

OPEN MEETING ITEM



0000131964

COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

ORIGINAL



ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL

DATE: NOVEMBER 28, 2011

DOCKET NOS.: W-20446A-11-0124, SW-20445A-11-0124, SW-20422A-11-0124, W-02442A-11-0124, W-01732A-11-0124, W-3720A-11-0124, W-01212A-11-0124, W-02451A-11-0124, W-02450A-11-0124, SW-20403A-11-0124, W-20495A-11-0124 and SW-20494A-11-0124.

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

**GLOBAL UTILITIES
(NOTICE OF INTENT)**

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

DECEMBER 7, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

DECEMBER 13, 2011 and DECEMBER 14, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

NOV 28 2011

DOCKETED BY

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SBernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE JOINT NOTICE OF
9 INTENT UNDER A.A.C. R14-2-803 FOR
10 ISSUANCE OF ADDITIONAL PUBLIC EQUITY
11 BY GWR GLOBAL WATER RESOURCES CORP.
12 AND RESTRUCTURING OF GLOBAL WATER
13 RESOURCES, INC. BY GLOBAL WATER –
14 SANTA CRUZ WATER COMPANY, GLOBAL
15 WATER- PALO VERDE UTILITIES COMPANY,
16 HASSAYAMPA UTILITY COMPANY, INC.,
17 GLOBAL WATER – PICACHO COVE UTILITIES
18 COMPANY, CP WATER COMPANY, INC.,
19 WILLOW VALLEY WATER COMPANY, INC.
20 WATER UTILITY OF NORTHERN
21 SCOTTSDALE, INC., VALENCIA WATER
22 COMPANY, INC., WATER UTILITY OF
23 GREATER BUCKEYE, INC., WATER UTILITY
24 OF GREATER TONOPAH, INC. AND BALTERRA
25 SEWER CORP.

DOCKET NO. W-20446A-11-0124
DOCKET NO. SW-20445A-11-0124
DOCKET NO. SW-20422A-11-0124
DOCKET NO. W-02442A-11-0124
DOCKET NO. W-01732A-11-0124
DOCKET NO. W-03720A-11-0124
DOCKET NO. W-01212A-11-0124
DOCKET NO. W-02451A-11-0124
DOCKET NO. W-02450A-11-0124
DOCKET NO. SW-20403A-11-0124
DOCKET NO. W-20495A-11-0124
DOCKET NO. SW-20494A-11-0124

DECISION NO. _____

ORDER

16 Open Meeting
17 December 13 and 14, 2011
18 Phoenix, Arizona

19 **BY THE COMMISSION:**

20 On March 18, 2011, the Global Utilities¹ and their affiliated holding companies² filed with the
21 Arizona Corporation Commission (“Commission”) a Joint Notice of Intent under A.A.C. R14-2-803
22 (“Rule 803”)³ for the issuance of additional equity and any necessary corporate re-organization

23 ¹ Global Water - Santa Cruz Water Company, Inc., Global Water - Palo Verde Utilities Company, Inc., Hassayampa
24 Utility Company, Inc., Global Water - Picacho Cove Water Company, Inc., Global Water - Picacho Cove Utilities
25 Company, Inc., CP Water Company, Willow Valley Water Co., Inc., Water Utility of Northern Scottsdale, Inc., Valencia
26 Water Company, Inc., Water Utility of Greater Buckeye, Inc., Water Utility of Greater Tonopah, Inc. and Balterra Sewer
27 Corp. (collectively, the “Global Utilities”).

28 ² Global Water Resources, Inc., Global Water, LLC, and West Maricopa Combine, Inc. (together with the Global
Utilities, “Global”).

³ The Commission’s Public Utility Holding Company and Affiliated Interests Rules are codified in A.A.C. R14-2-801
through 806 (“Affiliated Interests Rules”). A.A.C. R14-2-803.C provides as follows:

At the conclusion of any hearing on the organization or reorganization of a utility holding company, the
Commission may reject the proposal if it determines that it would impair the financial status of the
public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the
ability of the public utility to provide safe, reasonable and adequate service.

1 (“Notice”). In addition, the Notice requests the elimination of conditions set in Decision No. 70980
2 (May 5, 2009).

3 * * * * *

4 Having considered the entire record herein and being fully advised in the premises, the
5 Commission finds, concludes, and orders that:

6 **FINDINGS OF FACT**

7 1. The Global Utilities and West Maricopa Combine, Inc. are wholly owned by Global
8 Water, LLC, a Delaware limited liability company. Global Water LLC is wholly owned by Global
9 Water Resources, Inc. (“U.S. Global”), a Delaware C Corp. The corporate structure of U.S. Global
10 and its subsidiaries is depicted in Exhibit A, attached hereto and incorporated herein.

11 2. Decision No. 70980 granted Global’s request for approval of an initial public offering
12 (“IPO”) or private placement and related corporate reorganization. Subsequent to Decision No.
13 70980, GWR Global Water Resources Corp., a newly-formed British Columbia corporation
14 (“Canadian Global”) completed an IPO of 8,754,611 shares, after which it completed a private
15 placement purchase of 48.1 percent of U.S. Global. Canadian Global’s shares are listed on the
16 Toronto Stock Exchange under the ticker symbol GWR.

17 3. The Global Utilities are public service corporations operating in various communities
18 in Arizona pursuant to authority granted by the Commission. Collectively, the Global Utilities
19 provide water or sewer utility service to approximately 41,000 customers in Maricopa County, Pinal
20 County, and Pima County, Arizona.

21 4. In Decision No. 67240 (September 15, 2004), and again in Decision No. 67830 (May
22 5, 2005), the Commission ordered Palo Verde Utilities Company, LLC, Santa Cruz Water Company,
23 LLC and Global Water Resources, LLC⁴ to notify the Commission of any proposed change in the
24 ownership of their respective membership interests (including transfer or additional memberships),
25 prior to execution, through a filing of a Notice of Intent indicating that the filing is made pursuant to
26 those Commission Decisions. Those Decisions ordered that following the filing of such a Notice of

27 ⁴ Palo Verde Utilities Company, LLC and Santa Cruz Water Company, LLC are predecessors in interest to Global Water -
28 Palo Verde Utilities Company, Inc., and Global Water - Santa Cruz Water Company, Inc. Global Water Resources, LLC
is a predecessor in interest to Global Water Resources, Inc. (referred to herein as U.S. Global).

1 Intent, the Commission may initiate a proceeding within 60 days to determine approval, and that if no
 2 action is initiated within 60 days after the filing, the proposed transaction is permitted to proceed
 3 without approval.

4 5. In the Notice, Global waived the 30 day and 60 day time periods in A.A.C. R14-2-
 5 803.B, the 60 day time period in Decision No. 67240, and the 60 day time period in Decision No.
 6 67830.

7 6. On October 26, 2011, the Commission's Utilities Division ("Staff") filed its Staff
 8 Report on the Notice. Staff recommends approval subject to certain conditions.

9 7. On October 28, 2011, Global filed a Notice of Agreement with Staff Report.

10 Requested Relief

11 8. The Notice requests the following relief:

- 12 1) Finding that the requested approvals are in the public interest;
- 13 2) Approving the Notice and requested approvals;
- 14 3) Removing the 49.9 percent limit and other conditions approved in Decision
 15 No. 70980;⁵

16
 17 ⁵ The 12 conditions set in Decision No. 70980 were as follows:

- 18 1) The corporate restructuring, the IPO or private placement, and the reorganization shall take place by April 30, 2011;
- 19 2) The equity issued, transferred or sold by the new Global parent using private placement or an IPO shall not exceed 49.9 percent
 20 of the voting common stock;
- 21 3) If Global wishes to issue equity exceeding 49.9 percent of the voting common stock, or to issue equity in any manner other than
 22 the private placement or IPO discussed in the Staff Report or Amended Staff Report, Global shall file a new application. A
 23 hearing may be required on the new application;
- 24 4) The Global Utilities shall continue to maintain their business headquarters and fully operational field, billing, and complaint
 25 offices in Arizona;
- 26 5) The Global Utilities shall not recover, in any rate proceeding, the costs incurred to implement the proposed transactions. Such
 27 costs include rate case cost of capital calculations;
- 28 6) Global shall, within 90 days of the Decision in this matter, produce, file in this docket, and implement an equity improvement
 plan that results in at least 30 percent equity by December 31, 2015;
- 7) Global shall continue to maintain the location of its books and records in Maricopa County, Arizona;
- 8) Within 60 days of completion of the initial public offering, any private placement and any subsequent series of equity issuances
 approved in the docket, Global shall file in this docket information regarding the number of shares, the price, and the cost of
 each issuance;
- 9) Until it has filed for and received Commission approval of a tariff setting forth appropriate customer notification procedures to
 inform customers about sharing customer information, no Global Utility shall share with affiliates or other entities information
 made available to the Global Utility solely by virtue of the company/customer relationship, such as billing information and
 services received by a customer. Customer information prohibited from disclosure does not include a customer's name, address
 or service location, or telephone number;
- 10) No Global affiliate shall perform services for, receive services from, or use any assets of any other Global Utility without
 having a written contract in place with the Global Utility concerning such services or assets. The affected Global Utility shall

- 1 4) Approving any necessary corporate reorganizations, including the formation of
2 holding companies or affiliates, that may be necessary, desirable or appropriate
3 in conjunction with the issuance of additional equity;
- 4 5) Authorizing the execution, delivery and performance by Global of all
5 contracts, agreements, and other instruments which are incidental to any or all
6 of the foregoing or otherwise deemed by Global to be necessary, desirable or
7 appropriate in connection therewith;
- 8 6) Granting any other approvals required to effectuate the requested approvals;
9 and
- 10 7) Granting any other relief that the Commission determines to be appropriate and
11 in the public interest at this time.

12 9. Global states that the purpose of the 49.9 percent limit on equity issuance set in
13 Decision No. 70980 was to ensure that the equity issuance and related corporate reorganization
14 approved at that time would not result in a change of control. Global asserts that at this time, a
15 change in control is unlikely. Global states that because at least 25 large institutional investors hold
16 Canadian Global shares, it is unlikely that any entity would be able to gain control of Canadian
17 Global. In addition, Global indicates that Global's senior management recently signed three-year
18 contracts in conjunction with the Canadian Global private placement purchase, further making a
19 change of control of Global very unlikely.

20 10. Global states that granting the relief requested in the Notice will increase the Global
21 Utilities' access to capital and will reduce Global's overall debt, strengthen Global's capital structure,
22 and enable Global to make the necessary investments to serve its certificated areas.

23 file a copy of each such contract in the docket until the final decision in the first rate case decided for the affected Global Utility
24 following the Decision;

- 25 11) All Global affiliates shall charge the lower of fully allocated cost or market price whenever goods, products or services are sold
26 or provided to a Global Utility. The Global Utilities shall charge the higher of fully allocated cost or market price whenever
27 goods, products or services are sold or provided by a Global Utility to an affiliate. Further, the Global Utilities and Global
28 affiliates shall, on a continuing basis, retain market research information used to determine the market price for goods or
services until the completion of the Global Utility's next subsequent rate case; and
- 12) Global Water Resources Inc.'s Board of Directors shall establish procedures to review transactions between affiliates and shall,
within 90 days of the Decision, file in this docket a copy of those board-approved procedures.

1 **Staff Recommendations**

2 11. In the Staff Report, Staff recommends approval of Global's proposed equity issuance
3 authorizations. Staff states that given U.S. Global's highly leveraged capital structure,⁶ any
4 reasonable amount of additional equity infusions will assist it in moving toward and maintaining a
5 balanced capital structure. Staff notes that an improvement in U.S. Global's equity position would
6 enhance its ability to provide equity to the Global Utilities.

7 12. Staff recommends approval of Global's request to remove Condition Nos. 1, 2, 3, 4, 5,
8 8, 9, 10, and 12 imposed under Decision No. 70980, as described in the footnote to Findings of Fact
9 No. 8 above.

10 13. In regard to Condition No. 6 imposed by Decision No. 70980, Staff notes in the Staff
11 Report that in compliance with Decision No. 70980, Global has filed an equity improvement plan to
12 attain at least 30 percent equity by December 31, 2015. Staff notes that the plan has not yet resulted
13 in a capital structure with at least 30 percent equity. Staff recommends that as a condition of
14 approval of the Notice, Global be required to file an equity improvement status and update plan on an
15 annual basis, demonstrating Global's progress toward reaching the goal of attaining at least 30
16 percent equity in its capital structure by December 31, 2015, and explaining how it intends to
17 accomplish the goal. Staff recommends that this annual requirement remain in place until U.S.
18 Global attains 30 percent equity in its capital structure.

19 14. In regard to Condition No. 7 imposed by Decision No. 70980, Staff agrees with Global
20 that maintaining the books in Maricopa County is unnecessary. However, Staff recommends
21 requiring Global to make all books and records available to Staff within Maricopa County, Arizona,
22 at Staff's request.

23 15. In regard to Condition No. 11 imposed by Decision No. 70980, Staff recommends
24 retaining this condition its entirety.

25 16. Staff states that Global's requested authorization for equity issuances is within its
26 corporate powers, is compatible with the public interest, will not impair its ability to provide services

27 ⁶ Staff indicates in the Staff Report that U.S. Global's capital structure as of December 31, 2010 consists of approximately
28 3.8 percent short-term debt, 38.1 percent long-term debt, 3.8 percent equity, 33.8 percent Advances in Aid of
Construction, and 20.6 percent Contributions in Aid of Construction.

1 and is consistent with sound financial practices.

2 17. Staff recommends that the Commission grant approval for any corporate
3 reorganization, limited to the formation of holding companies or affiliates that may be necessary or
4 appropriate in conjunction with the issuance of additional equity, subject to U.S. Global remaining as
5 a holding company with effective oversight and control over the Global Utilities.

6 18. Staff recommends authorizing Global to engage in any transactions and to execute any
7 documents necessary to effectuate the authorizations granted.

8 19. Staff recommends that Global be required to file with Docket Control, as a compliance
9 item in this matter, copies of any documents related to the issuance of stock as outlined in the Notice
10 within 60 days of the execution of any transaction authorized herein.

11 **Conclusions**

12 20. Staff's recommendations are reasonable and should be adopted.

13 21. Based on the record in this proceeding, we find that it is in the public interest to
14 release Global from compliance with the 12 conditions imposed on Global in Decision No. 70980,
15 including the 49.9 percent limit on equity issuance, and to impose conditions on approval of this
16 Notice as set forth below.

17 22. Based on the record in this proceeding, we find that the Notice should be approved,
18 with the corporate reorganization limited to the formation of holding companies or affiliates
19 necessary or appropriate in conjunction with the issuance of additional equity, subject to U.S. Global
20 remaining as a holding company with effective oversight and control over the Global Utilities, and
21 subject to the following conditions:

22 1) Global shall file, no later than February 28, 2012, as a compliance item in this
23 docket, a status report on its equity improvement plan filed in Docket No. W-
24 20446A-08-0247 et al. Global shall update the plan on an annual basis,
25 demonstrating Global's progress toward reaching the goal of attaining at least
26 30 percent equity in its capital structure by December 31, 2015, and explaining
27 how it intends to accomplish the goal. This annual February 28 filing

28

1 requirement shall remain in place until U.S. Global attains 30 percent equity in
2 its capital structure.

3 2) Global shall make all Global affiliate books and records available to Staff
4 within Maricopa County, Arizona, at the Commission's or Staff's request.

5 3) All Global affiliates shall charge the lower of fully allocated cost or market
6 price whenever goods, products or services are sold or provided to a Global
7 Utility. The Global Utilities shall charge the higher of fully allocated cost or
8 market price whenever goods, products or services are sold or provided by a
9 Global Utility to an affiliate. Further, the Global Utilities and Global affiliates
10 shall, on a continuing basis, retain market research information used to
11 determine the market price for goods or services until the completion of the
12 subsequent Global Utilities rate case involving all affected affiliates.

13 **CONCLUSIONS OF LAW**

14 1. The Global Utilities are public service corporations within the meaning of Article 15,
15 Section 3 of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

16 2. U.S. Global, Global Water, LLC, and West Maricopa Combine, Inc., are utility
17 holding companies as defined in A.A.C. R14-2-801.

18 3. The Commission has jurisdiction over the transactions described in the Notice
19 pursuant to Article 15, Section 3 of the Arizona Constitution and the Commission's Affiliated
20 Interests Rules, A.A.C. R14-2-801 through -806.

21 4. The public interest requires that the Commission apply the Affiliated Interests Rules in
22 a manner that will maximize protection to ratepayers.

23 5. Utility rates can be impacted by holding company structure and capitalization.

24 6. Utility ratepayers should not be required to bear the burden of financial risk resulting
25 from holding company diversification.

26 7. Global's requested authorization for equity issuances is within its corporate powers, is
27 compatible with the public interest, will not impair its ability to provide services, and is consistent
28 with sound financial practices, subject to the conditions imposed herein.

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determine the market price for goods or services until the completion of the subsequent Global Utilities rate case involving all affected affiliates.

IT IS FURTHER ORDERED that in conjunction with the imposition of the conditions set forth in the preceding Ordering Paragraph, Global is hereby released from compliance with the 12 conditions imposed on Global in Decision No. 70980, including the 49.9 percent limit on equity issuance.

IT IS FURTHER ORDERED that Global is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted herein.

1 IT IS FURTHER ORDERED that Global shall file with Docket Control, as a compliance item
2 in this matter, copies of any documents related to the issuance of stock as outlined in the Notice of
3 Intent within 60 days of the execution of any transaction authorized herein.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
6
7

8 CHAIRMAN _____ COMMISSIONER

9
10 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER

11
12 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this _____ day of _____ 2011.

17 _____
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT _____

21 DISSENT _____
22
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1 SERVICE LIST FOR:

GLOBAL WATER RESOURCES, INC. BY GLOBAL
WATER - SANTA CRUZ WATER COMPANY,
2 GLOBAL WATER- PALO VERDE UTILITIES
COMPANY, HASSAYAMPA UTILITY COMPANY,
3 INC., GLOBAL WATER - PICACHO COVE
UTILITIES COMPANY, CP WATER COMPANY,
4 INC., WILLOW VALLEY WATER COMPANY, INC.
WATER UTILITY OF NORTHERN SCOTTSDALE,
5 INC., VALENCIA WATER COMPANY, INC.,
WATER UTILITY OF GREATER BUCKEYE, INC.,
6 WATER UTILITY OF GREATER TONOPAH, INC.
AND BALTERRA SEWER CORP.

7
8 DOCKET NOS.:

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9 02451A-11-0124, W-02450A-11-0124, SW-20403A-11-
0124, W-20495A-11-0124 and SW-20494A-11-0124.

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Water - Santa Cruz Water
15 Company, Global Water -
Palo Verde Utilities Company,
16 Hassayampa Utility Company,
Inc., Global Water - Picacho
17 Cove Utilities Company, CP
Water Company, Inc., Willow
18 Valley Water Company, Inc.
Water Utility of Northern
19 Scottsdale, Inc., Valencia
Water Company, Inc., Water
20 Utility of Greater Buckeye,
Inc., Water Utility of Greater
21 Tonopah, Inc. and Balterra Sewer Corp.

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28

EXHIBIT A

GLOBAL WATER



Corporate Structure

