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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – PALO VERDE UTILITIES COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. SW-20445A-09-0077
IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – GREATER BUCKEYE DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-02451A-09-0078
IN THE MATTER OF THE APPLICATION OF WILLOW VALLEY WATER CO. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-01732A-09-0079
IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-20446A-09-0080
IN THE MATTER OF THE APPLICATION OF WATER UTILITY OF GREATER TONOPAH FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-02450A-09-0081 **NOTICE OF FILING REJOINDER TESTIMONY**

Arizona Corporation Commission
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IN THE MATTER OF THE APPLICATION OF VALENCIA WATER COMPANY – TOWN DIVISION FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES FOR UTILITY SERVICE DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS PROPERTY THROUGHOUT THE STATE OF ARIZONA	DOCKET NO. W-01212A-09-0082 **NOTICE OF FILING REJOINDER TESTIMONY**

Global Water – Palo Verde Utilities Company, Global Water – Santa Cruz Water Company, Valencia Water Company – Town Division, Valencia Water Company – Greater Buckeye Division, Water Utility of Greater Tonopah and Willow Valley Water Co. (collectively, the "Global Utilities") file the Rejoinder Testimony of Trevor T. Hill, Matthew J. Rowell and Graham S. Symmonds.

RESPECTFULLY SUBMITTED this 10th day of December 2009.

ROSHKA DEWULF & PATTEN, PLC

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Hill
Rejoinder Testimony

DOCKET NOs. SW-02445A-09-0077 *et al.*

Rejoinder Testimony
of
Trevor T. Hill

December 10, 2009

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I. Introduction

Q. Can you give your overall impressions of the Staff and RUCO surrebuttal testimonies?

A. I am disappointed by Staff's position on ICFAs and RUCO's shift in position. Both positions, in my opinion, neglect the public policy benefits of deploying regional scale infrastructure and using methodologies to do so that insulate the consumer.

Q. What topics will you cover in your rejoinder testimony?

A. First, I wish to speak to some comments on executive salaries that were made at the Public Comment session held in Maricopa. I will clarify for Staff my concepts of Total Water Management. I will speak to what I perceive as obstacles for using AIAC and CIAC to fund this philosophy and I describe how Decision conditions do require facilities to be constructed. I will also describe my interpretation of past Staff deliberations on ICFAs and will demonstrate the uses of ICFA funds.

Q. What other witnesses will be providing testimony?

A. Mr. Rowell will address specific points brought up by Staff with respect to the economic analysis of ICFAs and Staff's adjustments to taxes and rate bases.

Mr. Symmonds will address HOA impacts of recycled water rates, comments made with respect to water quality, and the Hassayampa Recharge Facility.

Q. Are you providing rejoinder on Rate Design at this time?

A. No. We will submit our Rate Design rejoinder testimony on 11 December 2009.

II. Public Comment Session

Q. Can you give your overall impression of the Public Comment session?

A. I believe it is important for the Commission to hold these types of forums. At the session held in Maricopa on 1 December 2009, the Commission heard a lot of frustration – not just with the potential for a rate increase from Global Utilities. Dissatisfaction with the rate increases at Electrical District #3, dissatisfaction with tax rates in the City, and the Global rate increase were all mentioned.

Notwithstanding the level of frustration, I believe that some of the points were incorrectly portrayed, and I will cover those in this testimony. Mr. Symmonds addresses some other comments made at the Public Comment session.

Q. There was a lot of discussion of ED3 at the public comment meeting in Maricopa. Please comment on this issue.

A. I certainly understand our customers' frustration. Electrical District No. 3 (ED3) has implemented four rate increases since the beginning of 2008 to today. They had proposed a fifth rate increase, but that was withdrawn after a huge public outcry.

In contrast, this is our first rate increase for Santa Cruz and Palo Verde since these companies were established in 1999. As a major electric power customer, the Global Utilities are directly impacted by ED3 rate increases, so we share our customers' viewpoint concerning ED3's process of notifying customers of proposed rate increases, and their concerns with the level of review afforded those rate increases. In addition, ED3's support for distributed renewable energy projects is much less than that of APS, a factor that made our solar project at the Global Water Center more difficult.

Q. Would you consider the process for ED3 to raise rates comparable to that of the Global Utilities?

A. No. I understand that the ED3 rate increases were made with little or no public input. In contrast, the Global Utilities have exceeded all Commission requirements for public notice. We established a web site dedicated to the rate case, and established a special email address for questions about the rate case. In the Maricopa region (Santa Cruz and Palo Verde) alone, we conducted 12 public meetings to hear comments from our customers. We also met with 22 community leaders, and had 10 meetings with city council members. I also participated in a videotaped interview with the Mayor of Maricopa about the rate case. The interview has been broadcast on city's cable channel, and a link to the interview is also available on our web site.

Of course, we also complied with the Commission's notice requirements, including publishing notice of the rate case and mailing the notice to our 15,000 connections. We also issued a media advisory and publicized on our web site the Commission's public comment meeting in Maricopa on December 1, 2009.

Q. How has the public comment impacted the Global Utilities' position?

A. We take our customers' views very seriously. As a result, we are proposing additional modifications to our application in response. Mr. Symmonds details additions to the Demand-side Management Program, as well as proposing a five-year phase in for recycled water rates.

Q. Can you respond to the assertion that Global executives receive "million-dollar salaries"?

A. Absolutely. The allegation is without basis. First, my salary and any bonus, and those of the entire senior management team are in large part NOT borne by the utilities. Fully 84%

of executive salaries and 100% of bonuses are excluded from rates and are paid for at the parent level.

Q. Can you breakdown the executive compensation at Global?

A. The compensation that I and my management team received since the inception of Global is as follows:

EXECUTIVE COMPENSATION

Salary		2004	2005	2006	2007	2008
Trevor T. Hill	President and CEO	200,000	220,000	250,000	300,000	330,000
Leo Commandeur	SVP	175,000	192,500	200,000	207,000	214,245
Gregory Barber	SVP and CFO	0	0	0	0	88,462
Cindy M. Liles	SVP and COO	125,000	134,375	147,813	166,289	191,233
Graham S. Symmonds	SVP and CTO	125,000	134,375	147,813	166,289	191,233

Note: 2008 excludes Common Stock Award to Ms. Liles valued at $375,000 at the time of issuance.
Greg Barber was employed by the company from July 2008 to July 2009.

Bonus		2004	2005	2006	2007	2008
Trevor T. Hill	President and CEO	50,000	55,000	100,000	150,000	0
Leo Commandeur	SVP	35,000	40,000	50,000	60,000	0
Gregory Barber	SVP and CFO	0	0	0	0	0
Cindy M. Liles	SVP and COO	25,000	33,594	36,953	45,000	0
Graham S. Symmonds	SVP and CTO	25,000	33,594	36,953	45,000	0

401(k) Company Match		2004	2005	2006	2007	2008
Trevor T. Hill	President and CEO	5,000	6,997	7,500	7,750	6500
Leo Commandeur	SVP	4,375	7,000	7,500	7,750	6427
Gregory Barber	SVP and CFO	0	0	0	0	0
Cindy M. Liles	SVP and COO	4,424	5,034	5,543	6,339	6500
Graham S. Symmonds	SVP and CTO	2,558	4,195	5,543	6,339	5737

Total Compensation		2004	2005	2006	2007	2008
Trevor T. Hill	President and CEO	255,000	281,997	357,500	457,750	336,500
Leo Commandeur	SVP	214,375	239,500	257,500	274,750	220,672
Gregory Barber	SVP and CFO	-	-	-	-	88,462
Cindy M. Liles	SVP and COO	154,424	173,003	190,309	217,628	197,733
Graham S. Symmonds	SVP and CTO	152,558	172,164	190,309	217,628	196,970

Note: Last pay increase and bonus paid was 12/31/07

As you can see, the base salaries paid to the entire management team in 2008 was $1,015,353. The total bonuses paid to the entire management team in 2008 was $0. The total 401(k) company match provided to the entire management team in 2008 was $25,164. Thus, the total compensation paid to the entire management team in 2008 was $1,040,517, far less than the inflammatory remarks made at that the public comment session.

Furthermore, because we have allocated only 16% of base salary in the Test Year to the utilities (bonuses and 401(k) matching are not included in this allocation), the total amounts included in the rate case for all systems was $ 162,428.

Q. How about tax distributions?

A. As a Limited Liability Company (LLC), Global Water Resources tax liability flows through to the members of that LLC. Tax distributions are made to the members to provide directly to the Internal Revenue Service. I appreciate that many people do not understand this requirement of an LLC, and therefore incorrectly attribute the tax distribution as normal income. This is not the case. Those tax distributions went directly to the federal and state governments.

The total tax distributions made were as follows:

Tax Distributions on Dry Income earned in year		2004	2005	2006	2007	2008	Total
Trevor T. Hill	President and CEO	403,230	584,708	1,767,532	2,268,658	575,880	5,600,008
Leo Commandeur	SVP	201,728	292,355	1,115,833	943,316	287,940	2,841,171
Gregory Barber	SVP and CFO	-	-	-	-	-	-
Cindy M. Liles	SVP and COO	-	35,700	128,084	142,983	37,087	343,853
Graham S. Symmonds	SVP and CTO	-	59,500	213,473	238,304	61,811	573,088
Others		1,648,983	2,755,845	5,973,694	5,719,972	1,509,720	17,608,215
Total		2,253,941	3,728,108	9,198,616	9,313,233	2,472,438	26,966,336

III. Total Water Management

Q. Ms Jaress has trouble defining Total Water Management (Surrebuttal Testimony of Linda Jaress, Pg 3, Line 5). Can you provide one?

A. I'd like to take credit for the concept of Total Water Management (TWM) – and to be sure there are facets of TWM I believe that Global has developed more soundly or provided more structure for. Nonetheless, TWM is not a Global Water program. Rather it represents the philosophy of stewardship – managing our water resources throughout the water cycle. Maximizing water conservation, minimizing the environmental impacts, and balancing the social, economic and environmental tensions that naturally occur in discussion of water resources management.

Dr. Neil Grigg defines Total Water Management in his 2008 book "Total Water Management: Practices for a Sustainable Future" thusly:

> TWM is not a new and secret weapon. It is a new way of using tried-and true methods to create a framework for principles and practices of sustainable water resources management. In explaining it, a working group of water utility officials defined TWM as the "exercise of stewardship of water resources for the greatest good of society and the environment" (AwwaRF, 1996).[1]

More importantly, Dr. Grigg calls on leadership to implement the vision of TWM:

> At the end of the day, TWM is about leadership. Given this, the question of "Whose point of view?" becomes critical. Are we focused on a utility serving its customers or on the needs of the broader society? The answer is, we focus on both. This is clear from the definition of TWM: "stewardship of water resources for the greatest good of society and the environment."
>
> Can TWM serve both the environment and society? Is what's good for General Motors also good for America? It will have to be. TWM requires participation of utilities, business, and government. [B]usiness and utilities are pulled in different directions but in different ways. One way is to make a profit or be a successful enterprise. The other is to reach out to handle social responsibilities.
>
> TWM is clearly in society's best interests, but what are the incentives for utilities to embrace it? This fundamental issue creates a clash of culture that is captured by the

[1] Grigg, Neil. Total Water Management: Practices for a Sustainable Future. 2008 American Water Works Association. Page 2

> phrase "it's not my problem." TWM requires that incentives be created. Otherwise, TWM will be just a visionary concept with little practical value. The key is to move past vision and on to action.[2]

The definition of Total Water Management could not be more succinctly summarized: "stewardship of water resources for the greatest good of society and the environment." In Global, we include the concept of using the "right water for the right use". This means not using highly treated potable water for uses where non-potable water would suffice.

Peter Gleick of the Pacific Institute, a world leading scientist and water advocate, has written and spoken on water issues for a decade. In a 2007 interview on NPR, he stated:

> [I]in the20th century we built this water system and it brings incredibly high quality potable water to our homes, and we use it to drink and to flush our toilets and to water our lawns. It's a crazy use of a wonderful resource. And so one of the things that people are thinking about in the coming years is ways of using nonpotable water for nonpotable purposes.
>
> In new homes, for example, increasingly we're seeing homes that are what are called dual-plumbed. They have two sets of pipes. One brings high quality potable water to our faucets, and the other brings fairly high quality but not necessarily potable water, sometimes treated waste water, to flush our toilets and to use on our lawns, where we don't need potable water. It's expensive to do in homes that are already plumbed, but it's not as expensive to do in new developments where we have access to two different sources of water.

[2] Ibid. Page 5.

> We're going to see more and more of that. We're going to see more and more use of treated waste water on golf courses, for industrial uses that don't require potable drinking water. I think figuring out how to match the quality of the water that we have with the quality of water and the different uses that we need is part of this new thinking for the 21st century.[3]

The world is awakening to the new water resources reality. Public policy, business, the environment and the public must adapt to meet these new challenges. The Aspen Institute recently laid out the framework in detail:

> The water management and policy community must redefine "water infrastructure" as one that integrates built infrastructure components with the protection and restoration of its supporting natural watershed infrastructure and the use of emerging small-scale water technologies and water management solutions.
>
> Federal, state and local officials should adopt watershed-oriented policies and regulations that incorporate the principles of the Sustainable Path into funding decisions. Resource management entities and water utilities should adopt the Sustainable Path principles in their operations and administration.
>
> Federal, state and local governments and other entities should find ways to remove or modify institutional barriers and practices that impede or prevent sustainable water resource management according to the principles of the Sustainable Path, and should actively address all sources of pollution, degradation and depletion on a watershed basis.[4]

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[3] WHYY Fresh Air Interview, National Public Radio, 27 November 2007.

[4] Partial list of recommendations from Bolger, R., D.Monsma, R. Nelson. Sustainable Water Systems: Step One - Redefining the Nation's Infrastructure Challenge. A report of the Aspen Institute's Dialogue on Sustainable Water Infrastructure in the U.S. May, 2009.

I agree with Ms. Jaress that TWM represents an "ambitious"[5] endeavor. Ms. Jaress quotes Mr. Eisner: "When you are trying to create things that are new, you have to be prepared to be on the edge of risk." I appreciate and accept that philosophy. I would challenge the Commission, however, that when you are faced with the certainty of an outcome, such as water scarcity, and you choose to ignore solutions, you have to be prepared to be on the edge of calamity. Total Water Management is a solution. A new operating paradigm for an industry mired in the past, and unfit for the future. A means of achieving sustainability while not sacrificing our resources, our environment or our way of life.

It is no good waiting until Lake Mead is empty to implement a new water paradigm in the southwest.

IV. <u>Staff and RUCO's position on ICFAs</u>

Q. Staff and RUCO rely on the staff report completed for the generic docket W-00000C-06-0149 as the basis for treating ICFAs as contributions. How do you read this staff report?

A. I believe there are a number of elements to consider before establishing that ICFAs must be Contributions[6]:

1. Staff clearly identified the need to provide regional solutions for water and wastewater:

> "Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development."

[5] Surrebuttal Testimony of Linda Jaress, 7 December 2009, Page 3 Line 15.
[6] Outlined in Staff Report in Docket W-00000C-06-0149

2. Staff clearly understands that ICFAs have potential benefits:

> "Staff concludes that IFCA type arrangements can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization."

3. Staff indicates that if ICFA revenue is contributed to the regulated entity, it's classification should be on a case-by-case basis:

> "If such costs are incurred at the parent level and subsequently contributed to the regulated utility, the cost of such contributed capital should be determined on a case by case basis."

From these criteria, and in Global's own belief, ICFA revenues that directly fund plant would and should be considered CIAC. This was made clear in our rebuttal testimony.

Where ICFA revenues are employed to finance the carrying costs of regional infrastructure (beyond that required by the development for which ICFA fees are received), or where ICFA revenues are used for acquisitions to effect consolidation, or where ICFA revenues shield rate-payers from costs not allocated to the utilities, then those fees should not be considered as "contributed to the regulated entity".

Q. Ms. Jaress indicates that "AIAC and CIAC could also be used to finance the program [Total Water Management] in place of ICFA fees."[7] Would you agree?

A. No. In fact I am convinced that the Commission's own rules prevent utilities from requiring developers to fund the deployment of the infrastructure associated with achieving the Total Water Management goals. The Main Extension Agreement rules (AAC R14-2-406) have been developed to ensure that developers pay for new growth, and only that.

[7] Surrebuttal Testimony of Linda Jaress, 7 December 2009, Page 3 Line 18.

AAC R14-2-406.B.2 states in part "If the extension is to include <u>oversizing</u> of facilities to be done at the <u>utility's expense</u>, appropriate details shall be set forth in the plans, specifications and cost estimates" (emphasis added). To me this indicates that developers cannot be responsible for providing regionally scaled facilities. I hesitate to use the word "oversizing" in my description of what is required. What we need is "right-sizing".

Further, AAC R14-2-406.B.1 states that refundable advances are applicable to facilties that are "required to provide pressure, storage or water supply, <u>exclusively</u> for the new service or services requested" (emphasis added). Again we are apparently limited to facilities that serve specific development interests – not facilities that serve the regional water management goals.

I believe that Ms. Jaress presents a simplistic view of the development world. Development decisions are made on economics – right or wrong, that is reality. If I charge more to achieve Total Water Management, and there is no State mandate to conserve, what economic driver is there for a developer to make that decision? None. Developers, as I have said in my prior testimony in this case, are not water stewards. That is the Utilities' job – and by extension, that is the Commission's charge.

Ironically, rules that were developed to ensure that growth pays for growth, have, in my opinion, resulted in just that. That growth pays <u>ONLY</u> for growth – and nothing for the future.

Q. Both RUCO and Staff have contrary positions to Global on CIAC. Have you changed your position?

A. No. As a business person, I see the pitfalls of CIAC on the financial health of many utilities. As an engineer, I see the impact of reliance on CIAC on the reliability, operational availability and maintainability of those utilities. I stand by my comments in prior testimony.

Q. As a result of Staff's position on ICFAs, Ms Jaress states that "considerable additional investment in plant will need to be made"[8] in Greater Tonopah. Do you agree?

A. Yes, Ms. Jaress and I are in complete agreement that if Staff's proposal is upheld, Greater Tonopah will be in very bad shape.

Q. Ms. Jaress believes that Global was "paid" for the acquisition of Greater Tonopah, and therefore should be willing to invest in the utility. What are your thoughts?

A. To be honest I am completely flabbergasted. We were approached to provide service in the West Valley by several large developers. Knowing that the area was critically water short, it was obvious that the cobbled together nature of the water utilities in the region could not meet the needs of the community. The area demanded integrated utility service and a full-scale deployment of Total Water Management. West Maricopa Combine (WMC) stood in the way.

With the assistance of the developers, we structured a deal whereby a portion of their ICFA funds went directly to the acquisition of the WMC utilities. We negotiated with WMC owners and came to terms on the acquisition. We paid them contemporaneously with receiving ICFA funds, took over the utilities and set them on the path of sustainable water management. At no time did we seek an acquisition adjustment for these utilities – despite the fact they had little or no rate base.

[8] Surrebuttal Testimony of Linda Jaress, 7 December 2009, Page 9 Line 8.

Now Staff is saying, the ICFA funds that Global paid to WMC should have been retained in the utilities and therefore we are wiping out your rate base. But this is a clear case for the benefits of ICFAs. Those funds went to the former owners of WMC. The utilities are in much better shape than they have ever been, they are poised to respond to the growth once it returns – except for one thing: Staff has eliminated any incentive to invest with their draconian recommendation for a negative rate base.

In retrospect, perhaps we should have explicitly asked for an acquisition adjustment and had that removed by Staff's action on the ICFAs. The utilities would have fared better.

V. Staff's position on CC&N Conditions

Q. Ms. Jaress says that the ACC does not order utilities to construct plant.[9] Would you agree?

A. I wish that were the case. Specific construction conditions compromise regional planning. Nonetheless, she is incorrect. By saying that "the Commission is not ordering the utility to construct certain plant, but is ordering the company to file a document [Approval of Construction] that corroborates the need for service"[10] she believes that this is a paper exercise. The reality is that I cannot get an "approval of construction" without actually constructing that facility.

In order to receive an Approval of Construction, Global is required to submit an Engineer's Certificate of Completion. This document certifies that construction is complete in accordance with the approved plans, that all testing has been completed and requires that As-Built drawings be submitted. That sounds like completion of a construction project to me, and not a corroboration of the need.

[9] Surrebuttal Testimony of Linda Jaress, 7 December 2009, Page 10 Line 25.
[10] Surrebuttal Testimony of Linda Jaress, 7 December 2009, Page 11 Lines 2-3.

Q. Isn't she saying that you could simply request an extension?

A. Staff provides many mixed messages in this regard. On many occasions, Staff's reports for extensions state that asking for an extension demonstrates a lack of necessity, and therefore should not be granted. This is true even when accompanied by reaffirmed requests for service from the landowners. Further, when Staff recommends approval of an extension, they caveat their reports by saying "that no further extensions will be accepted". So no, we cannot simply request an extension.

And when the utility determines a specific condition is not the most efficient pathway to sustainability, we are required to undergo an application under ARS 40-252 to change the decision. If, as Ms. Jaress asserts, Staff is seeking "corroboration of the need for service", why should the infrastructure details matter? The fact is that they do to Staff, and they want infrastructure constructed and installed exactly in accordance with Decisions. Deviations are not allowed.

Q. Then why not opt for Orders Preliminary?

A. They are no different – specific task must be completed by specific times. In fact they are worse because at any time the Commission may void an Order Preliminary. From a business perspective, that sort of regulatory uncertainty precludes investment.

VI. Uses for ICFA Funds

Q. Can you describe the use of ICFA funds?

A. At the risk of being repetitive, we use ICFAs in the following ways:

1. We recognize them as revenue at Global Parent and pay tax on them.
2. We use the funds to acquire other utilities.
3. We finance regional plant – that plant that is above and beyond what is required for specific developments, and result in water conservation and efficiency.

Q. How much was received by year?

A. As detailed in my Direct Testimony, Global Parent has received the following funds related to ICFAs:

In 2004, Global Parent received $4,998,566

In 2005, Global Parent received $20,543,310

In 2006, Global Parent received $25,939,677

In 2007, Global Parent received $4,656,470

In 2008, Global Parent received $3,946,100

In 2009, Global Parent does not expect to collect any ICFA fees.

Q. Can you detail the Tax impact?

A. Mr. Rowell provides a detailed assessment on why taxes are incurred in his rejoinder testimony. From my perspective, our third party auditors (Deloitte) say they are taxable and so I comply with that determination.

As a result Global Parent has paid $24,057,683 in taxes on the ICFA funds received.

Q. How much of those ICFA revenues did Global Parent use for acquisitions and consolidation of utilities?

A. From 2004 through year-end 2008 we spent $83,080,153 for acquisitions and consolidations, but $33,762,427 of that total reflects our ownership group's initial acquisition of Palo Verde and Santa Cruz. Of the remaining $49,317,726 spent on acquisitions, $5,445,924 was for the acquisitions of Cave Creek Water Company and its affiliate Pacer Equities – that acquisition also did not involve ICFAs. Thus our ICFA-related acquisitions costs are $43,871,802; this is money that has been paid out and does not include any future obligations.

Q. Global has explained its view that ICFA funds offset the 'premium' paid for utilities, but has Global provided documentation that it has actually used ICFA funds for acquisitions?

A. We have, but I don't think we have explicitly taken the parties through the evidence to provide the clarity they needed. So let me make it clear here:

- Hill Exhibit 1 shows Audited Financial Statements for 2008, Page 19, Deloitte found that $6.2 million of ICFA funds were used to finance the first payment for the acquisition of West Maricopa Combine, Inc. (WMC)
- Hill Exhibit 2, Wells Fargo Treasury Information Reporting for July 11, 2006, show the following activity:
  - Incoming Wire $4,957,650.00 received from ICFA party Sierra Negra Ranch, LLC
  - Incoming Wire $2,156,250.00 received from ICFA party New World Properties, Inc.
  - Outgoing Wire $18,385,170.77 paid to WMC Owners for the first payment towards the acquisition of WMC.

Q. Global has also explained its view that ICFA funds offset the 'carrying costs' of regionally-sized infrastructure, but has Global provided documentation that it has actually incurred those costs?

A. Yes, and we have specifically shown that the Southwest Plant (which Staff excludes from all rate bases, forever) has actually already caused carrying costs. Because we have excluded this plant from rate base it is contributing nothing. And since it is clear that the Global Parent is responsible for all payments on this (and all IDA bonds), it is evident that Global Parent is thus foregoing revenue on this plant yet is still obliged to pay the debt obligations.

Global employs Industrial Development Authority (IDA) bonds as a means of providing low-cost debt financing for facilities. We presently have a total of $115,180,000 of IDA debt at the parent level that has, for the purposes of rate making, been imputed to the regulated utilities. The total amount of plant constructed in the Southwest is $32,391,318. Of this, we have debt financed through Industrial Development Authority bonds $26,810,477, or 23.3% of the total IDA bond debt is allocated to the Southwest facilities. I have attached Hill Exhibit 3 which shows bond payments from Global Parent from 2006 through 2009.

Q. What evidence shows that the Southwest Plant has carrying costs?

A. Without disavowing in any way Mr. Rowell's explanation of carrying costs – in which he uses our weighted average cost of capital, we have also shown in the evidence that the Southwest Plant was largely financed with IDA debt, that Global Parent is solely responsible for paying the principal and interest on those bonds, that Global Parent has made $13.6 million (see Hill Exhibit 4) in such payments specifically related to the Southwest Plant, and that Global Parent will continue to pay $2 million per year on these specific facilities for at least five[11] more years before we can begin any rate recovery for those assets[12].

I have included the payment schedules for the IDA bonds as Hill Exhibit 5.

[11] Years: 2010, 2011, 2012, 2013, 2014

[12] These assessments include the assumption that the next rate proceeding concludes in 2015 and that the SW facilities remain eligible for rate base – which is contrary to Staff's current position. If rate proceedings or rate base treatment are precluded, then the carrying costs continue to increase beyond that shown in the exhibits. In addition, we have assumed that no carrying costs are incurred prior to the assumption of the financing by the debt. In reality this is not true, and would increase the total carrying costs.

Q. That looks at the debt portion only. Would the numbers change if you considered the true Weighted Average Cost of Capital (WACC)?

A. Yes. If we consider the various WACC rates proposed by the parties in this application, the carrying costs increase to between 20.8 million dollars to 21.8 million dollars (see Hill Exhibit 6). Again we are assuming that no carrying costs were incurred prior to 2007 and that the carrying costs end at 2014.

Q. Can you summarize the uses of ICFA funds?

A. Yes. The following table spells out the use of ICFA funds since Global's inception:

ICFA Analysis	2004	2005	2006	2007	2008	Total
ICFA Fees Received	4,998,566	20,543,309	25,939,677	4,656,470	3,946,100	60,084,122
Less tax	(2,001,426)	(8,225,541)	(10,386,246)	(1,864,451)	(1,580,018)	(24,057,683)
Less acquisitions		-	(18,500,000)	(5,000,000)	(20,371,802)	(43,871,802)
Less carrying cost on Southwest Plant			-	(453,566)	(1,380,537)	(1,834,103)
						-
Net ICFA Money Received	2,997,140	12,317,768	(2,946,570)	(2,661,546)	(19,386,257)	(9,679,465)

Hill

Rejoinder Testimony

Exhibit 1

expected to occur in 2009. The ICFA fees prepaid by CHI will be reimbursed by way of reducing the ICFA fee of $750 per lot for lots 2,001 through 8,400. The total purchase price of the CP and FG shares has been allocated to the respective service areas acquired, which are considered to be indefinite life intangible assets. Legends Ranch was sold in 2008 and the buyer has assumed CHI's rights and obligations under the agreements.

WMC — On July 11, 2006, GWI purchased the total issued and outstanding shares of WMC in order to obtain utilities and service areas in the western portion of Maricopa County, Arizona. **The purchase price consisted of an initial payment of $18.5 million, of which $6.2 million was funded by the prepayment of ICFA fees by developers seeking service from Greater Tonopah and Hassayampa**, and additional noninterest-bearing purchase consideration totaling $41.5 million with the first payment due and paid July 11, 2007, in the amount of $5 million. The balance due is payable in the form of future growth premiums beginning on March 31, 2008, and payable on March 31 of each year thereafter through 2012, in an amount equal to $3,000 for each new meter connected during the previous calendar year, except for the payment due in 2008, which was based on the meters installed from July 12, 2006 through December 31, 2007, until the date on which the cumulative growth premium equals $36,500,000. The future purchase consideration was recorded at its fair value of $30,976,000, based on an imputed interest rate of 8.5% based on our weighted-average cost of capital and the minimum payment amounts set forth above, resulting in a total purchase price of $46,672,081, net of $2,803,919 cash acquired.

The total purchase price of WMC was allocated among tangible assets, identifiable intangible assets, goodwill, and assumable liabilities at their fair value as at the acquisition date of July 11, 2006, as follows:

Utility plant in service	$ 18,002,601
Current assets (including cash of $2,803,919)	3,609,377
Goodwill (not deductible for tax purposes)	45,809,111
Intangible asset — Hassayampa recharge permits	6,435,531
Current liabilities	(1,003,533)
Deferred tax liability	(3,225,968)
Advances in aid of construction	(17,612,715)
Contributions in aid of construction	(846,202)
Assumed debt	(1,692,202)
Net assets acquired	$ 49,476,000

In March 2008, pursuant to the terms of the original Stock Purchase Agreement (the "Agreement"), we asserted an indemnification claim against the selling shareholders of WMC. The indemnification claim asserted over $20,000,000 in estimated losses arising out of what we believed were materially inaccurate shareholder representations and warranties contained in the Agreement relating to contract terms, status of title on all real property, status of permitting, compliance with applicable law and business practice among other things. We reached a settlement agreement on June 16, 2008, with the former owners of WMC to recover our lost profit through reduction of the growth premiums owed over the next five years. Terms of the settlement included amending the purchase price of the WMC properties to be $54,000,000. All original terms remain the same except the value of the total growth premium is agreed to be $30,500,000 payable as follows:

- March 31, 2008 — $5,750,000 (paid as agreed in settlement)
- On or before March 31, 2009 — $5,000,000
- On or before March 31, 2010 — $5,000,000
- On or before March 31, 2011 — $4,750,000

Hill

Rejoinder Testimony

Exhibit 2

WELLS FARGO

07/12/2006 11:47 AM ET
CUSTOMER ID: GLOBA846
OPERATOR ID: JOELJ084
Commercial Electronic Office®

GLOBAL WATER RESOURCES LLC

Previous Day Composite Report
As of 07/11/2006
Treasury Information Reporting

Currency: USD
Bank: 121000248
Account: 4050004589(AZ)

WELLS FARGO BANK, N.A.
GLOBAL WATER MANAGEMENT LLC

Balances

Closing Ledger Balance	6,531.33
Closing Collected Balance	6,531.33
Opening Available Balance	6,531.33
One Day Float	.00
Two+ Day Float	.00
MTD Average Closing Ledger Balance	8,268.26
MTD Average Closing Collected Balance	8,268.26
Total Credits	6,531.33
Total Debits	11,248.37
Total Number Credits	2
Total Number Debits	1

Summaries

Type of Credit	Number of Items	Amount
Total ACH Credits	2	6,531.33
Credit Totals	**2**	**6,531.33**

Type of Debit	Number of Items	Amount
Total Wire Transfer Debits	1	11,248.37
Debit Totals	**1**	**11,248.37**

Credit Transactions

7/11/2006	169 / MISCELLANEOUS ACH CREDIT **Cust Ref:** 00005160000 **Bank Ref:** IA009981754794 07/11BANKCARD DEPOSIT -0227950516	**Credit Amount:**	5,953.26
7/11/2006	169 / MISCELLANEOUS ACH CREDIT **Cust Ref:** 05020581666 **Bank Ref:** IA000026527315 AMERICAN EXPRESS SETTLEMENT 060711 5020581666 GLOBAL WATER5020581666	**Credit Amount:**	578.07
	MISCELLANEOUS ACH CREDIT Total	**Credit Amount**	**6,531.33**
	Credit Total	**Credit Amount**	**6,531.33**

Debit Transactions

7/11/2006	506 / BOOK TRANSFER DEBIT **Cust Ref:** 00000000000 **Bank Ref:** IA009933516924 WT SEQ#46517 GLOBAL WATER RESOURCES /BNF= SRF# IN06071111293751 TRN#060711046517 RFB# 000000664	**Debit Amount:**	11,248.37
	Account Net Amount		**-4,717.04**

Currency: USD
Bank: 121000248
Account: 4100066307(AZ)

WELLS FARGO BANK, N.A.
Operating Account

Balances

Closing Ledger Balance	639.41
Closing Collected Balance	639.41
Opening Available Balance	639.41
One Day Float	.00
Two+ Day Float	.00
MTD Average Closing Ledger Balance	-11,797.75
MTD Average Closing Collected Balance	-11,797.75
Total Credits	20,668.87
Total Debits	20,668.87
Total Number Credits	1
Total Number Debits	1

Summaries

Type of Credit	Number of Items	Amount
Total Wire Transfer Credits	1	20,668.87
Credit Totals	**1**	**20,668.87**

Type of Debit	Number of Items	Amount
Total Controlled Disbursement Debits	1	20,668.87
Debit Totals	**1**	**20,668.87**

Credit Transactions

7/11/2006 — 206 / BOOK TRANSFER CREDIT — **Credit Amount:** 20,668.87
Cust Ref: 00000000000 **Bank Ref:** IA009933517073
WT SEQ#46576 GLOBAL WATER RESOURCES /ORG=GLOBAL WATER RESOURCES LLC SRF# IN06071111301674 TRN#060711046576 RFB# 000000665

Debit Transactions

7/11/2006 — 581 / CONTROLLED DISBURSEMENT DEBIT — **Debit Amount:** 20,668.87
Cust Ref: 09600056231 **Bank Ref:** IA009988884770
CONTROLLED DISBURSEMENT VAN WERT FUNDING TO 000009600056231

Account Net Amount **0.00**

Currency: USD
Bank: 121000248
Account: 4100070663(AZ)

WELLS FARGO BANK, N.A.
Main Account

Balances

Closing Ledger Balance	183,161.24
Closing Collected Balance	10,163.24
Opening Available Balance	165,851.24
One Day Float	155,688.00
Two+ Day Float	17,310.00
MTD Average Closing Ledger Balance	501,597.64
MTD Average Closing Collected Balance	9,544.55
Total Credits	25,590,826.38
Total Debits	25,575,647.35
Total Number Credits	10
Total Number Debits	4

Summaries

Type of Credit	Number of Items	Amount
Total Commercial Loan Credits	1	18,385,170.77
Total Deposits	4	2,399.03
Total Lockbox Credits	2	78,108.21
Total Wire Transfer Credits	3	7,125,148.37
Credit Totals	**10**	**25,590,826.38**

Type of Debit	Number of Items	Amount
Total Commercial Loan Debits	1	7,113,900.00
Total Miscellaneous Debits	1	55,907.71
Total Wire Transfer Debits	2	18,405,839.64
Debit Totals	**4**	**25,575,647.35**

Credit Transactions

7/11/2006 — 171 / INDIVIDUAL LOAN DEPOSIT — **Credit Amount:** 18,385,170.77
Cust Ref: 00000000000 **Bank Ref:** IA009915223556
LOAN ADVANCE CUSTOMER# 7041026919 OBLIGATION# 0000000034

7/11/2006 — 115 / LOCKBOX DEPOSIT — **Credit Amount:** 70,744.55
Cust Ref: 00000052747 **Bank Ref:** IA000732399887
Float-Zero Day: 9,993.00 **One Day:** 54,857.00 **Two+ Day:** 5,894.00
RETAIL LOCKBOX DEPOSIT

7/11/2006 — 115 / LOCKBOX DEPOSIT — **Credit Amount:** 7,363.66
Cust Ref: 00000052747 **Bank Ref:** IA000732400247
Float-Zero Day: 1.00 **One Day:** 1,801.00 **Two+ Day:** 5,561.00
RETAIL LOCKBOX DEPOSIT

LOCKBOX DEPOSIT Total — **Credit Amount** **78,108.21**
Float-Zero Day: 9,994.00 **One Day:** 56,658.00 **Two+ Day:** 11,455.00

7/11/2006 — 301 / COMMERCIAL DEPOSIT — **Credit Amount:** 839.45
Cust Ref: 00000000000 **Bank Ref:** IA000284802311
Float-Zero Day: .00 **One Day:** 689.00 **Two+ Day:** 150.00
DESKTOP CHECK DEPOSIT

7/11/2006 — 301 / COMMERCIAL DEPOSIT — **Credit Amount:** 742.15
Cust Ref: 00000000000 **Bank Ref:** IA000284806325
Float-Zero Day: .00 **One Day:** .00 **Two+ Day:** 742.00
DESKTOP CHECK DEPOSIT

7/11/2006 — 301 / COMMERCIAL DEPOSIT — **Credit Amount:** 572.66
Cust Ref: 00000000000 **Bank Ref:** IA000284802726
Float-Zero Day: 63.00 **One Day:** 509.00 **Two+ Day:** .00
DESKTOP CHECK DEPOSIT

7/11/2006 — 301 / COMMERCIAL DEPOSIT — **Credit Amount:** 244.77
Cust Ref: 00000000000 **Bank Ref:** IA000284805900
Float-Zero Day: 103.00 **One Day:** 100.00 **Two+ Day:** 41.00
DESKTOP CHECK DEPOSIT

COMMERCIAL DEPOSIT Total — **Credit Amount** **2,399.03**
Float-Zero Day: 166.00 **One Day:** 1,298.00 **Two+ Day:** 933.00

7/11/2006 — 195 / INCOMING MONEY TRANSFER — **Credit Amount:** 4,957,650.00
Cust Ref: 00000000000 **Bank Ref:** IA009933564450
WT FED#02347 FIRST AMERICAN TRU /ORG=FIRST AMERICAN TITLE
INSURANCE COMP SRF# 0382800192IG TRN#060711068491 RFB#
402-4720441

7/11/2006 — 195 / INCOMING MONEY TRANSFER — **Credit Amount:** 2,156,250.00
Cust Ref: 00000000000 **Bank Ref:** IA009933564476
WT FED#02352 FIRST AMERICAN TRU /ORG=FIRST AMERICAN TITLE
INSURANCE COMP SRF# 0383300192IG TRN#060711068509 RFB#
402-4720482

INCOMING MONEY TRANSFER Total — **Credit Amount** **7,113,900.00**

7/11/2006 — 206 / BOOK TRANSFER CREDIT — **Credit Amount:** 11,248.37
Cust Ref: 00000000000 **Bank Ref:** IA009933516925
WT SEQ#46517 GLOBAL WATER MANAGEMENT /ORG=GLOBAL WATER
RESOURCES LLC SRF# IN06071111293751 TRN#060711046517 RFB#
000000664

Credit Total — **Credit Amount** **25,590,826.38**
Float-Zero Day: 25,520,478.00 **One Day:** 57,956.00 **Two+ Day:** 12,388.00

Debit Transactions

7/11/2006 — 481 / LOAN PAYMENT — **Debit Amount:** 7,113,900.00
Cust Ref: 00000000000 **Bank Ref:** IA009915223555
PRINCIPAL PAYMENT CUSTOMER# 7041026919 OBLIGATION#
0000000034

7/11/2006 — 501 / AUTOMATIC TRANSFER DEBIT — **Debit Amount:** 55,907.71
Cust Ref: 00001622142 **Bank Ref:** IA009917646541
ONLINE LOAN PAYMENT

7/11/2006 — 495 / OUTGOING MONEY TRANSFER — **Debit Amount:** 18,385,170.77
Cust Ref: 00000000000 **Bank Ref:** IA009933521180
WT FED#01635 FIRST AMERICAN TRU /FTR/BNF=FIRST AMERICAN
TITLE INSURANCE SRF# TRN#060711048586 RFB#

7/11/2006 — 506 / BOOK TRANSFER DEBIT — **Debit Amount:** 20,668.87
Cust Ref: 00000000000 **Bank Ref:** IA009933517072
WT SEQ#46576 GLOBAL WATER MANAGEMENT /BNF= SRF#
IN06071111301674 TRN#060711046576 RFB# 000000665

Debit Total — **Debit Amount** **25,575,647.35**

Account Net Amount	**15,179.03**

Currency: USD
Bank: 121000248

Balances

Closing Ledger Balance	190,331.98
Closing Collected Balance	17,333.98
Opening Available Balance	173,021.98
One Day Float	155,688.00
Two+ Day Float	17,310.00
MTD Average Closing Ledger Balance	498,068.15
MTD Average Closing Collected Balance	6,015.06
Total Credits	25,618,026.58
Total Debits	25,607,564.59
Total Number Credits	13
Total Number Debits	6

Grand Total For Currency: USD

Balances

Closing Ledger Balance	190,331.98
Closing Collected Balance	17,333.98
Opening Available Balance	173,021.98
One Day Float	155,688.00
Two+ Day Float	17,310.00
MTD Average Closing Ledger Balance	498,068.15
MTD Average Closing Collected Balance	6,015.06
Total Credits	25,618,026.58
Total Debits	25,607,564.59
Total Number Credits	13
Total Number Debits	6

---- END OF REPORT ----

Hill
Rejoinder Testimony
Exhibit 3

usbank. Five Star Service Guaranteed

P.O. Box 64111
St. Paul, MN 55164-0111

Ms Cindy Liles
CFO & SVP - Growth Management
Global Water Resources
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027

Ph: 623-580-9600
Fax: 623-580-9659

RE: **The Industrial Development Authority of the County of Pima**
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series 2006

FOR DEBT SERVICE PAYMENT DUE: 6/1/2007

	Principal:	
	Premium:	
	INTEREST:	$879,074.25
TOTAL		$879,074.25
	Excess Reserve:	
	Reserve Requirement = $3,597,106.28	($3,611.04)
	Per Section 4.1 & 4.2 Loan Agmt.	
	Add Issuer Fee Due	$18,247.50
LESS: CASH ON HAND: (Lease payment Fund)		$0.00
TOTAL PAYMENT DUE:		**$893,710.71**

$14636.46

ok to pay
CLiles
05/09/07

NOT MST

PAYMENT INSTRUCTIONS

Please note: To ensure bondholder payments are disbursed on time, we encourage use of the following guidelines:
***WIRE:** Wire due no later than 10:30 AM CST on the Payment Due Date.
***CHECK:** Check must be received three business days before Payment Due Date for processing and clearance.
***OTHER:** Please call the person referenced below.
Depositories may assess a penalty if Same Day Funds deadlines are not met, which may be passed on to you if funds are not received in a timely manner. Thank you.

WIRE INSTRUCTIONS, DUE: **5/31/2007**
BBK= U.S. BANK N.A. (ABA 091000022)
BNF= U.S. BANK TRUST N.A.
AC= 1801-2116-7365
OBI= DEBT MGMT #108395001
REF= 108395000
ATTN: Edwin Augustus Bannah
651-495-3778

CHECK INSTRUCTIONS DUE: **5/29/2007**
U.S. BANK TRUST, N.A.
CORPORATE TRUST - DEBT MANAGEMENT
CM - 9705
PO BOX 70870
ST PAUL, MN 55170-9705
REF= 108395000
ATTN: Edwin Augustus Bannah

Patty - attached include amort schedule.

usbank. Five Star Service Guaranteed

pls get a copy to Patty.

Ms Cindy Liles
CFO & SVP - Growth Management
Global Water Resources
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027

Ph: 623-580-9600
Fax: 623-580-9659

RE: The Industrial Development Authority of the County of Pima
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series 2006

FOR DEBT SERVICE PAYMENT DUE: 12/1/2007

	Principal:		
	Premium:		DR
	INTEREST:	$1,034,205.00	905-30391
TOTAL		$1,034,205.00	
	Less: Excess Reserve a/c #108395003 Reserve Requirement = $3,597,106.28	($148,494.76)	CR 905-10065
	Per Section 4.1 & 4.2 Loan Agmt. Add Issuer Fee Due	$18,247.50	DR 905-28101
should have added	LESS: CASH ON HAND (Lease payment Fund)	$232.82	AR 905-10065
	TOTAL PAYMENT DUE:	**$904,190.56**	S/B 32/07

OAB.

PAYMENT INSTRUCTIONS

Please note: To ensure bondholder payments are disbursed on time, we encourage use of the following guidelines:
*WIRE: Wire due no later than 10:30 AM CST on the Payment Due Date.
*CHECK: Check must be received three business days before Payment Due Date for processing and clearance.
*OTHER: Please call the person referenced below.
Depositories may assess a penalty if Same Day Funds deadlines are not met, which may be passed on to you if funds are not received in a timely manner. Thank you.

WIRE INSTRUCTIONS, DUE: **11/30/2007**
BBK= U.S. BANK N.A. (ABA 091000022)
BNF= U.S. BANK TRUST N.A.
AC= 1801-2115-7365
OBI= DEBT MGMT #108395001
REF= 108395000
ATTN: Edwin Augustus Bannah
651-495-3778

CHECK INSTRUCTIONS DUE: **11/28/2007**
U.S. BANK TRUST, N.A.
CORPORATE TRUST - DEBT MANAGEMENT
CM - 9705
PO BOX 70870
ST PAUL, MN 55170-9705
REF= 108395000
ATTN: Edwin Augustus Bannah

usbank
Five Star Service Guaranteed

P.O. Box 64111
St. Paul, MN 55164-0111

The Industrial Development Authority of the County of Pima
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series 2006
Series 2006 & 2007

COMBINED BILLING INVOICE

Bond Interest Payment Date: June 1, 2008

	Rate	Principal Outstanding	Principal Due	Interest Due	Debt Service Total Due
Series 2006 Bonds	MULTIPLE	$ 36,495,000.00	$0.00	$1,034,205.00	$1,034,205.00
Series 2007 Bonds	MULTIPLE	$ 54,135,000.00	$0.00	$1,793,743.13	$1,793,743.13

Total Debt COMBINED Service $ 2,827,948.13

Series 2006 Bonds	Add Issuer Fee Due	$18,247.50	
Series 2007 Bonds	Add Issuer Fee Due	$27,067.50	
	Per Section 4.1 & 4.2 Loan Agmt.	Total Fee due	$ 45,315.00

CURRENT RESERVE REQUIRED	EXCESS RESERVE Fund	Principal Fund	Interest Fund
6,418,746.21	$2,711,734.34		
Series 2006 Bonds		$0.00	$15,232.33
Series 2007 Bonds			

Accrual **Total Available Credit: $2,726,966.67**

① Dr. 94035 9,063.00
Cr. 32207
(9063.00) Jan - May.

TOTAL PAYMENT DUE: $146,296.45 - actual wire amount

Jamie to research moving this money from debt reserve fund

Attn:

Global Water Resources
Ms Cindy Liles
CFO & SVP - Growth Management
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027
Ph: 623-580-9600
Fax: 623-580-9659

DR 905-32207 45,315.00
DR 905-30391 2,827,948.13
CR Cash <146,296.45>
CR 905-10065 <2,711,734.34> (reserve funds)
CR 905-10065 <15,232.27> (interest fund)

ok to pay
C. Liles

Please Wire Funds To:

US Bank
ABA # 091000022
USBANK CT WIRE CLRG
A/C # 180121167365
OBI: GLOBAL WATER 06 & 07
Ref: 108395000 & 108395010

SEND CHECKS TO:
Overnight Express Mail & Livechecks

U.S. Bank Trust National Association
Lockbox Services--CM9705
Attn: TFM/EDWIN "GUS BANNAH"
ENER 0106
1200 Energy Park Drive
St Paul, MN 55108
REF: GLOBAL WATER 06 & 07
Ref: 108395000 & 108395010

PHONE: 651-495-3778
FAX: 651-495-8115

First Class Mail - Lockbox(CHECKS)******

U.S. Bank Trust National Association
Attn: TFM./Edwin Augustus Bannah
Lockbox Services--CM9705
P.O. Box 70870
St Paul, MN 55170-9705
REF: GLOBAL WATER 06 & 07
Attn: TFM/EDWIN "GUS BANNAH"
Ref: 108395000 & 108395010

bank.
Five Star Service Guaranteed

usbank.com

The Industrial Development Authority of the County of Pima
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series
Series 2006 ; 2007 & 2008

COMBINED BILLING INVOICE (REVISION)

Bond Interest/Principal Payment Date: December 1, 2008

	Rate	Principal Outstanding	Principal Due	Interest Due	Debt Service Total Due	
Series 2006 Bonds	MULTIPLE	$ 36,495,000.00	$0.00	$1,034,205.00 ✓	$1,034,205.00	
Series 2007 Bonds	MULTIPLE	$ 54,135,000.00	$0.00	$1,764,337.50 ✓	$1,764,337.50	
Series 2008 Bonds	MULTIPLE	$ 24,550,000.00	$0.00	$0.00	$0.00	905
			TOTAL COMBINED Debt Service		$2,798,542.50	30391

ADD

Series 2006 Bonds	Add Issuer Fee Due	$18,247.50		
Series 2007 Bonds	Add Issuer Fee Due	$27,067.50	we are accruing	
Series 2008 Bonds	Add Issuer Fee Due	$0.00 ✓	in 32207	
	Per Section 4.1 & 4.2 Loan Agmt.	Total Fee due	$45,315.00	905-30999
	Less: Cash on hand	=======>	($649.51)	905-10065

FYI ONLY !

CURRENT RESERVE REQ.	***RESERVE SHORTFALL CURRENT CASH ON HAND	Cash on Hand Principal Pmt Fund	Cash on Hand Interest Fund			
$ 9,067,372.50	$8,722,140.59					
	($345,231.91)					
		$0.00	$61.61	=======>	($61.61)	905-10065

***There is a deficiency in the Bond Reserve Fund but it does not need to be paid or reimbursed since the balance is more than 90% of the reserve requirement.

Total Available Credit: $711.12

TOTAL PAYMENT DUE: $2,843,146.38

Attn: OK to pay [signature] 11/3/08

Global Water Resources
Ms Cindy Liles
CFO & SVP - Growth Management
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027
Ph: 623-580-9600
Fax: 623-580-9659

Please Wire Funds To:

US Bank
ABA # 091000022
USBANK CT WIRE CLRG
A/C # 180121167365
OBI: GLOBAL WATER 06 & 07
Ref: 108395000 ; 108395010 & 108395020

SEND CHECKS TO:

Overnight Express Mail & Livechecks

U.S. Bank Trust National Association
Lockbox Services--CM9705
Attn: TFM/EDWIN "GUS BANNAH"
ENER 0106
1200 Energy Park Drive
St Paul, MN 55108
REF: GLOBAL WATER 06 & 07
Ref: 108395000 ; 108395010 & 108395020

*First Class Mail - Lockbox(CHECKS)*********

U.S. Bank Trust National Association
Attn: TFM./Edwin Augustus Bannah
Lockbox Services--CM9705
P.O. Box 70870
St Paul, MN 55170-9705
REF: GLOBAL WATER 06 & 07
Attn: TFM/EDWIN "GUS BANNAH"
Ref: 108395000 ; 108395010 & 108395020

PHONE: 651-495-3778
FAX: 651-495-8115

[signature] 10/27/08

usbank.
Five Star Service Guaranteed

The Industrial Development Authority of the County of Pima
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series
Series 2006 ; 2007 & 2008

Corporate Trust Services

COMBINED BILLING INVOICE (REVISION)

Bond Interest/Principal Payment Date: June 1, 2009

	Rate	Principal Outstanding	Principal Due	Interest Due	Debt Service Total Due
Series 2006 Bonds	MULTIPLE	$ 36,495,000.00	$0.00	$1,034,205.00	$1,034,205.00
Series 2007 Bonds	MULTIPLE	$ 54,135,000.00	$0.00	$1,764,337.50	$1,764,337.50
Series 2008 Bonds	MULTIPLE	$ 24,550,000.00	$0.00	$1,217,637.50	$1,217,637.50
				TOTAL COMBINED Debt Service	$4,016,180.00

ADD

Series 2006 Bonds	Add Issuer Fee Due	$18,247.50	
Series 2007 Bonds	Add Issuer Fee Due	$27,067.50	
Series 2008 Bonds	Add Issuer Fee Due	$12,275.00	
	Per Section 4.1 & 4.2 Loan Agmt.	Total Fee due	$57,590.00
	Less: Cash on hand	========>	($8.12)

Principal Pmt Fund ~~COI~~ COI fund 10070

FYI ONLY !

CURRENT RESERVE REQ.	***RESERVE SHORTFALL CURRENT CASH ON HAND	Cash on Hand Principal Pmt Fund	Cash on Hand Interest Fund		
$ 9,057,372.50	$8,773,333.06	32107	32107		
	($284,039.44)	$5,959.71	$0.21	========>	($5,959.92)

Reclass to 32107

***There is a deficiency in the Bond Reserve Fund but it does not need to be paid or reimbursed since the balance is more than 90% of the reserve requirement.

Total Available Credit: $5,968.04

TOTAL PAYMENT DUE: $4,067,801.96

Dr. 905 30995 $57,590
Dr 905 30391 $4016,180
Cr Cash <4,067,801.96>
Cr 905 32107 <5959.71> Princ Pmt Fund
Cr. 905 32107 <.21> Int Pmt Fund
Cr 905 10070 <8.12> COI fund

Attn:

Global Water Resources
Ms Cindy Liles
CFO & SVP - Growth Management
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027
Ph: 623-580-9600
Fax: 623-580-9659

Please Wire Funds To:

US Bank
ABA # 091000022
USBANK CT WIRE CLRG
A/C # 180121167365
OBI: GLOBAL WATER 06 & 07
Ref: 108395000 ; 108395010 & 108395020

SEND CHECKS TO:
Overnight Express Mail & Livechecks

U.S. Bank Trust National Association
Lockbox Services--CM9705
Attn: TFM/EDWIN "GUS BANNAH"
ENER 0106
1200 Energy Park Drive
St Paul, MN 55108
REF: GLOBAL WATER 06 & 07
Ref: 108395000 ; 108395010 & 108395020

PHONE: 651-495-3778
FAX: 651-495-8115

*First Class Mail - Lockbox(CHECKS)**********

U.S. Bank Trust National Association
Attn: TFM/Edwin Augustus Bannah
Lockbox Services--CM9705
P.O. Box 70870
St Paul, MN 55170-9705
REF: GLOBAL WATER 06 & 07
Attn: TFM/EDWIN "GUS BANNAH"
Ref: 108395000 ; 108395010 & 108395020

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The Industrial Development Authority of the County of Pima
Water & Wastewater Revenue Bonds (Global Water Resources, LLC Projects) Series
Series 2006 ; 2007 & 2008

COMBINED BILLING INVOICE (REVISION)

Bond Interest/Principal Payment Date: December 1, 2009

	Rate	Principal Outstanding	Principal Due	Interest Due	Debt Service Total Due
Series 2006 Bonds	MULTIPLE	$ 36,495,000.00	$0.00	$1,034,205.00	$1,034,205.00
Series 2007 Bonds	MULTIPLE	$ 54,135,000.00	$0.00	$1,764,337.50	$1,764,337.50
Series 2008 Bonds	MULTIPLE	$ 24,550,000.00	$0.00	$913,228.13	$913,228.13

TOTAL COMBINED Debt Service $3,711,770.63 30391 Dr.

ADD

Series 2006 Bonds	Add Issuer Fee Due	$18,247.50	
Series 2007 Bonds	Add Issuer Fee Due	$27,067.50	
Series 2008 Bonds	Add Issuer Fee Due	$12,275.00	
	Per Section 4.1 & 4.2 Loan Agmt.	Total Fee due	$57,590.00 30995 Dr.

Less:
Cash on hand =======> ($8.12) 31207 Cr.

FYI ONLY !

CURRENT RESERVE REQ.	***RESERVE SHORTFALL CURRENT CASH ON HAND	Cash on Hand Principal Pmt -2- Fund	Cash on Hand Interest -1- Fund		
$ 9,067,372.50	$8,775,990.79				
	($291,381.71)	$0.00	$34,564.61	========>	($34,564.61) 31207 Cr.

***There is a deficiency in the Bond Reserve Fund but it does not need to be paid or reimbursed since the balance is more than 90% of the reserve requirement.

Total Available Credit: $34,572.73

TOTAL PAYMENT DUE: ($3,734,787.90) 10012 Cr.

Attn:

Global Water Resources
Ms Cindy Liles
CFO & SVP - Growth Management
21410 N 19th Ave, Suite 201
Phoenix, AZ 85027
Ph: 623-580-9600
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*First Class Mail - Lockbox(CHECKS)**********

U.S. Bank Trust National Association
Attn: TFM./Edwin Augustus Bannah
Lockbox Services--CM9705
P.O. Box 70870
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FAX: 651-495-8115

Hill
Rejoinder Testimony
Exhibit 4

Considering Bond Debt Only

	Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total Carrying Cost
Bond Debt	$ 36,495,000	$ 54,135,000	$ 24,550,000							
Cumulative Debt	$ 36,495,000	$ 90,630,000	$ 115,180,000	$ 115,180,000	$ 115,180,000	$ 115,180,000	$ 115,180,000	$ 115,180,000	$ 115,180,000	
Debt Attributable to SW Facilities	$ -	$ 21,484,943	$ 5,325,534							
Cumulative Debt for SW Facilities	$ -	$ 21,484,943	$ 26,810,477	$ 26,810,477	$ 26,810,477	$ 26,810,477	$ 26,810,477	$ 26,810,477	$ 26,810,477	
Pecentage	0.00%	23.71%	23.28%	23.28%	23.28%	23.28%	23.28%	23.28%	23.28%	
Total Debt Service (from Limited Offering Memoranda)	$ -	$ 1,913,279	$ 5,930,900	$ 7,423,541	$ 8,128,541	$ 8,645,119	$ 8,806,191	$ 8,808,280	$ 8,825,626	
Allocation to SW Facilities	$ -	$ 453,566	$ 1,380,537	$ 1,727,980	$ 1,892,083	$ 2,012,326	$ 2,049,819	$ 2,050,306	$ 2,054,343	**$ 13,620,960**

Notes — Assumes no carrying cost prior to funding by IDA bonds

Hill

Rejoinder Testimony

Exhibit 5

ESTIMATED DEBT SERVICE REQUIREMENTS

The following table sets forth, for each calendar year, the amount required in such year for the payment of principal of and interest on the Series 2006 Bonds and the Series 2007 Bonds.

TABLE 6

Year	Series 2006 Bond Debt Service	Series 2007 Bond Debt Service		Total Debt Service
		Principal	Interest	
2007	$1,913,279.25			$1,913,279.25
2008	2,068,410.00		$3,558,080.63	5,626,490.63
2009	2,068,410.00		3,528,675.00	5,597,085.00
2010	2,773,410.00		3,528,675.00	6,302,085.00
2011	2,774,987.50	$515,000.00	3,528,675.00	6,818,662.50
2012	2,779,385.00	545,000.00	3,500,350.00	6,824,735.00
2013	2,781,330.00	575,000.00	3,470,375.00	6,826,705.00
2014	2,780,822.50	625,000.00	3,438,750.00	6,844,572.50
2015	2,782,862.50	660,000.00	3,397,812.50	6,840,675.00
2016	2,787,177.50	700,000.00	3,354,582.50	6,841,760.00
2017	2,788,495.00	745,000.00	3,308,732.50	6,842,227.50
2018	2,791,815.00	795,000.00	3,259,935.00	6,846,750.00
2019	2,800,215.00	835,000.00	3,207,862.50	6,843,077.50
2020	2,804,695.00	885,000.00	3,153,170.00	6,842,865.00
2021	2,810,255.00	940,000.00	3,095,202.50	6,845,457.50
2022	2,811,615.00	1,000,000.00	3,033,632.50	6,845,247.50
2023	2,818,775.00	1,055,000.00	2,968,132.50	6,841,907.50
2024	2,823,962.50	1,120,000.00	2,899,030.00	6,842,992.50
2025	2,833,975.00	1,180,000.00	2,825,670.00	6,839,645.00
2026	2,843,237.50	1,245,000.00	2,748,380.00	6,836,617.50
2027	2,851,462.50	1,320,000.00	2,666,832.50	6,838,295.00
2028	2,858,362.50	1,405,000.00	2,580,372.50	6,843,735.00
2029	2,873,650.00	1,480,000.00	2,488,345.00	6,841,995.00
2030	2,891,462.50	1,560,000.00	2,391,405.00	6,842,867.50
2031	2,906,225.00	1,645,000.00	2,289,225.00	6,840,450.00
2032	6,577,650.00	1,680,000.00	2,181,477.50	10,439,127.50
2033		4,600,000.00	2,071,437.50	6,671,437.50
2034		4,900,000.00	1,770,137.50	6,670,137.50
2035		5,225,000.00	1,449,187.50	6,674,187.50
2036		5,565,000.00	1,106,950.00	6,671,950.00
2037		11,335,000.00	742,442.50	12,077,442.50
TOTAL	$74,595,926.75	$54,135,000.00	$83,543,535.63	$212,274,462.38

The Company will covenant and agree pursuant to the Loan Agreement that it will use its best efforts through the Project Subsidiaries to obtain approval from the ACC of schedules of rates, fees and charges for all services supplied by the Project Subsidiaries, after making reasonable allowances for contingencies and errors in estimates, to produce Income Available for Debt Service in each fiscal year of the Company not less than 1.10 X Maximum Annual Debt Service on all Long Term Indebtedness (exclusive of Subordinated Indebtedness incurred in compliance with the Loan Agreement).

CERTAIN BONDHOLDERS' RISKS

The purchase of the Series 2007 Bonds involves certain investment risks that are discussed throughout this Limited Offering Memorandum. Certain of these risks are described below. The relatively high interest rates borne by the Series 2007 Bonds (as compared to prevailing interest rates on bonds that have an investment grade rating)

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each calendar year, the amount required in such year for the payment of principal of and interest on the outstanding Bonds and the Series 2008 Bonds.

TABLE 6

Year	Outstanding Bond Debt Service	Series 2008 Bond Debt Service		Debt Service
		Principal	Interest	
2008	$5,626,490.63		$304,409.38	$5,930,900.01
2009	5,597,085.00		1,826,456.25	7,423,541.25
2010	6,302,085.00		1,826,456.25	8,128,541.25
2011	6,818,662.50		1,826,456.25	8,645,118.75
2012	6,824,735.00	$155,000.00	1,826,456.25	8,806,191.25
2013	6,826,705.00	165,000.00	1,816,575.00	8,808,280.00
2014	6,844,572.50	175,000.00	1,806,056.25	8,825,628.75
2015	6,840,675.00	185,000.00	1,794,900.00	8,820,575.00
2016	6,841,760.00	200,000.00	1,783,106.25	8,824,866.25
2017	6,842,227.50	210,000.00	1,770,356.25	8,822,583.75
2018	6,846,750.00	225,000.00	1,756,968.75	8,828,718.75
2019	6,843,077.50	475,000.00	1,742,625.00	9,060,702.50
2020	6,842,865.00	515,000.00	1,707,000.00	9,064,865.00
2021	6,845,457.50	550,000.00	1,668,375.00	9,063,832.50
2022	6,845,247.50	595,000.00	1,627,125.00	9,067,372.50
2023	6,841,907.50	635,000.00	1,582,500.00	9,059,407.50
2024	6,842,992.50	685,000.00	1,534,875.00	9,062,867.50
2025	6,839,645.00	735,000.00	1,483,500.00	9,058,145.00
2026	6,836,617.50	790,000.00	1,428,375.00	9,054,992.50
2027	6,838,295.00	850,000.00	1,369,125.00	9,057,420.00
2028	6,843,735.00	915,000.00	1,305,375.00	9,064,110.00
2029	6,841,995.00	985,000.00	1,236,750.00	9,063,745.00
2030	6,842,867.50	1,055,000.00	1,162,875.00	9,060,742.50
2031	6,840,450.00	1,135,000.00	1,083,750.00	9,059,200.00
2032	10,439,127.50	1,220,000.00	998,625.00	12,657,752.50
2033	6,671,437.50	1,315,000.00	907,125.00	8,893,562.50
2034	6,670,137.50	1,410,000.00	808,500.00	8,888,637.50
2035	6,674,187.50	1,515,000.00	702,750.00	8,891,937.50
2036	6,671,950.00	1,630,000.00	589,125.00	8,891,075.00
2037	12,077,442.50	1,755,000.00	466,875.00	14,299,317.50
2038		4,470,000.00	335,250.00	4,805,250.00
TOTAL	$210,361,183.13	$24,550,000.00	$42,078,696.88	$276,989,880.01

The Company will covenant and agree pursuant to the Loan Agreement that it will use its best efforts through the Project Subsidiaries to obtain approval from the ACC of schedules of rates, fees and charges for all services supplied by the Project Subsidiaries, after making reasonable allowances for contingencies and errors in estimates, to produce Income Available for Debt Service in each fiscal year of the Company not less than 1.10 X Maximum Annual Debt Service on all Long Term Indebtedness (exclusive of Subordinated Indebtedness incurred in compliance with the Loan Agreement).

CERTAIN BONDHOLDERS' RISKS

The purchase of the Series 2008 Bonds involves certain investment risks that are discussed throughout this Limited Offering Memorandum. Certain of these risks are described below. The relatively high interest rates borne by the Series 2008 Bonds (as compared to prevailing interest rates on bonds that have an investment grade rating) are intended to compensate investors in the Series 2008 Bonds for such risks. Accordingly, each prospective

Hill

Rejoinder Testimony

Exhibit 6

Considering Cost of Capital

		Year									
		2006	2007	2008	2009	2010	2011	2012	2013	2014	Total Carrying Cost
SW Investment in Plant	$ 32,391,318										
Santa Cruz	$ 17,941,342										
Palo Verde	$ 14,449,976										
Global Proposed WACC											
Santa Cruz	8.49%	$ -	$ 1,523,220	$ 1,523,220	$ 1,523,220	$ 1,523,220	$ 1,523,220	$ 1,523,220	$ 1,523,220	$ 1,523,220	
Palo Verde	8.34%	$ -	$ 1,205,128	$ 1,205,128	$ 1,205,128	$ 1,205,128	$ 1,205,128	$ 1,205,128	$ 1,205,128	$ 1,205,128	
Total		$ -	$ 2,728,348	$ 2,728,348	$ 2,728,348	$ 2,728,348	$ 2,728,348	$ 2,728,348	$ 2,728,348	$ 2,728,348	**$ 21,826,783**
Staff Proposed WACC											
Santa Cruz	8.50%	$ -	$ 1,525,014	$ 1,525,014	$ 1,525,014	$ 1,525,014	$ 1,525,014	$ 1,525,014	$ 1,525,014	$ 1,525,014	
Palo Verde	8.30%	$ -	$ 1,199,348	$ 1,199,348	$ 1,199,348	$ 1,199,348	$ 1,199,348	$ 1,199,348	$ 1,199,348	$ 1,199,348	
Total		$ -	$ 2,724,362	$ 2,724,362	$ 2,724,362	$ 2,724,362	$ 2,724,362	$ 2,724,362	$ 2,724,362	$ 2,724,362	**$ 21,794,897**
RUCO Proposed WACC	8.03%	$ -	$ 2,601,023	$ 2,601,023	$ 2,601,023	$ 2,601,023	$ 2,601,023	$ 2,601,023	$ 2,601,023	$ 2,601,023	**$ 20,808,183**

Notes RUCO WACC rate from Rebuttal Testimony

Rowell
Rejoinder Testimony

DOCKET NOs. SW-02445A-09-0077 *et al.*

Rejoinder Testimony
of
Matthew J. Rowell

December 10, 2009

TABLE OF CONTENTS

I. Introduction

Q. Can you outline your rejoinder testimony?

A. In this testimony, I respond to Staff's treatment of ICFA revenues, and their assertion that ICFA revenue funded plant. I speak to the taxation issue and rebut Ms. Jaress' assessment that Palo Verde and Santa Cruz have higher plant/connection metrics than do other utilities.

II. Staff's Treatment of ICFAs

Q. Have any additional implications of Staff's recommendation regarding ICFA fees come to light since your Rebuttal Testimony was filed?

A. Yes. In response to Global's Data Request 3.3, Staff indicated that their recommendation not only excludes $17,591,204[1] of investment from Palo Verde's and Santa Cruz's rate base in this case, it also intended to exclude the $32,391,318 Global invested in the Southwest Maricopa region from *future* rate base treatment. As I discussed in my Direct Testimony, the Southwest plant was built in order to comply with Commission Decision No. 68448 and it now sits unused. Global voluntarily excluded this plant from rate base consideration in this rate case. Because of this Staff netted the Southwest plant investment out of its recommended rate base disallowance. It is now clear that Staff intends to extend its recommended disallowance to the Southwest plant in a future rate case.

Q. What are the implications of Staff's intent to preclude rate base treatment of the Southwest plant in a future rate case?

A. Essentially this means that the total effect of Staff's recommended disallowance for Palo Verde and Santa Cruz is not just $17,591,204 but is $49,982,522. It also means that under Staff's recommendation not only is Global not earning a return on the Southwest plant

[1] See page 14 lines 17 and of Direct Testimony of Lind Jaress. Staff recommends rate base reductions of $10,991,128 for Palo Verde and $6,600,076 for Santa Cruz.

now, but that Global will never earn any return on that plant. In short, Staff recommendation is that Palo Verde and Santa Cruz bear not only the carrying costs of this plant forever, rather than until it is placed into rate base, and that Palo Verde and Santa Cruz also bear the original cost of the plant.

Q. Do you have any general comments on Ms. Jaress' Surrebuttal Testimony?

A. Ms. Jaress' Surrebuttal Testimony does not address the primary flaw in Staff's analysis of the ICFAs. As I stated in my Rebuttal Testimony, Staff has concluded that there are several potential and actual uses for the ICFA fees but Staff recommends treating these fees as if they were all used for one purpose: funding plant. Thus there is a fundamental disparity between Staff's analysis and its recommendation. Ms. Jaress' Surrebuttal Testimony does not dispute that this disparity is real. Ms. Jaress' Surrebuttal Testimony reconfirms Staff's belief that the ICFA fees could have been used for multiple purposes but does not attempt to reconcile this fact with Staff's recommendation to treat *all* of the ICFA fees as if they were used for one purpose. In fact, Ms. Jaress characterizes Staff's conclusion that the ICFA fees were used as plant as an assumption.[2]

Q. Ms. Jaress points out that equity financing is "the most expensive form of financing plant" and raises protecting rate payers from this expensive form of financing as an additional reason for treating the ICFA revenues as contributions.[3] Do you find this argument persuasive?

A. No. It is true that the Global Utilities have relatively high equity balances. However, Global has agreed to hypothetical capital structures for the utilities involved in this rate case so rate payers will not be impacted by these high equity balances. Global's acceptance of the hypothetical capital structures alleviates the impact of the relatively high

[2] Jaress St at p. 2 line 1
[3] Id. at p. 2 line 3-5

cost of equity. Thus, treating ICFA revenues as contributions is not necessary to "protect the ratepayer from uneconomic financing of plant"[4] as Staff suggests.

III. Staff's treatment of Taxes and Expenses associated with ICFAs

Q. Please comment on Ms. Jaress' explanation of why Staff does not recognize the tax liability generated by the ICFA revenues.[5]

A. Staff's analysis of the tax liability issue is flawed for several reasons. First, Ms. Jaress implies that an LLC's earnings only generate a tax liability when the LLC's members do not have "offsetting tax losses." This is simply not true. LLC earnings generate a tax liability for the members whether there are other offsetting tax losses or not. Further, and more importantly, the discussion regarding corporate structure is irrelevant to the subject at hand (the treatment of the tax liability generated by the ICFA revenues.) Irrespective of how Global Parent is organized the ICFA revenues generate a tax liability (and Staff does not dispute that.) If Global Parent were organized as a corporation rather than as an LLC the ICFA revenues would still generate a tax liability. Irrespective of the corporate structure, the tax liability generated by the ICFAs means that a significant portion of the ICFA revenues received is not available to use for any purpose other than to cover the tax liability. I understand that the tax liability generated by a regulated entity organized as an LLC is generally not recognized by the Commission for ratemaking purposes. However, the discussion above does not pertain to that point. Rather, the issue at hand is what portion of the ICFA revenues received were actually available to be put to use. And if we are discussing Ms. Jaress' belief that *all* ICFA revenue went to fund plant, then she must use the actual dollars.

---

[4] Id. at p. 2 line 4
[5] Id. at p. 4-5

Q. But does not Ms. Jaress also argue that there would be no tax liability had the ICFA revenues been treated as traditional contributions?

A. Ms. Jaress may be correct on that point, if the IRS agrees that ICFA fess may qualify for the tax-free status of traditional water and wastewater contributions. At this point, we simply don't know what the IRS would do in that situation. However, relying on traditional contributions would have made Global's strategy of building plant on a regional basis impossible to implement. This point is addressed further in Mr. Hill's Rejoinder Testimony.

Q. At page 5 of her Surrebuttal Testimony Ms. Jaress summarizes the problem with the ICFA arrangement. Please comment.

A. Ms Jaress states as follows: "The problem with this arrangement is that *after* the ICFA revenues flow through the income statement and become net income, Global Parent invests the net income into the Global Utilities as equity and has asked the Commission to allow a 10 percent return on that equity. If the Commission allowed that return, ratepayers would be paying a 10 percent return on cost-free capital." (Emphasis added.) As I stated in my Rebuttal testimony, Staff concedes that only the portion of the ICFA revenues that remains *after* the revenues flow through the Global Parent's income statement are available to the utilities. In spite of this open acknowledgement Staff's recommendation assumes that *all* of the ICFA revenues are available to the utilities. Further, Staff acknowledges that the ICFA revenues could have been used for purposes that do not add plant and that do not generate any return (such as covering the acquisition premiums of purchased utilities.) Yet Staff continues to argue that ratepayers will be paying a return on all of the ICFA revenue if their recommendation is not adopted. Finally, Global's acceptance of hypothetical capital structures ensures that ratepayers will not be paying a 10% return on equity injected into the utilities by Global Parent.

Q. In discussing Global's purchase of WUGT Ms. Jaress states that "The Commission has never indicated that the acquisition of small water companies should be rewarded by allowing a return on plant paid for with cost-free capital."[6] Is Global seeking to be rewarded by receiving a return on cost-free capital?

A. No. The significant acquisition premium paid for WUGT and the other West Maricopa Combine ("WMC") utilities ensures that Global will not earn a return on a significant portion of its investment in those utilities. In other words, whether the source of capital used to fund the acquisition of the WMC utilities was cost-free or not, Global will not be earning a return on it.

In addition, Ms. Jaress is not correct to assume that there is "plant paid for with cost-free capital" related to the WMC acquisition. In fact, there is no plant at all in the areas covered by the WMC-related ICFAs. Moreover, the original cost of the WMC assets did not change simply due to the closing of the WMC acquisition or the receipt of the related ICFA funds, as Staff concedes.[7]

Q. At page 15 of her Surrebuttal Testimony Ms. Jaress argues that Global did not use "cost-free capital" to finance the purchase of the WMC. How do you respond?

A. Here Ms. Jaress relies on Global Parent's 2008 annual audited financial statements. Based on information contained on page 19 of that report she concludes that the purchase of WMC was financed with debt. Ms. Jaress' interpretation of that document is incorrect as the WMC purchase was not debt financed and financial statements do not state that it was. Additionally, on the same page of the financial statements it is stated explicitly that the ICFA fees were used to finance the WMC purchase. It should be noted that these financial statements are audited by Global's independent auditors. Thus, the independently-audited

[6] Id. at p. 8-9
[7] See Staff Response to Global Data Request 2.24.A.

financial statements in this case prove that the ICFA fees were used to finance the purchase and Ms. Jaress overlooks that fact to reach her conclusion.

Q. Further along on page 15 of her Surrebuttal Testimony Ms. Jaress argues that Global has failed to identify the expenses and costs that should offset the ICFA fees. How do you respond?

A. My discussion in Rebuttal Testimony of the expenses that should offset the ICFA fees was not a formal proposal but rather was a reaction to Staff's open acknowledgement that only the portion of ICFA fees that are not offset by Parent Level expenses are available to the Utilities. I discuss this issue above in this Rejoinder Testimony and at length in my Rebuttal Testimony.

Q. Can you please clarify this issue of Parent Level expenses?

A. Yes. Staff removes all ICFA fees from Global Parent revenues and imputes them as CIAC, but effectively leaves all expenses at the Global Parent, many of which would be borne by the utilities if Global parent wasn't carrying them.

For example, as shown in Global Parent's 2008 financial statements (pg 38 column 4), GWR had $11.26 million of expenses in 2008, of which $2.13 million were public offering costs that Global has agreed never to impute to its utility customers, leaving up to $9.13 million of expenses which could have been passed down to the utilities were it not for the revenue provided by the ICFAs. This example only considers 2008; similar expenses were borne by Global Parent in previous years as well.

Q. Why did the Company focus its arguments on carrying costs and acquisition costs rather than these parent level expenses?

A. Perhaps naively, the Company focused on acquisition costs and unrecovered carrying costs related to investment in regional plant because they are not as apparent as the actual Global

Parent expenses which are provided in the financial statements. The Company attempted to focus on the issues it thought would be debatable, not the basic information provided in the financial statements which had not been questioned at any point. Simply put, these are the hard costs which have been accounted for at Global Parent. Thus these are costs that were carried by Global Parent.

Q. What has Staff done with these expenses?

A. Staff has ignored all expenses borne by Global Parent, although they have removed essentially all of Global Parent's revenues. This unbalanced adjustment will cause great hardship on Global Parent and the utilities.

IV. <u>Plant per Connection Metrics</u>

Q. In your rebuttal testimony you presented several charts that demonstrate the lower operating costs of Palo Verde and Santa Cruz relative to a sample of other Arizona water and sewer utilities. Ms. Jaress counters this analysis by pointing out that that the Global Utilities have high plant values relative to other Arizona utilities.[8] How do you respond?

A. I believe that Ms. Jaress' analysis on this point is flawed. Ms. Jaress contends that plant is the "largest component of service and the largest cost component of regional planning."[9] If Ms. Jaress is implying here that plant has a greater impact on revenue requirement (and thus customer rates) than operating costs then she is incorrect. Typically, operating costs are a larger component of the revenue requirement than the return on plant. Since operating costs are recovered on a dollar for dollar basis and plant is only afforded a return, operating costs have a much greater impact on rates than plant costs. Using Global's requested 8.49% rate of return this means that every dollar of additional plant results in 8.49 cents of revenue requirement while every dollar of additional expense results in a

[8] Id. at p.13-14
[9] Id. at p. 23

dollar of revenue requirement. Ms. Jaress also fails to take into account the dramatic reduction in operating expenses obtained through the deployment of Total Water Management as described in Mr. Symmonds' direct testimony.

Additionally, the plant costs that Ms. Jaress displays in her Exhibit LAJ - 1 include CWIP (specifically the SW Plant in the case of Palo Verde and Santa Cruz.) CWIP is not included in rate base in this application and thus has no effect on customer rates. A more appropriate comparison is of utility plant less depreciation per customer. Table 1 and 2 below show utility plant less depreciation ("OCLD") per customer for a sample of Arizona water and sewer companies.

Table 1: OCLD Per Customer Sample of Water Companies

	Customers	OCLD	OCLD/Customers
Lago Del Oro (Robson)	6,346	$7,194,217	$1,134
Pima (Robson)	10,187	$11,909,587	$1,169
Chap City Water	13,423	$44,194,491	$3,292
Litchfield Park Service Company (water)	16,023	$62,611,426	$3,908
Santa Cruz	16,654	$79,661,216	$4,783
Johnson Utilities (water)	19,625	$72,664,001	$3,703
Arizona Water	83,721	$298,653,724	$3,567
Arizona American (water)	106,039	$430,758,887	$4,062
Sample Average			$3,704

Table 2: OCLD Per Customer Sample of Wastewater Companies

	Customers	OCLD	OCLD/Customers
Black Mountain Sewer	2,130	$7,512,988	$3,527
Pima (Waste Water)	10,046	$10,490,285	$1,044
Palo Verde	15,262	$91,187,165	$5,975
Litchfield Park Service Company (waste water)	17,907	$52,612,921	$2,938
Arizona American (waste water)	21,965	$146,550,046	$6,672
Johnson Utilities (waste water)	25,680	$120,867,771	$4,707
Sample Average			$4,616

Using this methodology, the differences are not nearly as dramatic as Ms. Jaress asserts.

Staff concludes that the relatively high plant costs of the Global Utilities are "due to regional planning."[10] This is a fair conclusion and Global has never disputed that its strategy for deploying regionally scaled infrastructure results in higher plant costs. However, by the same token it is reasonable to conclude that the offsetting low operating costs of the Global Utilities are also a result of regional planning.

Q. Do you have any concluding comments?

A. Yes, I would like to address the issue of regional infrastructure (i.e., Total Water Management.) Ms. Jaress indicates that Global has not provided a clear and concise definition of Total Water Management.[11] It may be true that Global has not been concise on this point but they have been clear. Total Water Management is not just the use of recycled water (as Ms. Jaress implies) it is also the use of regionally scaled infrastructure which has real efficiency benefits. As an outside and independent consultant I have to

[10] Id. at p. 14
[11] Id. at p. 3

admit that for a time I was somewhat fuzzy on this Total Water Management concept as well. Global witness Graham Symmonds' Direct Testimony comparing Santa Cruz's operations with Valencia's lays out the real and tangible benefits of the Total Water Management approach.[12] It was this testimony that crystallized the concept in my mind and I suggest that anyone who has confusion or doubts about the Total Water Management approach review that testimony closely.

Q. Does this conclude your rejoinder testimony?

A. Yes.

[12] Direct Testimony of Graham Symmonds pages 11 through 15.

Symmonds
Rejoinder Testimony

DOCKET NOs. SW-02445A-09-0077 *et al.*

Rejoinder Testimony
of
Graham S. Symmonds

December 10, 2009

TABLE OF CONTENTS

I. Introduction

Q. Can you describe your rejoinder testimony?

A. In my rejoinder testimony, I discuss some of the comments heard at the Commission's Public Comment meeting held in Maricopa on 1 December 2009, I discuss the Demand Side Management Program developed by Global in rebuttal testimony, and I discuss the Hassayampa Recharge Facility.

II. Public Comment

Water Quality

Q. At the Public Comment meeting held in Maricopa on 1 December 2009, there was a comment related to water quality. Can you describe the water quality at Santa Cruz?

A. The water meets all the requirements of the Safe Drinking Water Act and is monitored more frequently than required by the Arizona Department of Environmental Quality.

Q. Is the characterization of the Santa Cruz water as being polluted with Benzene and Toluene[1] accurate?

A. Absolutely not. We report all water quality data to ADEQ, and provide annual reports to our consumers by way of Consumer Confidence Reports (CCR). In 2003, we detected ethylbenzene and xylenes at concentrations three to four orders of magnitude less than the maximum contaminant level (MCL). However, because the constituents were above the method detect level (MDL), we are required to report those constituents in our CCR. We have never detected toluene.

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[1] Public comments of Greg Karlstorf, 1 December 2009

Q. What was the concentration of ethylbenzene recorded, and how does it compare to the MCL?

A. In 2003, we recorded a concentration of 0.6 parts per billion. The MCL for ethylbenzene is 700 parts per billion. So the concentration of ethylbenzene in Santa Cruz water is 1167 times *lower* than the MCL.

Q. What was the concentration of xylenes recorded, and how does it compare to the MCL?

A. In 2003, we recorded a concentration of 0.0037 parts per million. The MCL for xylenes is 10 parts per million. So the concentration of xylenes in Santa Cruz water is 2702 times *lower* than the MCL.

Q. Is there any potential for a "cancer cluster" in Santa Cruz?

A. I'm not a medical professional, but I am sure that EPA and ADEQ would say that water that meets the MCLs is not a health hazard. The method used to establish MCLs is rigorous and conservative. Typically, MCLs are derived from analytical and experimental data derived from animal testing. The MCL is mathematically derived from the Lowest Observable Adverse Effect Limit (LOAEL) from these tests. The factors applied are: conversion from animal to human testing; allowance for variability in data; and an allowance for immuno-compromised people and infants. Those factors, respectively 10, 10 and 3, are divided into the LOAEL to calculate the MCL (MCL = (LOAEL)/(10 x 10 x 3) = (LOAEL)/300). So the lowest concentration that creates an impact in animal testing is divided by 300 to determine the "safe" level for humans.

HOA Impacts

Q. Please discuss any additional thoughts you have on the use of water by HOAs.

A. At the Public Comment session, we heard many HOA executives comment about the impact of increased recycled water rates and the potential impact on consumers and the community. I believe that it is a good thing that we are discussing the actual water use requirements – a condition I feel is brought on by the potential introduction of the appropriate price signals for water. In the absence of that proposal, there would be no incentive to discuss these issues. That certainly speaks to the value of a price signal in decision-making.

Q. Do you believe that water use is actively managed by consumers?

A. No. The current price signals do not force anyone to consider efficiency.

All water has value. In my opinion, no water should be wasted. In the absence of appropriate price signals, the low monetary value of water can outweigh the high intrinsic value of water. The result is that inefficient practices and waste occur. In some cases, irrigation whether by potable or non-potable water, occurs at the hottest times of the day. In others, improperly oriented spray heads water streets as opposed to plants. Still in others, over-irrigation occurs resulting in saturated soils. These are situations that have been routinely documented by our staff in the field – despite the number of meetings we have had with HOA staff on the impending price increase.

A survey conducted earlier this year revealed that irrigation schedules and actual water requirements of the landscapes is not actively managed. Many times we have noted watering during peak heat hours, overwatering, or overspray. In fact, when we measured the soil moisture content of 46 HOA sites in the heat of the summer, we found that the average moisture content registered 8 on a scale of 1 (bone dry) to 10 (completely saturated).

Photographs of inefficient water practices are shown in Symmonds Exhibit 1.

Q. Do you see the effect of pricing signals on consumption in Maricopa?

A. Yes. Approximately 50% of the subdivisions in Maricopa do not receive recycled water services and employ potable water for irrigation – at a current cost of $2.60/1000 gallons. The subdivisions employing recycled water at the rate of $0.31/1000 gallons use 41% more water than their counterparts employing potable water[2].

Q. At the public comment session, many HOA representatives claimed that the rate will result in the "browning" of Maricopa. Do you agree?

A. No. I do not believe that the efficient operation of irrigation systems, or the use of xeriscaping in the community will result in the oft cited "browning" of the city, or the inference that the result would be a dust bowl. There are many communities in Arizona that xeriscape to a very high aesthetic standard.

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[2] Total potable irrigation sold in 2008 = 338,134,098 gallons serving 7043 connections = 48010 gallons per unit per year.
Total recycled irrigation sold in 2008 (net of evaporative losses) = 599,515,706 gallons serving 8868 connections = 67604 gallons per unit per year.

Also, many communities already pay $2.60/1000 gallons – or 739% more than others for their irrigation water. So saying a balanced budget cannot be achieved with a higher rate is not true. Further, there are ample opportunities for efficiency and active water management that can and need to be deployed to these users. While this is not solely a utility responsibility, this is a fundamental aspect of our Demand-side Management Program. This program diverts revenue to fund activities resulting in increased water efficiency. The proposed program was detailed in my rebuttal testimony. The elements are repeated here for ease of reference:

- Turf replacement with xeriscaping
- Installation of weather data centers connected to the Global Water SCADA system with data presentation to consumers via web access and e-mail/text notifications
- Installation of Soil Moisture Probes, connected to irrigation controllers and to Global Water's SCADA system
- Development of irrigation control protocols, tariffs and restrictions:
  - Eliminating irrigation during the day
  - Restricting outside water use for irrigation to specific days
  - Control of Irrigation Systems based on soil moisture, calculated evapotranspiration[3] rates, humidity, temperature etc.
- Installation of Water Main Leak Detection Systems
- Development of salt management strategies
- Providing rebates for:
  - dual flush toilet systems.
  - reduction in size of meter (1" to ¾" to access lower monthly costs)
  - rainwater catchment systems
- Development of Automated Pressure regulation algorithms for off-peak periods

[3] Evapotranspiration is the amount of water that is evaporated from the soil and transpired through the plant's leaves. This amount of water needs to be replaced through watering. If you know your area's ET rate, you can plan the amount of water to be replaced through irrigation.

- Offering water-saving components such as:
  - Spring-loaded potable water check valves at residences
  - Smart irrigation controllers at residences
- Development of standards for rainwater catchment systems and encouraging their use.
- Investment in the education activities of organizations such as ProjectWET.
- Development of Renewable Water Standards and a "no new water" philosophy for developments

Water Disposition

Q. Can you describe the PVUC effluent disposal plan?

A. To begin with, I cannot call our recycled water "effluent". PVUC maximizes the reuse opportunities by delivering recycled water to Recycled Water Retention Structures. Water delivered to these storage impoundments is then used for irrigation of common area landscaping.

Q. How much recycled water has PVUC reused?

A. Since the system began recycling water in the community in September 2004, 1.95 billion gallons of water have been recycled. Prior to September 2004, the water was re-used for irrigation of agricultural crops.

Q. What happens to recycled water that is not directly re-used?

A. Recycled water demand is subject to a highly seasonal variation. In summer, the demand is very high, consuming all the recycled water produced by the facility. In winter, the demand is low – and can even reach zero depending on temperature, humidity and precipitation. We have a permitted AzPDES (Arizona Pollutant Discharge Elimination System) facility with three outfalls, that put the recycled water into the Santa Rosa Wash.

Q. Is there any quality difference between the water used for direct reuse and that sent to the wash?

A. No, none whatsoever. Interestingly, the permitted quality requirements are different, and while the AZPDES discharge parameters are in some ways less stringent, our facility always produces ADEQ A+ water.

Additionally, when discharging to the AzPDES, we must monitor the Whole Effluent Toxicity of the recycled water. In that test the survivability of three organisms[4] is measured in various concentrations of recycled water (up to 100%). We have never failed that test.

Q. Isn't discharging water to a wash a waste of water?

A. In some ways – and we'll be installing infrastructure to capture those flows for seasonal storage in the future. However, we are returning the water to a dry natural watercourse. In that way, the dry wash acts as a recharge basin, and water percolates down to the aquifer – it just does so in a linear manner as opposed to a confined manner.

Q. So the water isn't "lost"?

A. No. The water is simply returned to the environment and replenishes the aquifer.

Q. How much water has been recharged in that manner?

A. We have sent 354 million gallons to the AzPDES since February 2007 when the AzPDES was first used.

Q. What are Global's plans in the future?

[4] Raphidocelis subcapitata (Green algae); Pimephales promelas (Fathead minnow); and Ceriodaphnia dubia (Water flea)

A. These projects have been put on hold until we had funds to do the construction.

We have completed the Aquifer Protection Permit process, and expect that the APP will be issued shortly. The costs of installing and equipping an aquifer storage and recovery well can be upwards of $750,000 per well plus engineering fees and the total number of well required cannot be accurately determined until the construction (as recharge rates vary dramatically from site to site as a result of the soil matrix). We would anticipate that once started, work could be completed in six months.

In addition, in order to receive recharge credits for this activity, Underground Storage Facility permits are required from ADWR. This permit has not yet been started.

III. <u>Demand-Side Management Program (DSM)</u>

Q. Are there any other elements you are considering for the DSM Program?

A. Yes, as I discussed in my rebuttal testimony, we will add elements as we determine they can assist in the water efficiency effort. One such addition would be the commitment to participating in the replacement of potable irrigation systems with recycled water systems. While this may not be practical for all communities, there are some communities where there is feasible. This is an important measure – we continue to believe that water should be used for the appropriate use, and using potable water to irrigate greenspace is not appropriate. We are committing to use revenues from this case to work with HOAs using potable water to switch those systems to recycled water. This will increase reclaimed water use and further minimize our discharges to the Santa Rosa wash.

Q. Are there other mitigation actions you would consider?

A. Yes. As we heard at the Public Comment session, HOA budgets are strained with some of the same pressures we are facing – foreclosed homes and delinquent accounts. In addition, they have statutory limitations on their ability raise assessments. Recognizing this, we are now proposing that the recycled water rate be phased in over a period of five years. We appreciate that Staff and RUCO agreed with us on the need for an immediate and substantial increase in reclaimed water rates, but all parties should recognize the dilemma which that increase would create.

This will accomplish a number of benefits:

1. It mitigates the immediate impact to HOAs.
2. It allows for a more gradual HOA budget impact and allows HOAs to comply with statutory limits on annual increases.
3. It provides time for the HOAs to participate in the DSM program to reduce their water use – which will certainly mean the HOA fee increases will be lower.
4. It allows for the community to transition to water efficiency gradually – gathering information, seeking public input, working with community members to create the "right path" for HOA conservation.
5. It ensures that there are no knee-jerk reactions that could affect the community aesthetically.

IV. Hassayampa Recharge Facility

Q. Does Global or WMC still own the Hassayampa Recharge Facility?

A. No. Global/WMC sold the facility effective 30 November 2009.

Q. Why did Global sell the facility?

A. In light of the economic conditions, we felt it was prudent to focus on core activities. In addition, we were seeking ways of reducing operating expenses for Global Parent. In addition, the sale generated funds that Global employed to meet its bond obligations.

Q. What was the financial impact of this sale?

A. When Global acquired the West Maricopa Combine, we allocated $9,956,764 to the equipment, facility, and permits of the recharge subsidiary. This included the acquisition cost ($7,870,145) and a further $2,086,619 in equipment and construction that was required to commission the facility. On 30 November 2009, the facility was sold for $4,100,000. This resulted in a loss of $5,856,784 over the book value of the enterprise.

Allocation of Purchase Price		Book Basis
	Equipment and Facility	$2,086,619
	Acquisition	7,870,145
	Total Purchase Price	$9,956,764

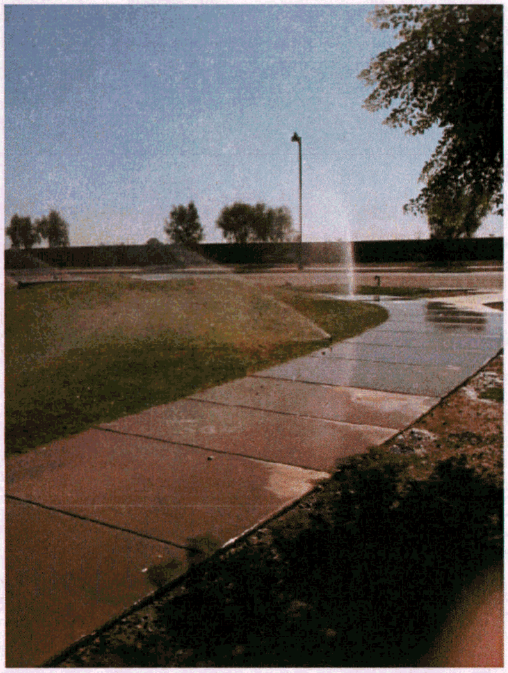
Sale Price	4,100,00 0
Gain (Loss)	($5,856,764)

Symmonds
Rejoinder Testimony
Exhibit 1

Rancho Mirage Overwatering and Ponding

Province irrigating at noon in August

Irrigation Leak



City Park Overspray