowledge, no such actions or proceedings are threatened or contemplated.

**4.3 Organization; Good Standing.** The Borrower (a) is duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, (b) has the lawful power to own or lease its properties and to engage in the business it conducts or proposes to conduct, and (c) is duly qualified and in good standing in each jurisdiction where the property owned or leased by it or the nature of the business transacted by it makes such qualification necessary.

**4.4 Binding Agreement.** The Loan Documents constitute legal, valid, and binding obligations of the Borrower that are enforceable in accordance with their terms.

**4.5 Conflicting Agreements.** Neither this Agreement nor any Promissory Note, or other instrument or document securing or otherwise relating hereto or to any Promissory Note (each a "**Loan**

**Document**” and collectively, at any time, the **“Loan Documents”**) conflicts with, or constitutes (with or without the giving of notice and/or the passage of time and/or the occurrence of any other condition) a default under, any other agreement to which the Borrower is a party or by which it or any of its property may be bound or affected, and does not conflict with any provision of its bylaws, articles of incorporation or other organizational documents.

**4.6 Consents and Approvals.** No consent, permission, authorization, order or license of any governmental authority or of any party to any agreement to which the Borrower is a party or by which it or any of its property may be bound or affected, is necessary in connection with the project, acquisition or other activity being financed by such Promissory Note, or the execution, delivery, performance or enforcement of any Loan Document, except as have been obtained and are in full force and effect.

**4.7 Budgets; Full Disclosure.** All budgets, projections, feasibility studies, and other documentation submitted by the Borrower to Lender in connection with, or to induce Lender to enter into, such Promissory Note are based upon assumptions that are reasonable and realistic, and as of the date of such Promissory Note, no fact has come to light, and no event has occurred, that would cause any assumption made therein to not be reasonable or realistic. No Loan Document or other certificate, statement, agreement, or document furnished to Lender in connection with this Agreement or any other Loan Document (a) contains any untrue statement of a material fact, or (b) fails to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading. The Borrower is not aware of any Material Adverse Change that has not been disclosed in writing to Lender. A **“Material Adverse Change”** means any material adverse change, as reasonably determined by Lender, in the condition, financial or otherwise, operations, business, liabilities (actual or contingent) or properties of the Borrower or in its ability to perform its obligations hereunder, under any security instrument or document, or under any other Loan Document.

**4.8 Accurate Financial Information.** Each submission of financial information or documents relating to the Borrower will constitute a representation and warranty by the Borrower that such information and documents (a) are true and accurate in all material respects, and (b) do not fail to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

**4.9 ERISA.** The Borrower and its subsidiaries are in compliance in all material respects with the applicable provisions of the Employee Retirement Income Security Act of 1974, and the regulations and published interpretations thereunder from time to time (**“ERISA”**).

**4.10 Water Rights and System Condition.** The Borrower has water rights with such amounts, priorities and qualities as are necessary to service adequately the Borrower’s customers and members. The Borrower controls, owns, or has access to all such water rights free and clear of the interest of any third party and has not suffered or permitted any transfer or encumbrance of such water rights, has not abandoned such water rights, or any of them, and has not done any act or thing which would impair or cause the loss of any such water rights. The Borrower’s utility facilities reasonably meet present demand in all material respects, are constructed in a good and professional manner, are in good working order and condition, and comply in all material respects with all applicable law.

**4.11 Rate Matters.** The Borrower’s rates for the provision of water have been approved, if applicable, by any and all necessary governmental regulatory authorities, including, without limitation, each public service commission or public utilities commission that may have jurisdiction over the

operations and rates of the Borrower. Further, there is no pending, and to the Borrower's knowledge, no threatened proceeding before any governmental authority, the objective or result of which is or could be to materially reduce or otherwise materially adversely change any of the Borrower's rates for the provision of water and/or waste water services, or otherwise have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of the Borrower.

**ARTICLE 5 Affirmative Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, the Borrower agrees to, and with respect to Sections 5.3, 5.4, 5.5, and 5.8, agrees to cause each subsidiary, if any, to:

**5.1 Reports and Notices.** Furnish to Lender:

(a) **Annual Financial Statements.** As soon as available, but in no event more than 120 days after the end of each fiscal year of the Borrower occurring during the term hereof, annual financial statements of the Borrower, prepared in a manner acceptable to Lender. Such financial statements will be prepared in reasonable detail acceptable to Lender.

(b) **Interim Financial Statements.** INTENTIONALLY OMITTED.

(c) **Notice of Default.** Promptly after becoming aware thereof, notice of the occurrence of an Event of Default or a Potential Default, including, without limitation, any error in the Borrower's financial information previously provided to Lender and the occurrence of any breach, default, event of default or event that, with the giving of notice and/or the passage of time and/or the occurrence of any other condition, would become a breach, default or event of default under any loan agreement, indenture, mortgage, or other credit or security agreement or instrument to which the Borrower is a party or by which it or any of its property may be bound or affected.

(d) **Notice of Litigation, Environmental Matters, Etc.** Promptly after becoming aware thereof, notice of: (1) the commencement of any action, suit or proceeding before any court, arbitrator or governmental department, commission, board, bureau, agency, or instrumentality having jurisdiction over the Borrower, that, if adversely decided, could have a material adverse effect on the condition, financial or otherwise, operations, properties or business of the Borrower; (2) the receipt of any notice, indictment, pleading or other communication alleging a condition that may require the Borrower to undertake or to contribute to a clean-up or other response under any environmental Law, or that seeks penalties, damages, injunctive relief, criminal sanctions or other relief as a result of an alleged violation of any such Law, or that claims personal injury or property damage as a result of environmental factors or conditions; and (3) any matter that could have a material adverse effect on the Borrower, including any decision of any regulatory authority or commission.

(e) **Notice of Certain Events.** (1) Notice at least 30 days prior thereto, of any change in the Borrower's name or corporate structure; (2) notice at least 30 days prior thereto, of any change in the Borrower's organizational documents, which changes must be approved in writing by Lender in its reasonable discretion; (3) notice at least 30 days prior thereto, of any change in the principal place of business of the Borrower or the office where its records concerning its accounts are kept; and (4) as soon as available after any changes thereto, copies of the Borrower's organizational documents certified by the Borrower's Secretary or equivalent officer acceptable to Lender.

**5.2 Instruction Letter.** Comply with any and all requirements detailed in an Instruction Letter.

**5.3 Corporate Existence, Etc.** Preserve and keep in full force and effect its existence and good standing in the jurisdiction of its incorporation or formation, qualify and remain qualified to transact business in all jurisdictions where such qualification is required, and obtain and maintain all licenses, certificates, permits, authorizations, approvals, and the like that are material to the conduct of its business or required by any Law.

**5.4 Insurance.** Maintain insurance with reputable and financially sound insurance companies or associations, including self-insurance to the extent customary, acceptable to Lender in such amounts and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender may reasonably request. All such policies insuring any collateral for the Borrower's obligations to Lender will have additional insured, mortgagee and lender's loss payee clauses or endorsements, as applicable, in form and substance satisfactory to Lender. At Lender's request, the Borrower agrees to deliver to Lender such proof of compliance with this section as Lender may require.

**5.5 Property Maintenance.** Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties useful or necessary to its business, and make all alterations, replacements, and improvements thereto as may from time to time be necessary in order to ensure that its properties remain in good working order and condition. The Borrower agrees that at Lender's request, which request may not be made more than once a year, the Borrower will furnish to Lender a report on the condition of the Borrower's property prepared by a professional engineer satisfactory to Lender.

**5.6 Inspection.** Permit Lender or its agents, upon reasonable notice and during normal business hours or at such other times as the parties may agree, to inspect and visit any of its properties, examine and make excerpts from its books and records, and to discuss its business affairs, finances and accounts with its officers, directors, employees, and independent certified public accountants and to conduct reviews of any collateral.

**5.7 Books and Records.** Maintain and keep proper books and records of account in which full, true and correct entries of all its dealings, business and financial affairs will be made in accordance with the Accounting Standards.

**5.8 Compliance With Laws.** Comply in all material respects with all Laws and any patron or member investment program applicable to the Borrower. In addition, the Borrower agrees to cause all persons occupying or present on any of its properties to comply in all material respects with all Laws relating to such properties.

**5.9 Further Assurances and Other Information.** From time to time and at its expense, execute and deliver such documents and do such other acts and things as Lender in its sole discretion may deem necessary or advisable from time to time in order to more fully carry out the provisions and purpose of the Loan Documents, including delivery of such other information regarding the condition or operations, financial or otherwise, of the Borrower as Lender may from time to time reasonably request, including, but not limited to, copies of all pleadings, notices and communications referred to in Section 5.1(d) above.

**5.10 Capital.** Maintain its status as an entity eligible to borrow from Lender and acquire equity in Lender in such amounts and at such times as Lender may from time to time require in accordance with its Bylaws and Capital Plan (as each may be amended from time to time), except that the

maximum amount of equity that the Borrower may be required to purchase in connection with a loan may not exceed the maximum amount permitted by the Bylaws at the time the Promissory Note relating to such loan is entered into or such loan is renewed or refinanced by Lender. The rights and obligations of the parties with respect to such equity and any patronage or other distributions made by Lender will be governed by Lender's Bylaws and Capital Plan (as each may be amended from time to time).

**5.11 Delivery of Original Loan Documents.** If executed copies of any Loan Documents are delivered to Lender as provided in Article 3 above, immediately deliver to Lender the original executed versions of such Loan Documents.

**5.12 Indemnity for Taxes.** At all times indemnify and hold and save Lender harmless from and against any and all actions or causes of action, claims, demands, liabilities, loss, damage or expense of whatsoever kind and nature incurred by Lender as a result of the non-payment of any documentary stamp tax, intangible tax, interest or penalties associated therewith or any other local, state or federal assessment required to be paid, but not paid in conjunction with the indebtedness evidenced by the Loan Documents. The Borrower agrees to pay to Lender, its successors and assigns, all sums of money requested by Lender hereunder within ten days of such request, which Lender will or may advance, pay or cause to be paid, or become liable to pay, on account of or in connection with failure to pay as required by the regulations of the governmental authority so imposing said payment. Lender will be entitled to charge for any and all disbursements made by it in good faith, under the reasonable belief that it or the Borrower is or was liable for the amount so assessed. Any default by the Borrower in making any payments required under this covenant will constitute a payment Event of Default under the Loan Documents and Lender may, at its option, declare the entire amount of principal plus accrued interest thereon due and payable without notice or demand.

**5.13 ERISA.** The Borrower and its subsidiaries, for so long as this Agreement remains outstanding, will remain in compliance in all material respects with the applicable provisions of **ERISA**, the failure to comply with which has or may have a Material Adverse Effect on the Borrower.

**5.14 Water Rights and/or Supplies.** Maintain or procure water rights and/or supplies with such amounts, priorities and qualities as are necessary to service adequately the Borrower's customers and members. The Borrower will continue to control, own or have access to all such water rights and/or supplies free and clear of the interest of any third party, will not suffer or permit any transfer or encumbrance of such water rights and/or supplies, will not abandon such water rights and/or supplies, or any of them, and will not do any act or thing that would impair or cause the loss of any such water rights and/or supplies.

**ARTICLE 6 Negative Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, the Borrower will not:

**6.1 Other Indebtedness.** Create, incur, assume or allow to exist, directly or indirectly, any indebtedness or liability for borrowed money (including trade or bankers' acceptances), letters of credit, or for the deferred purchase price of property or services (including leases that should be capitalized on the books of the lessee in accordance with the Accounting Standards), except for:

- (a) debt to Lender.
- (b) accounts payable to trade creditors incurred in the ordinary course of business.

(c) current operating liabilities (other than for borrowed money) incurred in the ordinary course of business.

(d) purchase money security indebtedness provided that such indebtedness does not exceed \$50,000.00.

(e) capitalized leases that do not, in an aggregate, exceed \$20,000.00 at any one time .

(f) Evidence of the filing of a new rate case application within four years of closing Multiple Advance Term Promissory Note number 000101315T01.

**6.2 Contingent Liabilities.** Assume, guarantee, become liable as a surety, endorse, contingently agree to purchase, or otherwise be or become liable, directly or indirectly (including, but not limited to, by means of a maintenance agreement, an asset or stock purchase agreement, or any other agreement designed to ensure any creditor against loss), for or on account of the obligation of any person or entity, except by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of the Borrower's business.

**6.3 Liens.** Create, incur, assume, or allow to exist any mortgage, deed of trust, pledge, lien (including the lien of an attachment, judgment, or execution), security interest, or other encumbrance of any kind upon any of its property, real or personal (collectively, "**Liens**"). The foregoing restrictions will not apply to:

(a) Liens in favor of Lender .

(b) Liens for taxes, assessments, or governmental charges that are not past due.

(c) pledges and deposits under workers' compensation, unemployment insurance, and social security Laws.

(d) pledges and deposits to secure the performance of bids, tenders, contracts (other than contracts for payment of money), and like obligations arising in the ordinary course of business as conducted on the date hereof.

(e) Liens imposed by Law in favor of mechanics, material suppliers, warehouses, and like persons that secure obligations that are not past due.

(f) easements, rights-of-way, restrictions, and other similar encumbrances that, in the aggregate, do not materially interfere with the occupation, use, and enjoyment of the property or assets encumbered thereby in the normal course of business or materially impair the value of the property subject thereto.

(g) purchase money Liens to secure indebtedness permitted hereunder.

**6.4 Transactions with Affiliates.** Enter into any transaction with any affiliate except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to it than it would obtain in a comparable arm's-length transaction with a person or entity that was not an affiliate.

**6.5 Loans and Investments.** Make any loan or advance to, or make any investment in, or make any capital contribution to, or purchase or make any commitment to purchase any stock, bonds, notes or other securities of any person or entity, except for:

- (a) securities or deposits issued, guaranteed or fully insured as to payment by the United States of America or any agency thereof.
- (b) equity in, or obligation of, Lender.

**6.6 Dividends and Distributions.** Declare or pay any dividends or make any other distribution of assets to shareholders of the Borrower, or retire, redeem, purchase or otherwise acquire for value any capital stock or otherwise set apart any sum for any of the foregoing, except that as long as no Potential Default or Event of Default exists or would result therefrom (including, without limitation, under Article 7 hereof) the Borrower may, in any fiscal year, pay dividends to its shareholders.

**6.7 Mergers, Acquisitions, Etc.** Merge or consolidate with any other entity or acquire all or a material part of the assets of any other person or entity, or form or create any new subsidiary, or commence operations under any other name, organization, or entity, including any joint venture.

**6.8 Transfer of Assets.** Sell, transfer, lease, or otherwise dispose of any of its assets, except: (a) in the ordinary course of business; and (b) the sale, transfer or disposal of any obsolete or worn-out assets that are no longer necessary or required in the conduct of the Borrower's business.

**6.9 Change in Business.** Engage in any business activities or operations substantially different from or unrelated to the Borrower's present business activities or operations.

**ARTICLE 7 Financial Covenants.** Unless otherwise agreed to in writing by Lender, while this Agreement is in effect:

**7.1 Debt Service Coverage Ratio.** The Borrower and its consolidated subsidiaries, if any, will have at the end of each fiscal year of the Borrower a Debt Service Coverage Ratio (as defined below) for such year of not less than 1.35 to 1.00. For purposes hereof, the term "**Debt Service Coverage Ratio**" means the ratio of: (a) net income (after taxes and after eliminating any gain or loss on sale of assets or other extraordinary gain or loss), plus depreciation expense, amortization expense, non-cash expenses for management fees and interest expense, minus non-cash patronage, and non-cash income from subsidiaries and/or joint ventures, and grant income; to (b) all principal payments due within the period on all Long-Term Debt (as defined below) plus interest expense (all as calculated on no basis for the applicable period in accordance with the Accounting Standards). For purposes hereof, "**Long-Term Debt**" means, for the Borrower, on no basis, the sum of (1) all indebtedness for borrowed money, (2) obligations that are evidenced by notes, bonds, debentures or similar instruments, and (3) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with Accounting Standards or that are treated as operating leases under regulations applicable to them but that otherwise would be required to be capitalized under Accounting Standards, in each case having a maturity of more than one year from the date of its creation or having a maturity within one year from such date but that is renewable or extendible, at the Borrower's option, to a date more than one year from such date or that arises under a revolving credit or similar agreement that obligates the lender(s) to extend credit during a period of more than one year from such date, including all current maturities in respect of such indebtedness whether or not required to be paid within one year from the date of its creation.

**7.2 Total Debt to EBITDA.** The Borrower and its consolidated subsidiaries, if any, will have at the end of each fiscal year of the Borrower a Total Debt to EBITDA (each as defined below) ratio of not greater than 10.00 to 1.00 (all as determined in accordance with the Accounting Standards). For purposes hereof: (a) **“Total Debt”** means, for the Borrower, and its consolidated subsidiaries, if any, the sum of (1) all indebtedness for borrowed money, (2) obligations which are evidenced by notes, bonds, debentures or similar instruments, and (3) that portion of obligations with respect to capital leases or other capitalized agreements that are properly classified as a liability on the balance sheet in conformity with Accounting Standards or that are treated as operating leases under regulations applicable to them but that otherwise would be required to be capitalized under Accounting Standards; and (b) **“EBITDA”** means, for the Borrower, and its consolidated subsidiaries, if any, operating revenues minus operating expenses, plus depreciation and amortization expenses.

## **ARTICLE 8 Default.**

**8.1** Each of the following will constitute an “Event of Default” hereunder:

(a) **Payment Default.** The Borrower should fail to make any payment to Lender when due.

(b) **Representations and Warranties.** Any representation, warranty, certification or statement of fact made at any time by the Borrower, herein or in any other Loan Document, or in any certificate, other instrument or statement furnished to Lender by or on behalf of the Borrower, will have been false or misleading in any material respect as of the time it was made or furnished.

(c) **Covenants.** The Borrower will default in the observance or performance of any covenant set forth in Article 5 (other than Sections 5.1(c), 5.1(d), 5.1(e)(1), and 5.1(e)(2) above), and such default continues for 30 days after written notice thereof will have been delivered to the Borrower by Lender.

(d) **Other Covenants and Agreements.** The Borrower will default in the observance or performance of Sections 5.1(c), 5.1(d), 5.1(e)(1), and 5.1(e)(2) or any other covenant or agreement contained herein or in any other Loan Document or will use the proceeds of any loan for any unauthorized purpose.

(e) **Cross Default.** The Borrower should, after any applicable grace period, breach or be in default under the terms of any other Loan Document (including, without limitation, any security instrument or document) or any other agreement between the Borrower and Lender, or between the Borrower and any Affiliate of Lender, including without limitation Farm Credit Leasing Services Corporation.

(f) **Other Indebtedness.** The Borrower should fail to pay when due any indebtedness to any other person or entity for borrowed money or any long-term obligation for the deferred purchase price of property (including any capitalized lease), or any other event occurs that, under any agreement or instrument relating to such indebtedness or obligation, has the effect of accelerating or permitting the acceleration of such indebtedness or obligation, whether or not such indebtedness or obligation is actually accelerated or the right to accelerate is conditioned on the giving of notice, the passage of time, or otherwise.

(g) **Judgments.** A judgment, decree, or order for the payment of money will have been rendered against the Borrower and either: (1) enforcement proceedings will have been commenced; (2) a Lien prohibited by this Agreement, any security instrument, or any other Loan Document, will have been

obtained; or (3) such judgment, decree, or order will continue unsatisfied and in effect for a period of 30 consecutive days without being vacated, discharged, satisfied, bonded, or stayed pending appeal.

(h) **Loan Document Unenforceable.** Any of the Loan Documents ceases to be a legal, valid, and binding agreement enforceable against the Borrower or any Guarantor, if any or is in any way terminated (except in accordance with its terms) or becomes or is declared ineffective or inoperative.

(i) **Revocation of Guaranty.** Any guaranty, suretyship, subordination agreement, maintenance agreement, or other agreement furnished in connection with the Borrower's obligations hereunder and under any Promissory Note will, at any time, cease to be in full force and effect, or will be revoked or declared null and void, or the validity thereof will be contested by the Guarantor, surety or other maker thereof, or the Guarantor will deny any further liability or obligations thereunder, or will fail to perform its obligations thereunder, or any representation or warranty set forth therein will be breached, or the Guarantor will breach or be in default under the terms of any other agreement with Lender (including any loan agreement or security agreement), or a default set forth in sections (f) through (h) will occur with respect to the Guarantor.

(j) **Insolvency, Etc.** The Borrower will: (1) become insolvent or will generally not, or will be unable to, or will admit in writing its inability to, pay its debts as they become due; or (2) suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (3) apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property; or (4) have commenced against it any action or proceeding for the appointment of a trustee, receiver, or other custodian and such action or proceeding is not dismissed within 30 days of the date thereof, or a trustee, receiver, or other custodian is appointed for all or any part of its property; or (5) receive notice from any regulatory or governmental authority to the effect that such authority intends to replace the management of the Borrower or assume control over the Borrower; or (6) commence or have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law of any jurisdiction.

(k) **Material Adverse Change.** Any Material Adverse Change occurs, as reasonably determined by Lender.

**8.2 Remedies.** Upon the occurrence and during the continuance of an Event of Default or Potential Default, Lender will have no obligation to extend or continue to extend credit to the Borrower and may discontinue doing so at any time without prior notice or other limitation. In addition, upon the occurrence and during the continuance of any Event of Default, Lender may, upon notice to the Borrower:

(a) **Termination and Acceleration.** Terminate any commitment and declare the unpaid principal balance of the loans, all accrued interest thereon, and all other amounts payable under this Agreement, each Promissory Note, and all other Loan Documents to be immediately due and payable. Upon such a declaration, the unpaid principal balance of the loans and all such other amounts will become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by the Borrower.

(b) **Enforcement.** Proceed to protect, exercise, and enforce such rights and remedies as may be provided by this Agreement, any security instrument or document, any other Loan Document, or under Law. Each and every one of such rights and remedies will be cumulative and may be exercised from time to time, and no failure on the part of Lender to exercise, and no delay in exercising, any right or remedy will operate as a waiver thereof, and no single or partial exercise of any right or remedy will preclude any

EAST SLOPE WATER COMPANY, INC.  
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future or other exercise thereof, or the exercise of any other right. Without limiting the foregoing, Lender may hold and/or set off and apply against the Borrower's obligations to Lender the proceeds of any equity in Lender, any cash collateral held by Lender, or any balances held by Lender for the Borrower's account (whether or not such balances are then due).

(c) **Application of Funds.** Lender may apply all payments received by it to the Borrower's obligations to Lender in such order and manner as Lender may elect in its sole discretion.

In addition to the rights and remedies set forth above and notwithstanding any Promissory Note: (1) upon the occurrence and during the continuance of an Event of Default, at Lender's option in each instance, the entire indebtedness outstanding hereunder and under each Promissory Note will bear interest from the date of such Event of Default until such Event of Default will have been waived or cured in a manner satisfactory to Lender at 4.00% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan under the terms of the applicable Promissory Note; and (2) after the maturity of any loan (whether as a result of acceleration or otherwise), the unpaid principal balance of such loan (including without limitation, principal, interest, fees and expenses) will automatically bear interest at 4.00% per annum in excess of the rate(s) of interest that would otherwise be in effect on that loan under the terms of the Promissory Note. All interest provided for herein will be payable on demand and will be calculated on the basis of a year consisting of 360 days.

#### **ARTICLE 9 Miscellaneous.**

**9.1 Amendments; Waivers; Etc.** No amendment, modification, or waiver of any provision of this Agreement or the other Loan Documents, and no consent to any departure by the Borrower herefrom or therefrom, will be effective unless approved by Lender and contained in a writing signed by or on behalf of Lender, and then such waiver or consent will be effective only in the specific instance and for the specific purpose for which given. In the event this Agreement is amended or restated, each such amendment or restatement will be applicable to all Promissory Notes hereto.

#### **ARTICLE 10 Expenses; Indemnification; Damage Waiver.**

**10.1 Costs and Expenses.** To the extent allowed by Law, the Borrower agrees to pay all reasonable out-of-pocket costs and expenses (including the fees and expenses of counsel retained or employed by Lender) incurred by Lender and any participants of Lender in connection with the origination, administration, collection and enforcement of this Agreement and the other Loan Documents, including, without limitation, all costs and expenses incurred in obtaining, perfecting, maintaining, determining the priority of, and releasing any security for the Borrower's obligations to Lender, and any stamp, intangible, transfer or like tax incurred in connection with this Agreement or any other Loan Document or the recording hereof or thereof.

**10.2 Indemnification.** The Borrower indemnifies Lender, its affiliates and its and their respective officers, directors, employees, agents and advisors (each an "**Indemnitee**") against, and holds each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including fees and expenses of employed or retained counsel) incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrower arising out of or as a result of (a) the execution or delivery of any Loan Document, the performance or nonperformance by the Borrower of its obligations under any Loan Document or the consummation of the transactions contemplated thereby, including the use of the proceeds therefrom, (b) breach of representations, warranties or covenants of the Borrower under any Loan Document, or (c) any actual or prospective claim, litigation, investigation or

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proceeding relating to any of the foregoing, including any such items or losses relating to or arising under environmental Laws or pertaining to environmental matters, regardless whether any Indemnitee is a party thereto; provided that such indemnity will not, as to an Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee.

**10.3 Waiver of Consequential Damages.** To the fullest extent permitted by applicable Law, the Borrower will not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages arising out of, in connection with, or as a result of, any Loan Document, the transactions contemplated thereby or the use of the proceeds thereof.

**10.4 Notices.** All notices hereunder will be in writing and will be deemed to have been duly given when addressed to the party intended to receive the same at the address of such party set forth below (or such other address either party may specify by like notice), (a) upon delivery if personally delivered to a party at such address, (b) three days after the same is deposited in the United States mail as first class, certified mail, return receipt requested, postage paid, (c) one business day after the same has been deposited with Federal Express or another nationally recognized overnight courier service if designated for next-day delivery, and (d) upon delivery if sent by facsimile or electronic mail with confirmation of delivery of the same:

If to Lender, as follows:

For general correspondence purposes:  
P.O. Box 5110  
Denver, Colorado 80217-5110

For direct delivery purposes, when desired:  
6340 S. Fiddlers Green Circle  
Greenwood Village, Colorado 80111-1914

Attention: Credit Information Services  
Fax No.: (303) 224-6101

If to the Borrower, as follows:

East Slope Water Company, Inc.  
2015 Forbes Blvd., Ste. 107  
Tucson, Arizona 85745

2015 Forbes Blvd., Ste. 107  
Tucson, Arizona 85745

Attention: Manager  
Fax No.:

**10.5 Effectiveness and Severability.** This Agreement will continue in effect until: (a) all indebtedness and obligations of the Borrower under this Agreement and the other Loan Documents have been paid or satisfied; (b) Lender has no commitment to extend credit to or for the account of the Borrower under any Promissory Note; and (c) either party sends written notice to the other party terminating this Agreement. Any provision of this Agreement or any other Loan Document that is prohibited or unenforceable in any jurisdiction will be ineffective to the extent of such prohibition or unenforceable without invalidating the remaining provisions hereof or thereof.

**10.6 Successors and Assigns.**

(a) **Successors and Assigns Generally.** This Agreement and the other Loan Documents will be binding upon and inure to the benefit of the Borrower and Lender and their respective successors and

assigns, except that the Borrower may not assign or transfer its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of Lender.

(b) **Participations, Etc.** From time to time, Lender may sell to one or more banks, financial institutions, or other lenders a participation in one or more of the loans or other extensions of credit made pursuant to this Agreement. However, no such participation will relieve Lender of any commitment made to the Borrower hereunder. In connection with the foregoing, Lender may disclose information concerning the Borrower and its subsidiaries, if any, to any participant or prospective participant, provided that such participant or prospective participant agrees to keep such information confidential. Patronage distributions in the event of a sale of a participation interest will be governed by Lender's Bylaws and Capital Plan (as each may be amended from time to time). A sale of a participation interest may include certain voting rights of the participants regarding the loans hereunder (including without limitation the administration, servicing, and enforcement thereof). Lender agrees to give written notification to the Borrower of any sale of a participation interest.

#### **10.7 Integration; Other Types of Credit; Counterparts.**

(a) **Integration.** The Loan Documents are intended by the parties to be a complete and final expression of their agreement. Each Promissory Note will be deemed to incorporate all of the terms and conditions of this Agreement as if fully set forth therein. Without limiting the foregoing, any capitalized term utilized in any Promissory Note (or in any amendment to this Agreement or Promissory Note) and not otherwise defined in the Promissory Note (or amendment) will have the meaning set forth herein or, if applicable, in the Accounting Standards. In the event the Accounting Standards are changed after the date hereof, then all such changes will be applicable hereto, unless Lender otherwise specifies in writing.

(b) **Other Types of Credit.** From time to time, Lender may issue letters of credit or extend other types of credit to or for the account of the Borrower. In the event the parties desire to do so under the terms of this Agreement, then the agreement of the parties with respect thereto may be set forth in a Promissory Note and this Agreement will be applicable thereto.

(c) **Counterparts.** This Agreement may be executed in counterparts, each of which will constitute an original, but all of which when taken together will constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic means will be as effective as delivery of a manually executed counterpart of this Agreement.

#### **10.8 Applicable Law; Submission to Jurisdiction; Service of Process; Waiver of Venue; Waiver of Jury Trial.**

(a) **Applicable Law.** Without giving effect to the principles of conflict of laws and except to the extent governed by federal law, the Laws of the State of Colorado, without reference to choice of law doctrine, will govern this Agreement, each Promissory Note and any other Loan Document for which Colorado is specified as the applicable law, and all disputes and matters between the parties to this Agreement, including all disputes and matters whatsoever arising under, in connection with or incident to the lending and/or leasing or other business relationship between the parties, and the rights and obligations of the parties to this Agreement or any other Loan Document by and between the parties for which Colorado is specified as the applicable law.

(b) **Submission to Jurisdiction; Service of Process.** The Borrower hereby irrevocably consents to the nonexclusive jurisdiction of any state or federal court in Denver, Colorado, and consents

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that Lender may effect any service of process in the manner and at the Borrower's address set forth herein for providing notice or demand; provided that nothing contained in this Agreement will prevent Lender from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any collateral or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction.

(c) **Waiver of Venue.** The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for the Borrower and Lender. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Agreement.

(d) **Waiver of Jury Trial.** The Borrower and Lender each hereby irrevocably waives any right it may have to a trial by jury in connection with any action directly or indirectly arising out of or relating to this Agreement or any other Loan Document. Each party hereto (1) certifies that no representative, administrative agent or attorney of any other person has represented, expressly or otherwise, that such other person would not, in the event of litigation, seek to enforce the foregoing waiver and (2) acknowledges that it and the other parties hereto have been induced to enter into this Agreement and other Loan Documents by, among other things, the mutual waivers and certifications in this section.

**10.9 USA Patriot Act Notice.** Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act, it is required to obtain, verify, and record information that identifies the Borrower in accordance with the USA Patriot Act. The Borrower covenants and agrees it will not, and agrees to cause each of its subsidiaries not to, at any time, directly or indirectly be (a) a person with whom Lender is restricted from doing business under any Anti-Terrorism Law, (b) engaged in any business involved in making or receiving any contribution of funds, goods or services to or for the benefit of such a person or in any transaction that evades or avoids, or has the purpose of evading or avoiding, the prohibitions set forth in any Anti-Terrorism Law, or (c) otherwise in violation of any Anti-Terrorism Law (the Borrower will and will cause each of its subsidiaries to provide to Lender any certifications or information that Lender requests to confirm compliance by the Borrower and its subsidiaries with any Anti-Terrorism Law). "**Anti-Terrorism Law**" means any Law relating to terrorism or money laundering, including Executive Order No. 13224, the USA Patriot Act, the Laws comprising or implementing the Bank Secrecy Act, and the Laws administered by the United States Treasury Department's Office of Foreign Asset Control, as any of the foregoing Laws may from time to time be amended, renewed, extended, or replaced.

**SIGNATURE PAGE FOLLOWS**

EAST SLOPE WATER COMPANY, INC.  
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Agreement No. 00101315SLA

**SIGNATURE PAGE TO CREDIT AGREEMENT**

**IN WITNESS WHEREOF**, the parties hereto, by their duly authorized officers, have executed this Agreement.

**CoBANK, ACB**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EAST SLOPE WATER COMPANY, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## MULTIPLE ADVANCE TERM PROMISSORY NOTE

**THIS MULTIPLE ADVANCE TERM PROMISSORY NOTE** (this “**Promissory Note**”) to the Credit Agreement dated February 11, 2016 (the “**Credit Agreement**”), is entered into as of February 11, 2016 between **COBANK, ACB**, a federally chartered instrumentality of the United States (“**CoBank**” or “**Lender**”) and **EAST SLOPE WATER COMPANY, INC.**, Tucson, Arizona, a corporation, (together with its permitted successors and assigns, the “**Borrower**”). Capitalized terms not otherwise defined in this Promissory Note will have the meanings set forth in the Credit Agreement.

**SECTION 1. MULTIPLE ADVANCE TERM COMMITMENT.** On the terms and conditions set forth in the Credit Agreement and this Promissory Note, Lender agrees to make loans to the Borrower from time to time during the period set forth below in an aggregate principal amount not to exceed \$2,110,000.00 (the “**Commitment**”). Under the Commitment, amounts borrowed and later repaid may not be re-borrowed.

**SECTION 2. PURPOSE.** The purpose of the Commitment is to finance capital improvements and refinance the Borrower's indebtedness to the Water Infrastructure Finance Authority of Arizona (the “**Existing WIFA Loan(s)**”).

**SECTION 3. TERM.** The term of the Commitment will be from the date hereof, up to 12:00 p.m. Denver, Colorado time on March 31, 2017, or on such later date as Lender may, in its sole discretion, authorize in writing (the “**Term Expiration Date**”).

**SECTION 4. LIMITS ON ADVANCES, AVAILABILITY, ETC.** The loans will be made available as provided in Article 2 of the Credit Agreement, and by wire transferring proceeds of the loan to WIFA to the extent required to repay the Existing Loan WIFA Loan(s).

**SECTION 5. INTEREST.** The Borrower agrees to pay interest on the unpaid balance of the loan(s) in accordance with the following interest rate option(s):

(A) **Weekly Quoted Variable Rate.** At a rate per annum equal at all times to the rate of interest established by CoBank on the first Business Day of each week. The rate established by CoBank will be effective until the first Business Day of the next week. Each change in the rate will be applicable to all balances subject to this option and information about the then current rate will be made available upon telephonic request.

(B) **Quoted Rate.** At a fixed rate per annum to be quoted by CoBank in its sole discretion in each instance. Under this option, rates may be fixed on such balances and for such periods, as may be agreeable to CoBank in its sole discretion in each instance, provided that: (1) the minimum fixed period will be 180 days; (2) amounts may be fixed in increments of \$100,000.00 or multiples thereof; and (3) the maximum number of fixes in place at any one time will be five.

The Borrower will select the applicable rate option at the time it requests a loan hereunder and may, subject to the limitations set forth above, elect to convert balances bearing interest at the variable rate option to one of the fixed rate options. If the Borrower fails to elect an interest rate option, interest will accrue at the variable interest rate option. Upon the expiration of any fixed rate period, interest will



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automatically accrue at the variable rate option unless the amount fixed is repaid or fixed for an additional period in accordance with the terms hereof. Notwithstanding the foregoing, rates may not be fixed for periods expiring after the maturity date of the loans and rates may not be fixed in such a manner as to cause the Borrower to have to break any fixed rate balance in order to pay any installment of principal. All elections provided for herein will be made telephonically or in writing and must be received by 12:00 p.m. Denver, Colorado time. Interest will be calculated on the actual number of days each loan is outstanding on the basis of a year consisting of 360 days and will be payable monthly in arrears by the 20th day of the following month or on such other day as Lender will require in a written notice to the Borrower ("**Interest Payment Date**").

**SECTION 6. PROMISSORY NOTE.** The Borrower promises to repay the unpaid principal balance of the loans in 240 consecutive, annual installments, payable on the 20th day of each month, with the first installment due on April 20, 2017, and the last installment due on March 20, 2037. The amount of each installment will be the same principal amount that would be required to be repaid if the loan(s) were scheduled to be repaid in level payments of principal and interest and such schedule was calculated utilizing the rate of interest in effect on the Term Expiration Date. Principal due on the first payment date will constitute a amortization, regardless of any partial interest due in accordance with the provisions set forth herein.

In addition to the above, the Borrower promises to pay interest on the unpaid principal balance of the loans at the times and in accordance with the provisions set forth herein.

**SECTION 7. PREPAYMENT.** Subject to the broken funding surcharge provision of the Credit Agreement, the Borrower may prepay all or any portion of the loan(s). Unless otherwise agreed by Lender, all prepayments will be applied to principal installments in the inverse order of their maturity and to such balances, fixed or variable, as Lender will specify.

**SECTION 8. SECURITY.** The Borrower's obligations hereunder and, to the extent related hereto, under the Credit Agreement, will be secured as provided in Section 2.3 of the Credit Agreement.

**SECTION 9. FEES.**

(A) **Loan Origination Fee.** In consideration of the Commitment, the Borrower agrees to pay to Lender on the execution hereof a loan origination fee in the amount of \$5,000.00.

**SECTION 10. FINANCIAL COVENANT.** While this Promissory Note is in effect and unless Lender otherwise consents in writing, the Borrower will establish and maintain a debt service reserve account (the "**Reserve**") in the amount of \$85,000.00. The funds in the Reserve will be held in a financial institution acceptable to Lender, or in a cash investment services account at Lender and invested in obligations of Lender. Beginning at closing, the Company will make annual deposits of \$17,000.00 into the Reserve until the Reserve is fully funded. The Borrower hereby pledges and grants to Lender a security interest in the Reserve (including all interest earned thereon) as security for the Borrower's obligations to Lender under the Loan Documents. If requested by Lender, the Borrower will cooperate with Lender in obtaining control with respect to the Reserve if it is maintained with a financial institution other than Lender (the "**Bank**") including entering into a written agreement among the Bank, the Borrower and Lender that the Bank will comply with instructions originated by Lender directing disposition of funds in the Reserve without further consent by the Borrower. However, as long as no Event of Default or Potential Default will have occurred and be continuing, interest on the Borrower's investments in the Reserve may be paid to the Borrower in the ordinary course. Investments in Lender

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Tucson, Arizona

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are uninsured and unsecured general obligations of Lender. Lender is regulated by the Farm Credit Administration and exempt from registration under federal law.

**SIGNATURE PAGE FOLLOWS**

**EAST SLOPE WATER COMPANY, INC.**  
Tucson, Arizona  
**Promissory Note No. 00101315T01**

**SIGNATURE PAGE TO PROMISSORY NOTE**

**IN WITNESS WHEREOF**, the parties have caused this Promissory Note to the Credit Agreement to be executed by their duly authorized officer(s).

**COBANK, ACB**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EAST SLOPE WATER COMPANY, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

# **ATTACHMENT 3**

East Slope Company Site Improvements

**West System well rehabilitation with out Davis Bacon and American Steel**

Item #	Description	Units	Quantity	Cost/Unit	Cost
<b>Wells</b>					
1	Well Rehabilitation	LS	2	\$ 24,000.00	\$ 48,000.00
2	Well drilling and casing	LS	1	\$ 120,000.00	\$ 120,000.00
3	Well equipment and controls	LS	1	\$ 95,000.00	\$ 95,000.00
4	Site work and piping	LS	1	\$ 12,000.00	\$ 12,000.00
5	Electrical upgrades	LS	1	\$ 18,000.00	\$ 18,000.00
6	Radio Control system	LS	1	\$ 15,000.00	\$ 15,000.00
	Subtotal				\$ 308,000.00
	Survey, geotechnical etc.		6.00%		\$ 18,480.00
	Engineering, Construction Services		25%		\$ 77,000.00
	Administrative and legal fees		5.00%		\$ 15,400.00
	Contingency		8.00%		\$ 24,640.00
	<b>TOTAL</b>				<b>\$ 443,520.00</b>

East Slope Company Site Improvements

**West System without Davis Bacon and American Steel**

Item #	Description	Units	Quantity	Cost/Unit	Cost
<b>Storgae Tank and Pipelines</b>					
1	100,000 gallon Storage Tank	LS	1	\$ 150,000.00	\$ 150,000.00
2	Site work and piping	LS	1	\$ 28,000.00	\$ 28,000.00
3	New 6 inch DIP water line and all appurtenances etc.	LF	2100	\$ 65.00	\$ 136,500.00
4	Booster upgrades	LS	1	\$ 36,000.00	\$ 36,000.00
5	New 4 inch water line	LF	300	\$ 40.00	\$ 12,000.00
6	Electrical and Radio Control System	LS	1	\$ 32,000.00	\$ 32,000.00
	Subtotal				\$ 394,500.00
	Survey, geotechnical etc.		6.00%		\$ 23,670.00
	Engineering, Construction Services		25%		\$ 98,625.00
	Administrative and legal fees		5.00%		\$ 19,725.00
	Contingency		8.00%		\$ 31,560.00
	<b>TOTAL</b>				<b>\$ 568,080.00</b>