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BEFORE THE ARIZONA CORPORATION COMMISSION  
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**COMMISSIONERS**

- Kristin K. Mayes, Chairman
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2009 MAR -5 P 4: 41  
AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission  
**DOCKETED**  
MAR - 5 2009

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IN THE MATTER OF THE JOINT NOTICE OF INTENT UNDER A.A.C. R14-2-803 FOR AN INITIAL PUBLIC OFFERING AND RESTRUCTURING OF GLOBAL WATER RESOURCES, LLC BY GLOBAL WATER - SANTA CRUZ WATER COMPANY, GLOBAL WATER - PALO VERDE UTILITIES COMPANY, HASSAYAMPA UTILITY COMPANY, INC., PICACHO COVE WATER COMPANY, INC., PICACHO COVE UTILITIES COMPANY, CP WATER COMPANY, INC., FRANCISCO GRANDE UTILITY COMPANY, WILLOW VALLEY WATER COMPANY, INC., WATER UTILITY OF NORTHERN SCOTTSDALE, INC., VALENCIA WATER COMPANY, INC., WATER UTILITY OF GREATER BUCKEYE, INC., WATER UTILITY OF GREATER TONOPAH, INC. AND BALTERRA SEWER CORP.

- Docket Nos. W-20446A-08-0247  
~~W-035761A-08-0247~~  
~~SW-035761A-08-0247~~  
 - SW-20422A-08-0247  
~~W-03528A-08-0247~~  
~~SW-035709A-08-0247~~  
 - WS-01775A-08-0247  
 - W-02442A-08-0247  
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 - W-01732A-08-0247  
 - W-03720A-08-0247  
 - W-01212A-08-0247  
 - W-02451A-08-0247  
 - W-02450A-08-0247  
 SW-20403A-08-0247  
 - SW-20445A-08-0247

**RESPONSE TO STAFF REPORT**

Global<sup>1</sup> submits its comments on the February 4, 2009 Staff Report. Overall, Global agrees with the analysis and conclusions of the Staff Report. In particular, Global agrees that it

<sup>1</sup> Global Water - Santa Cruz Water Company ("Santa Cruz"), Global Water - Palo Verde Utilities Company ("Palo Verde"), Hassayampa Utility Company, Inc., Global Water - Picacho Cove Water Company, Global Water - Picacho Cove Utilities Company, CP Water Company, Francisco Grande Utility Company, Willow Valley Water Company, Inc., Water Utility of Northern Scottsdale, Inc., Valencia Water Company, Inc., Water Utility of Greater Buckeye, Inc., Water Utility of Greater Tonopah, Inc. (collectively, the "Utility Applicants" or the "Global Utilities") and Global Water Resources, LLC ("Global Parent"), Global Water, Inc., and West Maricopa Combine, Inc. (the "Holding Company Applicants", and together with the Utility Applicants, the "Applicants" or "Global").

1 should add more equity at the parent company level. However, Global requests that certain  
2 conditions be modified or added to further this goal. First, Global requests that it be allowed to  
3 seek additional equity through a limited private placement in addition to the Initial Public  
4 Offering addressed in the Staff Report. Second, additional conditions regulating any change in  
5 control of Global Parent should be added. Third, the conditions should be updated to account for  
6 the filing of rate cases by six of the Global Utilities, including Global Water - Palo Verde Utilities  
7 Company and Global Water – Santa Cruz Water Company, on February 20, 2009.

8 In addition to seeking equity, Global has taken other steps to improve its balance sheet. It  
9 has aggressively moved to cut costs – especially in growth-related aspects of the business, where  
10 the need for resources is now sharply reduced. Global has reduced its workforce by over 20%,  
11 eliminated all bonuses, and taken other measures to cut costs – all without impacting the high  
12 level of service Global’s customers have come to expect. These cost reductions are described in  
13 greater detail in the rate cases recently filed by some of the Global Utilities. Global is also  
14 attempting to limit its exposure to high and volatile energy costs by pursuing renewable energy  
15 options for its facilities. And, as the Commission is aware, six of the Global Utilities have filed  
16 rate cases, which will allow Global Parent, in time, to receive a reasonable return on its  
17 investments in the Global Utilities

18 Finally, Global does not believe that a hearing is required in this matter. As set forth in the  
19 Staff Report, access to additional sources of equity will benefit Global Parent, and ultimately, the  
20 Global Utilities.

21 **I. The Commission should provide Global Parent with access to an additional source of**  
22 **equity.**

23 As Staff notes, the “capital structures of the Global Utilities... are strong.”<sup>2</sup> This is a  
24 result of Global’s policy of insulating, when feasible, the Global Utilities from excessive financial  
25 risk from debt arising from growth-driven infrastructure. Global Parent has issued low cost, tax-

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27 <sup>2</sup> Staff Report at 5.

1 free IDA bonds to fund certain projects for the Global Utilities. In their pending rate case, this  
2 low cost debt is being imputed to the Global Utilities. Thus, the Global Utilities have the best of  
3 both worlds – insulation from volatility in growth, low cost debt as part of their cost of capital,  
4 and no repayment obligations.

5 But the situation is far different at the parent company level. As Staff demonstrates,  
6 Global Parent is highly leveraged, and its equity position is eroding. Although Global has done its  
7 best to insulate the Global Utilities from this, ultimately there is an impact. As Staff explains,  
8 because “the parent is the primary source of financing for the Global Utilities... a stronger capital  
9 structure for the parent would benefit the utilities and ensure that necessary capital will be  
10 available to the utilities.”<sup>3</sup> Thus, the Staff Report concludes – and Global agrees – that “an equity  
11 infusion is in order.”<sup>4</sup>

12 When the Global filed this case in May 2008, it intended to obtain the equity through an  
13 Initial Public Offering or “IPO”, and possibly additional future offerings of public stock.  
14 Obviously, the financial markets are radically different today then they were in May 2008. The  
15 current financial crisis makes an IPO increasingly unlikely in the near term. Global continues to  
16 believe that a public offering would bring many benefits – such as access to additional sources of  
17 capital, and greater transparency through public reporting requirements. Thus, Global intends to  
18 continue to evaluate an IPO, and to pursue one when market conditions are more favorable.

19 However, because current market conditions make an IPO impractical, Global believes  
20 that it is imperative that it should explore other sources of equity. Infusion of additional equity  
21 through a private placement, as opposed to an IPO, has been a traditional means of obtaining  
22 additional funds. Thus, Global suggests that Global Parent be allowed to sell Global Parent equity  
23 through a private placement.

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<sup>3</sup> Staff Report at 7.

27 <sup>4</sup> Id.

1           Although a private placement that does not result in a change of control typically does not  
2 require authorization by the Commission, Global Parent must satisfy a condition in Decision Nos.  
3 67240 (September 23, 2004) and 67830 (May 5, 2005) that requires Global Parent to notify the  
4 Commission of any proposed change in the ownership of its membership interests (including  
5 transfer or additional memberships), prior to execution, even if there is no change of control.  
6 After filing notice, the Commission may allow the proposed transaction to proceed without  
7 approval. Thus, Global requests that the words "or private placement" be added after "initial  
8 public offering" in Staff's Proposed Conditions Nos. 3 and 8 in order to allow Global access to  
9 equity through private placement.

10 **II.     Conditions regarding a change in control should be added.**

11           In the Notice of Intent, Global proposed a condition that any issuance of equity be limited  
12 to 49.9% of the outstanding equity of Global Parent. At the time of our Application, the market  
13 was strong and we could have raised sufficient capital for future needs without having to offer a  
14 majority position. The Commission knows the current managers and investors in Global Parent,  
15 and is aware of their commitment to total water management and the long-term preservation of  
16 water resources, this proposed condition was to insure that the Commission would have no reason  
17 to worry about any change in that philosophy. However, Rule 803 provides the Commission with  
18 a means of reassuring itself of the effect of change of control.

19           Global understands that this condition was inadvertently omitted from the Staff Report.

20           The text of the condition is:

21           The equity issued, TRANSFERRED OR SOLD by Global Water Resources OR  
22           ITS OWNERSHIP as authorized herein shall not exceed 49.9% of Global Water  
23           Resources total common voting equity unless further authorization is received  
24           from the Commission.

25           The language in caps was added to reflect Global's proposal to allow a private placement, as  
26           discussed above.

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1 Global continues to support this condition. However, access to sufficient equity may  
2 require Global to sell more than 49.9% of the equity of Global Parent, resulting in a change of  
3 control subject to the Commission's rules. Global is currently exploring this possibility. If  
4 Global pursues a sale of more than 49.9%, Global would file a new Notice of Intent under  
5 A.A.C. R14-2-803 ("Rule 803") and Decision Nos. 67240 and 67830. Under those decisions and  
6 Rule 803, the Commission then has 60 days to review the Notice of Intent. If the Commission  
7 takes no action, the transaction can proceed. The Commission can also determine that a hearing  
8 or further review is needed.

9 To avoid any doubt as to whether Global may file a new Notice of Intent, as described  
10 above, a new condition should be added:

11 If Global believes it is advisable to exceed the 49.9% limit of Global Water  
12 Resources total common voting equity sales, transfers or issuances set herein, it  
13 should file a new Notice of Intent, which shall proceed as specified in A.A.C.  
14 R14-2-803 ("Rule 803") and Decision Nos. 67240 and 67830.

15 **III. Rate case conditions.**

16 Staff's Proposed Conditions Nos. 1 and 2 require two of the Global Utilities to file rate  
17 cases. Those utilities, and four others, filed rate cases on February 20, 2009. Thus, Proposed  
18 Conditions Nos. 1 and 2 are moot.<sup>5</sup>

19 **IV. Conclusion.**

20 Global respectfully requests that the Proposed Conditions be modified as described above.  
21 Global does not request a hearing. Therefore, Global requests that the Hearing Division issue a  
22 Recommended Opinion and Order adopting the Staff Report with the modified Proposed  
23 Conditions as soon as possible.

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25 <sup>5</sup> In addition, Global notes a minor error in the Staff Report that should be corrected if the  
26 information is incorporated in an order: the counties in which the Global Utilities operate, is  
27 should state them as "Maricopa, Pinal, and Mohave", rather than "Maricopa, Pima, and Pinal" as  
stated in the Staff Report.

