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BEFORE THE ARIZONA CORPORATION COMMISSION

28

COMMISSIONERS

JEFF HATCH-MILLER - Arizona Corporation Commission  
WILLIAM A. MUNDELL  
MIKE GLEASON  
KRISTIN K. MAYES  
BARRY WONG

2006 SEP 13 P 3:01

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SEP 13 2006

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ARIZONA WATER COMPANY, an Arizona corporation,  
Complainant,

DOCKET NO. W-01445A-06-0200  
SW-20445A-06-0200  
W-20446A-06-0200  
W-03576A-06-0200  
SW-03575A-06-0200

vs.

GLOBAL WATER RESOURCES, LLC, a foreign limited liability company; GLOBAL WATER RESOURCES, INC., a Delaware corporation; GLOBAL WATER MANAGEMENT, LLC, a foreign limited liability company; SANTA CRUZ WATER COMPANY, LLC, an Arizona limited liability corporation; PALO VERDE UTILITIES COMPANY, LLC, an Arizona limited liability corporation; GLOBAL WATER - SANTA CRUZ WATER COMPANY, an Arizona corporation; GLOBAL WATER - PALO VERDE UTILITIES COMPANY, an Arizona corporation; JOHN AND JANE DOES 1-20; ABC ENTITIES I - XX,  
Respondents.

Global's Response  
to Arizona Water Company's  
Request for Oral Argument or  
Disposition of its Request for  
Injunctive Relief

and

Global's Request for Leave to File  
this Response

Respondents (collectively, "Global") respectfully submit this response to Arizona Water Company's ("AWC") Request for Oral Argument or Disposition of its Request for Injunctive Relief ("Request") concerning Infrastructure Coordination and Finance Agreements ("ICFAs").

I. Preliminary Statement.

The attachments to the Request only drive home the point that the ICFAs are in the public interest, and that a preliminary injunction is therefore not in the public interest. Moreover, the Request flouts the governing procedural order in this matter, needlessly impugns the diligence of the Administrative Law Judge ("ALJ") and Staff, and has no basis in law. Accordingly, the ALJ

1 should not grant AWC's requested preliminary injunctive relief. The Request should be  
2 summarily denied, so oral argument is not needed on this issue. However, to the extent the ALJ  
3 actually considers granting preliminary injunctive relief, oral argument should be held. In  
4 addition, Global asks that it be granted leave to file this Response.

5 **II. AWC's own attachments show that ICFAs are in the public interest.**

6 AWC's claims that Global Water Resources, LLC ("Global Parent") is "in a rush to sign up  
7 as many members of the public as possible to ICFAs, thereby attempting to lock in future utility  
8 service for [its] regulated utility subsidiaries."<sup>1</sup> This misstates the facts in at least three ways.  
9 **First**, Global does not market ICFAs to the public. Indeed, they no longer need to market them at  
10 all – developers now come to Global Parent in droves. For example, in a pending CC&N  
11 extension in Pinal County<sup>2</sup>, the ICFAs covering more than 95% of the extension area are repeat  
12 business. **Second**, Global Parent does not sign ICFAs with the "public". Instead, Global Parent  
13 signs ICFAs with large landowners – who are almost always sophisticated developers. In fact,  
14 parties to ICFAs include a veritable "who's who" of Arizona's development community –  
15 including publicly traded companies, as well as some of the most respected privately held  
16 companies. **Third**, ICFAs do not "lock in" future service territories. Global's regulated utilities  
17 must file CC&N applications, just like any other public service corporation. Indeed, one of  
18 Global's regulated utilities recently filed a CC&N application for areas included within the ICFAs  
19 attached to AWC's Request.<sup>3</sup>

20 Nor is there any unseemly rush to sign ICFAs. Global Parent continues to sign ICFAs in  
21 the ordinary course of business, as developers come forward who desire that service. It is  
22 fortunate that Global Parent continues to sign ICFAs despite AWC's threats. This is because the  
23 ICFAs allow Global to pursue the "3 Cs" – (1) conservation of groundwater; (2) consolidation of  
24 small or unviable utilities; and (3) cooperation with regulators, local government, and developers.

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27 <sup>1</sup> Request at 4:5-7.

<sup>2</sup> Docket No. SW-03575A-05-0926 et al.

<sup>3</sup> See Docket No. SW-20422A-06-0566.

1 This is likely what Staff had in mind when they said “[t]here is no doubt that the coordination  
2 agreements accomplish certain objectives that are desirable....”<sup>4</sup>

3 The ICFAs attached to AWC’s Request aptly demonstrate how ICFAs are in the public  
4 interest. As explained in the recitals of those ICFAs, the agreements were related to the  
5 acquisition of West Maricopa Combine, Inc. (“WMC”) and its regulated utilities. Global, of  
6 course, kept the Commissioners and Staff fully informed of this transaction. And the ICFAs are  
7 recorded documents in full view of the public.

8 The Commissioners have often spoken of their desire to promote consolidation of the  
9 hundreds of small water companies in this state – many of whom have limited financial, technical,  
10 and managerial resources. The tool most often used in other states to promote consolidation is the  
11 acquisition adjustment. This adjustment increases rate base, and thus, rates. For this reason, the  
12 Commission has been very reluctant to approve acquisition adjustments, except in the most  
13 extraordinary cases. The Commission thus has a goal – consolidation – but has rejected the  
14 principal tool used to achieve that goal. If the Commission is serious about this goal, it should  
15 find a new tool to accomplish it. The ICFAs are just such a tool. They make consolidation  
16 happen, but they don’t make customers pay for it. Instead, under the ICFAs, developers shoulder  
17 some of the acquisition cost. Such was the case with the WMC transaction. A portion of the  
18 ICFA fees were used to acquire WMC, and this constituted a significant portion of the purchase  
19 price for WMC’s shares.

20 The WMC transaction demonstrates the benefits of consolidation. The WMC utilities were  
21 small and poorly-capitalized. They relied heavily on advances and contributions to fund projects,  
22 leaving them with little rate base. They faced an onslaught of growth in the West Valley. They  
23 had no experience with managing massive utility construction projects. Nor did they offer  
24 wastewater or reclaimed water services.

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<sup>4</sup> Staff’s Statement on Emergency Relief, filed July 7, 2006 at 3:9-10.

1 The ICFAs allowed Global to change this potentially dire situation. The WMC utilities  
2 now have access to large amounts of capital through Global. Global has unrivaled experience in  
3 managing the construction of massive amounts of infrastructure. Indeed, Global spends about \$ 1  
4 million a week on capital projects. Global successfully managed the “hyper-growth” situation  
5 recently seen in Maricopa, and at the same time was able to rescue the neighboring “387 Districts”  
6 from impending disaster due to the districts’ inability to keep up with growth. Global also has  
7 numerous engineers – both in house and on contract – which are available to the WMC utilities.

8 Even more importantly, the WMC acquisition will allow Global to implement its “triad of  
9 conservation” strategy in the fast-growing West Valley. The triad involves: (1) re-use of  
10 reclaimed water; (2) using renewable surface water; and (3) recharging the aquifer with excess  
11 reclaimed or surface water. These strategies can dramatically reduce reliance on groundwater.  
12 Global is now able to provide an integrated solution of water, wastewater, and reclaimed water  
13 services in the West Valley through implementing the triad of conservation. Arizona-American  
14 Water Company recently sounded the alarm about the dangers of over-reliance on groundwater in  
15 the West Valley.<sup>5</sup> If anything, their concerns are understated. Perhaps the most important issue  
16 facing Arizona today is the source of water for rapidly growing areas like the West Valley and  
17 Pinal County. Arizona’s future depends on making this rapid development sustainable through  
18 methods like the triad of conservation.

19 All of this is now possible because of the ICFAs. The WMC transaction simply would not  
20 have happened without the ICFAs. Indeed, the ICFA fees formed a substantial part WMC’s  
21 purchase price. If AWC had been successful in obtaining a preliminary injunction against ICFAs,  
22 the WMC transaction would not have happened. The Commission served the public interest well  
23 in not granting a preliminary injunction against the ICFAs. It should not change course now.

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<sup>5</sup> See Revised Application filed September 1, 2006 in Docket No. W-01303A-05-0718.

1 **III. AWC's Request violates the Commission's Procedural Order.**

2 The Commission, through the ALJ, ordered that "AWC's Complaint shall be held in  
3 abeyance pending the Commission's consideration of the issues raised in the above-referenced  
4 Generic Docket."<sup>6</sup> Thus, this case is essentially "on hold" pending the outcome of the Generic  
5 Docket.<sup>7</sup> Indeed, the word "abeyance" means "temporary inactivity, cessation, or suspension."  
6 *Webster's Encyclopedic Unabridged Dictionary of the English Language* (1996 edition); *see also*  
7 *Black's Law Dictionary* (7<sup>th</sup> ed. 1999)("temporary inactivity; suspension"). Filing pleadings or  
8 other documents in this docket is activity – the very opposite of inactivity or suspension. Thus,  
9 AWC's Request violates the Commission's Procedural Order, and it should be denied. Ironically,  
10 for this very reason, this Response would also be inappropriate, and Global would be unable to  
11 defend itself against the filings made by AWC. This makes little sense. Accordingly, Global  
12 requests leave to file this response.

13 **IV. AWC's aspersions on the ALJ and Staff should be rejected.**

14 Moreover, the July 14, 2006 Procedural Order noted that the parties filed briefs regarding  
15 preliminary injunctions yet ordered that the case be held in abeyance. The clear implication of this  
16 order is that no preliminary injunction was needed. AWC already has its answer. AWC's  
17 suggestion to the contrary should be rejected. Indeed, under AWC's view, the ALJ has sat on his  
18 hands doing nothing on a pending matter for months. Any such implication should be rejected.

19 AWC's attack on Staff's diligence is also unwarranted. AWC complains that "despite  
20 statements by the Commission's Utility Division Staff that the Generic Docket would be processed  
21 on an "expedited basis," no further proceedings have been held or scheduled in that docket..."<sup>8</sup>  
22 Staff had originally anticipated issuing a Staff Report in August. We understand from Staff that  
23 they now intend to issue the report in mid-September. This short, two-week delay is surely no  
24 cause for complaint, especially as we are all familiar with the heavy caseload carried by Staff.

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27 <sup>6</sup> Procedural Order dated July 14, 2006 at 2:26-28.

<sup>7</sup> Docket No. W-00000C-06-0149.

<sup>8</sup> AWC Request at 3:23-25.

1 **V. There are no grounds for the issuance of a preliminary injunction.**

2 Both Staff and Global have explained at length why a preliminary injunction is not  
3 appropriate. There are many procedural obstacles to granting a preliminary injunction – for  
4 example, there must be a hearing, and the injunction must be supported by affidavits or a verified  
5 complaint. *Dahnad v. Buttrick*, 201 Ariz. 394, 399, 36 P.3d 742, 747 (App. 2001); *McCarthy*  
6 *Western Constructors, Inc. v. The Phoenix Resort Corp.*, 169 Ariz. 520, 525, 821 P.2d 181, 186  
7 (App. 1991); A.R.S. § 12-1803; *See Nu-Tred Co. v. Dunlop Tire and Rubber Corp.*, 118 Ariz. 417,  
8 419, 577 P.2d 268, 270 (1978). None of these conditions are met here. In addition, the traditional  
9 four part test for preliminary injunctions is very stringent, and it is not satisfied here. These points  
10 are set forth in greater detail in Global’s Supplemental Brief Regarding Preliminary Injunction,  
11 which is attached as Exhibit A. In addition, Staff correctly notes that the Commission cannot enter  
12 a preliminary injunction against entities which are not public service corporations. (Staff  
13 Statement on Emergency Relief at 3, *citing Williams v. Arizona Corp. Comm’n*, 102 Ariz. 382,  
14 383, 430 P.2d 144, 145 (1967)). Indeed, the Commission cannot enter any order against a  
15 company unless the company is determined to be a public service corporation. *Williams, supra*  
16 (quashing order to show cause issued by Commission). When a company has not previously been  
17 subject to the Commission’s jurisdiction, and does not consent to the Commission’s jurisdiction,  
18 the proper avenue to seek a determination in Superior Court of the Commission’s jurisdiction. *Id.*;  
19 *Arizona Atty. Gen. Op. I77-150* (July 18, 1977); *see e.g. Visco v. State ex rel. Pickrell*, 95 Ariz.  
20 154, 158, 388 P.2d 155, 157 (1963)(example of case brought by Commission in Superior Court).  
21 Here Global Parent and the other Unregulated Global Companies<sup>9</sup> have never been subject to the  
22 Commission’s jurisdiction, and they do not consent to such jurisdiction. Accordingly, the  
23 Commission may not enter an injunction – preliminary or permanent – against them.

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<sup>9</sup> As defined in Global’s Motion to Dismiss.

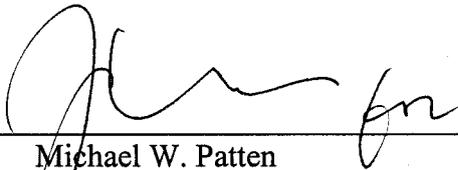
**ROSHKA DeWULF & PATTEN, PLC**  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 **VI. Conclusion.**

2 The new ICFAs presented by AWC show how the ICFAs are in the public interest, through  
3 their ability to promote consolidation of utilities and water conservation. Because the ICFAs are  
4 in the public interest, a preliminary injunction should not be issued against them. Moreover,  
5 AWC's Request violates the ALJ's order that this case be held in abeyance. In addition, AWC's  
6 implications that Staff and the ALJ are not diligently pursuing their duties should be rejected.  
7 There are many reasons why a preliminary injunction is not appropriate or lawful at this time.  
8 Accordingly, Global requests that it be granted leave to file this response, and it requests that  
9 AWC's Request be denied.

10 RESPECTFULLY SUBMITTED this 13<sup>th</sup> day of September 2006.

11  
12 ROSHKA DEWULF & PATTEN, PLC

13  
14 By   
15 Michael W. Patten  
16 One Arizona Center  
17 400 East Van Buren Street, Suite 800  
18 Phoenix, Arizona 85004

18 Original and 21 copies of the foregoing  
19 filed this 13<sup>th</sup> day of September 2006 with:

20 Docket Control  
21 Arizona Corporation Commission  
22 1200 West Washington Street  
23 Phoenix, Arizona 85007

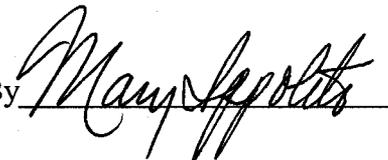
24 Copy of the foregoing hand-delivered/mailed  
25 this 13<sup>th</sup> day of September 2006 to:

26 Lyn Farmer, Esq.  
27 Chief Administrative Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

**ROSHKA DEWULF & PATTEN, PLC**

ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

- 1 Christopher C. Kempley, Esq.  
Chief Counsel, Legal Division
- 2 Arizona Corporation Commission
- 3 1200 West Washington  
Phoenix, Arizona 85007
  
- 4 Ernest G. Johnson, Esq.  
Director, Utilities Division
- 5 Arizona Corporation Commission
- 6 1200 West Washington  
Phoenix, Arizona 85007
  
- 7 Robert W. Geake, Esq  
Arizona Water Company
- 8 3805 North Black Canyon Highway  
Phoenix, Arizona 85015
  
- 9 Steven A. Hirsch, Esq.  
Rodney W. Ott, Esq.  
Bryan Cave LLP
- 10 Two North Central Avenue, Suite 2200  
Phoenix, Arizona 85004

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14 By   
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# EXHIBIT

"A"

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 **JEFF HATCH-MILLER** – Chairman  
4 **WILLIAM A. MUNDELL**  
5 **MARC SPITZER**  
6 **MIKE GLEASON**  
7 **KRISTIN K. MAYES**

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7	ARIZONA WATER COMPANY, an Arizona	)	DOCKET NO.	W-01445A-06-0200
8	corporation,	)		SW-20445A-06-0200
	Complainant,	)		W-20446A-06-0200
9		)		W-03576A-06-0200
10	vs.	)		SW-03575A-06-0200
		)		
11	GLOBAL WATER RESOURCES, LLC, a foreign	)		
	limited liability company; GLOBAL WATER	)		
12	RESOURCES, INC., a Delaware corporation;	)		
	GLOBAL WATER MANAGEMENT, LLC, a	)		
13	foreign limited liability company; SANTA CRUZ	)		
	WATER COMPANY, LLC, an Arizona limited	)		
14	liability corporation; PALO VERDE UTILITIES	)		
	COMPANY, LLC, an Arizona limited liability	)		
15	corporation; GLOBAL WATER – SANTA CRUZ	)		
	WATER COMPANY, an Arizona corporation;	)		
16	GLOBAL WATER – PALO VERDE UTILITIES	)		
	COMPANY, an Arizona corporation; JOHN AND	)		
17	JANE DOES 1-20; ABC ENTITIES I – XX,	)		
18		)		
		)		
19	Respondents.	)		

20 **Global's Supplemental Brief**

21 **Regarding Preliminary Injunction**

22 At the conclusion of the June 15, 2006 procedural conference in this case, the  
23 Administrative Law Judge requested that the parties file supplemental briefs by July 7, 2007. The  
24 briefs were to address the Commission's authority to impose a preliminary injunction banning  
25 respondents from entering into Infrastructure Coordination and Financing Agreements ("ICFAs")  
26 while this case is pending. Accordingly, respondents (collectively, "Global") file their  
27 supplemental brief.

ROSHKA DEWULF & PATTEN, PLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 **I. Preliminary Statement.**

2 Arizona courts recognize that before a state agency can enter an order depriving a person of  
3 a property or liberty interest, due process requires the agency to provide notice and a hearing.  
4 Accordingly, the Commission cannot adopt a preliminary injunction without conducting a hearing.  
5 In this case, conducting a hearing would be impractical, as the substantive matters at issue here are  
6 being resolved in the generic financing proceeding, docket no. W-00000C-06-0149. Accordingly,  
7 the Commission should not conduct a hearing, and thus, it should not issue a preliminary  
8 injunction.

9 If the Commission does conduct a hearing, it should apply the traditional four part test for  
10 preliminary injunctions. This test looks to likelihood of success, irreparable harm, balance of  
11 harms, and the public interest. These factors do not support issuing a preliminary injunction in this  
12 case. Indeed, the determination of a likelihood of success will be directly affected by the generic  
13 financing proceeding.

14 Moreover, under Arizona law, a preliminary injunction can be granted only upon a  
15 showing based on sworn evidence in the form of affidavits or a verified complaint. Here, there is  
16 no sworn evidence in the record, and thus an injunction cannot be issued at this time.

17 Lastly, an injunction can be issued only when the tribunal has jurisdiction. Here, the  
18 Commission does not have jurisdiction over a number of the respondents. These non-  
19 jurisdictional respondents include the respondent that actually enters into the ICFAs. Because the  
20 Commission does not have jurisdiction over that respondent, the Commission cannot adopt a  
21 preliminary injunction banning it from entering into ICFAs.

22 **II. Arizona administrative agencies must conduct a hearing before adopting provisional**  
23 **or preliminary remedies.**

24 Under Arizona law, an administrative agency may not affect liberty or property interests  
25 without conducting a hearing prior to granting any preliminary remedy. The leading case is *Webb*  
26 *v. State ex rel. Arizona Bd. of Medical Examiners*, 202 Ariz. 555, 558, 48 P.3d 505, 509 (App.  
27 2002). In that case, the Board of Medical Examiners conducted a hearing where a doctor could

ROSHKA DEWULF & PATTEN, PLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 have been reprimanded, censured, or had his license temporarily suspended. The court ruled that a  
2 “person facing such a range of consequences... must at a minimum be provided a chance to  
3 confront adverse evidence and question adverse witnesses.” *Id.* Another example is *Dahnad v.*  
4 *Buttrick*, 201 Ariz. 394, 399, 36 P.3d 742, 747 (App. 2001). In that case, the Board of Dental  
5 Examiners, without holding a hearing, suspended a dentist’s license until the conclusion of the  
6 case. The court overturned this action, finding that it violated the dentist’s due process. The court  
7 recognized an exception where “emergency circumstances imperatively require such action” to the  
8 general rule requiring a hearing. *Id.* Even under this emergency exception, the agency must  
9 provide a “prompt or immediate” hearing after issuing the emergency order. *Id.* Here, there has  
10 been no allegation of emergency, nor is there any basis for such an allegation, and accordingly a  
11 hearing is required.

12 Moreover, this Commission has no procedural rule governing preliminary injunctions or  
13 other provisional remedies. In the absence of a procedural rule, the Commission has determined  
14 that the Rules of Civil Procedure should apply. A.A.C. R14-3-101(A). Under the Arizona Rules  
15 of Civil Procedure, a court cannot issue a preliminary injunction without the opportunity for a  
16 hearing. *See McCarthy Western Constructors, Inc. v. The Phoenix Resort Corp.*, 169 Ariz. 520,  
17 525, 821 P.2d 181, 186 (App. 1991). In addition, the rules require that the court issue findings of  
18 fact based on the evidence heard. *Id.*

19 Although a hearing is required, it would not be practical to conduct a hearing at this time.  
20 During the procedural conference, the Administrative Law Judge indicated that this case would be  
21 stayed until there is a determination in the generic financing docket. That docket is proceeding  
22 rapidly, and may very well be concluded before a preliminary injunction hearing could be  
23 scheduled. In addition, conducting a hearing in this matter would not serve judicial economy  
24 when these matters are already being reviewed in the generic docket.

25 For these reasons, it would not be practical to conduct a hearing at this time. And in the  
26 absence of a hearing, the Commission may not issue a preliminary injunction or similar remedy.

27

ROSHKA DEWULF & PATTEN, PLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 **III. This case does not meet the traditional four part test for preliminary injunctions.**

2 As noted above, the Commission does not have a rule governing preliminary injunctions.  
3 In the absence of any rule or established standard governing such proceedings, the Commission  
4 should look to the traditional four part test governing preliminary injunctions. The Arizona  
5 Supreme Court recently repeated the traditional test as:

- 6 1. a strong likelihood of success on the merits;
- 7 2. irreparable harm if the stay is not granted;
- 8 3. that the harm to the requesting party outweighs the harm to the party opposing the  
9 stay; and
- 10 4. that public policy favors the granting of the stay.

11 *See Smith v. Arizona Citizens Clean Elections Commission*, 212 Ariz. 407, ¶ 10, 132 P.3d 1187,  
12 1190-91 (2006)(adopting preliminary injunction test as test for stay on appeal); *see also Shoen v.*  
13 *Shoen*, 167 Ariz. 58, 63, 804 P.2d 787, 792 (App. 1991)(reciting traditional four part test). This  
14 test is not satisfied here.

15 The first prong is whether there is a strong likelihood of success on the merits. Global has  
16 reviewed the legal and factual issues regarding this case in its Motion to Dismiss and Reply in  
17 Support of Motion to Dismiss. For the reasons stated in those documents, AWC does not have a  
18 strong likelihood of success. Moreover, the determination of a likelihood of success should not be  
19 made until the Commission resolves key policy and legal issues in the generic docket.

20 The second prong is irreparable harm. For harm to be “irreparable”, the inquiry “must be  
21 both certain and great; it must be actual and not theoretical.” *Wisconsin Gas v. F.E.R.C.*, 758 F.2d  
22 669, 674 (D.C. Cir. 1985). Thus, speculative harms related to regulatory policy do not qualify as  
23 irreparable. *See Id.* As explained in the Motion to Dismiss, the ICFAs do not cause any harm at  
24 all. Even if any harm did exist, it would certainly not be “irreparable.” The Commission remains  
25 firmly in control of the CC&N process. No territory will be granted to Global in the absence of  
26 Commission action through a CC&N. Moreover, the Commission will closely examine the ICFAs  
27

1 in the generic docket, and it will have the opportunity in that docket to address any "harms",  
2 whatever those may be.

3 The third prong goes to a balancing of harms to the parties. In this case, AWC's objections  
4 to the ICFAs are generalized concerns that do not directly affect AWC. AWC has shown no harm  
5 to itself. Moreover, even if AWC was being harmed, the duration of the harm would be short,  
6 because the generic docket is proceeding quickly. Thus any harm to AWC would be minimal. In  
7 contrast, a preliminary injunction would seriously harm Global. The ICFAs are at the heart of  
8 Global's strategy. This strategy is based on the "3Cs": conservation, consolidation, and  
9 cooperation. This strategy is explained in Global's Comments in the generic docket (attached as  
10 Exhibit A). As shown in the comments, the ICFAs enable Global to promote conservation of  
11 limited groundwater resources, consolidation of troubled water companies, and cooperation with  
12 cities and others. Without the ICFAs, Global's ability to achieve these goals would be seriously  
13 compromised. Global enters into ICFAs on a regular basis, and its everyday actions would be  
14 sharply affected if a preliminary injunction is issued. In sum, a ban on ICFAs would harm Global,  
15 but the absence of a ban would not harm AWC. Thus, this prong strongly points against granting a  
16 preliminary injunction.

17 The fourth factor is the public policy or the public interest. As shown in the attached  
18 comments, the ICFAs are used to promote goals that are in the public interest, such as  
19 conservation, consolidation, and cooperation.

20 All four prongs of the test point against granting a preliminary injunction. In addition, no  
21 injunction can be issued where there is an adequate remedy at law. *See The Power P.E.O., Inc. v.*  
22 *Employees Insurance of Wausau*, 201 Ariz. 559, 562, 38 P.3d 1224, 1227 (App. 2002). Here,  
23 AWC has not explained why a remedy in the generic docket would be inadequate. Moreover, an  
24 injunction remains an extraordinary remedy. *See United States v. Oakland Cannabis Buyers'*  
25 *Cooperative*, 532 U.S. 483, 496 (2001); *Mason Dry Goods v. Ackel*, 30 Ariz. 7, 13, 243 P. 606,  
26 608 (1926). As such, it should be used sparingly and with great caution. There are no grounds for  
27 imposing such an extraordinary remedy in this case.

ROSHKA DEWULF & PATTEN, PLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 **IV. Sworn evidence is needed before an injunction can be issued.**

2 Under Arizona law, an injunction can be issued only if it is based upon sworn evidence.  
3 Under A.R.S. § 12-1803, an injunction can be granted before final judgment only if injunction is  
4 supported by affidavits or a verified complaint.<sup>1</sup> Here, AWC's complaint was not verified and  
5 AWC did not submit any affidavits in support of its request for an injunction. Accordingly, an  
6 injunction cannot be issued at this time.

7 **V. The Commission does not have jurisdiction over Global Parent.**

8 Global Water Resources, LLC ("Global Parent") is the respondent that is the party to the  
9 ICFAs. Global Parent does not provide water or wastewater service, and therefore it does not meet  
10 the definition of a public service corporation in the Arizona Constitution. *See* Ariz. Const. Art.  
11 XV § 2. There is no factual dispute on this point. As more fully explained in the Motion to  
12 Dismiss and Reply, a company that does not meet this definition cannot be a public service  
13 corporation. AWC suggests that the Commission can ignore the constitutional definition and  
14 instead skip ahead and apply the so-called *Serv-Yu* test. Even if this were correct, by AWC's  
15 admission, the *Serv-Yu* test is a "fact-intensive inquiry".<sup>2</sup> Since the question is so fact-intensive, it  
16 is not an appropriate question to be resolved at this preliminary stage of the proceedings. Thus,  
17 under AWC's own analysis, the Commission cannot determine at this time that it has jurisdiction  
18 over Global Parent. And the Commission cannot act in the absence of jurisdiction, and any action  
19 that it did take would be void. *See Tucson Rapid Transit Co. v. Old Pueblo Transit Co.*, 79 Ariz.  
20 327, 289 P.2d 406 (1955).

21 **VI. Conclusion.**

22 The extraordinary remedy of an preliminary injunction should not be adopted in this case.  
23 There has been no hearing as required by Arizona law and due process. The traditional four-factor  
24 test for preliminary injunctions has not been satisfied, and in any event, AWC has not complied  
25

26 <sup>1</sup> This statute does not eliminate the requirement for a hearing for preliminary injunctions.  
27 *See Nu-Tred Co. v. Dunlop Tire and Rubber Corp.*, 118 Ariz. 417, 419, 577 P.2d 268, 270 (1978).

<sup>2</sup> AWC Response to Global's Motion to Dismiss at 7:14.

ROSKA DEWULF & PATTEN, PLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 with the statutory requirements for an injunction. In addition, the Commission does not have  
2 jurisdiction over Global Parent, and therefore cannot grant an injunction against it. For these  
3 reasons, the Commission should decline to issue a preliminary injunction.

4 RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of July 2006.

5  
6 ROSKA DEWULF & PATTEN, PLC

7  
8 By 

9 Michael W. Patten  
10 One Arizona Center  
11 400 East Van Buren Street, Suite 800  
12 Phoenix, Arizona 85004

13 Original and 21 copies of the foregoing  
14 filed this 7<sup>th</sup> day of July 2006 with:

15 Docket Control  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
18 Phoenix, Arizona 85007

19 Copy of the foregoing hand-delivered/mailed  
20 this 7<sup>th</sup> day of July 2006 to:

21 Lyn Farmer, Esq.  
22 Chief Administrative Law Judge  
23 Hearing Division  
24 Arizona Corporation Commission  
25 1200 West Washington  
26 Phoenix, Arizona 85007

27 Christopher C. Kempley, Esq.  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Ernest G. Johnson, Esq.  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

1 Robert W. Geake, Esq  
2 Arizona Water Company  
3 3805 North Black Canyon Highway  
4 Phoenix, Arizona 85015

5 Steven A. Hirsch, Esq.  
6 Rodney W. Ott, Esq.  
7 Bryan Cave LLP  
8 Two North Central Avenue, Suite 2200  
9 Phoenix, Arizona 85004

10  
11  
12 By *Mary Appolito*  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

**ROSHKA DeWULF & PATTEN, PLC**  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

EXHIBIT

"A"

BEFORE THE ARIZONA CORPORATION COMMISSION

**COMMISSIONERS**

Jeff Hatch-Miller, Chairman  
William A. Mundell  
Marc Spitzer  
Mike Gleason  
Kristin K. Mayes

AZ CORP COMMISSION  
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IN THE MATTER OF THE COMMISSION'S  
GENERIC EVALUATION OF THE  
REGULATORY IMPACT FROM THE USE OF  
NON-TRADITIONAL FINANCING  
ARRANGEMENTS BY WATER UTILITIES AND  
THEIR AFFILIATES

Docket No. W-00000C-06-0149

**Global's Comments**

Santa Cruz Water Company, LLC; Palo Verde Utilities Company, LLC; Global Water – Santa Cruz Water Company; Global Water – Palo Verde Utilities Company; Cave Creek Water Company; and Hassayampa Utility Company (the “Global Utilities”) and Global Water Resources, LLC (“Global Parent”)(collectively “Global”) hereby provide their comments regarding this docket.

**I. Introduction.**

We appreciate the opportunity to provide comments concerning the important subject of non-traditional financing arrangements. Arizona has rapid growth combined with limited water resources. We have carefully analyzed the issues facing our State – the Colorado River is, according to ADWR, overallocated by millions of acre-feet per year, Arizona is in a very long drought period, ADWR has been stymied by litigation in its efforts to enact meaningful gallons per capita per day regulations, and the twin pressures of growth and arsenic compliance are overwhelming small water companies. In this situation, it is essential that we find ways to maximize the use of our water resources, while minimizing any potential adverse environmental effects. Growth, arsenic compliance and the drought have stretched – sometimes beyond the breaking point – the resources of small water and wastewater providers. These small utilities often

ARIZONA UTILITIES SERVICE, S.L.U.  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 lack the financial strength, management capabilities and technical expertise to keep up. And  
2 growth all-too-often causes cities, utilities, and residents to squabble as they try to cope with  
3 scarcity and increasing costs. These challenges require creative solutions. Non-traditional  
4 financing arrangements can play an important role in alleviating these problems. Global Parent  
5 welcomes the opportunity to explain how its Infrastructure Coordination and Financing  
6 Agreements (“ICFAs”) can help solve these problems.

7 The ICFAs allow Global to implement the “3Cs”: conservation, consolidation, and  
8 cooperation. Global believes that the 3C strategy is in the public interest, and that its  
9 implementation – by Global and other companies – is critical to the future of our state. The 3Cs  
10 can be summarized as:

11 **Conservation.** In a desert, water should not be squandered. As a state, we can – and  
12 should do more. Global’s conservation strategy is based on the “water conservation triad”: (1)  
13 maximizing use of reclaimed water; (2) using renewable surface water where available; and (3)  
14 recharging the aquifer with any available surface or excess reclaimed water. Implementing the  
15 triad allows reliance and consumption of non-renewable groundwater supplies to be sharply  
16 reduced.

17 **Consolidation.** Arizona has hundreds of small water companies, and many are poorly-  
18 capitalized and lack management and technical skills. Through consolidation, well-capitalized  
19 companies with experienced management and sophisticated engineering and operations staffs can  
20 take the place of these small companies. This results in stable, reliable companies that customers  
21 can count on. Consolidated companies also allow economies of scale to be realized. Customers  
22 benefit as these lower costs are passed on in the ratemaking process. And consolidation allows  
23 companies to access the capital necessary to implement the water conservation triad.

24 **Cooperation.** Effective management of growth occurs when cities, developers, and  
25 utilities cooperate. Cities want growth that is sustainable, not reckless. Developers want to make  
26 money. Utilities need to be able to manage growth and efficiently utilize available resources.  
27 Non-traditional financing methods can align the incentives of developers and utilities to work with

1 the cities. This allows all three to cooperate to achieve truly sustainable, regionally planned  
2 growth.

3 Global Parent's ICFA's, along with its Public Private Partnerships (P3s) with cities, allow  
4 Global to implement the 3 C strategy. Traditional financing methods were not designed to allow  
5 or support the 3 Cs. Experience shows that utilities that use traditional financing methods do not  
6 successfully achieve the 3 Cs. For these reasons, it is in the public interest to allow non-traditional  
7 methods, including the ICFA's.

8 These comments will first provide an in-depth explanation of the ICFA's and how they  
9 allow the 3 Cs to be realized. Second, although the P3 agreements with the cities do not involve  
10 financing, we will briefly explain them as well. Specific answers to the questions posed in the  
11 letters of Staff, Commissioner Mundell and Chairman Hatch-Miller will follow.

12 **II. The ICFA's are a flexible means of achieving important objectives not allowed by**  
13 **traditional methods.**

14 **A. Description of ICFA's.**

15 As the name implies, ICFA's involve the coordination and financing of utility  
16 infrastructure. The ICFA's do not provide for utility services, and Global Utilities are not parties to  
17 the ICFA's. Instead, the ICFA's provide for the developer to enter into a main extension agreement  
18 with the regulated utility. ICFA, Ex. D and E.<sup>1</sup> The ICFA specifically recognizes that the Global  
19 Utilities are separate and distinct companies from Global Parent. ICFA, Recital C.

20 Central to the ICFA is the concept of "carrying costs" or the time value of money. The  
21 ICFA provides for payments that are "an approximation of the carrying costs associated with  
22 interest and capitalized interest associated with the financing of infrastructure." ICFA, Recital G.  
23 Global Parent – not developers – provides the equity for the capital projects of the Global Utilities.  
24 ICFA, Recital B. The ICFA payments merely allow Global Parent to plan and deploy  
25

---

26 <sup>1</sup> We will use the ICFA attached to Commissioner Mundell's June 7, 2005 letter as the sample  
27 ICFA, and citations refer to that ICFA.

1 infrastructure to meet the triad of water conservation on a regional scale and cover the time value  
2 of the equity it invests – and if Global Parent has overestimated growth, Global Parent, not the  
3 regulated utility, not the developer, bears the risk.

4 In enacting our 3C approach, Global Parent undertakes significant entrepreneurial risk.  
5 The ICFA's allow Global Parent to reduce its financial exposure as it emplaces hundreds of  
6 millions of dollars in infrastructure that is far beyond the norm for any water/wastewater provider,  
7 public or private. Global Parent is financing and building the infrastructure necessary to address  
8 water scarcity in a fast-growing region – if the growth slows, however, that infrastructure will wait  
9 a very long time before becoming 'used and useful'. Such a risk is inappropriate for a regulated  
10 utility, such as the Global Utilities, but well within the capability of the Global Parent's owners.  
11 The ICFA's reduce Global Parent's risk by providing compensation for the carrying costs – not the  
12 principal – of Global Parent's investment. The ICFA's also shields the Global Utilities from these  
13 growth-related risks.

14 Another central concept is openness. The ICFA's are recorded, public documents. The  
15 ICFA's are negotiated in a transparent process that where each landowner in an area is offered the  
16 same terms. In fact, many ICFA's contain "most favored nation" clauses, which provide that if any  
17 other landowner in the area is offered better terms, the protected landowner gets the benefit of  
18 those terms. The execution of an ICFA is also a voluntary action on the part of the land owner.  
19 Traditional financing methodologies are available at the option of the land owner.

20 The ICFA payments provide for payments tied to various events. Typically, all or a large  
21 portion of the ICFA carrying costs are payable at the time of plat approval. For example, in the  
22 case of the ICFA attached to Commissioner Mundell's letter, all the fees are payable upon plat  
23 approval. ICFA § 4. In other cases, some of the ICFA fees are payable at certain other defined  
24 events, such as when certain permits or certificates are approved.

25 The ICFA's carefully avoid infringing on the Commission's powers. The ICFA's do not  
26 cover rates for utility services, and the Commission, as always, has full authority over the rates  
27 charged by the Global Utilities. Likewise, the main extension process is respected. In fact, the

1 ICFAs require main extension agreements with the Global Utilities, which must be approved under  
2 A.A.C. R14-2-406. In addition, the ICFAs carefully respect the Commission's authority over the  
3 CC&N process. Utility service will not be provided to the land until the Commission approves a  
4 CC&N, and until a main extension agreement is in place and approved under A.A.C. R14-2-406.  
5 If the Commission denies a CC&N for the area, the landowner "may terminate this Agreement  
6 without recourse to either party". ICFA § 7.

7 **B. The ICFAs allow conservation, consolidation, and cooperation.**

8 **1. Conservation.**

9 Water conservation is critically important to the future of our state. For example, a recent  
10 report from a committee of the Arizona Department of Water Resources finds that Pinal County  
11 has limited groundwater. Recent calculations show that the Pinal Active Management Area  
12 ("AMA") has a renewable groundwater supply of about 82,000 acre feet per year on an average  
13 annual basis<sup>1</sup>. This represents real "wet water" that will be physically available and can be safely  
14 withdrawn over the long term without depleting the aquifer. Yet more than 272,000 acres of land  
15 have been issued Irrigation Grandfathered Rights.<sup>2</sup> At an extinguishment value of 1.5 AF/acre,  
16 this represents a potential draw of 408,000 acre feet of "paper water" that could be allocated for  
17 withdrawal. Relying on paper water alone will not be sufficient. The water conservation triad can  
18 close this substantial gap between paper water and wet water - but only if it is put into effect.

19 Each element of the water conservation triad – reclaimed water, surface water, and water  
20 recharged into the aquifer – requires substantial capital. Traditional financing methods are  
21 designed to fund only the facilities absolutely necessary to meet the minimum regulatory  
22 requirements. It is akin to aiming to get a "D minus" and barely pass. Triad-level facilities are  
23 simply not built using traditional methods. Conservation requires doing far more than the  
24 minimum. Effective conservation requires – and the Commission should expect – "A plus" work.

25 \_\_\_\_\_  
26 <sup>1</sup> From the Pinal Active Management Area Groundwater User's Advisory Committee "Assured  
27 Water Supply Modifications Concepts" draft dated December 29, 2005.

<sup>2</sup> *Id.*

RUSINA DEYULF & FALLER, LLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1           **Reclaimed water** is a good example. ICFA's require developers to use reclaimed water,  
2 and they require that reclaimed water facilities be installed. These facilities are not cheap. A basic  
3 reclamation system has capital costs of approximately \$5,915 per home.<sup>1</sup> But this investment pays  
4 off with a reduction of 30% in potable water consumption, and a 75% reduction in discharges from  
5 a wastewater treatment plant – most but not all of the reclaimed water is reused. Installing an  
6 advanced reclamation system has capital costs of about \$6,844 per home. An advanced system  
7 can expect to reduce potable water usage by 40% and will result in a 100% reduction in  
8 wastewater discharges – no reclaimed water will be thrown away, it will all be re-used for some  
9 purpose.

10           By covering the carrying costs of these capital investments, the ICFA's enable Global  
11 Parent to invest the equity to build reclaimed water facilities. An example is the Belmont master  
12 planned community, which is located in western Maricopa County. Belmont will be the largest  
13 master planned community with fully integrated water reclamation planning in Arizona. This is  
14 only possible because of the ICFA between the developers of Belmont and Global Parent.

15           In addition to preserving groundwater, use of reclaimed water has other benefits. For  
16 example, by reducing potable water usage, it also reduces the amount of potable water that must be  
17 treated. Why spend money removing arsenic or other “emerging contaminants” from water only to  
18 use the expensive treated water to flush toilets or irrigate plants?

19           **Surface water** is another example. Surface water treatment plants are capital intensive and  
20 are certainly not cost-effective for smaller individual developments. Because of the ICFA's, Global  
21 Parent is currently funding the construction of two regional surface water plants for use by Santa  
22 Cruz Water Company.

23           ICFA's also enable Global Parent to pay for other items necessary to surface water use, such  
24 as CAP fees prior to usage, water leases or options for leases, and protecting the Maricopa  
25 Stanfield Irrigation and Drainage District's canal systems, so that surface water can be delivered to  
26

27 <sup>1</sup> The price per home is computed on a “equivalent dwelling unit” basis.

1 treatment plants. Traditional funding mechanisms, such as main extension agreements and hook-  
2 up fees are limited to specific facilities, and cannot be used for such items. In addition, the  
3 Commission will typically not allow a utility to recover such items unless they are "used and  
4 useful". But investment in such items must often be made well before they will become used and  
5 useful. The ICFAs provide an answer – they bridge between upfront regional construction costs  
6 and those facilities becoming "used and useful".

7 **Recharged water.** The demand for reclaimed water varies by season because in the winter  
8 there is less need for irrigation. The availability of surface water can also vary – for example, due  
9 to canal repair, seasonal variations in irrigation usage, or unexpected rainfall. Thus, there will be  
10 times when excess reclaimed water and surface water are available. This excess water can be  
11 recharged into local aquifers, so that it can be used again later, when supplies are tighter.

12 As with the other elements of the triad, there are capital costs for building recharge  
13 facilities. By covering the carrying costs of this capital, the ICFAs allow Global Parent to invest in  
14 these facilities. Moreover, recharge should be local. "Replenishment" by the CAGR D typically  
15 results in recharging water far away from a utility's wells – creating paper water not wet water.  
16 Few utilities take the extra step and build their own recharge facilities to recharge their local  
17 supplies.

18 As the saying goes, the proof is in the pudding. Utilities using traditional financing do not  
19 utilize the water conservation triad. At most, they may scrape together funds to partly implement  
20 one element of the triad. In contrast, Global has been – and will continue to be – at the very  
21 forefront of water conservation in Arizona. There is no utility in this state that can match Global's  
22 record, and this record is only possible due to the ICFAs.

## 23 **2. Consolidation.**

24 Another important use of ICFAs is to help fund consolidation. Consolidation allows the  
25 utility to gain (1) economies of scale; (2) better access to debt and equity capital; and (3) more  
26 sophisticated, capable management. Unfortunately, the economics of acquisitions often do not  
27 work for small companies. They often have little or no rate base, so their rates will be low. Yet

1 the owners are reluctant to sell for a low price. When the buyer pays more than book value, the  
2 Commission almost never allows the resulting "acquisition adjustment" into rate base. The buyer  
3 thus does not earn a return on this part of their investment. The ICFAs change the situation. For  
4 example, developers in the service area of a small, marginally viable utility often fear the results of  
5 a failed company on their land values. They are therefore motivated to find a better capitalized,  
6 more capable provider. Part of the "acquisition adjustment" can be built into the ICFA costs. The  
7 utility, the developer, and most importantly, the customer all benefit. Consolidation is a goal  
8 favored by the Commission. ICFAs allow developers to pay to achieve this goal.

9 **3. Cooperation.**

10 The ICFAs allow Global to promote cooperation with cities and others. For example, the  
11 Cities of Maricopa and Casa Grande are very concerned about future water supplies. The ICFAs  
12 allow Global to carry out the water conservation triad. This allowed Global to address the cities'  
13 concerns. Out of this cooperative relationship, the P3 agreements were negotiated, publicly  
14 debated at Council meetings and approved by open vote. These relationships provide for yet more  
15 cooperation and joint planning.

16 Another example is Global's relationship with our neighbors in the Ak-Chin Indian  
17 Community ("Community"). The Community expressed cultural and environmental concerns  
18 regarding the possibility of reclaimed water being discharged into certain washes. Although  
19 Global is at the forefront of reclamation and re-use, there were still occasions when reclaimed  
20 water was not being reused, for example during particularly rainy periods. The Ak-Chin grew  
21 concerned over the amount of development planned upstream of their washes. These washes have  
22 very significant cultural meaning to the Community. Because of the ICFAs, and the significant  
23 financial resources they allow us to deploy, Global was able to address the Ak-Chin's concerns  
24 and devise a sophisticated recharge plan that will augment our reuse plans and ensure that no  
25 reclaimed water will be discharged into any wash leading into the Ak-Chin Community. This led  
26 to an unprecedented letter of understanding between Global Parent and the Ak-Chin Community  
27 and a very positive and close working relationship. A copy of this letter is attached as Exhibit A.

1 The ICFAs also allow cooperation with developers. For example, Global Parent has  
2 worked with developers to buy troubled systems using ICFAs. In addition, the ICFAs do not  
3 require developers to borrow money to make huge upfront payments to the utility, as often  
4 happens with main extensions. By restructuring the timing of payments, Global Parent is able to  
5 make the ICFAs attractive to developers, who agree to the other aspects of the ICFA – such as  
6 promotion of reclaimed water and surrender of groundwater wells – as part of the package.

7 **C. ICFAs are not main extensions.**

8 ICFAs are very different from main extension agreements. The ability to do regional  
9 planning, the timing of when facilities are constructed and when developers pay, who actually does  
10 the construction, and the functions that can be financed are all sharply different. In addition the  
11 parties are different, because utilities are parties to main extension agreements but not ICFAs.

12 A key difference is in regional planning. Main extensions are done on a parcel by parcel  
13 basis. A developer pays for the facilities need to serve their development only. A.A.C. R14-2-  
14 406(B)(1). This typically results in things like small, highly inefficient “package” treatment  
15 plants. In contrast, under the ICFA, Global plans and constructs regional facilities to gain  
16 economies of scale. For example, Global puts in large 48 inch collection mains. Under a main  
17 extension approach, multiple smaller lines would eventually be constructed instead, often running  
18 parallel to each other.

19 The timing of construction is also different. Main extensions must be processed in the  
20 “order received.” A.A.C. R14-2-406(J). If a utility gets main extension requests for opposite ends  
21 of its service area at the same time, it must build them both, rather than waiting for neighboring  
22 development to fill in. This reinforces the tendency to build small, inefficient facilities because  
23 the utility can’t afford to “upsized” them for future growth. Under the ICFA, Global Parent is able  
24 to coordinate the timing of construction. This reinforces Global Parent’s ability to plan and build  
25 large regional facilities.

26 Moreover, under a main extension approach, the construction is usually done by the  
27 developer, who then turns the facilities over to the utility. In contrast, under the ICFA, “off-site”

1 facilities are utility built. This results in developers building homes, and utilities building utility  
2 plant.

3 Most fundamentally, ICFAs and main extension agreements pay for different things. Main  
4 extensions can only pay for facilities. A.A.C. R14-2-406(B)(1). ICFAs only pay the carrying costs  
5 associated with the provision of facilities. And they can be used for many things that are not  
6 facilities at all. This includes forming new utilities, consolidating existing utilities, paying for  
7 CAP reservation fees, and paying for the protection of canal systems.

8 **D. ICFAs are not like hook-up fees.**

9 There are also many differences between ICFAs and hook-up fees. For example, hook-up  
10 fees are mandatory, while ICFAs are voluntary. In addition, hook-up fees result in high levels of  
11 contributions in aid of construction (“CIAC”), while ICFAs result in equity.

12 Hook-up fees are allowed only for specific future infrastructure.<sup>1</sup> In contrast, the ICFA  
13 allows the utility to control the timing of construction. More importantly, hook-up fees are limited  
14 to infrastructure.<sup>2</sup> In contrast, as noted above, ICFAs can be used for many important uses other  
15 than physical infrastructure, such as the consolidation of utilities.

16 **III. The P3s are in the public interest.**

17 The P3s are not financing agreements. Instead, they merely provide for cooperation  
18 between Global and the cities. The P3s are public documents adopted after open and full  
19 deliberation by the Cities of Maricopa and Casa Grande. The P3s with Maricopa and Casa  
20 Grande are attached as Exhibits B and C, respectively. The P3s serve many beneficial purposes.  
21 They help the cities cope with growth. Indeed, one of the core purposes of the P3s is to help the  
22 cities manage growth in accordance with Arizona’s Growing Smarter and Growing Smarter Plus  
23 laws. Casa Grande P3, page 1. For example, Global must prepare an annual “Plan for Growth”  
24 for the city’s planning area. *Id.* at ¶ 10. Global will also share its Geographical Information  
25

26 <sup>1</sup> See Staff Memorandum filed June 8, 2006 in Docket No. W-01303A-06-0284.

27 <sup>2</sup> *Id.*

1 System ("GIS") with the city. *Id.* ¶ 13. Global is also obligated to support the City's annexation  
2 efforts. *Id.* ¶ 14. Global will work with the City to manage and coordinate development. *Id.* In  
3 addition, the P3s strongly promote the use of reclaimed water and water conservation measures.  
4 *Id.* ¶¶ 8, 12.

5 By these measures, the cities and Global establish a close working relationship, so that they  
6 can both better serve the public. To that end, the P3s include provisions for extensive  
7 communication and cooperation between the cities and Global. *Id.* at ¶¶ 1-3, 6. Global is strongly  
8 committed to a close and cooperative relationship with the cities. Global believes that a  
9 cooperative, not hostile, approach is in the public interest.

10 Moreover, the P3s in no way grant a right to serve any area. The P3s do not create an  
11 exclusive relationship, and other utilities can enter such agreements if they choose.<sup>1</sup> The P3s  
12 carefully respect the Commission's authority to designate service areas through the CC&N  
13 process. Thus, they only provide for the cities to participate in the CC&N process. *Id.* at ¶ 17(a).

14 The P3s also carefully respect the Commission's ratemaking powers. The P3 with Casa  
15 Grande provides for Global Parent to pay a fee of \$100 to the city for each residential home  
16 connecting to the regulated subsidiaries. *Id.* at ¶ 10. In addition, Global Parent agreed to pay Casa  
17 Grande a fee of 3% (in some cases, 2%) of gross revenues of the regulated subsidiaries within the  
18 relevant area. *Id.* at ¶ 4. The P3 does contemplate these fees might be passed on to customers.  
19 But the P3 clearly states that this fee cannot be included in the customer's bill unless it is  
20 specifically approved by the Commission. *Id.* The Global Utilities have not requested such  
21 approval. Accordingly, there is no charge on customer bills. Again, the P3 specifically requires  
22 Commission approval before any customer is charged. Global Parent has elected, for the time  
23 being, to simply pay the fees itself at the parent company level rather than seek approval for  
24  
25

26 \_\_\_\_\_  
27 <sup>1</sup> The P3s have no provisions for exclusivity. Further, the fact that the P3s are non-exclusive was  
made clear at the public hearings on the P3s conducted by the cities of Maricopa and Casa Grande.

ARIZONA WATER & ELECTRICITY  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 regulated utility recovery. Under the P3, the fees are simply an operating expense of Global  
2 Parent. *Id.*

3 The P3s provide for close cooperation with the cities, while still preserving the  
4 Commission's authority in all respects. The P3s are thus in the public interest.

5 **IV. Response to letters in the docket.**

6 **A. Response to Staff's June 2, 2006 Letter.**

7 **Question 1.A:** A developer purchases a non-regulated parent company's non-voting stock.  
8 Each of the non-voting shares has a par value of \$1.00, is not eligible for dividends, is partially  
9 refundable and can be repurchased (subject to certain conditions) by the non-regulated parent for  
10 one cent (\$0.01).... The parent company subsequently contributes the funds to an ACC regulated  
11 subsidiary water utility as additional paid-in capital.

12 **Response:** Global has no opinion regarding this scenario.

13  
14 **Question 1.B:** A developer purchases a regulated utility's non-voting stock and that utility  
15 invests those funds in plant. The utility records equity for the proceeds. Neither refundable  
16 advances in aid of construction nor contributions in aid of construction are recorded.

17 **Response:** The sale of preferred or common stock to a developer can be a legitimate  
18 source of equity, as long as the transaction is voluntary and not constructed as a "sham" and is not  
19 a requirement for getting service within an existing service area. However, Global notes that it  
20 does not use this model. Although some of Global Parent's owners are developers, as a matter of  
21 policy, Global Parent does not operate in areas being developed by its owners, to avoid any  
22 conflicts of interest or appearance of favoritism.

23  
24 **Question 1C:** A developer or a Municipal Government pays a fee for services provided by  
25 a non-regulated parent company for services typically covered by "Off-site Hook-up Fees"  
26 collected by regulated water and wastewater utilities. Then the parent company invests the  
27 proceeds in the regulated utility which is recorded as equity by the utility.

KUSHKA DEWULF & FATTEN, PLLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1           **Response:** If this question is intended to refer to the ICFAs, Global notes that they are not  
2 like hook-up fees for the reasons stated above. Please see Section II above for a description of  
3 how the ICFAs actually operate.

4  
5           **Question 2:** What is the maximum percentage of refundable "Advances in Aid of  
6 Construction" ("AIAC") appropriate as a percentage of total capital for a private or investor owned  
7 water utility?

8           **Response:** The amount of AIAC and CIAC that is appropriate depends on the  
9 circumstances. Global generally agrees with Staff that AIAC and CIAC should ideally not exceed  
10 30% of total capital.<sup>1</sup> However, this rule of thumb should not be applied inflexibly. For example,  
11 if the utility has a high level of equity, it may be able to absorb more AIAC. In addition, the  
12 capital structure over time should be considered. For example, it might be appropriate for a utility  
13 to start with a higher level of AIAC if it has well-capitalized parent and plans on using equity to  
14 fund future capital needs. In addition, the rate of refunds of AIAC should be considered. On one  
15 hand, refunds build up rate base because they reduce AIAC (which is a negative element of rate  
16 base). On the other hand, refunds require cash flow.

17  
18           **Question 3:** What is the maximum percentage of non-refundable "Contributions in Aid of  
19 Construction" ("CIAC") appropriate as a percent of total capital for a private or investor owned  
20 water utility?

21           **Response:** See response to question 2.

22  
23           **Question 4:** What is the most appropriate and most economical capital structure for a  
24 "new" water or wastewater utility?

25  
26  
27 <sup>1</sup> See Staff Report filed May 26, 2006 in Docket No. SW-20422A-05-0659 at Ex. 2.

KOSHIKA DEWULF & PATTEN, P.L.C.  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1           **Response:** There is no one best capital structure for a new utility. The appropriate capital  
2 structure will be affected by numerous factors, including estimated growth rates, estimated future  
3 capital needs, estimated cash flow, and whether the initial rates cover the utility's costs, including  
4 capital costs. In general, a capital structure should avoid excessive amounts of AIAC, CIAC, and  
5 debt. Excessive amounts of those elements would result in a financially weak utility. As long as  
6 this is avoided, though, the utility's capital structure should be a matter of discretion left to the  
7 management's financial judgment.

8           **B. Response to Commissioner Mundell's June 7, 2006 letter.**

- 9           •       **Invitation for presentation.**

10           Global looks forward to giving the requested presentation, and is already developing a  
11 thorough briefing for the Commissioners.

12           **Question 1 – P3 Agreements.**

13           The P3 Agreements are described in Section III above, and copies of the P3s are attached  
14 for your reference.

- 15           •       **Are these [P3] arrangements intended to be municipal operations not**  
16 **subjected to the Commission's jurisdiction?**

17           Definitely not. The P3s have no similarity to "management agreements" like the  
18 agreement for the former Skyline District. Service is provided by the Global Utilities through their  
19 own resources. The Global Utilities remain fully subject to the Commission's jurisdiction in all  
20 respects. Global Parent's business model has always been to own regulated utilities. As described  
21 in Section III above, the P3s carefully respect the Commission's authority, including its rate and  
22 CC&N powers.

23           **Question 2 – ICFAs.**

- 24           •       **GWR's perspective on the role of the Arizona Corporation Commission**  
25 **regarding these agreements.**

26           The Commission is not directly involved in the ICFAs because they operate at a holding  
27 company level and do not involve the provision of utility services. However, the Commission

NUSTRAN METULF & FALLER, P.L.L.C.  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 retains full authority over the CC&N process. If the CC&N is not granted, the ICFA has little  
2 value, and the landowner has the option of cancelling it. This means that Global Parent is taking  
3 an entrepreneurial risk – a risk not appropriate for any regulated utility, such as the Global  
4 Utilities. If growth fails to develop as planned, it is Global Parent that will have sunk large  
5 amounts of money into unused infrastructure. In addition, the Commission, through its Staff, will  
6 still review the related main extension agreements in accordance with A.A.C. R14-2-406. The  
7 Commission also retains full authority over the Global Utilities, including their rates and service  
8 quality.

9 • **The nature of the “per dwelling unit” fees charged by GWR.**

10 These fees are based on the carrying costs of the capital necessary to serve the  
11 development. In addition, other costs may be factored in, such as the cost of acquiring an existing  
12 utility, or the costs of acquiring access to surface water. The fees are negotiated. The developers  
13 who sign the ICFAs are typically very sophisticated. The same fees apply to an entire area, so that  
14 there is no discrimination. This means that Global Parent is often negotiating with multiple  
15 developers at once.

16 • **From afar, they resemble “hook-up” fees? Are they? If so, please explain the  
17 legal basis for these fees when GWR is not a Public Service Corporation (PSC).**

18 The ICFA fees are not hook up fees. A key difference is that hook-up fees can only be  
19 used for a single purpose - to fund specific future infrastructure, while ICFA fees can be used for  
20 many purposes, such as funding consolidation and conservation efforts. In addition, hook-up fees  
21 are mandatory, while ICFA fees are entirely voluntary. Inside the existing CC&N area of a Global  
22 Utility, the landowner always has the option of signing a traditional main extension agreement.  
23 Outside the current CC&N area, the landowner can always request service from another utility, or  
24 even form its own utility if allowed by the Commission. Additional differences between ICFAs  
25 and hook up fees are discussed in Section II.D above.

KOSHKU DEWULF & PATTEN, PLLC  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1           •       **If these fees are not for utility infrastructure, than what are the developers**  
2 **receiving for these fees.**

3           The developers are entering into a financing agreement. They only pay carrying costs on  
4 the equity deployed by Global Parent. The actual cost of facilities is much greater, especially since  
5 Global builds the entire triad of water conservation – facilities for reclaimed water, surface water,  
6 and recharge. The timing of the payments is also more favorable than traditional methods. Again,  
7 no developer is ever forced to sign an ICFA – it is entirely voluntary.

8           •       **Why do customers need a middleman to “coordinate” or even supply services**  
9 **that are by law required to be provided by the referenced PSCs... The CC&Ns held by these**  
10 **companies seem to be legally sufficient to ensure service. Please explain.**

11           The ICFAs do NOT provide for utility services. A developer does not receive a drop of  
12 water under an ICFA. If the developer is outside a CC&N area, they are free to seek service from  
13 any other provider, or to form their own provider, if the Commission allows. If the developer is  
14 within a current CC&N area, the developer is always free to enter in to a traditional main  
15 extension agreement. Either way, the ICFA is entirely voluntary. Developers – including highly  
16 sophisticated, nationally prominent developers -- choose to sign these agreements because they  
17 find value in the financing and coordination services provided, as compared with traditional  
18 models.

19           Often ICFAs involve areas outside of current CC&Ns, or involve land trapped within the  
20 service area of utility whose capabilities are subject to question. The Global Utilities have no  
21 current obligation to serve such areas, but Global Parent is always happy to explore such  
22 possibilities.

23           Global wholeheartedly agrees that within an existing CC&N area, the utility has an  
24 obligation to serve. Within the CC&Ns of the Global Utilities, a developer can always sign a  
25 traditional main extension agreement.

26           •       **“Impact of poorly run operations and lack of available capital”**  
27

1 Global agrees that these are very serious problems. The ICFA's are designed, in part, to  
2 provide a mechanism to solve these problems, as well as enabling the full triad of water  
3 conservation measures to be implemented.

4 **C. Response to Chairman Hatch-Miller's letter dated June 12, 2006.**

5 Global agrees that having "well-capitalized private water/wastewater utilities, with  
6 experienced and knowledgeable operational and managerial staff" is vital to our state.

7 **V. Conclusion.**

8 Global appreciates this opportunity to respond to questions and concerns about the ICFA's  
9 and the P3s. The ICFA's and the P3s were designed with openness in mind – the ICFA's are  
10 publicly recorded documents and the P3s were adopted in open public meetings of the City  
11 Councils – and we welcome the spotlight on them. Global looks forward to giving the  
12 presentation requested by Commissioner Mundell and Chairman Hatch-Miller. Global is also  
13 happy to answer any further questions that Staff or the Commissioners may have about these  
14 topics.

15 In the end, the ICFA's results in a direct reduction groundwater consumption in our state.  
16 Average per dwelling unit potable water consumption for non-integrated, traditionally financed,  
17 Arizona utility service providers is in the order of 13,500 gallons per month. By impressing the  
18 3C's into the planning program, Santa Cruz Water Company's monthly average demand in the  
19 first phase of development in the City of Maricopa is 8,200 gallons per month per unit.

20 Going further, by using the triad of conservation and enforcing re-use and reclamation as  
21 policy, subsequent phases in the City of Maricopa have achieved even greater success. There has  
22 been a 90% reduction in irrigation meters supplied by potable water. As a result, the actual  
23 potable demand in these reclamation-minded areas is 5,700 gallons per month dwelling unit – a  
24 30% reduction over Santa Cruz's initial service areas, and a staggering 57% reduction in potable  
25 water consumption over traditionally structured Arizona utility services. This is the power of an  
26 ICFA-funded conservation strategy – direct, measurable and immediate resource conservation.

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RESPECTFULLY SUBMITTED this 22<sup>nd</sup> day of June 2006.

Roshka DeWulf & Patten, PLC

By *Michael W. Patten*  
Michael W. Patten  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Attorneys for Global Water Resource

Original + 13 copies of the foregoing  
filed this 23<sup>rd</sup> day of June 2006, with:

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

Copies of the foregoing hand-delivered/mailed  
this 23<sup>rd</sup> day of June 2006, to:

Chairman Jeff Hatch-Miller  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Commissioner Marc Spitzer  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Commissioner William A. Mundell  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Commissioner Mike Gleason  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

ROSHKA DE WULF & PATTEN, P.L.C.  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

1 Commissioner Kristin K. Mayes  
2 Arizona Corporation Commission  
3 1200 West Washington Street  
4 Phoenix, Arizona 85007

4 Lyn Farmer, Esq.  
5 Chief Administrative Law Judge  
6 Hearing Division  
7 Arizona Corporation Commission  
8 1200 West Washington  
9 Phoenix, Arizona 85007

8 Christopher C. Kempley, Esq.  
9 Chief Counsel, Legal Division  
10 Arizona Corporation Commission  
11 1200 West Washington  
12 Phoenix, Arizona 85007

10 Ernest G. Johnson, Esq.  
11 Director, Utilities Division  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

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15 \_\_\_\_\_

ARIZONA CORPORATION COMMISSION  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO. 602-256-6100  
FACSIMILE 602-256-6800

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