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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: September 15, 2006

RE: IN THE MATTER OF THE NOTICE OF INTENT OF SANTA CRUZ WATER COMPANY AND PALO VERDE UTILITIES COMPANY TO TRANSFER A PORTION OF THE MEMBERSHIP INTERESTS IN GLOBAL WATER RESOURCES, LLC, DOCKET NOS. W-03576A-06-0103 AND SW-03575A-06-0103

Attached is the Staff Report for Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC application to transfer a portion of the membership interests in Global Water Resources, LLC, their parent. Staff recommends approval of the ownership interests transfer.

EGJ:JJD:tdp

Originator: James J. Dorf

Arizona Corporation Commission
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Docket Nos. W-03576A-06-0103 & SW-03575A-06-0103

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

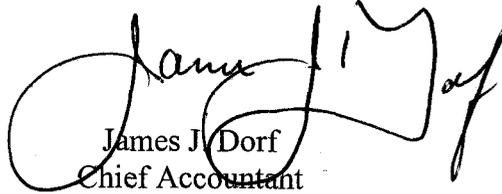
**SANTA CRUZ WATER COMPANY, LLC AND
PALO VERDE UTILITIES COMPANY, LLC
DOCKET NOS. W-03576A-06-0103 & SW-03575A-06-0103**

**NOTICE OF INTENT TO TRANSFER A PORTION OF THE
MEMBERSHIP INTERESTS IN GLOBAL WATER RESOURCES, LLC**

SEPTEMBER 15, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC, Docket Nos. W-03576A-06-0103 and SW-03575A-06-0103, is the responsibility of the Staff member listed below.



James J. Dorf
Chief Accountant

EXECUTIVE SUMMARY
SANTA CRUZ WATER COMPANY, LLC AND
PALO VERDE UTILITIES COMPANY, LLC
DOCKET NOS. W-03576A-06-0103 & SW-03575A-06-0103

Santa Cruz Water Company, LLC and Palo Verde Utilities Company, LLC (collectively "Global Subsidiaries"), pursuant to Decision Nos. 67240 and 67830, are required to notify the Arizona Corporation Commission ("Commission") of any "proposed change in the ownership of their respective ownership interests (including transfer or additional memberships)" of their parent, Global Water Resources, LLC ("Global").

On February 17, 2006, the Global Subsidiaries filed a Notice of Intent indicating, that due to an oversight, certain ownership interests had been transferred to officers or key personnel prior to Commission approval.

Staff has reviewed the professional experience of the individuals receiving the transferred interests and evaluated the potential impacts of such changes on ratepayers of the Global Subsidiaries and recommends that the transfer of membership interests be approved retroactive to the date the transfers were made, October 13, 2005.

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Background

On February 18, 2006, Santa Cruz Water Company, LLC and Palo Verde Utility Company, LLC (collectively "Global Subsidiaries") filed with the Arizona Corporation Commission ("Commission") a notice of intent to transfer a small portion of the membership interests in their parent, Global Water Resources, LLC ("Global") to existing Global officers or key management personnel. Pursuant to Decision Nos. 67240 and 67830, the Global Subsidiaries were required to "notify the Commission of any proposed change in the ownership of their respective membership interests (including transfer or additional memberships), prior to execution, through filing of a Notice of Intent...".

The Global filing indicates that an ownership transfer has already taken place and that "due to an oversight, this notice of intent is being provided subsequent to the actual transfer." The filing also indicates that "If the Commission takes no action within 60 days after filing, the proposed transaction is permitted to proceed without approval."

Staff Action

On April 19, 2006, Staff filed with Docket Control its notice that Staff will issue data requests and perform other discovery regarding the proposed transfer. Staff's action was intended to prevent the changes from taking place "without approval" within the 60 day time period. Presented below is Staff's evaluation of the proposed ownership changes.

Proposed Transfer

The proposed transfer involves a small portion of the membership interests in Global to the following Global officers or key management personnel:

Graham Symmonds, Vice President of Operations & Compliance (2.5 percent)
Cindy Liles, Vice President for Growth Management & CFO (1.5 percent)
Andrew Cohn, General Manager, Levine Investments, LLP (12.5 percent)

The transfer did not involve the new members "buying" membership interests. The other members contributed a portion of their interest to the new members in the amounts noted above. Global also acknowledges that the notice of the transfer should have been made prior to such transfer and will endeavor to ensure that future notices will be timely filed prior to any transfers being completed.

The existing ownership of the Global Subsidiaries remains unchanged as the Global Subsidiaries will still be 100 percent owned by Global.¹

¹ Global has formed new entities and has requested approval of the transfer of CC&Ns and assets in Docket Nos. SW-20445A-06-0155, W-20446A-06-0155, SW-03575A-06-0155 & W-03576A-06-0155.

Staff Evaluation

Based on Staff's evaluation of information provided by Global regarding the professional experience and competencies of the new Global members, Staff has no objections to the proposed transfers of ownership interests. In fact, Staff acknowledges that, to the extent the officers overseeing the Global regulated subsidiaries have a vested interest in the success of those operations, the transfer of interests is in the best interest of the ratepayers of the Global Subsidiaries. The officers' financial interests will be aligned with improving the financial success of the regulated companies.

As stated earlier, the filing of the Global Subsidiaries with the Commission of the notice of intent for change of ownership in Global was untimely, i.e., filed after Global had made the change instead of before. It is Staff's opinion that untimeliness of the filing was unintentional. In addition, Staff finds that there is no harm in the ownership change that has occurred and in fact may provide an incentive for better operation (as stated above) of the Global Subsidiaries. However, the Global Subsidiaries should be put on notice that the Commission must be notified in a timely manner of any future planned changes in ownership of Global.

As such, Staff also has no objection to permitting Global to implement the proposed transfers retroactively.

Staff Recommendation

Staff recommends that the proposed transfer of a portion of Global's membership interests to the named individuals be retroactively approved.