

OPEN MEETING ITEM

ORIGINAL



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COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

ARIZONA CORPORATION COMMISSION

22

DATE: AUGUST 17, 2004
DOCKET NOS: SW-03575A-03-0586 and W-03576A-03-0586
TO ALL PARTIES:

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Enclosed please find the recommendation of Administrative Law Judge Dwight Nodes. The recommendation has been filed in the form of an Opinion and Order on:

PALO VERDE UTILITIES COMPANY and
SANTA CRUZ WATER COMPANY
(CC&N EXTENSION)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

AUGUST 26, 2004

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

AUGUST 31, 2004 and SEPTEMBER 1, 2004

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Secretary's Office at (602) 542-3931.

Arizona Corporation Commission
DOCKETED

AUG 17 2004

BRIAN C. McNEIL
EXECUTIVE SECRETARY

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

DOCKET NO. SW-03575A-03-0586

IN THE MATTER OF THE APPLICATION OF
SANTA CRUZ WATER COMPANY FOR AN
EXTENSION OF ITS EXISTING CERTIFICATE
OF CONVENIENCE AND NECESSITY.

DOCKET NO. W-03576A-03-0586

DECISION NO. _____

OPINION AND ORDER

DATES OF HEARINGS: October 14, 2003 (Procedural Conference); December 8, 2003; July 27, 2004

PLACE OF HEARINGS: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Dwight D. Nodes

APPEARANCES: Mr. Jeffrey W. Crockett, SNELL & WILMER, L.L.P., on behalf of Applicants;

Mr. Patrick Black, FENNEMORE CRAIG, on behalf of Applicants; and

Ms. Lisa A. Vandenberg, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On August 18, 2003, Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Water Company ("Santa Cruz") (jointly "Applicants") jointly filed an application in the respective, above-captioned dockets seeking to extend their Certificates of Convenience and Necessity ("CC&N") to various specified areas of Pinal County, Arizona.

On August 27, 2003, Sonoran Utility Services, L.L.C. ("Sonoran"), on behalf of 387 Domestic Water Improvement District and 387 Wastewater Improvement District (jointly, the "Districts") filed a Motion for Leave to Intervene. On August 28, 2003, Sonoran withdrew its request

1 for intervention on behalf of the Districts.

2 On August 28, 2003, Sonoran filed a Motion for Leave to Intervene on behalf of itself.
3 Sonoran claimed that the Districts had contracted with Sonoran "to manage the organization and
4 operation of the Districts' business within their authorized boundaries."

5 On September 5, 2003, the Arizona Corporation Commission ("Commission") Utilities
6 Division ("Staff") filed its Sufficiency Letter indicating that the application met the sufficiency
7 requirements of A.A.C. R14-2-402(C) and R14-2-602(B).

8 On September 22, 2003, the Applicants amended their applications by deleting property
9 owned by three of the developers included in the original CC&N extension request.

10 By Procedural Order issued October 2, 2003, this matter was scheduled for hearing on
11 December 8, 2003 and the Applicants were ordered to notify all property owners in the affected area
12 and to publish notice of the application. A procedural conference was scheduled for October 14,
13 2003 to discuss Sonoran's request for intervention.

14 At the October 14, 2003 procedural conference, Sonoran withdrew its intervention request
15 based on the amended application's deletion of property located in the Districts (October 14, 2003 Tr.
16 5-6).

17 On October 31, 2003, the Applicants filed a Notice of Compliance with the Customer Notice
18 and Publication requirements in the October 2, 2003 Procedural Order.

19 On November 19, 2003, the Applicants filed Supplemental Legal Descriptions for the three
20 properties that are included within the Applicants' amended CC&N extension request.

21 On November 26, 2003, Staff filed its initial Staff Report in this matter recommending
22 approval of the application subject to certain modifications.

23 On December 8, 2003, a hearing was convened before a duly authorized Administrative Law
24 Judge of the Commission at its offices in Phoenix, Arizona. At the conclusion of the hearing, the
25 matter was taken under advisement pending submission of a Recommended Opinion and Order.

26 On January 22, 2004, a Recommended Opinion and Order was issued recommending
27 approval of the application subject to certain conditions.

28 On February 4, 2004, the Applicants filed a revised Legal Description of the proposed

1 extension area (Attachment A hereto).

2 On February 5, 2004, the Applicants filed their Monthly Status Report in a prior proceeding
3 involving Palo Verde and Santa Cruz (Docket Nos. SW-03575A-03-0167 and W-03576A-03-0167),
4 pursuant to the requirements of Decision No. 66394 (October 6, 2003). In that Status Report, the
5 Applicants stated that Michael Reinbold had resigned as president of Palo Verde and Santa Cruz
6 effective January 30, 2004, and that an entity called Global Water Resources, LLC ("GWR") had
7 acquired 100 percent of the Applicants' membership interests.

8 The Recommended Opinion and Order was discussed during the Commission's March 30,
9 2004 Open Meeting. As a result of the Open Meeting discussion, the Hearing Division was directed
10 to conduct additional hearings regarding GWR's structure and qualifications.

11 On March 31, 2004, a Procedural Order was issued setting a hearing date for May 12, 2004.
12 The Procedural Order directed the Applicants and Staff to file testimony regarding the issues raised at
13 the Open Meeting. On April 16, 2004, the Applicants filed their supporting testimony.

14 On May 3, 2004, the Applicants filed a Notice of Change of Address and Substitution of
15 Counsel.

16 On May 4, 2004, the Applicants and Staff filed a Joint Stipulation to Modify Procedural
17 Schedule. The Procedural Stipulation provided that the Applicants would be required to file
18 supplemental testimony to address questions raised by Staff, and that Staff would have an opportunity
19 to respond to the supplemental testimony.

20 The Applicants also filed on May 4, 2004 a "Compliance Filing" pursuant to A.R.S. §29-
21 633(B). The "Compliance Filing" contained copies of the Applicants' revised Articles of
22 Amendment to their Articles of Organization and Statements of Change of Registered Office and
23 Statutory Agent that had been filed with the Commission's Corporations Division on April 28, 2004.

24 On May 10, 2004, a Procedural Order was issued rescheduling the hearing for June 18, 2004,
25 directing the Applicants to file supplemental testimony by May 14, 2004, and directing Staff to file
26 its Staff Report by May 28, 2004.

27 In accordance with the May 10, 2004 Procedural Order, the Applicants filed supplemental
28 testimony on May 14, 2004 and Staff filed a Supplemental Staff Report on May 28, 2004. In its

1 Supplemental Staff Report (Ex. S-2), Staff reported that it had become aware that principals with
2 GWR had previously operated an entity called Hill, Murray & Associates (“HMA”) in Canada, and
3 that HMA had been involved in two projects, the Powell River Wastewater Treatment Plant (“Powell
4 River”) and Iqaluit Wastewater Treatment Plant (“Iqaluit”), where problems with the designs of the
5 plants had surfaced. Staff attached to the Supplemental Staff Report a number of reports and
6 newspaper articles that described alleged problems with the Powell River and Iqaluit projects (Id.,
7 Attachments 1-18).

8 Due to the new information contained in the Supplemental Staff Report, a Procedural Order
9 was issued on June 3, 2004 directing the Applicants to respond by June 11, 2004. The Procedural
10 Order also rescheduled the hearing date for June 28, 2004.

11 On June 15, 2004, the Applicants and Staff filed a Joint Stipulation to Extend Deadline for
12 Filing a Response to Supplemental Staff Report¹. The extension request indicated that additional
13 time was needed for the parties to discuss the possibility of settlement.

14 On June 16, 2004, a Procedural Order was issued granting the request for extension and
15 directing the Applicants to respond to the Supplemental Staff Report by June 21, 2004.

16 On June 18, 2004, the Applicants and Staff filed a Joint Stipulation to Continue Filing
17 Deadline and Hearing Date. The request for extension stated that the parties were making progress in
18 settlement discussions and that additional time was needed to complete negotiations.

19 On June 22, 2004, a Procedural Order was issued granting the requested extension. The
20 Procedural Order directed the Applicants to file their response to the Supplemental Staff Report by
21 July 2, 2004, and rescheduled the hearing date for July 21, 2004.

22 On July 2, 2004, the Applicants and Staff filed a Joint Stipulation to Continue Filing
23 Deadline. The parties indicated again that additional time was needed to continue settlement
24 discussions.

25 On July 12, 2004, a Procedural Order was issued granting the extension request and directing
26 the Applicants to file their response to the Supplemental Staff Report by July 13, 2004.

27 _____
28 ¹ The Applicants’ extension request was granted informally in a June 11, 2004 telephonic conference subject to
submission of a formal request.

1 On July 15, 2004, the Applicants and Staff filed a Joint Stipulation to Continue Filing
2 Deadline, until July 19, 2004, in order to continue negotiations².

3 On July 19, 2004, supplemental testimony was submitted by the Applicants in response to the
4 Supplemental Staff Report. A Stipulation between Staff and the Applicants was also filed on July 19,
5 2004 to resolve all remaining issues between the parties (Attachment B hereto).

6 On July 20, 2004, a procedural teleconference was conducted with the Applicants and Staff to
7 arrange an alternative date for the hearing. The parties agreed that the hearing should be rescheduled
8 for July 27, 2004. On July 20, 2004, a Procedural Order was issued rescheduling the hearing for July
9 27, 2004.

10 The hearing was held as scheduled on July 27, 2004 before a duly authorized Administrative
11 Law Judge at the Commission's offices in Phoenix, Arizona. At the conclusion of the hearing, the
12 matter was taken under advisement pending submission of a revised Recommended Opinion and
13 Order.

14 * * * * *

15 Having considered the entire record herein and being fully advised in the premises, the
16 Commission finds, concludes, and orders that:

17 **FINDINGS OF FACT**

18 1. Palo Verde and Santa Cruz are Arizona LLCs engaged in providing wastewater utility
19 service to approximately 2,100 customers and water utility service to approximately 2,200 customers,
20 respectively, in Pinal County, Arizona.

21 2. The original CC&Ns for Palo Verde and Santa Cruz were granted by the Commission
22 in Decision No. 61943 (September 17, 1999), as Arizona corporations incorporated by Michael
23 Reinbold.

24 3. On August 18, 2003, Palo Verde and Santa Cruz jointly filed an application seeking to
25 extend their CC&Ns to various specified areas of Pinal County, Arizona.

26 4. On September 5, 2003, Staff filed a Sufficiency Letter indicating that the Applicants'

27 _____
28 ² The Applicants' extension request was granted informally in a July 12, 2004 telephonic conference subject to
submission of a formal request.

1 application met the sufficiency requirements of A.A.C. R14-2-402(C) and R14-2-602(B).

2 5. On September 22, 2003, the Applicants amended their applications by deleting
3 property owned by three of the developers included in the original CC&N extension request.

4 6. By Procedural Order issued October 2, 2003, this matter was scheduled for hearing on
5 December 8, 2003 and the Applicants were ordered to notify all property owners in the affected area
6 and to publish notice of the application.

7 7. On October 31, 2003, the Applicants filed a Notice of Compliance with the Customer
8 Notice and Publication requirements set forth in the October 2, 2003 Procedural Order.

9 8. On November 19, 2003, the Applicants filed Supplemental Legal Descriptions for the
10 three properties that are included within the Applicants' amended CC&N extension request.

11 9. On November 26, 2003, Staff filed its initial Staff Report in this matter recommending
12 approval of the application subject to certain modifications.

13 10. As amended, the Applicants' proposed CC&N extension seeks authority to extend
14 water and wastewater service to specified areas of Pinal County as described in Attachment A. The
15 extension area is expected to eventually be developed into approximately 2,100 residential lots.

16 11. The Applicants plan to finance the required utility facilities through a combination of
17 equity and advances in aid of construction ("AIAC"). According to the initial Staff Report, Santa
18 Cruz has entered into main extension agreements with the developers requesting service that require
19 refunds of 7 percent of the gross annual revenue from the associated facilities beginning 4 years after
20 the facilities are accepted by Santa Cruz. Under the agreements, Santa Cruz is obligated to pay the 7
21 percent annual refund to the developers for 22 years. The proposed wastewater main extension
22 agreements provide that Palo Verde will refund 2.5 percent of the gross annual revenue received from
23 the associated facilities beginning 4 years after the facilities are accepted. Palo Verde would be
24 obligated to pay the 2.5 percent annual refund to the developers for 22 years. Staff points out that the
25 proposed refund provisions exceed the minimum refund standards required in the Commission's rules
26 (Ex. S-1, at 3). Therefore, the terms of the agreements are acceptable to Staff.

27 12. Staff Engineering analyzed the Applicants' facilities and found that Santa Cruz has
28 five well sources, one of which is on line and serving customers, and two others that have been

1 refitted and are being held for future use. Santa Cruz has 3.0 million gallons of existing water storage
2 capacity (Tr. 11). Staff indicated that, although Santa Cruz appears to have an adequate source of
3 water, groundwater in the service area is typically characterized by high nitrates, fluorides, arsenic,
4 and total dissolved solids. However, the well currently in service meets all inorganic maximum
5 contaminant levels and has an arsenic concentration between 11 and 13 $\mu\text{g/l}$. Consistent with the
6 requirement set forth in Decision No. 66394, Staff recommends that Santa Cruz be required to submit
7 a report to the Utilities Division by December 31, 2004 describing what steps the company plans to
8 take in order to reduce the arsenic concentration below 10 $\mu\text{g/l}$ by January 2006, pursuant to new
9 federal clean water standards (Ex. S-1, at 4; Tr. 29-30).

10 13. The Staff Report indicates that Santa Cruz is currently delivering water that meets
11 water quality standards set forth in the Arizona Administrative Code. The Arizona Department of
12 Environmental Quality ("ADEQ") also reported that Palo Verde is in compliance with wastewater
13 treatment rules (Ex. S-1, at 4).

14 14. ADEQ Capacity Development rules require new public drinking water systems to
15 meet certain financial, managerial, and technical capacity requirements. Santa Cruz and Palo Verde
16 provided Staff with copies of their current "Approvals to Construct" (Id. at 5).

17 15. Santa Cruz is within the Pinal Active Management Area ("AMA") and, as a result, is
18 subject to reporting and conservation rules. The Pinal AMA reported to Staff that Santa Cruz is in
19 compliance with the Arizona Department of Water Resources ("ADWR") reporting and conservation
20 rules (Id.). According to the Staff Report, on October 29, 2003, Santa Cruz filed a Curtailment Tariff
21 in compliance with the requirements of Decision No. 66394 (Id. at 4).

22 16. With respect to Palo Verde's wastewater infrastructure, Staff Engineering found that
23 the existing wastewater treatment plant is an aerated lagoon with a capacity of 300,000 gallons per
24 day ("gpd"). As of the end of 2002, wastewater flows were 111,000 gpd for the 636 customers being
25 served at that time. Palo Verde has begun construction of a new mechanical wastewater treatment
26 plant which will be built in three phases, with an initial capacity of 1 million gpd (Id.). The first
27 phase of that project was nearly completed at the time of the first hearing and has sufficient capacity
28 to serve up to 6,700 homes (Tr. 20-21). ADEQ has now issued an Aquifer Protection Permit ("APP")

1 for the first phase of the project (Tr. 12, 20). Effluent disposal will be accomplished by agricultural
 2 reuse, golf course irrigation, recharge, and discharge to surface water via a federal permit (Ex. S-1, at
 3 5).

4 17. Staff explained that, pursuant to Section 208 of the Federal Water Pollution Control
 5 Act, the Central Arizona Association of Governments ("CAAG") is the designated water quality
 6 planning agency for the requested CC&N areas. Staff states that CAAG has authority to develop and
 7 approve general wastewater plans which include land development policies, service areas, objectives,
 8 and standards for local growth and development. Palo Verde currently holds a CAAG §208 plan that
 9 was approved in 1997. Staff recommends that Palo Verde be required to amend the CAAG §208
 10 plan to include the proposed CC&N extension area before providing service to any permanent
 11 customers (Id. at 5-6). At the initial hearing, Palo Verde's witness testified that the company's
 12 amended CAAG §208 plan is expected to be given final approval in the near future (Tr. 9).

13 18. Based on its review, Staff made the following recommendations in its initial Staff
 14 Report with respect to Santa Cruz Water Company:

- 15 a) Require Santa Cruz to charge its existing rates and charges in the
 16 proposed extension area;
- 17 b) Require Santa Cruz to file a copy of the developers' Certificate of
 18 Assured Water Supply related to the proposed extension area³;
- 19 c) Require Santa Cruz to file a copy of the municipal franchise⁴ for
 20 the extension area;
- 21 d) Require Santa Cruz to submit a report by December 31, 2004 (Tr.
 22 29-30) describing its plan to reduce the arsenic level in its water;
- 23 e) Require Santa Cruz to complete compliance with all of Staff's
 24 recommendations the earlier of 365 days of the Commission's
 decision in this matter or 30 days prior to serving its first customer

25 ³ The Applicants' witness, Cindy Liles, testified that Santa Cruz currently has an Assured Water Supply Designation
 26 issued by ADWR and, therefore, developers do not need to obtain their own designation. She indicated that Santa Cruz
 27 has begun the process to include the properties in the proposed CC&N extension area within Santa Cruz' designation (Tr.
 28 6-7).

⁴ Because Santa Cruz operates in an unincorporated area of Pinal County, the franchise authority is provided by Pinal
 County. The franchises for the extension area for both Santa Cruz and Palo Verde were filed on October 29, 2003 (Tr.
 19).

1 in the proposed extension area; and

- 2 f) That failure to comply with the conditions and timeframes
3 discussed above would result in the CC&N extension becoming
4 null and void without further action of the Commission.

5 19. With respect to the wastewater extension request of Palo Verde Utilities Company,
6 Staff made the following recommendations in its initial Staff Report:

- 7 a) Require Palo Verde to charge existing rates and charges in the
8 proposed extension area;
- 9 b) Require Palo Verde to submit a copy of the ADEQ approved
10 CAAG §208 plan amendment to the Director of the Utilities
11 Division;
- 12 c) Require Palo Verde to file a copy of the municipal franchise for the
13 extension area;
- 14 d) Require Palo Verde to complete compliance with all of Staff's
15 recommendations the earlier of 365 days of the Commission's
16 decision in this matter or 30 days prior to serving its first customer
17 in the proposed extension area; and
- 18 e) That failure to comply with the conditions and timeframes
19 discussed above would result in the CC&N extension becoming
20 null and void without further action of the Commission.

21 20. On December 8, 2003, a hearing was convened before a duly authorized
22 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona.

23 21. On January 22, 2004, a Recommended Opinion and Order was issued recommending
24 approval of the application subject to certain conditions.

25 22. On February 4, 2004, the Applicants filed a revised Legal Description of the proposed
26 extension area (Attachment A).

27 23. On February 5, 2004, the Applicants filed their Monthly Status Report in a prior
28 proceeding involving Palo Verde and Santa Cruz (Docket Nos. SW-03575A-03-0167 and W-
03576A-03-0167), pursuant to the requirements of Decision No. 66394. In that Status Report, the
Applicants stated that Michael Reinbold had resigned as president of Palo Verde and Santa Cruz

1 effective January 30, 2004, and that GWR had acquired 100 percent of the Applicants' membership
2 interests.

3 24. The Recommended Opinion and Order was discussed during the Commission's March
4 30, 2004 Open Meeting. As a result of the Open Meeting discussion, the Hearing Division was
5 directed to conduct additional hearings regarding GWR's structure and qualifications.

6 25. On May 4, 2004, the Applicants and Staff filed a Joint Stipulation to Modify
7 Procedural Schedule. The Procedural Stipulation provided that the Applicants would be required to
8 file supplemental testimony to address questions raised by Staff, and that Staff would have an
9 opportunity to respond to the supplemental testimony.

10 26. The Applicants also filed on May 4, 2004 a "Compliance Filing" pursuant to A.R.S.
11 §29-633(B).⁵ The "Compliance Filing" contained copies of the Applicants' revised Articles of
12 Amendment to their Articles of Organization and Statements of Change of Registered Office and
13 Statutory Agent that had been filed with the Commission's Corporations Division on April 28, 2004.

14 27. On May 10, 2004, a Procedural Order was issued rescheduling the hearing for June 18,
15 2004, directing the Applicants to file supplemental testimony by May 14, 2004, and directing Staff to
16 file its Staff Report by May 28, 2004.

17 28. In accordance with the May 10, 2004 Procedural Order, the Applicants filed
18 supplemental testimony on May 14, 2004 and Staff filed a Supplemental Staff Report on May 28,
19 2004. In its Supplemental Staff Report (Ex. S-2), Staff reported that it had become aware that
20 principals with GWR had previously operated an entity called Hill, Murray & Associates in Canada,
21 and that HMA had been involved in two projects, the Powell River Wastewater Treatment Plant and
22 Iqualuit Wastewater Treatment Plant, where problems with the design of the plants resulted in
23 litigation involving HMA. Staff attached to the Supplemental Staff Report a number of reports and
24 newspaper articles that described alleged problems with the Powell River and Iqualuit projects (Id.,
25 Attachments 1-18).

26 _____
27 ⁵ A.R.S. §29-633(B) provides, in relevant part, that a limited liability company ("LLC") must amend its articles of
28 incorporation on file with the Commission within 30 days following: 1) a change in any arrangements or facts making the
articles of incorporation inaccurate; 2) a change in the persons who are members if management of the LLC is reserved to
the members; or 3) a change in the persons who are managers or in the members who own 20 percent or greater interest in
the capital or profits interest of the LLC, if management of the LLC is vested in a manager or managers.

1 29. Due to the new information contained in the Supplemental Staff Report, a Procedural
2 Order was issued on June 3, 2004 directing the Applicants to respond by June 11, 2004. The
3 Procedural Order also rescheduled the hearing date for June 28, 2004. At the request of the
4 Applicants and Staff, several extensions of the Applicants' response filing date, and the hearing date,
5 were granted.

6 30. On July 19, 2004, supplemental testimony was submitted by the Applicants in
7 response to the Supplemental Staff Report. A Stipulation between Staff and the Applicants was also
8 filed on July 19, 2004 to resolve all remaining issues between the parties (Ex. A-15; Attachment B
9 hereto).

10 31. On July 20, 2004, a procedural teleconference was conducted with the Applicants and
11 Staff to arrange an alternative date for the hearing. The parties agreed that the hearing should be
12 rescheduled for July 27, 2004. On July 20, 2004, a Procedural Order was issued rescheduling the
13 hearing for July 27, 2004. The hearing was held, as scheduled, on July 27, 2004.

14 32. In its Supplemental Staff Report, Staff indicated that GWR's ownership interest is
15 structured as follows: 48.5 percent by Levine Investments; 29.67 percent by Trevor Hill; 14.83
16 percent by Leo Commandeur; and 7 percent by Dan Cracchiolo. The GWR Board of Directors
17 consists of William S. Levine, Mr. Cracchiolo, and Mr. Hill. GWR's management structure is as
18 follows: Mr. Hill, president; Mr. Commandeur, secretary and treasurer; Cindy Liles, chief financial
19 officer; and Graham Symmonds, vice president of compliance (Ex. S-2, at 3-5).

20 33. Effective February 2, 2004, GWR acquired 100 percent of the ownership interests in
21 Palo Verde and Santa Cruz from Phoenix Capital Partners and Phoenix Utility Management. GWR is
22 a utility holding company, formed as an LLC, that is engaged in the business of acquiring utility
23 companies (Id. at 3; Tr. 72).

24 34. During the course of its investigation, Staff discovered that Mr. Hill, Mr.
25 Commandeur, and Mr. Symmonds had previously been principals in HMA, a wastewater facilities
26 design and build firm based in Vancouver, Canada. Staff reported that although HMA had
27 undertaken a number of successful projects in Canada, it had also been involved in two projects, at
28 Powell River and Iqaluit, where "HMA failed to complete either wastewater plant in accord with

1 applicable engineering requirements” (Ex. S-2, at 7). Staff attached a number of reports and
2 published articles from the local media in these areas describing the problems that arose during the
3 course of both projects (Id., Attachments 1-18).

4 35. According to information obtained by Staff, the Powell River project was designed
5 with inadequate capacity and a membrane filtration failure allowed wastewater flows to bypass the
6 filtration system and be discharged directly into the Strait of Georgia. The contract between Powell
7 River and HMA was ultimately cancelled pursuant to a settlement agreement between the parties in
8 2000 (Id. at 9-10).

9 36. The Iqaluit project was located on Baffin Island, approximately 40 miles south of the
10 Arctic Circle. Staff indicated that HMA designed and constructed a wastewater treatment plant at
11 Iqaluit that never became operational due to various deficiencies including insufficient capacity,
12 structural defects, electrical problems, and inadequate ventilation. According to Staff, HMA
13 eventually abandoned the project and settled its remaining dispute with Iqaluit municipal
14 administrators (Id. at 11-20).

15 37. In response to Staff’s assertions, Trevor Hill submitted testimony describing several
16 successful HMA projects in Canada, as well as a rebuttal to the allegations made with respect to the
17 Powell River and Iqaluit projects (Ex. A-14). Mr. Hill stated that the difficulties that arose with the
18 Powell River project were due primarily to inaccurate flow specifications provided by Powell River’s
19 consultant. Mr. Hill claimed that the flow specifications provided to HMA were approximately 50
20 percent less than the amount actually experienced and, as a result, the plant was receiving more than
21 its designed capacity when it became operational (Id. at 6-7). With respect to the Iqaluit project, Mr.
22 Hill testified that HMA did everything possible to repair wastewater tanks to pass hydrostatic tests,
23 but Iqaluit ordered HMA to stop repair work and cancelled HMA’s role as project manager. Mr. Hill
24 contends that HMA did not abandon the project and that HMA lost more than \$600,000 it had
25 assigned to contractors on the project (Id. at 8). Mr. Hill also explained that the Powell River and
26 Iqaluit projects were affected by severe climate and remote locations and that the news articles cited
27 by Staff were “poorly researched and not sufficiently credible” to be used by Staff (Id. at 11). Mr.
28 Hill stated that the types of problems encountered in Canada are not likely to occur in Arizona

1 because of the differences in climate and due to Arizona's ready availability of tradesmen,
 2 consultants and contractors (Id. at 13-14). Mr. Hill offered the opinion that the Powell River and
 3 Iqaluit projects were not relevant to GWR's ability to manage and operate the Palo Verde and Santa
 4 Cruz systems (Id.).

5 38. In its Supplemental Staff Report, and through the Settlement Conditions negotiated by
 6 the Applicants and Staff, Staff contends that sufficient customer protections would exist to support
 7 Commission approval of the requested CC&N extension. Staff's recommendations, as clarified by
 8 the Settlement Agreement, provide as follows:

- 9
- 10 a) Palo Verde and Santa Cruz are required to increase their existing
 11 \$500,000 performance bonds to \$750,000 each, for a period of at
 12 least two years, and must maintain the bonds until such time as the
 13 Commission approves a reduction request;
- 14 b) Maintenance of the required performance bonds must be evidenced
 15 by submission, each calendar quarter, of a letter of bond
 16 confirmation. Failure to comply may result in Staff seeking an
 17 Order to Show Cause;
- 18 c) GWR shall be required to file an Acquisition Schedule describing
 19 each acquisition GWR makes in a utility. The first Schedule filing
 20 is required within 180 days of the Decision herein, and an updated
 21 Schedule is required within 30 days of any utility acquisition.
 22 Each Acquisition Schedule filing must be signed under oath and
 23 penalty of perjury by at least two officers of GWR. The
 24 Settlement also provides that each Schedule may be filed
 25 confidentially with Staff pursuant to execution of an appropriate
 26 protective agreement;⁶
- 27 d) Palo Verde and Santa Cruz must submit quarterly reports
 28 documenting compliance with Arizona Department of
 Environmental Quality, Arizona Department of Water Resources,
 and Commission requirements. Each report must be signed under
 oath and penalty of perjury by at least two officers of the
 Applicants; and

26 ⁶ Mr. Hill testified that this confidentiality provision is necessary to protect GWR against competitors that are pursuing
 27 common utility companies (Tr. 66-67). According to counsel for Staff and the Applicants, the parties anticipate that
 28 confidentiality would be sought under this provision only for competitively sensitive information. However, if Staff
 disputes the need for confidentiality, the standard protective agreement would provide for the matter to be pursued before
 an Administrative Law Judge as to whether the information should be publicly disclosed (Tr. 68-70).

- 1 e) The Applicants must notify the Commission of any proposed
2 change in the ownership of their respective membership interests
3 (including transfer or additional memberships), prior to execution,
4 through filing of a Notice of Intent (which indicates the filing is
5 made pursuant to the Decision in this proceeding). Once the
6 Notice of Intent has been filed, the Commission may initiate a
7 proceeding within 60 days to determine approval. If no action is
8 initiated within 60 days after filing, the proposed transaction is
9 permitted to proceed without approval.

6 39. After reviewing the testimony and evidence of record, we believe that Staff's
7 recommendations, as set forth in Finding of Fact Nos. 18, 19 and 38, are reasonable and should be
8 adopted. The Applicants have demonstrated that a public need for water and wastewater service
9 exists in the extension area and, subject to compliance with the conditions discussed above, that Palo
10 Verde and Santa Cruz are fit and proper entities to provide such service in the proposed extension
11 area. Therefore, subject to the conditions stated herein, the application for extension of the
12 Applicants' CC&Ns shall be approved.

13 **CONCLUSIONS OF LAW**

14 1. Palo Verde and Santa Cruz are public service corporations within the meaning of
15 Article XV of the Arizona Constitution and A.R.S. §§40-281, 40-282 and 40-285.

16 2. The Commission has jurisdiction over Palo Verde and Santa Cruz and the subject
17 matter of the application.

18 3. Notice of the application was provided in accordance with law.

19 4. There is a public need and necessity for water and wastewater utility services in the
20 proposed extension area.

21 5. Subject to compliance with the above-stated conditions, Palo Verde and Santa Cruz
22 are fit and proper entities to receive extensions of their wastewater and water CC&Ns, for the
23 proposed extension area in Pinal County more fully described in Attachment A attached hereto.

24 6. Staff's recommendations set forth in Finding of Fact Nos. 18, 19 and 38 are
25 reasonable and shall be adopted.

26 **ORDER**

27 IT IS THEREFORE ORDERED that the application of Palo Verde Utilities Company, LLC,
28

1 and Santa Cruz Water Company, LLC, for extension of their respective wastewater and water
2 CC&Ns, to an area in Pinal County more fully described in Attachment A hereto be, and hereby is
3 granted, subject to the conditions more fully described herein.

4 IT IS FURTHER ORDERED that the current charges set forth in the respective tariffs of Palo
5 Verde Utilities Company, LLC, and Santa Cruz Water Company, LLC, shall be applied to all
6 customers in the CC&N extension area approved herein.

7 IT IS FURTHER ORDERED that, consistent with Decision No. 66394, Santa Cruz Water
8 Company, LLC, shall submit a report to the Director of the Utilities Division by December 31, 2004
9 describing what steps the company plans to take in order to reduce the arsenic concentration below
10 10 $\mu\text{g/l}$ by January 2006, pursuant to new federal clean water standards.

11 IT IS FURTHER ORDERED that Santa Cruz Water Company, LLC, shall file within 365
12 days of this Decision, but prior to service being provided to customers in the extension area, an
13 Amended Assured Water Supply Designation issued by ADWR that includes the appropriate
14 developers within Santa Cruz' designation.

15 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, shall file within 365
16 days of this Decision a copy of the approved CAAG §208 plan amendment that is currently pending.

17 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, and Santa Cruz Water
18 Company, LLC, shall increase their current performance bonds to \$750,000 each, and shall maintain
19 such bonds for a minimum of two years. The performance bonds may not be cancelled without the
20 Commission's prior approval.

21 IT IS FURTHER ORDERED that maintenance of the required performance bonds must be
22 evidenced by a quarterly filing (by January 15, April 15, July 15, and October 15) of a letter of bond
23 confirmation. Failure to comply may result in Staff seeking an Order to Show Cause from the
24 Commission.

25 IT IS FURTHER ORDERED that Global Water Resources, LLC, shall file an Acquisition
26 Schedule describing each acquisition Global Water Resources, LLC, makes in a utility. The first
27 Acquisition Schedule filing is required within 180 days of the Decision herein, and an updated
28 Acquisition Schedule is required within 30 days of any utility acquisition. Each Acquisition

1 Schedule filing must be signed under oath and penalty of perjury by at least two officers of Global
2 Water Resources, LLC.

3 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, and Santa Cruz Water
4 Company, LLC, must submit quarterly reports documenting compliance with all Arizona Department
5 of Environmental Quality, Arizona Department of Water Resources, and Commission requirements.
6 Each report must be signed under oath and penalty of perjury by at least two officers of Palo Verde
7 Utilities Company, LLC, and Santa Cruz Water Company, LLC.

8 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, and Santa Cruz Water
9 Company, LLC, must notify the Commission of any proposed change in the ownership of their
10 respective membership interests (including transfer or additional memberships), prior to execution,
11 through filing of a Notice of Intent (which indicates the filing is made pursuant to the Decision in this
12 proceeding). Once the Notice of Intent has been filed, the Commission may initiate a proceeding
13 within 60 days to determine approval. If no action is initiated within 60 days after filing, the
14 proposed transaction is permitted to proceed without approval.

15 IT IS FURTHER ORDERED that Palo Verde Utilities Company, LLC, and Santa Cruz Water
16 Company, LLC, may discontinue the filing of monthly status reports and copies of all subsequent
17 pleadings related to Mr. Reinbold's Oregon Circuit Court judgment, as previously required by
18 Decision No. 66394.

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1 IT IS FURTHER ORDERED that, in the event Palo Verde Utilities Company, LLC, and
2 Santa Cruz Water Company, LLC, fail to comply with the above-stated conditions within the times
3 specified, the CC&N extensions approved herein shall be deemed to be denied without further Order
4 of the Arizona Corporation Commission.

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

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

7
8
9 CHAIRMAN COMMISSIONER COMMISSIONER

10
11 COMMISSIONER COMMISSIONER

12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this ____ day of _____, 2004.

17
18 _____
19 BRIAN C. McNEIL
20 EXECUTIVE SECRETARY

21 DISSENT _____

22 DISSENT _____

23 DDN:mj

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1 SERVICE LIST FOR: PALO VERDE UTILITIES COMPANY AND SANTA
2 CRUZ WATER COMPANY
3 DOCKET NOS.: SW-03575A-03-0586 and W-03576A-03-0586
4 Jeffrey W. Crockett
5 SNELL & WILMER
6 One Arizona Center
7 Phoenix, Arizona 85004-2202
8 Attorneys for Applicants
9
10 Patrick Black
11 FENNEMORE CRAIG
12 3003 North Central Avenue, Ste. 2600
13 Phoenix, AZ 85012
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15 Kent A Hoggan
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18
19 Brent D. Butcher
20 3975 S. Highland Dr., #6
21 Salt Lake City, Utah 84124
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23 Clare H. Abel
24 BURCH & CRACCHIOLO, P.A.
25 702 East Osborn Road
26 Phoenix, AZ 85014
27 Attorneys for HAM Maricopa, LLC, Desert Cedars
28 Equities, LLC, and Land Solutions Maricopa, LLC
29
30 Richard L. Sallquist
31 SALLQUIST & DRUMMON
32 2525 E. Arizona Biltmore Circle, Ste. 117
33 Phoenix, AZ 85016
34 Attorneys for Sonoran Utility Services, L.L.C.
35
36 Christopher Kempsey, Chief Counsel
37 Legal Division
38 ARIZONA CORPORATION COMMISSION
39 1200 West Washington Street
40 Phoenix, Arizona 85007
41
42 Ernest Johnson, Director
43 Utilities Division
44 ARIZONA CORPORATION COMMISSION
45 1200 West Washington Street
46 Phoenix, Arizona 85007
47
48

ATTACHMENT A

SANTA CRUZ WATER COMPANY, LLC
PALO VERDE UTILITIES COMPANY, LLC
Legal Description for CCN application filed August 18, 2003
Revised 02/02/04

BEING A PORTION OF THE NORTHWEST QUARTER OF SECTION 34 IN TOWNSHIP 4 SOUTH, RANGE 3 EAST OF THE GILA AND SALT RIVER BASE AND MERIDIAN, PINAL COUNTY, ARIZONA, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID SECTION 34; THENCE NORTH $89^{\circ} 24' 54''$ EAST, ALONG THE NORTH LINE OF SAID SECTION 34 A DISTANCE OF 2,751.05 FEET, MORE OR LESS, TO THE NORTH QUARTER CORNER OF SAID SECTION 34; THENCE SOUTH $00^{\circ} 12' 02''$ WEST, ALONG THE NORTH SOUTH MID-SECTION LINE OF SAID SECTION 34 A DISTANCE OF 2,664.95 FEET TO THE CENTER OF SAID SECTION 34; THENCE NORTH $89^{\circ} 51' 49''$ WEST, ALONG THE EAST WEST MID-SECTION LINE OF SAID SECTION 34 A DISTANCE OF 2,591.70 FEET, MORE OR LESS, TO THE WEST LINE OF SAID SECTION 34; THENCE NORTH $00^{\circ} 40' 29''$ WEST ALONG THE WEST LINE OF SAID NORTHWEST QUARTER 2,663.95 FEET, MORE OR LESS, TO THE POINT OF BEGINNING.

THE BASIS OF BEARING IS THE MONUMENT LINE OF MARICOPA ROAD, ALSO BEING THE WEST LINE OF THE NORTHWEST CORNER OF SECTION 34, TOWNSHIP 4 SOUTH, RANGE 3 EAST, USING A BEARING OF NORTH $00^{\circ} 06' 23''$ WEST.

CONTAINS 159.00 ACRES MORE OR LESS

DECISION NO. _____

ALL OF SECTION 35, TOWNSHIP 4 SOUTH, RANGE 3 EAST, GILA & SALT RIVER BASE & MERIDIAN, PINAL COUNTY, ARIZONA, LYING SOUTHERLY OF THE SOUTHERLY RIGHT-OF-WAY LINE OF THE UNION PACIFIC RAILROAD;

EXCEPT ANY PORTION LYING WITHIN THE FOLLOWING DESCRIBED PROPERTY;

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 35;

THENCE NORTH 89 DEGREES 19 MINUTES 10 SECONDS WEST, A DISTANCE OF 1971.27 FEET TO THE TRUE POINT OF BEGINNING;

THENCE CONTINUING NORTH 89 DEGREES 19 MINUTES 10 SECONDS WEST, A DISTANCE OF 765.30 FEET;

THENCE NORTH 01 DEGREE 19 MINUTES 10 SECONDS EAST, A DISTANCE OF 1377.37 FEET;

THENCE SOUTH 27 DEGREES 53 MINUTES 16 SECONDS EAST, A DISTANCE OF 1568.23 FEET TO THE TRUE POINT OF BEGINNING; AND

EXCEPT ANY PORTION LYING WITHIN THE FOLLOWING DESCRIBED PROPERTY;

COMMENCING AT THE SOUTHEAST CORNER OF SAID SECTION 35;

THENCE NORTH 01 DEGREE 12 MINUTES 36 SECONDS EAST, A DISTANCE OF 77.50 FEET TO THE TRUE POINT OF BEGINNING;

THENCE SOUTH 89 DEGREES 44 MINUTES 11 SECONDS WEST, A DISTANCE OF 660.00 FEET;

THENCE NORTH 01 DEGREE 12 MINUTES 38 SECONDS EAST, A DISTANCE OF 1320 FEET;

THENCE NORTH 89 DEGREES 44 MINUTES 11 SECONDS EAST, A DISTANCE OF 660.00 FEET;

THENCE SOUTH 01 DEGREE 12 MINUTES 36 SECONDS WEST, A DISTANCE OF 1320 FEET TO THE TRUE POINT OF BEGINNING.

CONTAINS 441.00 ACRES MORE OR LESS

ATTACHMENT B

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- MARC SPITZER- Chairman
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- MIKE GLEASON
- KRISTIN K. MAYES

IN THE MATTER OF THE APPLICATION OF)
 PALO VERDE UTILITIES COMPANY FOR AN)
 EXTENSION OF ITS EXISTING CERTIFICATE)
OF CONVENIENCE AND NECESSITY.)
 IN THE MATTER OF THE APPLICATION OF)
 SANTA CRUZ WATER COMPANY FOR AN)
 EXTENSION OF ITS EXISTING CERTIFICATE)
OF CONVENIENCE AND NECESSITY.)

DOCKET NO. SW-03575A-03-0586

DOCKET NO. W-03576A-03-0586

SETTLEMENT AGREEMENT

Applicants Palo Verde Utilities Company, LLC ("Palo Verde") and Santa Cruz Water Company ("Santa Cruz") (collectively the "Applicants"), Global Water Resources, LLC ("GWR") and the Utilities Division Staff of Arizona Corporation Commission ("Staff"), each a party (and collectively the "Parties") to Arizona Corporation Commission ("Commission") Docket No. SW-03575A-03-0586 captioned IN THE MATTER OF THE APPLICATION OF PALO VERDE UTILITIES COMPANY FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY and Commission Docket No. W-03576A-03-0586 captioned IN THE MATTER OF THE APPLICATION OF SANTA CRUZ WATER COMPANY FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (the "Applications"), hereby stipulate and agree to the following settlement provisions in connection with Applicants' request for an extension of each Applicant's Certificate of Convenience and Necessity ("CC&N"). The following terms and conditions of this Settlement Agreement ("Agreement") are intended to resolve all the issues among the undersigned Parties in a manner consistent with the public interest.

Terms and Conditions

The Parties to the Agreement include the Applicants and Staff, who hereby agree to the following:

1. Statement of Intentions and Admissions. The Parties hereby agree that the purpose of

1 this Agreement is to resolve any outstanding matters in Docket Nos. W-03576A-03-0586 and
2 SW-03575A-03-0586 in a manner consistent with the public interest. The Parties further recognize
3 that: (a) this Agreement acts as a procedural device to propose the Parties' settlement terms to the
4 Commission; and (b) this Agreement has no binding force or effect until finally approved by an order
5 of the Commission. Nothing contained in this Agreement is an admission by any Party that any of
6 the positions taken, or that might be taken by each in this proceeding, is unreasonable or unlawful.
7 In addition, acceptance of this Agreement by any of the Parties is without prejudice to any position
8 taken by any Party in these proceedings.

9 2. Settlement Conditions. The Parties hereby agree that this settlement concerning
10 conditions of approval of the Applications reached between the Parties is contained in the document
11 attached hereto as Attachment A and incorporated herein by this reference (the "Settlement
12 Conditions"). The Parties hereby acknowledge and agree that the conditions set forth in the
13 Settlement Conditions are the result of negotiation and do not necessarily reflect the position of any
14 Party to this Agreement.

15 3. Applicants' Responsive Filing. The Parties are aware and accept that the Applicants
16 believe that a supplemental filing by the Applicants is necessary to complete the record in this
17 matter. Accordingly, a copy of the Supplemental Direct Testimony of Mr. Trevor Hill is being filed
18 contemporaneously with this Agreement. However, the Applicants' supplemental filing does not
19 necessarily reflect the position of any Party to this Agreement.

20 4. Staff Authority. The Parties recognize that (a) the Staff does not have the power to
21 bind the Commission; and (b) for the purposes of settlement, the Staff acts in the same manner as a
22 party in proceedings before the Commission.

23 5. Commission Authority to Modify. Each provision of this Agreement is in
24 consideration and support of all other provisions, and expressly conditioned upon acceptance by the
25 Commission without material change; provided, however, that the Parties further recognize that the
26 Commission will evaluate the terms of this Agreement, and that after such evaluation the
27 Commission may require immaterial modifications to any of the terms hereof before accepting this
28 agreement.

1 6. Commission Approval. In the event that the Commission adopts an order approving
2 all of the terms of this Agreement without material change, such action by the Commission
3 constitutes approval of the Agreement, and thereafter the Parties shall abide by its terms.

4 7. Effect of Modification by the Commission. In the event that any Party objects to any
5 modification to the terms of this Agreement made by the Commission in an order approving this
6 Agreement, such Party shall timely file an Application for Rehearing under A.R.S. § 40-253. In the
7 event that a Party does not file such an application, that Party shall be deemed (a) to have accepted
8 any modifications made by the Commission; and (b) to have conclusively and irrefutably accepted
9 that any modifications to terms of this Agreement are not material and therefore the Commission
10 order does adopt the terms of this Agreement without material change.

11 8. Application for Rehearing. If any Party to this Agreement files an Application for
12 Rehearing and alleges that the Commission has failed to approve all terms of the Agreement without
13 material change, then such application shall be deemed a withdrawal of the Agreement, and the
14 Parties shall request a Procedural Order setting Applicant's original Application for hearing. Such
15 hearing shall be without prejudice to the position of any Parties, and this Agreement and any
16 supporting documents relating thereto shall not be admitted into evidence for any purpose nor used
17 by the Commission in its final consideration of the issues raised in this Docket.

18 9. Appeal of Commission Decision. If a Party's application for rehearing alleges that
19 the Commission has failed to approve all terms of this Agreement without material change, and the
20 application for rehearing is denied, either by Commission order or by operation of law, and such
21 Party still objects to any modification to the terms of this Agreement made by the Commission, that
22 Party shall timely file an appeal of the Commission's decision pursuant to A.R.S. § 40-254 or § 40-
23 254.01, as appropriate. In the event that the Party does not file such an appeal, it shall be deemed (a)
24 to have accepted any modifications made by the Commission, and (b) to have conclusively and
25 irrefutably accepted that any modifications to the terms of this Agreement are not material and
26 therefore the Commission's order approves the Agreement without material change.

27 10. Limitations. The terms and provisions of this Agreement apply solely to and are
28 binding only in the context of the provisions and results of this Agreement and none of the positions

1 taken in this Agreement by any of the Parties may be referred to, cited to, or relied upon by any other
2 Party in any fashion as precedent or otherwise in any proceeding before the Commission or any other
3 regulatory agency or before any court of law for any purpose except in furtherance of the purpose and
4 results of this Agreement.

5 11. Definitive Text. The "Definitive Text" of this Agreement shall be the text adopted by
6 the Commission in an order adopting substantially all the terms of this Agreement including all
7 modifications made by the Commission in such an order.

8 12. Severability. Each of the terms of the Definitive Text of this Agreement is in
9 consideration and support of all other terms. Accordingly, such terms are not severable.

10 13. Support and Defend. The Parties pledge to support and defend this Agreement before
11 the Commission.

12 IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on this 19th day
13 of July, 2004.

14 PALO VERDE UTILITIES COMPANY, LLC
15 SANTA CRUZ WATER COMPANY, LLC

ARIZONA CORPORATION
COMMISSION UTILITIES DIVISION
STAFF

16
17 By: Cindy M. Liles
18 VP - General Manager

By: E.G. [Signature]
Utilities Director

19
20 GLOBAL WATER RESOURCES, LLC

21
22 By: [Signature]
23 President

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Attachment ASETTLEMENT CONDITIONS

Applicants Palo Verde Utilities Company, LLC ("Palo Verde") and Santa Cruz Water Company, LLC ("Santa Cruz") (collectively the "Applicants"), Global Water Resources, LLC ("GWR") and the Utilities Division Staff of Arizona Corporation Commission ("Staff"), each a party (and collectively the "Parties") to Arizona Corporation Commission ("Commission") Docket Nos. SW-03575A-03-0586 and W-03576A-03-0586 (the "Applications"), hereby stipulate and agree to the following settlement conditions in connection with Applicants' requests for an extension of each Applicant's Certificate of Convenience and Necessity ("CC&N") (collectively the "Applications").

Background

On December 8, 2003, a hearing was held in the matter, and a recommended Opinion and Order was set for the Commission Open Meeting scheduled for March 30, 2004. However, between the conclusion of the hearing and the open meeting, the Applicants made a filing with regard to the ownership of the utilities. This filing raised questions and concerns for the Commissioners and thus at the March 30, 2004 Open Meeting the matter was sent back to hearing.

In response to these questions and concerns, the Parties have agreed to the following clarified set of Staff's proposed conditions of approval. The conditions herein provide measures that will keep the Commission informed of compliance issues (including bonds, ADEQ, ADWR, and ACC Corporations Division filings) and GWR acquisitions, as well as provide the Commission a process for review and approval of future ownership changes in the Palo Verde and Santa Cruz.

Conditions

The Parties hereby adopt and clarify the Staff Recommendations reflected on pages 21 and 22 of the Supplemental Staff Report filed on May 28, 2004 as follows, which conditions are in addition to the conditions stated in the Recommended Opinion and Order dated January 22, 2004.

1. Performance Bonds. The Parties hereby agree that each of the Applicants will post performance bonds with a total value of \$750,000 for each system and will maintain said bonds for a period of at least 2 years and, upon the expiration of such, the bonds shall be maintained until such

1 time as the Commission approves a reduction request.

2 2. Bond Confirmation. The Parties hereby agree that Applicants shall evidence the
3 bonds discussed in Condition #1 (above) have been maintained by forwarding, each calendar quarter,
4 a letter of bond confirmation to the Director of Utilities. (Please note: a confirmation letter should be
5 filed each January 15, April 15, July 15 and October 15 covering the preceding calendar quarter.)
6 The Parties further agree that if the bonds are not maintained pursuant to Condition #1, the Utilities
7 Division Staff may pursue an Order to Show Cause on the issue.

8 3. Acquisition Schedules. The Parties hereby agree that Global Water Resources, LLC
9 is the parent company of the Applicants. The Parties further agree that GWR will file (with the
10 Utilities Division Director) the attached Acquisition Schedule ("Schedule") (*see Attachment B*)
11 describing each investment GWR makes in a utility. The first Schedule filing shall be made within
12 180 days of the Order in this matter, and provide the requested information for all utilities owned by
13 GWR. An updated Schedule shall also be filed within 30 days of the acquisition of any utility
14 subsequent to the Order in this matter. As well, GWR shall file any necessary changes or corrections
15 to the most recent Schedule to make the Schedule accurate and current as of 180 days from the last
16 filed Schedule. Each Schedule shall be signed under oath and penalty of perjury by at least two
17 officers of GWR. Each Schedule may be filed confidentially with the Director as long as the
18 appropriate protective agreement has been executed by GWR with Staff prior to such filing.

19 4. Quarterly Compliance Reports. The Parties hereby agree that the Applicants will
20 submit quarterly reports documenting the Applicants' compliance status with the Arizona
21 Department of Environmental Quality, Arizona Department of Water Resources, and Arizona
22 Corporation Commission's Corporations Division. Each report shall be signed under oath and
23 penalty of perjury by at least two officers of GWR. The Parties agree that the quarterly reports
24 required in this Section 4 shall be filed with Docket Control and the Utilities Division Director each
25 January 15, April 15, July 15 and October 15 covering the preceding quarter.

26 5. Ownership Approval. The Parties hereby agree that the Commission shall be notified
27 of any proposed change in the ownership of the membership interests (including transfer or
28 additional memberships) in either Applicant prior to execution, through the Applicant's filing of a

1 Notice of Intent ("Notice") (which indicates the filing is made pursuant to the Decision in this
2 matter). The Parties further agree that once the Notice has been filed, the Commission shall have the
3 authority to initiate a proceeding within 60 days to determine approval of the change. The
4 transaction must receive Commission Approval prior to execution, unless the Commission elects to
5 not to initiate action within the above described 60 day period. If the 60 day period lapses with no
6 Commission action begun, the transaction may proceed absent approval.

7 6. Parties Recommendation. The Parties hereby agree that if all of the above five
8 conditions are adopted as part of the Opinion and Order in this matter, the Parties (both the
9 Applicants and Staff) recommend approval of the Applications.

10 The above concludes that Settlement Conditions as agreed to by the Parties on this _____
11 day of July, 2004.

12 PALO VERDE UTILITIES COMPANY, LLC
13 SANTA CRUZ WATER COMPANY, LLC

ARIZONA CORPORATION
COMMISSION UTILITIES DIVISION
STAFF

14 By: Cindy M. Liles
15

By: E.C. [Signature]

16 The Applicants': VP - General Managers Ats: Director, Utilities Division

17
18 GLOBAL WATER RESOURCES, LLC

19
20 By: [Signature]

21 The Parent Company's: PRESIDENT.

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Attachment B
Acquisition Schedule

This Acquisition Schedule shall be prepared pursuant to the Settlement Conditions contained in Arizona Corporation Commission Dockets No. SW-03575A-03-0568 and No. W-03576A-03-0568.

PART 1

Describe below each investment in, or acquisition of, any utility made by Global Water Resources, LLC during the six month period ending on the date this document is executed.

PART 2

As of this date, the capital structures of Palo Verde Utilities Company, LLC (PVUC) and Santa Cruz Water Company (SCWC) and any other GWR acquired utility are as follows:

	PVUC		SCWC	
	Amount	%	Amount	%
Long-term Debt*				
Equity**		100.00%		100.00%
	Acquired Company here			
	Amount	%		
Long-term Debt*				
Equity**		100.00%		

*Include current portion of Long-term Debt.

**Includes Common Stock, Paid In Capital and Retained Earnings (Deficit).

The undersigned also confirm that at no time during the last six months did the equity ratios (as calculated above) of PVUC and SCWC fall below 40%.

WE THE UNDERSIGNED _____ AND _____, DO SAY THAT THE ABOVE INFORMATION HAS BEEN PREPARED UNDER OUR DIRECTION AND WE HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID COMPANIES FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH & EVERY MATTER AND THING SET FORTH, TO THE BEST OF OUR KNOWLEDGE, INFORMATION AND BELIEF.

X _____ / /
SIGNATURE OF OWNER OR OFFICIAL/DATE

X _____ / /
SIGNATURE OF OWNER OR OFFICIAL/DATE

DECISION NO. _____