

COMMISSIONERS
KEVIN THOMPSON – CHAIR
NICK MYERS – VICE CHAIR
LEA MÁRQUEZ PETERSON
RACHEL WALDEN
RENÉ LOPEZ



ARIZONA CORPORATION COMMISSION

Douglas R. Clark
Executive Director

Jane Rodda
Hearing Division Director

OPEN MEETING ITEM

DATE: AUGUST 18, 2025

DOCKET NO.: W-02372A-24-0266 and W-02372A-25-0054

TO ALL PARTIES:

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

VERDE LAKES WATER CORPORATION
(RATES/FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by efileing at <https://efiling.azcc.gov/> or filing an original of the exceptions with the Commission’s Docket Control at the address listed below by **4:00** p.m. on or before:

AUGUST 28, 2025

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:

SEPTEMBER 17, 2025

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.

Handwritten signature of Douglas R. Clark in blue ink.

DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

On this 18th day of August, 2025, the following document was filed with Docket Control as a Recommended Order from the Hearing Division, and copies of the document were mailed on behalf of the Hearing Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the filed document to the following who have consented to email service.


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Grace Beltran
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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 KEVIN THOMPSON – CHAIR
4 NICK MYERS – VICE CHAIR
5 LEA MÁRQUEZ PETERSON
6 RACHEL WALDEN
7 RENÉ LOPEZ

7 IN THE MATTER OF THE APPLICATION OF
8 VERDE LAKES WATER CORPORATION FOR
9 APPROVAL OF A RATE INCREASE.

DOCKET NO. W-02372A-24-0266

9 IN THE MATTER OF THE APPLICATION OF
10 VERDE LAKES WATER CORPORATION FOR
11 AUTHORITY TO INCUR LONG-TERM DEBT.

DOCKET NO. W-02372A-25-0054

DECISION NO. _____

11 **ORDER**

12 Open Meeting
13 September 17, 2025
14 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 Having considered the entire record herein and being fully advised in the premises, the Arizona
16 Corporation Commission (“Commission”) finds, concludes, and orders that:

17 **FINDINGS OF FACT**

18 **Procedural History**

- 19 1. On December 12, 2024, Verde Lakes Water Corporation (“Verde Lakes” or
20 “Company”) filed an application with the Commission for approval of a rate increase (“Rate Docket”).
- 21 2. On December 16, 2024, a Procedural Order was issued regarding Consent to Email
22 Service.
- 23 3. On December 23, 2024, Verde Lakes filed an amendment to its rate application, revising
24 the service charge schedule.
- 25 4. On January 2, 2025, Verde Lakes submitted a Compliance Filing Regarding Public
26 Notice, certifying that notice of the rate application was mailed to its customers on December 24, 2024.
- 27 5. On January 10, 2025, the Commission’s Utilities Division (“Staff”) filed a Letter of
28 Sufficiency in the Rate Docket stating that the Company’s rate application met the sufficiency

1 requirements outlined in Arizona Administrative Code (“A.A.C.”) R14-2-103 and classifying Verde
2 Lakes as a Class D utility. The Letter of Sufficiency indicated that the Staff Report would be filed
3 March 26, 2025, and that the Commission’s final decision in this matter was expected by July 9, 2025.

4 6. On March 17, 2025, Verde Lakes filed an application with the Commission for approval
5 of a financing application (“Finance Docket”).

6 7. Also on March 17, 2025, in the Rate Docket and in the Finance Docket, Verde Lakes
7 filed a Motion to Consolidate the Rate and Finance Dockets, requesting that the dockets be consolidated
8 to promote judicial efficiency.

9 8. On March 18, 2025, a Procedural Order was issued in the Finance Docket regarding
10 Consent to Email Service.

11 9. On March 28, 2025, by Procedural Order, Docket Nos. W-02372A-24-0266 and W-
12 02372A-25-0054 were consolidated.

13 10. On April 7, 2025, Staff filed a Request for Procedural Schedule, requesting until June
14 4, 2025, to prepare its Staff Report for both the rate and financing matters.

15 11. Also on April 7, 2025, by Procedural Order, Staff’s Request for Procedural Schedule
16 was granted and the timeclock for issuing a final decision in this matter was extended until September
17 17, 2025.

18 12. On June 4, 2025, Staff filed its Staff Report, recommending approval of a rate increase
19 consistent with Staff’s recommendations, and recommending approval of the financing request and
20 associated surcharge mechanism with conditions.

21 13. On June 16, 2025, Verde Lakes filed a Response to Staff Report raising several issues
22 with Staff’s recommendations.

23 14. On June 23, 2025, by Procedural Order, Staff was directed to file a Reply to the
24 Company’s Response.

25 15. On June 30, 2025, Staff filed its Reply to Verde Lakes’ Response to Staff Report.

26 16. On August 8, 2025, by Procedural Order, the Company was directed to file proof of
27 public notice of its financing application no later than August 15, 2025.

28 17. On August 11, 2025, Verde Lakes filed an affidavit certifying that notice of the

1 financing application was provided to customers on March 24, 2025.

2 **Background**

3 18. Verde Lakes is a non-profit Arizona Corporation and a Class D water utility providing
4 water service in Yavapai County, Arizona. The area covered by the Company's Certificate of
5 Convenience and Necessity is approximately two square miles and was modified to its current area in
6 Decision No. 60260 (June 13, 1997).¹

7 19. During the test year ending December 31, 2023, Verde Lakes served approximately 861
8 customers, the majority of which were served by 5/8 x 3/4-inch meters. The average and median water
9 use by residential customers using 5/8 x 3/4-inch meters were 6,361 gallons and 3,500 gallons per
10 month, respectively.²

11 20. Verde Lakes has two separate water systems—Verde Lakes North and Verde Lakes
12 South. The Verde Lakes North water system consists of two wells, three storage tanks with a total
13 capacity of 164,000 gallons, two pressure tanks, three booster pumps, and a distribution system with
14 367 meters. The Verde Lakes South water system consists of three wells, three storage tanks with a
15 total capacity of 255,000 gallons, two pressure tanks, four booster pumps, and a distribution system
16 with 525 meters. Staff states that the Company's annual reports do not distinguish between the two
17 water systems and that the Company should begin reporting Verde Lakes North and Verde Lakes South
18 separately in all future annual report filings, including separate well and water usage data and separate
19 plant descriptions, beginning with the 2025 annual report.³ Staff's recommendation is reasonable, and
20 we adopt it.

21 21. During Staff's site visit, it noted that the signage for both water systems was outdated,
22 illegible, or not in use. Staff recommends that the Company add signage that includes the Arizona
23 Department of Water Resources ("ADWR") Well ID for all active wells site, and docket photographic
24 evidence that the work was completed within one year of the date of this Decision.⁴ Staff's
25

26 ¹ Staff Report at 1; Staff Engineering Report at 1. We note that the Staff Report, in contrast to the Sufficiency Letter, states
that Verde Lakes is a Class E water utility. The annual operating revenue with the increase requested in the application is
\$375,870, which results in a Class D classification under A.A.C. R14-2-103.

27 ² Staff Report at 1, Staff Schedule TP-5.

28 ³ Staff Report at 1; Staff Engineering Report at 1-3.

⁴ Staff Engineering Report at 4.

1 recommendation is reasonable, and we adopt it.

2 22. Verde Lakes does not anticipate significant customer growth in the next several years.⁵
3 Staff concluded that Verde Lakes North and Verde Lakes South have adequate production and storage
4 capacity to serve the present customer base.⁶

5 23. For the test year, the Company reported 33,515,300 gallons pumped, 0 gallons of
6 authorized used, and 27,981,730 gallons sold for Verde Lakes North, resulting in a test year water loss
7 of 16.5%. The Company reported 43,644,130 gallons pumped, 0 gallons of authorized use, and
8 41,351,673 gallons sold for Verde Lake South, resulting in a test year water loss of 5.3%. Staff notes
9 that in the Company's last rate case it reported water loss of 17.1% for Verde Lakes North and 33.3%
10 for Verde Lakes South, which it attributed to an improper adhesive used to weld distribution pipe joints
11 when the systems were constructed. Staff had recommended in the last rate case that the Company
12 reduce its water loss to 15% for Verde Lakes North and 25% for Verde Lakes South. Staff
13 acknowledges that the Company has decreased water loss for both systems, while the water loss for
14 Verde Lakes North still exceeds the prior recommendation of 15%. Staff recommends that the
15 Company continue to monitor and reduce water loss for its water systems.⁷

16 24. The Company is not located in an ADWR Active Management Area. ADWR reported
17 on January 14, 2025, that Verde Lakes is not in compliance with ADWR's requirements governing
18 water providers and community water systems due to the failure to file updated water system plans that
19 were due on January 1, 2023. Staff recommends that the Company file updated plans with ADWR
20 within 60 days of this Decision.⁸ Staff's recommendation is reasonable, and we adopt it.

21 25. In a report dated February 10, 2025, the Arizona Department of Environmental Quality
22 ("ADEQ") reported that there are no major deficiencies for the Company's water systems and that it is
23 delivering water that meets the water quality standards required by Title 40 Code of Federal
24 Regulations Part 141, the National Primary Drinking Water Regulations, and A.A.C. Title 18, Chapter
25 4.⁹

26 ⁵ Rate Application at 3.

27 ⁶ Staff Engineering Report at 8-9.

27 ⁷ Staff Engineering Report at 5-7.

28 ⁸ Staff Report at 1; Staff Engineering Report at 10.

28 ⁹ Staff Report at 1; Staff Engineering Report at 10.

1 income of \$56,381 and an operating margin of 15%.¹⁶

2 35. Staff recommends an increase in total operating revenue of \$123,130, or 50%, from test
3 year operating revenue of \$246,245 to \$369,375, resulting in operating income of \$53,955 and an
4 operating margin of 14.61%.¹⁷

5 **Rate Base**

6 36. Verde Lakes proposed an Original Cost Rate Base (“OCRB”) of \$290,672. The
7 Company did not propose a Reconstruction Cost New Less Depreciation Study; therefore, its Fair
8 Value Rate Base (“FVRB”) is the same as its OCRB.¹⁸

9 37. Staff determined the Company’s FVRB to be \$286,232. This is a decrease of \$4,440
10 from the Company’s proposed FVRB due to Staff’s adjustments to Plant in Service, Accumulated
11 Depreciation, Contributions in Aid of Construction (“CIAC”), Amortization of CIAC, and Cash
12 Working Capital. Staff decreased Plant in Service by \$26,672, from \$1,328,054 to \$1,301,382, to
13 reflect the reclassification of plant and removal of duplicate additions and plant with missing invoices.
14 Staff decreased Accumulated Depreciation by \$25,368, from \$1,059,837 to \$1,034,469, to reflect
15 Staff’s corrections to the Company’s calculation and to use Staff’s recommended plant balances. Staff
16 increased CIAC by \$2,538, from \$0 to \$2,538, to account for unsupported plant additions. Staff
17 increased Amortization of CIAC by \$202, from \$0 to \$202. Staff acknowledges that the adjustment
18 falls below the materiality threshold but recommends the change as a companion adjustment. Last,
19 Staff decreased the 1/8 operations and maintenance expense component of Cash Working Capital by
20 \$801, from \$28,615 to \$27,815, to reflect Staff’s recommended operations and maintenance
21 expenses.¹⁹

22 38. Verde Lakes did not submit comments objecting to Staff’s rate base adjustments.

23 39. Staff’s adjustments to Verde Lakes’ rate base are just and reasonable and we adopt them.

24 We find that the Company’s FVRB is equivalent to its OCRB and is \$286,232.

25 40. Verde Lakes proposed depreciation rates that align with Staff’s typical and customary
26

27 ¹⁶ Rate Application at 6, 19; Staff Report at 1, Staff Schedule TP-1.

¹⁷ Staff Report at 3; Staff Schedule TP-1.

¹⁸ Rate Application at Supplemental S-1; Staff Report at 1, Staff Schedule TP-1.

28 ¹⁹ Staff Report at 2; Staff Schedules TP-1, TP-2.

1 depreciation rates and Staff recommends one change. Staff indicates that the Company installed an
 2 arsenic treatment system in 2007 for both its water systems, with a single tank system installed for
 3 Verde Lakes North and a twin tank system for Verde Lakes South. The Company replaced all arsenic
 4 media in 2016. Staff states that based on its discussions with the Company's representative, the single
 5 tank media needs to be replaced every six to seven years and the twin tank media needs to be replaced
 6 every two years. Therefore, Staff recommends that the Company use a depreciation rate of 25% in
 7 NARUC Account 320.4 "Arsenic Media." Staff recommends that Verde Lakes use the depreciation
 8 rates listed in Table (C)(1) of Staff's Engineering Report on an ongoing basis.²⁰ Staff's
 9 recommendation is reasonable and unopposed, and we adopt it.

10 **Operating Income and Expenses**

11 41. Staff adopted Verde Lakes' proposed test year operating revenue of \$246,245.²¹

12 42. Staff recommends four adjustments to the Company's total test year operating expenses,
 13 resulting in a net decrease of \$3,694, from \$317,970 to \$314,276. Staff decreased Contractual Services
 14 expense by \$2,225, from \$6,885 to \$4,660, to remove paid time off and Thanksgiving and Christmas
 15 bonus payments. Staff increased Water Testing expense by \$2,050, from \$2,625 to \$4,675, to reflect
 16 the Staff Engineer's recommended Water Testing expense. Staff decreased Contractual Services Other
 17 expense by \$6,229, from \$10,855 to \$4,626, to reflect Staff's recommended reclassification of expenses
 18 and the removal of legal costs associated with filing the rate case that Staff states will be recovered
 19 through a rate case expense surcharge. Last, Staff increased Depreciation expense by \$2,710, from
 20 \$45,413 to \$48,123, to reflect Staff's recommended Plant in Service and CIAC balances.²²

21 43. Verde Lakes submitted a Response to Staff Report. In it, the Company objected to
 22 Staff's reduction of legal and rate case expenses. Rate case expense is discussed below. Verde Lakes
 23 alleges that Staff arbitrarily reduced its legal expenses, erroneously assuming that \$2,051.50 of legal
 24 expenses incurred in 2023 was related to the rate case.²³ However, Verde Lakes did not include any
 25 additional explanation or support for the legal expenses, nor did the Company ask for specific relief

26 _____
 27 ²⁰ Staff Engineering Report at 11.

²¹ Staff Report at 3, Staff Schedule TP-1.

²² Staff Report at 3, 6, Staff Schedules TP-1, TP-3.

28 ²³ Response to Staff Report dated June 16, 2025, at 1-2.

1 regarding Staff's reduction of legal expenses.

2 44. Verde Lakes' proposed test year revenue, adopted by Staff, is reasonable and
3 appropriate. Staff's adjustments to operating expenses as outlined above also are reasonable and should
4 be adopted. Therefore, we find that for the test year, Verde Lakes had total operating revenue of
5 \$246,245 and total adjusted operating expenses of \$314,276, resulting in a test year operating loss of
6 \$68,031.

7 **Rate Case Expense Surcharge**

8 45. Verde Lakes proposes a total rate case expense of \$25,000, to be recovered over three
9 years through a rate case expense surcharge in the amount of \$0.81 per customer per month.²⁴

10 46. In its Staff Report, Staff recommended approval of a total rate case expense of \$15,000,
11 to be recovered through a surcharge over three years, with an estimated monthly surcharge of \$0.48
12 per customer per month.²⁵

13 47. In its Response to Staff Report, Verde Lakes objected to Staff's recommendation of a
14 total rate case expense of \$15,000, maintaining its position that \$25,000 was appropriate. Verde Lakes
15 included an email from its counsel to counsel for Staff and indicated that as of February 2025, attorney
16 expenses totaled \$14,608.50 and accounting fees totaled \$3,900, for total rate case expenses of
17 \$18,508.50. Verde Lakes further stated that it had incurred an additional \$4,030 in rate case expenses
18 since the update provided to Staff for work related to the financing application, responses to Staff's
19 data requests, communications from Staff regarding procedural schedules, reviewing and drafting
20 responses related to procedural orders and schedule confirmations, communications with the client and
21 accountant, and reviewing and responding to the Staff Report. Verde Lakes stated that the total rate
22 case expense at the time of filing the Response was \$22,538.50 and that additional expenses would be
23 incurred for finalizing the Response, reviewing the Recommended Order, responding to the
24 Recommended Order, preparing for and attending the Commission's Open Meeting, preparation of
25 tariffs, and other compliance documents. Verde Lakes maintains that a total rate case expense of
26 \$25,000 is reasonable.²⁶

27 ²⁴ Rate Application at 3, 19d; Staff Report at Exec. Summary.

28 ²⁵ Staff Report at Exec. Summary, Staff Schedule TP-8.

²⁶ Response at 2-4.

1 48. Staff filed a Reply to the Company's Response. Staff states that its rate case
2 recommendation was based on support provided at the time the Staff Report was prepared, the
3 information provided in the Company's Response is the same, and that Staff is not modifying its
4 recommendation.²⁷

5 49. Staff's position on total rate case expense is addressed only in the Executive Summary
6 of the Staff Report and the basis for its determination of a total rate case expense of \$15,000 was not
7 provided. The Company's uncontroverted Response indicates that \$22,538.50 of rate case expense had
8 been incurred as of June 2025, and its projection of additional expenses to be incurred is reasonable.
9 Therefore, we approve a total rate case expense of actual expenses up to \$25,000, pending submission
10 of supporting invoices to Staff, recoverable through a monthly surcharge assessed over three years with
11 a fixed monthly rate case expense surcharge of \$0.81 per customer. The monthly surcharge shall
12 terminate automatically if the expense is recovered in full before the three-year period expires and shall
13 otherwise terminate at the end of the three-year recovery period. We find that it is reasonable and
14 appropriate to require Verde Lakes to notify the Commission when the surcharge has been terminated,
15 as a compliance item.

16 **Revenue Requirement**

17 50. Verde Lakes proposed total operating revenue of \$375,870, an increase of \$129,625, or
18 52.64%, over test year revenue of \$246,245. The Company's proposed revenue would produce
19 operating income of \$56,381 using the Company's proposed operating expenses of \$319,489, resulting
20 in an operating margin of 15%.²⁸

21 51. On a going-forward basis, Staff recommends revenue of \$369,375, an increase of
22 \$123,130 or 50% over test year revenue of \$246,245, and operating expenses in the amount of
23 \$315,420. Staff's recommendations result in operating income of \$53,955, an operating margin of
24 14.61%, and cash flow of \$102,078. Staff states that its proposed revenue requirement is based on an
25 operating margin approach and provides sufficient funds to cover the Company's operations and
26 maintenance costs, and provides a reasonable level of funds for contingencies.²⁹

27 ²⁷ Reply filed June 30, 2025.

28 ²⁸ Rate Application at 19; Staff Schedule TP-1.

²⁹ Staff Report at 3, Staff Schedules TP-1, TP-6.

1 52. Verde Lake did not submit comments objecting to Staff's proposed revenue
2 requirement.

3 53. In this case, a rate of return analysis on FVRB would not result in a reasonable revenue
4 requirement because of the Company's small rate base.³⁰ Further, a rate of return analysis is not
5 appropriate because Verde Lakes is a non-profit entity. Therefore, we agree with Staff that using an
6 operating margin or cash flow analysis to determine the revenue requirement instead of a rate of return
7 analysis is appropriate under these circumstances. We find that Staff's proposed revenue requirement
8 and proposed operating expenses are reasonable and appropriate, and will provide sufficient cash flow
9 for the Company. Therefore, we adopt a revenue requirement of \$369,375, which results in operating
10 income of \$53,955 using the adopted operating expenses of \$315,420, and an operating margin of
11 14.61%.

12 **Financing Application**

13 54. Verde Lakes' financing application seeks authorization to finance the following
14 projects: replacement of mainline valves, meter replacement, new water line installation, installation
15 of two new 10,000-gallon poly storage tanks, replacement of arsenic media, and the purchase of new
16 vehicles.³¹

17 55. Verde Lakes seeks approval to borrow \$457,706 in long-term debt from the Water
18 Infrastructure Finance Authority of Arizona ("WIFA") and potentially from General Motors Company
19 ("GMC"). The proposed financing is for a term of no longer than 20 years at an interest rate of no
20 more than 8% for the capital improvement projects and 9% for the vehicles.³²

21 56. The proposed projects as follows:³³

22 (a) *Mainline Valve Replacement*. The Company intends to replace 30 six-inch mainline
23 valves and 10 four-inch mainline valves at a total cost of \$109,250. Staff concluded the project is a
24 prudent investment and the cost is reasonable.

25 (b) *Meter Replacements*. The Company requests \$67,620 to replace 200 meters. Staff
26

27 ³⁰ We note that Staff's recommended revenue requirement would provide a return on FVRB of 18.85%.

³¹ Staff Report at 1, 5; Staff Engineering Report at 14.

³² Financing Application at 2; Staff Report at 1, 5.

28 ³³ Financing Application Exhibit 1.3; Staff Engineering Report at 15.

1 concluded the project is prudent and the cost is reasonable.

2 (c) *Vehicles*. The Company is requesting \$105,800 to purchase a new utility truck and
3 an electric meter read cart. Staff concluded the purchase is prudent and the cost is reasonable.

4 (d) *Water Line Installation*. The Company is requesting \$85,215 to purchase and install
5 1,300 linear feet of 2-inch PVC line to connect the Verde Lakes South water system with a water
6 system referred to as the Queens system for the purpose of mitigating high arsenic levels. The Queens
7 system is a standalone system that the Company provides service to and is not a Public Water System.
8 Staff believes the project is a prudent investment and the costs are reasonable.

9 (e) *Storage Tanks*. The Company requests \$73,350 to purchase and install two 10,000-
10 gallon storage tanks. Staff believes that both water systems would benefit from additional storage, and
11 thus Staff concluded the project is prudent and the costs are reasonable.

12 (f) *Arsenic Media Replacement*. The Company requests \$16,471 to purchase and install
13 new arsenic media, as the last replacement occurred in 2016. Staff concluded the project is prudent
14 and the cost is reasonable.

15 57. Staff recommends approval of the requested financing in an amount not to exceed
16 \$457,706 for the Company's proposed capital improvement projects and vehicle purchase. Staff
17 recommends authorization to incur the long-term debt from lenders offering the most favorable interest
18 rates and terms, with terms not to exceed 20 years and at an interest rate no greater than 8% from WIFA
19 or a like lending agency, and no more than 9% from GMC.³⁴

20 58. In calculating the additional annual funds needed by Verde Lakes to service the full
21 authorized debt of \$457,706 over 19.5 years at an 8% interest rate, Staff determined that an annual
22 surcharge of \$55,889 would be required, including \$46,422 for debt service, \$9,284 for the debt service
23 reserve fund component, and \$183 for the net annual tax component of the annual surcharge revenue.³⁵

24 59. Based on a \$457,706 loan at an interest rate of 8% and a term of 19.5 years, Staff
25 determined that a residential customer on a 5/8 x 3/4-inch meter would be required to pay a monthly
26 debt service surcharge of \$4.45 and a debt service reserve fund surcharge of \$0.90, for a total of \$5.35.

27 _____
28 ³⁴ Staff Report at 5; Staff Engineering Report at 16.

³⁵ Staff Report at 5, Staff Schedule TP-9.

1 The surcharge mechanism used by Staff establishes the methodology for calculating the surcharge
 2 amount but does not determine the final surcharge to be applied. After Verde Lakes has closed on the
 3 loan, it must submit an application in the financing docket requesting implementation of the loan
 4 surcharge. Staff will then calculate the appropriate final surcharge and prepare a recommended order
 5 for the Commission's consideration.³⁶

6 60. Staff recommends that the Commission approve a surcharge mechanism that, based on
 7 the expected loan terms, may result in a monthly surcharge up to the amount per customer as follows:³⁷

<u>Meter Size</u>	<u>Debt Service</u>	<u>Debt Service Reserve Fund</u>	<u>Total Monthly Surcharge</u>
5/8 x 3/4-inch Meter	\$4.45	\$0.90	\$5.35
3/4-inch Meter	6.67	1.35	8.02
1-inch Meter	11.12	2.25	13.37
1 1/2-inch Meter	22.25	4.49	26.74
2-inch Meter	35.59	7.19	42.78
3-inch Meter	66.74	13.47	80.21
4-inch Meter	111.23	22.46	133.69
6-inch Meter	222.47	44.91	267.38

17 61. The Commission requires borrowers to recognize the ratepayer supplied debt service
 18 reserve funding associated with the loan surcharge as a non-investor supplied regulatory liability.

19 62. Staff analyzed the impact of the proposed loan on the Company's Debt Service
 20 Coverage ("DSC") ratio and determined that Staff's recommended revenue and estimated surcharge
 21 would result in a DSC of 3.27. According to Staff, its total recommended revenue of \$425,264,
 22 including surcharge revenue of \$55,889, will provide the Company with cash flow after debt service
 23 of \$105,346.³⁸

24 63. Staff's loan surcharge calculation underfunds the proposed loan by a small amount due
 25 to errors made in Staff's customer count, which would result in annual surcharge collections of \$55,793
 26

27 ³⁶ Staff Report at 5, Staff Schedule TP-9.

28 ³⁷ Staff Schedule TP-9.

³⁸ Staff Schedule TP-6.

1 instead of the \$55,889 recommended by Staff. We correct those errors and find that an annual
 2 surcharge of \$55,888 would be required to service the debt, including \$46,422 for debt service, \$95 for
 3 the net annual tax component of the annual surcharge revenue, and \$9,371 for the debt service reserve
 4 fund component. This surcharge mechanism, based on the expected loan terms, may result in a monthly
 5 surcharge up to the amount per customer as follows:

<u>Meter Size</u>	<u>Debt Service</u>	<u>Debt Service Reserve Fund</u>	<u>Total Monthly Surcharge</u>
5/8 x 3/4-inch Meter	\$4.40	\$0.89	\$5.28
3/4-inch Meter	6.60	1.33	7.93
1-inch Meter	11.00	2.22	13.21
1 1/2-inch Meter	21.99	4.43	26.42
2-inch Meter	35.19	7.09	42.28
3-inch Meter	65.98	13.29	79.27
4-inch Meter	109.97	22.15	132.12
6-inch Meter	219.94	44.31	264.25

15 64. The adopted total operating revenue of \$415,892, comprising base rate revenue of
 16 \$369,375 plus surcharge revenue of \$46,517, plus \$9,371 in debt service reserve fund surcharge
 17 collections, to be collected only if the loan is incurred from WIFA and to be recognized as a regulatory
 18 liability, will result in a DSC of 3.20 and cash flow of \$102,078 after debt service and debt service
 19 reserve fund obligations. The adopted revenue and surcharge are sufficient for the Company to pay for
 20 operating expenses, contingencies, principal and interest on the proposed loan, and to meet the
 21 minimum DSC ratio requirements of WIFA.

22 65. Staff's recommended general conditions, and our additions thereto, are as follows:³⁹

23 (a) The Company shall account for the monies collected for the debt service and debt
 24 service reserve fund separately, including recording the debt service reserve fund as a regulatory
 25 liability.

26 (b) The Company shall file, within 30 days of execution of any financing transaction
 27

28 ³⁹ Staff Report at 6-7.

1 authorized herein, a notice confirming that such execution has occurred and a certification by an
2 authorized Company representative that the terms of the financing fully comply with the authorizations
3 granted.

4 (c) Upon filing of the loan closing notice, the Company file in this Docket an
5 application requesting implementation of the associated loan surcharge and provide to Staff a copy of
6 all loan documents executed pursuant to the authorizations granted herein.

7 (d) Within 30 days of the Company filing a request for surcharge implementation, Staff
8 shall calculate the appropriate loan surcharge and prepare and file a recommended order for
9 Commission consideration.

10 (e) Upon approval of the loan surcharge, the Company shall open a separate interest-
11 bearing bank account in which all surcharge monies collected from customers will be deposited. The
12 only disbursement of funds from the account will be to make debt service payments to the lender. We
13 modify Staff's recommendation to also allow payment of incremental property and income taxes
14 resulting from the surcharge collections.

15 (f) The Company shall file for an adjustment of the surcharge mechanism if there are
16 any modifications to the terms of the loan subsequent to Commission approval of the surcharge
17 mechanism.

18 (g) Approval of the loan and surcharge shall be rescinded if the Company has not drawn
19 funds from the loan within two years of the date of this Decision.

20 (h) The Company shall be required to file a full rate application within five years from
21 the date of this Decision using a test year acceptable to Staff.

22 (i) We also will require the debt service surcharge to expire without further order of the
23 Commission on the effective date of rates adopted in the Company's next general rate case. And if the
24 lender is WIFA, Verde Lakes is authorized to collect the debt service reserve fund surcharge for up to
25 five years or until the effective date of rates adopted in its next general rate case, whichever comes
26 first.

27 66. Verde Lakes did not object to Staff's recommended loan surcharge amount and
28 conditions.

67. We find that it is reasonable, consistent with sound financial practices, and in the public interest to grant Verde Lakes the authority to incur up to \$457,706 in long-term debt from lenders offering the most favorable interest rates and terms, with terms not to exceed 20 years and at an interest rate no greater than 8% from WIFA or a like lending agency, and no more than 9% from GMC, for the purposes stated in its financing application and subject to the terms and conditions recommended by Staff, as supplemented herein.

68. We further find that the surcharge mechanism adopted herein is reasonable and appropriate.

Rate Design

69. Verde Lakes' present rates and charges, the rates and charges proposed by the Company, the rates and charges recommended by Staff in its Staff Report, and the rates adopted in this Order are as follows:⁴⁰

<u>Monthly Minimum Charge:</u>	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Proposed Rates Staff</u>	<u>Order</u>
5/8 x 3/4-inch Meter	\$8.75	\$14.96	\$14.85	\$14.43
3/4-inch Meter	8.75	14.96	14.85	14.43
1-inch Meter	15.00	37.41	37.13	36.08
1 1/2-inch Meter	30.00	74.81	74.25	72.15
2-inch Meter	49.00	119.70	118.80	115.44
3-inch Meter	125.00	239.40	222.75	230.88
4-inch Meter	175.00	374.06	371.25	360.75
6-inch Meter	440.00	748.13	742.50	721.50
<u>Commodity Rates</u> <u>(Per 1,000 gallons)</u>	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Proposed Rates Staff</u>	<u>Order</u>
Gallons included in Minimum	0	0	0	0
<u>5/8 x 3/4-inch & 3/4-inch Meter – Residential</u>				
0 to 6,000 Gallons	\$1.65			
6,001 to 15,000 Gallons	2.50			
Over 15,001 Gallons	3.50			
0 to 3,000 Gallons		\$2.23	\$2.14	
3,001 to 10,000 Gallons		3.23	2.88	
Over 10,001 Gallons		4.23	3.58	
0 to 3,000 Gallons				\$2.23
3,001 to 9,000 Gallons				3.35
Over 9,001 Gallons				3.91

⁴⁰ Rate Application at 9A; Staff Schedule TP-4; Staff Reply.

1	<u>5/8 x 3/4-inch & 3/4-inch Meter – Commercial</u>			
	0 to 6,000 Gallons	\$1.65		
2	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
3	0 to 10,000 Gallons		\$3.23	\$2.88
	Over 10,001 Gallons		4.23	3.58
4	0 to 9,000 Gallons			\$3.35
5	Over 9,001 Gallons			3.91
6	<u>1-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
7	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
8	0 to 25,000 Gallons		\$3.23	\$2.88
9	Over 25,001 Gallons		4.23	3.58
10	<u>1 1/2-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
11	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
12	0 to 50,000 Gallons		\$3.23	\$2.88
13	Over 50,001 Gallons		4.23	3.58
14	<u>2-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
15	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
16	0 to 80,000 Gallons		\$3.23	\$2.88
17	Over 80,001 Gallons		4.23	3.58
18	<u>3-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
19	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
20	0 to 160,000 Gallons		\$3.23	\$2.88
21	Over 160,001 Gallons		4.23	3.58
22	<u>4-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
23	6,001 to 15,000 Gallons	2.50		
	Over 15,001 Gallons	3.50		
24	0 to 250,000 Gallons		\$3.23	\$2.88
25	Over 250,001 Gallons		4.23	3.58
26	<u>6-inch Meter</u>			
	0 to 6,000 Gallons	\$1.65		
27	6,001 to 15,000 Gallons	2.50		
28	Over 15,001 Gallons	3.50		

1	0 to 500,000 Gallons	\$3.23	\$2.88	\$3.35
2	Over 500,001 Gallons	4.23	3.58	3.91

Standpipe, Bulk Water

3	All Gallons	—	\$4.23	\$3.58	\$3.91
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4		<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Proposed Rates</u>
5	<u>Service Charges:</u>		<u>Company</u>	<u>Staff</u>
6	Establishment	\$30.00	\$30.00	\$30.00
7	Establishment (After Hours)	45.00	—	—
8	After Hours Service Charge (At Customer's Request)	—	50.00	50.00
9	Reconnection (Delinquent)	\$20.00	50.00	40.00
10	Meter Test (If Correct)	\$45.00	50.00	50.00
11	Meter Re-Read (If Correct)	\$10.00	50.00	30.00
12	Deposit	*	*	*
13	Deposit Interest	**	**	**
14	Re-Establishment (Within 12 months)	***	***	***
15	Late Payment Penalty	\$3.00	****	****
16	NSF Check	\$15.00	\$35.00	\$35.00
17	Deferred Payment	12% (Per Annum)	1.50%	1.50%
18	Road Cutting or Boring	At Cost	At Cost	At Cost

- * Per Commission Rule A.A.C. R14-2-403(B)(7).
- ** Per Commission Rule A.A.C. R14-2-403(B)(3).
- *** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
- **** 1.50% per month of the unpaid balance or \$5, whichever is greater.
- At Cost All items at cost shall include labor, materials, parts, overhead, and all applicable taxes.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax per Commission Rule A.A.C. R14-2-409(D)(5).

Service Line and Meter Installation Charges:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Present Rates</u>			<u>Company and Staff Proposed</u>		
	<u>Service Line</u>	<u>Meter Charge</u>	<u>Total Charge</u>	<u>Service Line</u>	<u>Meter Charge</u>	<u>Total Charge</u>
21	5/8" x 3/4" Meter	—	\$330.00	\$565.00	\$158.00	\$723.00
22	3/4" Meter	—	375.00	565.00	260.00	825.00
23	1" Meter	—	440.00	629.00	321.00	950.00
24	1 1/2" Meter	—	660.00	699.00	536.00	1,235.00
25	2" Meter	—	1,155.00	—	—	—
26	2" Turbine Meter	—	—	1,054.00	1,066.00	2,120.00
27	2" Compound Meter	—	—	1,054.00	1,928.00	2,982.00
28	3" Meter	—	1,625.00	—	—	—

1	3" Turbine Meter	—	—	—	1,327.00	1,703.00	3,030.00
	3" Compound Meter	—	—	—	1,480.00	2,596.00	4,076.00
2	4" Meter	—	—	2,540.00	—	—	—
3	4" Turbine Meter	—	—	—	1,892.00	2,723.00	4,615.00
4	4" Compound Meter	—	—	—	2,121.00	3,718.00	5,839.00
	6" Meter	—	—	4,875.00	—	—	—
5	6" Turbine Meter	—	—	—	2,807.00	5,126.00	7,933.00
6	6" Compound Meter	—	—	—	2,959.00	7,058.00	10,017.00

7 70. Verde Lakes’ current rates include a monthly minimum charge that increases by meter
8 size and a three-tier commodity rate structure with breakover points at 6,000 and 15,000 gallons for all
9 meter sizes and classes.⁴¹

10 **Verde Lakes’ Proposed Rate Design**

11 71. Verde Lakes proposes a rate design that includes a monthly minimum charge that
12 increases by meter size and an inverted three-tier commodity rate structure with breakover points at
13 3,000 and 10,000 gallons for the 5/8 x 3/4-inch meters and 3/4-inch residential meters. For the larger
14 meters and small commercial meters, the Company proposes two tiers with increasing breakover
15 points.⁴² The Company’s proposed rates would generate 59.73% of the revenue from the first-tier
16 commodity and monthly minimum charges, 21.17% from the second tier, and 19.10% from the third
17 tier.

18 72. The Company’s proposed rates, designed to collect the Company’s proposed revenue
19 requirement, not including the loan surcharge or rate case expense surcharge, would increase the typical
20 residential bill for a 5/8 x 3/4-inch meter, with a median usage of 3,500 gallons, from \$14.53 to \$23.27,
21 an increase of \$8.74 or 60.17%.⁴³

22 **Staff’s Proposed Rate Design**

23 73. Staff’s recommended rate design accepts the Company’s approach to structure rates that
24 increase by meter size and inverted three-tier commodity rates for the smaller residential meter sizes.
25 Staff also adopts the Company’s proposed breakover points. Staff states that in designing its
26 recommended rates, it considered the Commission’s water policy outlined in Commission Decision

27 ⁴¹ Rate Application at 9A.
28 ⁴² Staff Report at 4, Staff Schedule TP-7.
⁴³ Staff Report at 1, Staff Schedule TP-5.

1 No. 75626 (July 25, 2016), which states that a company's rates should generate at least 50% of the
 2 revenue requirement from the monthly minimum and first-tier commodity rates, and the third tier
 3 should generate at least 10% but no more than 20% of the revenue requirement.⁴⁴ Staff's recommended
 4 rates comply with the policy and would generate 62.64% of revenue from the first-tier commodity and
 5 monthly minimum charges, 20.12% from the second tier, and 17.24% from the third tier.

6 74. Staff's proposed rates, using its recommended revenue requirement and not including
 7 the loan surcharge or rate case expense surcharge, would increase the typical residential bill for a 5/8
 8 x 3/4-inch meter, with a median usage of 3,500 gallons, from \$14.53 to \$22.71, for an increase of \$8.18
 9 or 56.28%.⁴⁵

10 **Adopted Rate Design**

11 75. As explained below, we adjust the Company's and Staff's proposed rate designs with
 12 modifications to the breakover points, proposed monthly minimum charges, and commodity rates. For
 13 the 5/8 x 3/4-inch and 3/4-inch residential meters, we adopt three tiers as proposed by the Company
 14 and recommended by Staff but with a lower second-tier breakover point at 9,000 gallons. For the
 15 smaller commercial meters and larger meters, we adopt the two-tier structure and breakover points
 16 recommended by Staff, except for the smaller commercial meters where we recommend a breakover
 17 point at 9,000 gallons. In addition, we adopt a bulk water rate of \$3.91 per 1,000 gallons.

18 76. It is reasonable to modify the Company's and Staff's rate design to modestly reduce the
 19 second-tier breakover point for the smaller meters to better reflect non-discretionary usage and to
 20 encourage conservation while still adhering to the policy outlined in Commission Decision No. 75626.
 21 Further, Staff's rate design undercollects the revenue requirement adopted herein and does not use the
 22 American Water Works Association multiplier for 3-inch meters. We further modify the rate design
 23 to address those issues. We find that the rate design adopted herein is just and reasonable and will
 24 allow the Company a sufficient opportunity to recover the adopted revenue requirement.

25 77. Under the rates adopted herein, and accounting for surcharge revenue, the Company
 26 would generate 64.89% of its revenue from the monthly minimum charges and first-tier commodity

27 _____
 28 ⁴⁴ Staff Report at 4.

⁴⁵ Staff Report at 4, Staff Schedule TP-5.

1 charges, 17.83% from the second tier, and 17.28% from the third tier. This rate design is consistent
 2 with the policy outlined in Commission Decision No. 75626 by generating at least 50% of the total
 3 revenue requirement from the basic service charge and first tier commodity charge, and by generating
 4 no more than 20% and no less than 10% of the total revenue requirement from the third tier.

5 78. The rates adopted herein would increase the typical residential bill for a 5/8 x 3/4-inch
 6 meter, with a median usage of 3,500 gallons, from \$14.53 to \$22.80, for an increase of \$8.27 or 56.9%.
 7 With the estimated rate case expense surcharge of \$0.81, the typical residential bill for a 5/8 x 3/4-inch
 8 meter, with median usage of 3,500 gallons, would increase to \$23.61, a total increase from current rates
 9 of \$9.08 or 62.5%. With the estimated rate case expense surcharge of \$0.81 and loan surcharge of
 10 \$5.28, the typical residential bill for a 5/8 x 3/4-inch meter, with a median usage of 3,500 gallons,
 11 would increase to \$28.89, a total increase from current rates of \$14.36 or 98.8%.

12 **Service Charges**

13 *Undisputed*

14 79. The Company did not propose any changes to its Establishment, Deposit, Deposit
 15 Interest, and road cutting or boring service charges.⁴⁶ Staff agrees. Verde Lakes proposes eliminating
 16 its Establishment (After Hours) Charge and replacing it with an After Hours Service Charge (At
 17 Customer's Request) of \$50. Staff agrees and recommends Commission approval. The Company also
 18 proposes changing its Late Payment Penalty (Per Month) from \$3.00 to 1.5% per month of the unpaid
 19 monthly balance or \$5.00, whichever is greater, and Staff agrees. The Company proposes a Deferred
 20 Payment charge of 1.5% and Staff agrees. The Company proposes increasing its Meter Test (If Correct)
 21 Charge from \$45 to \$50. Staff initially recommended no change, noting that Staff can test meters up
 22 to 1-inch for no charge, but revised its recommendation in its Reply to \$50. The Company proposed
 23 increasing its NSF Check Charge from \$15 to \$20 in its application, but revised its request to \$35 in
 24 its Response, providing documentation that its actual fee is \$35. Staff agrees with a \$35 fee and
 25 recommends Commission approval.⁴⁷

26 80. Verde Lakes proposed changes to its current service line and meter installation charges.

27 ⁴⁶ Amendment to Rate Application filed December 23, 2024; Staff Report at 4.

28 ⁴⁷ Amendment to Rate Application filed December 23, 2024; Staff Report at 4, Staff Schedule TP-4; Response at 4-5, Attachment 2; Reply.

1 Staff states that the proposed charges are within Staff's typical ranges for service line and meter
2 installation charges and recommends approval.⁴⁸

3 *Disputed*

4 81. The Company proposes increasing its Reconnection (Delinquent) Charge from \$20 to
5 \$50. Staff agrees that an increase is appropriate but recommended a charge of \$30 in its Staff Report
6 and \$40 in its Reply. In addition, the Company proposes increasing its Meter Re-Read (If Correct)
7 Charge from \$10 to \$50. Staff supports an increase but believes that an increase to \$30 is more
8 appropriate. In its Response, the Company explained that it views service charges as a way to recover
9 actual labor expense, and that its office staff costs approximately \$22.00 per hour and field operators
10 cost approximately \$35.00 per hour. Verde Lakes contends that Staff arbitrarily reduced fees on the
11 grounds of appropriateness without explanation or cost analysis. Regarding its Reconnection
12 (Delinquent) Charge, the Company notes that the cost for reconnection is higher than addressing meter
13 issues because of additional notices provided by office staff and additional work performed by field
14 operators. And regarding the Meter Re-Read (If Correct) Charge, the Company maintains that its cost
15 analysis justifies \$50.⁴⁹

16 82. The Company has proposed several significant increases to its service charges, and we
17 acknowledge that they have not been increased in a significant period of time. Staff's recommendations
18 allow for increases as requested by Verde Lakes, but provide a better balance between the labor cost
19 recovery needs of the Company and gradualism for ratepayers. Therefore, we find that Staff's
20 recommended service charges and the Company's proposed service line and meter installation charges
21 are just and reasonable, and we adopt them.

22 83. We also believe it is reasonable to allow Verde Lakes to collect from its customers a
23 proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409(D)(5).

24 84. Staff recommends that Verde Lakes file with Docket Control, as a compliance item in
25 this docket, within 30 days of the effective date of this Decision, a schedule of the approved rates and
26

27 ⁴⁸ Staff Engineering Report at 11.

28 ⁴⁹ Amendment to Rate Application filed December 23, 2024; Staff Report at 4, Staff Schedule TP-4; Response at 4-5;
Reply.

1 charges.⁵⁰ Staff's recommendation is reasonable and shall be adopted.

2 85. In addition, Staff recommends that Verde Lakes notify its customers of the authorized
3 rates and charges approved in this Decision, and their effective date, in a form acceptable to Staff, by
4 means of an insert in its next regular billing, and should file a copy of the notice with Docket Control,
5 as a compliance item in this docket, within 10 days of the effective date of this Decision.⁵¹ Staff's
6 recommendation is reasonable and shall be adopted. It also is reasonable and appropriate to direct the
7 Company to provide similar notice and information regarding the estimated loan surcharges and the
8 rate case expense surcharge.

9 86. In addition, because an allowance for property tax expense is included in the Company's
10 rates and will be collected from its customers, the Commission seeks assurances from the Company
11 that any taxes collected from ratepayers have been remitted to the appropriate taxing authority. It has
12 come to the Commission's attention that a number of water companies have been unwilling or unable
13 to fulfill their obligation to pay the taxes that were collected from ratepayers, some for as many as
14 twenty years. It is reasonable, therefore, that Verde Lakes should file annually, as part of its Annual
15 Report to the Utilities Division, an affidavit attesting that the Company is current on its property taxes
16 in Arizona.

17 **CONCLUSIONS OF LAW**

18 1. Verde Lakes is a public service corporation within the meaning of Article XV of the
19 Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-285, 40-301, and 40-302.

20 2. The Commission has jurisdiction over Verde Lakes and the subject matter of the rate
21 and financing applications.

22 3. Verde Lakes provided notice of the rate and financing applications in accordance with
23 Arizona Law.

24 4. Verde Lakes has a FVRB of \$286,232.

25 5. The rates, charges, and conditions of service authorized herein are just, reasonable, and
26 in the public interest, and should be approved without a hearing.

27 _____
28 ⁵⁰ Staff Report at 5.

⁵¹ Staff Report at 5.

5/8 x 3/4-inch & 3/4-inch Meter – Commercial

0 to 9,000 Gallons	\$3.35
Over 9,001 Gallons	3.91

1-inch Meter

0 to 25,000 Gallons	\$3.35
Over 25,001 Gallons	3.91

1 1/2-inch Meter

0 to 50,000 Gallons	\$3.35
Over 50,001 Gallons	3.91

2-inch Meter

0 to 80,000 Gallons	\$3.35
Over 80,001 Gallons	3.91

3-inch Meter

0 to 160,000 Gallons	\$3.35
Over 160,001 Gallons	3.91

4-inch Meter

0 to 250,000 Gallons	\$3.35
Over 250,001 Gallons	3.91

6-inch Meter

0 to 500,000 Gallons	\$3.35
Over 500,001 Gallons	3.91

Standpipe, Bulk Water

All Gallons	\$3.91
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Service Charges:

Establishment	\$30.00
After Hours Service Charge (At Customer's Request)	50.00
Reconnection (Delinquent)	40.00
Meter Test (If Correct)	50.00
Meter Re-Read (If Correct)	30.00
Deposit	*
Deposit Interest	**
Re-Establishment (Within 12 months)	***
Late Payment Penalty	****
NSF Check	\$35.00
Deferred Payment	1.50%
Road Cutting or Boring	At Cost

...

- * Per Commission Rule A.A.C. R14-2-403(B)(7).
 - ** Per Commission Rule A.A.C. R14-2-403(B)(3).
 - *** Months off system times the monthly minimum per Commission Rule A.A.C. R14-2-403(D).
 - **** 1.50% per month of the unpaid balance or \$5, whichever is greater.
- At Cost All items at cost shall include labor, materials, parts, overhead, and all applicable taxes.

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, or use tax per Commission Rule A.A.C. R14-2-409(D)(5).

Service Line and Meter Installation Charges:
 (Refundable pursuant to A.A.C. R14-2-405)

	Service Line	Meter Charge	Total Charge
5/8" x 3/4" Meter	\$565.00	\$158.00	\$723.00
3/4" Meter	565.00	260.00	825.00
1" Meter	629.00	321.00	950.00
1 1/2" Meter	699.00	536.00	1,235.00
2" Turbine Meter	1,054.00	1,066.00	2,120.00
2" Compound Meter	1,054.00	1,928.00	2,982.00
3" Turbine Meter	1,327.00	1,703.00	3,030.00
3" Compound Meter	1,480.00	2,596.00	4,076.00
4" Turbine Meter	1,892.00	2,723.00	4,615.00
4" Compound Meter	2,121.00	3,718.00	5,839.00
6" Turbine Meter	2,807.00	5,126.00	7,933.00
6" Compound Meter	2,959.00	7,058.00	10,017.00

IT IS FURTHER ORDERED that in addition to collection of its regular rates and charges, Verde Lakes Water Corporation shall collect from its customers a proportionate share of any privilege, sales, or use tax per A.A.C. Rule 14-2-409(D)(5).

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all service provided on and after October 1, 2025.

IT IS FURTHER ORDERED that Verde Lakes Water Corporation is authorized to recover a total actual rate case expense up to \$25,000, allocated by customer count, and recoverable through a monthly surcharge assessed over three years in the fixed amount of \$0.81 per customer. The monthly surcharge shall terminate automatically if the expense is recovered in full by October 31, 2028, and shall otherwise terminate on that date. Verde Lakes Water Corporation shall provide supporting invoices to the Commission's Utilities Division within 30 days of the effective date of this Decision

1 demonstrating that rate case expenses of at least \$25,000 have been incurred, and shall not begin
2 assessing the surcharge until the billing cycle after such documentation has been provided. Verde
3 Lakes Water Corporation shall notify the Commission when the surcharge has been terminated, as a
4 compliance item in this Docket, within 10 days of termination.

5 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall notify its customers of
6 the authorized rates and charges approved in this Decision and their effective date, as well as
7 information regarding the rate case expense surcharge and information generally explaining the loan
8 surcharge, the approximate date the surcharges are expected to go into effect, and the estimated loan
9 surcharge amount adopted herein, by means of an insert in its next regular billing or by separate
10 mailing, in a form acceptable to Staff, and shall file a copy of the notice with Docket Control, as a
11 compliance item in this docket, within 10 days of the notice being sent to customers.

12 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall use the depreciation
13 rates as shown on Table (C)(1) of Staff's Engineering Report in this matter on a going-forward basis.

14 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall file annually with the
15 Commission's Utilities Division, as part of its Annual Report, an affidavit attesting that it is current on
16 its property taxes in Arizona.

17 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall report the Verde Lakes
18 North and Verde Lakes South water systems separately in all future annual report filings, beginning
19 with the 2025 Annual Report.

20 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall add signage that
21 include the Arizona Department of Water Resources Well ID for all active well sites and shall file
22 photographic evidence that the work was completed, as a compliance item in this docket, within one
23 year of the effective date of this Decision.

24 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall continue to monitor
25 and reduce water loss for both the Verde Lakes North and Verde Lakes South water systems.

26 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall file an updated system
27 water plan with the Arizona Department of Water Resources for both the Verde Lakes North and the
28 Verde Lakes South water systems within 60 days of the effective date of this Decision.

1 IT IS FURTHER ORDERED Verde Lakes Water Corporation shall file an updated Curtailment
2 Plan Tariff, as a compliance item in this docket, within 60 days of the effective date of this Decision,
3 for Staff's review and approval.

4 IT IS FURTHER ORDERED Verde Lakes Water Corporation shall file an updated Cross-
5 Connection/Backflow Prevention Tariff, as a compliance item in this docket, within 60 days of the
6 effective date of this Decision, for Staff's review and approval.

7 IT IS FURTHER ORDERED that Verde Lakes Water Corporation is authorized to obtain a 20-
8 year amortizing loan from the Water Infrastructure Finance Authority, or any lender offering the most
9 favorable interest rate and terms, to finance the water system improvement projects and vehicles
10 described herein in an amount not to exceed \$457,706, and at an interest rate not to exceed 8% from
11 the Water Infrastructure Finance Authority or similar lender, or 9% from General Motors Company, at
12 the time the loan is executed.

13 IT IS FURTHER ORDERED that the financing authorized herein is expressly contingent on
14 Verde Lakes Water Corporation's use of the proceeds for the purposes set forth in its financing
15 application and as discussed herein.

16 IT IS FURTHER ORDERED that Verde Lakes Water Corporation is authorized to engage in
17 any transactions and to execute any documents necessary to effectuate the financing authorizations
18 granted herein.

19 IT IS FURTHER ORDERED that Verde Lakes Water Corporation is authorized to pledge,
20 mortgage, lien, or otherwise encumber its assets in the State of Arizona pursuant to A.R.S. § 40-285
21 and A.A.C. R18-15-104 in connection with the indebtedness authorized herein.

22 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall file with Docket
23 Control, as a compliance item in this docket, within 30 days of the execution of any financing
24 transaction authorized herein, a notice confirming that such execution has occurred and a certification
25 by an authorized Company representative that the terms of the financing fully comply with the
26 authorizations granted herein.

27 IT IS FURTHER ORDERED that the financing authorized herein shall be rescinded without
28 further order of the Commission if Verde Lakes Water Corporation has not drawn funds from the loan

1 within two years of the effective date of this Decision.

2 IT IS FURTHER ORDERED that a debt service surcharge mechanism is authorized to meet
3 Verde Lakes Water Corporation's principal and interest obligations on the capital improvement loan
4 described herein.

5 IT IS FURTHER ORDERED that a Water Infrastructure Finance Authority debt service reserve
6 fund surcharge mechanism is authorized to meet Verde Lakes Water Corporation's debt service reserve
7 fund obligations on the capital improvement loan described herein to the extent such loan is incurred
8 from the Water Infrastructure Finance Authority.

9 IT IS FURTHER ORDERED that upon filing the loan closing notice, Verde Lakes Water
10 Corporation shall file in this docket an application requesting implementation of the separate associated
11 debt service and debt service reserve fund surcharges, as applicable, and shall provide copies of all loan
12 documents to the Commission's Utilities Division.

13 IT IS FURTHER ORDERED that the Commission's Utilities Division shall, within thirty days
14 after Verde Lakes Water Corporation files an application to implement the associated surcharges
15 discussed herein: (a) calculate the appropriate associated surcharges based on the actual loan debt
16 service (principal and interest) payments and debt service reserve fund deposit requirements, if any,
17 and (b) prepare and file for Commission consideration a Staff Memorandum and Proposed Order
18 regarding Verde Lakes Water Corporation's application to implement the associated surcharges.

19 IT IS FURTHER ORDERED that the actual amounts of the debt service and debt service
20 reserve fund surcharges, as applicable, shall be calculated based on the actual amount and terms of the
21 loan and the actual number of customers at the time of the loan closing.

22 IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall open a separate
23 interest-bearing account for deposit of all monies collected for the debt service of the approved loan.
24 Disbursements from this account are authorized only for payment of principal and interest on the loan
25 authorized herein and property and income taxes on the debt service surcharge collections on this loan
26 unless otherwise directed by the Commission.

27 IT IS FURTHER ORDERED that if the loan is incurred from the Water Infrastructure Finance
28 Authority, Verde Lakes Water Corporation shall open a separate interest-bearing account for deposit

1 of all monies collected for the debt service reserve fund of the approved Water Infrastructure Finance
2 Authority loan, and shall record the surcharge collections to fund the debt service reserve fund as a
3 regulatory liability. Disbursements from this account shall be restricted to the debt service reserve fund
4 provisions of the loan agreement and for payment of the property and income taxes on the debt service
5 reserve fund surcharge collections of the loan authorized herein unless otherwise directed by the
6 Commission.

7 IT IS FURTHER ORDERED that the debt service surcharge shall expire automatically and
8 without further order of the Commission on the effective date of rates adopted in Verde Lakes Water
9 Corporation's next general rate case.

10 IT IS FURTHER ORDERED that if the loan is incurred from the Water Infrastructure Finance
11 Authority, Verde Lakes Water Corporation is authorized to collect the debt service reserve fund
12 surcharge for up to five years or until the effective date of rates adopted in its next general rate case,
13 whichever comes first.

14 IT IS FURTHER ORDERED that should there be any modification to the terms of the loan
15 subsequent to Commission approval of the surcharge mechanism, Verde Lakes Water Corporation shall
16 file for an adjustment of the surcharge mechanism, as appropriate.

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IT IS FURTHER ORDERED that Verde Lakes Water Corporation shall file its next rate case no later than December 31, 2030, using a test year acceptable to Staff.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIR THOMPSON

VICE CHAIR MYERS

COMMISSIONER MÁRQUEZ PETERSON

COMMISSIONER WALDEN

COMMISSIONER LOPEZ

IN WITNESS WHEREOF, I, DOUGLAS R. CLARK, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2025.

DOUGLAS R. CLARK
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____
JLM/(gb)

1 SERVICE LIST FOR:

VERDE LAKES WATER CORPORATION

2 DOCKET NO.:

W-02372A-24-0266 and W-02372A-25-0054

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