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BEFORE THE ARIZONA CORPORATION COMMISSION

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2007 MAR -9 P 3:42

AZ CORP COMMISSION
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ARIZONA WATER COMPANY, an Arizona corporation,
Complainant,
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.

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

RESPONSE TO MOTION FOR ORDER TO SHOW CAUSE

Arizona Corporation Commission
DOCKETED

MAR 09 2007

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Respondents (collectively “Global”) hereby respond in opposition to the motion for order to show cause filed by Arizona Water Company (“AWC”). Those respondents currently regulated by this Commission will be called the “Global Utilities”, and those that are not currently regulated will be called the “Unregulated Affiliates.” The Unregulated Affiliates include Global Water Resources, LLC, which will sometimes be called “Global Parent.”

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1 **I. Preliminary Statement.**

2 AWC rails against recent acquisitions by Global Parent. But those acquisitions were made
3 under a process expressly approved by the Commission. Moreover, these acquisitions further the
4 goal of consolidation – a goal supported by the Commission. And AWC’s arguments are premised
5 on Global Parent being a public service corporation – a premise that has not been proven, and
6 which is contradicted by the record in this case.

7 AWC also repeats its criticisms of Global’s Infrastructure Coordination and Financing
8 Agreements (“ICFAs”). But the ICFAs are being considered in several other dockets, and there is
9 no need to have a parallel consideration of them in this docket as well.

10 **II. The recent acquisitions were legal and in the public interest.**

11 AWC accuses Global of “flouting” the Commission’s authority by acquiring Francisco
12 Grande Utility Company (“Francisco Grande”) and CP Water Company (“CP”). But acquisitions
13 by Global are expressly authorized by Decision No. 67240 and Decision No. 67830. The first
14 decision involved a Settlement Agreement between Global and Staff which provided a process for
15 future acquisitions. This process required only post-closing notice in the form of an “Acquisition
16 Schedule” which contains specified information. The Commission approved the Settlement
17 Agreement, and adopted the requirement to file the Acquisition Schedule in an ordering paragraph.
18 The same requirement was then repeated in the second decision. Global has fully complied with
19 those requirements. A copy of the Acquisition Schedule for the Francisco Grande and CP
20 acquisitions is attached as Exhibit 1.

21 AWC concedes that its accusation of “flouting” has merit only if the Unregulated Affiliates
22 are public service corporations. But AWC has not made a showing that the Unregulated Affiliates
23 are public service corporations. Global’s Reply to Staff’s Brief, filed on February 23rd in this
24 docket, details at length why the Unregulated Affiliates, including Global Parent, are not public
25 service corporations. Global also notes that Staff and the Commissioners have been fully briefed
26 on all acquisitions by Global, including the recent acquisitions of Francisco Grande and CP.

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1 The Commission has long supported a policy of consolidation. That is a wise policy given
2 the more than 400 water companies in this state. Moreover, many of these small companies are in
3 areas that are now seeing substantial growth. These companies need financial, managerial and
4 technical capabilities that they do not have to cope with growth. It is therefore imperative that
5 large, well-capitalized and technically competent companies acquire these small companies. Such
6 an approach was recognized in the "Water Task Force Report" that AWC often cites in other
7 cases.

8 AWC also objects to a particular argument made in the testimony of Global's President,
9 Mr. Hill, in another case. At the request of Staff, Global has withdrawn this argument. Staff
10 stated on the record that this withdrawal satisfies Staff's concerns.¹

11 AWC also claims surprise that ICFAs can be used for acquisitions. But AWC should not
12 be surprised. Global clearly stated that ICFAs are used for acquisitions in its April 24, 2006
13 Motion to Dismiss (at 10) in this docket. Global made the same point in its May 30, 2006 Reply
14 in Support of its Motion to Dismiss (at 7) and again in its June 23, 2006 comments in the Generic
15 Financing Docket, Docket No. W-00000C-06-0149. And in July 2006, Global closed the well-
16 publicized acquisition of the West Maricopa Combine ("WMC") companies. That acquisition was
17 possible only because of ICFAs. The first WMC-related ICFAs were recorded in the county
18 recorder's office on the day the WMC transaction closed.

19 AWC also makes the bizarre claim that using ICFA fees for acquisitions somehow violates
20 the terms of the ICFAs. AWC has clearly not read the ICFAs. The ICFA for the Francisco Grande
21 and CP acquisitions clearly requires the use of the funds for this purpose. The ICFAs for WMC
22 are similar. In both cases, Global's making the acquisition was a key purpose of the deal for both
23 sides. The landowners who signed those ICFAs were keenly interested in having reliable,
24 competent utility services – they could not take a risk with small, poorly capitalized and poorly
25 managed utilities.

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¹ Procedural Conference Tr., February 28, 2007 at 53 in Docket Nos. W-01445A-06-0199 et al.

1 AWC also claims that “Global Water, Inc.” is a newly formed entity, and implies that it
2 was created for some nefarious purpose. But “Global Water, Inc.” is just “Global Water
3 Resources, Inc.” with a new name. The entity was renamed to comply with Arizona laws about
4 corporate names, which are somewhat different than the state of incorporation, Delaware. This
5 entity has existed for some time, and it is one of the Respondents named by AWC in this case.
6 Global Water clearly disclosed the change of name in its Answer (¶ 2) filed in this case on April
7 24, 2006.

8 **II. The ICFAs are being reviewed elsewhere.**

9 The Commission established the Generic Financing Docket to review, *inter alia*, the
10 ICFAs. AWC criticizes the slow pace of that docket. Global does not share in that criticism, and
11 Global believes that the Generic Docket is proceeding as rapidly as feasible, given Staff’s
12 workload. In addition, AWC has inserted its attacks on the ICFAs, and its claim that the
13 Unregulated Affiliates are public service corporations, into the pending CC&N dispute between
14 Global and AWC.² In Global’s view, one docket reviewing these matters is enough. Certainly,
15 two dockets should be sufficient. There is no need for this docket to be added as the third docket
16 actively pursuing these matters. Given the many cases facing the Commission, pursuing
17 proceedings in this docket when the same matters are being considered in both the Generic
18 Docket, and now, apparently, also in the CC&N docket, makes little sense. The Administrative
19 Law Judge previously ruled that this docket should be held pending resolution of these issues in
20 the Generic Docket. The fact that these same issues are now being pursued in the CC&N docket
21 only strengthens the rationale for that ruling.

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27 ² Docket No. W-01445A-06-0199 et al.

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

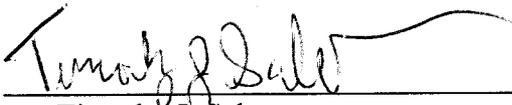
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IV. Conclusion.

The recent acquisitions are both authorized by Commission order and in the public interest. The AWC's claims in this case are being pursued in two other dockets. Therefore, Global requests that AWC's motion for an order to show cause be denied.

RESPECTFULLY SUBMITTED this 9th day of March 2007.

ROSHKA DEWULF & PATTEN, PLC

By 

Timothy J. Sabo
Michael W. Patten
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Original and 21 copies of the foregoing filed this 9th day of March 2007 with:

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

Copy of the foregoing hand-delivered/mailed this 9th day of March 2007 to:

Dwight D. Nodes, Esq.
Assistant Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

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 Mayor Chuck Walton
11 City of Casa Grande
12 510 Florence Blvd.
13 Casa Grande, AZ 85222

14 By *Debbie Aweard*

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

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