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DELTA REPORT

10-K

GWRS - GLOBAL WATER RESOURCES, I

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3142
CHANGES	292
DELETIONS	1207
ADDITIONS	1643

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022 December 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________

Commission File Number: 001-37756

Global Water Resources, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**90-0632193**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
21410 N. 19th Avenue #220	
Phoenix, Arizona	**85027**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (480) 360-7775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	GWRS	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging "emerging growth company" company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes x No

The aggregate market value of the common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2022) 2023) was $142.0 million based upon the closing sale price of the registrant's common stock as reported on the NASDAQ Global Market. As of March 8, 2023 March 6, 2024, the registrant had 23,871,046 24,175,241 shares of common stock, $0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference to the registrant's definitive proxy statement relating to the 2023 2024 annual meeting of stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2022 December 31, 2023.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTOR SUMMARY

Certain statements in this Annual Report on Form 10-K of Global Water Resources, Inc. (the “Company”, “GWRI”, “we”, or “us”), including all documents incorporated by reference, are forward-looking in nature and may constitute “forward-looking information” within the meaning of applicable securities laws. Often, but not always, forward-looking statements can be identified by the words “believes”, “anticipates”, “plans”, “expects”, “intends”, “projects”, “estimates”, “objective”, “goal”, “focus”, “aim”, “should”, “could”, “may”, and similar expressions.

These forward-looking statements include, but are not limited to, statements about our strategies; expectations about future business plans, prospective performance, growth, and opportunities; future financial performance; regulatory and Arizona Corporation Commission ("ACC" (“ACC”) proceedings, decisions and approvals, such as the anticipated benefits resulting from Rate Decision No. 78644, including our expected collective revenue increase due to new water and wastewater rates and benefits from consolidation of rates; rates, as well as our Private Letter Ruling request in connection with beliefs and expectations pertaining to ACC actions relating to our recent rate case and possible further action that may be taken by the ACC following such request; Southwest Plant; acquisition plans and our ability to complete additional acquisitions; population and growth projections; technologies, including expected benefits from implementing such technologies; revenues; metrics; operating expenses; trends relating to our industry, market, population growth, and housing permits; the adequacy of our water supply to service our current demand and growth for the foreseeable future; liquidity; plans and expectations for capital expenditures; cash flows

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and uses of cash; dividends; depreciation and amortization; tax payments; our ability to repay indebtedness and invest in initiatives; the anticipated impact and resolutions of legal matters; the anticipated impact of new or proposed laws, including regulatory requirements, tax changes; changes, and judicial decisions; and the anticipated impact of accounting changes and other pronouncements; the anticipated impacts from the novel coronavirus ("COVID-19") pandemic on the Company, including to our business operations, results of operations, cash flows, and financial position; and our future responses to the COVID-19 pandemic. pronouncements.

Forward-looking statements should not be read as a guarantee of future performance or results. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward looking statement. Investors are cautioned not to place undue reliance on forward-looking information. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including risks related to legal, regulatory, and legislative matters; risks related to our business and operations; risks related to market and financial matters; risk risks related to technology; risks related to the ownership of our common stock; and certain general risks, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. These risks include, but are not limited to, the following principal risks:

- we are subject to regulation by the ACC and our financial condition depends upon our ability to recover costs in a timely manner from customers through regulated rates;
- new or stricter regulatory standards or other governmental actions could increase our regulatory compliance and operating costs, require us to alter our existing treatment facilities, and/or cause us to build additional facilities;
- our ability to expand into new service areas and to expand current water and wastewater service depends on approval from regulatory agencies;
- changes to environmental and other regulation may require us to alter our existing treatment facilities or build additional facilities;
- our water and wastewater systems are subject to condemnation by governmental authorities;
- inadequate water and wastewater supplies could have a material adverse effect upon our ability to achieve the customer growth necessary to increase our revenues;
- there is no guaranteed source of water;
- our utilities business is subject to seasonal fluctuations and other weather-related conditions;
- future acquisitions may not achieve sufficient profitability relative to expenses and investment;
- pandemics, epidemics or disease outbreaks, such as the novel coronavirus global COVID-19 pandemic, could adversely affect our business operations, cash flows, and financial position to an extent that is difficult to predict;
- our operations of regulated utilities are currently located exclusively in the state of Arizona and concentrated heavily within a single municipality;
- we may have difficulty accomplishing our growth strategy within and outside of our current service areas;
- service interruptions, including due to any disruption or problem at our facilities could increase our expenses;
- we may have difficulty accomplishing our growth strategy within and outside of our current service areas;
- any failure of our network of treatment facilities, water and wastewater pipes and water reservoirs could result in losses and damages;
- contamination of the water supplied by us may result in disruption in our services, loss of credibility, lower demand for our services, and potential liability;

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- the COVID-19 global pandemic could adversely affect our business operations, cash flows and financial position to an extent that is difficult to predict;
- our operations of regulated utilities are currently located exclusively in the state of Arizona and concentrated heavily within a single municipality;
- our utilities business is subject to seasonal fluctuations and other weather-related conditions;
- our growth depends significantly on increased residential and commercial development in our service areas;
- our information technology systems may be subject to cyberattacks and may be vulnerable to unauthorized external or internal access due to hacking, ransomware, viruses, or other breaches; and

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- the concentration of our stock ownership with our officers, directors, certain stockholders and their affiliates will limit our stockholders' ability to influence corporate matters.

These and other factors are discussed in the risk factors described in Part I, Item 1A "Risk Factors" of this report, which readers should review carefully before placing any reliance on our financial statements or disclosures. Additionally, there may be other risks described from time to time in the reports that we file with the Securities and Exchange Commission (the "SEC"). Any forward-looking statement speaks only as of the date of this report. Except as required by law, we undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I

ITEM 1. BUSINESS

Overview

GWRI is a water resource management company that owns, operates, and manages twenty-nine water, wastewater, and recycled water systems in strategically located communities, principally in metropolitan Phoenix and Tucson, Arizona. The Company seeks to deploy an integrated approach, referred to as "Total Water Management."" Total Water Management is a comprehensive approach to water utility management that reduces demand on scarce non-renewable water sources and costly renewable water supplies, in a manner that ensures sustainability and greatly benefits communities both environmentally and economically. This approach employs a series of principles and practices that can be tailored to each community:

- Reuse of recycled water, either directly or to non-potable uses, through aquifer recharge, or possibly direct potable reuse in the future;
- Regional planning;
- Use of advanced technology and data;
- Employing respected subject matter experts and retaining thought and application leaders;
- Leading outreach and educational initiatives to ensure all stakeholders including customers, development partners, regulators, and utility staff are knowledgeable on the principles and practices of our the Total Water Management approach; and
- Establishing partnerships with communities, developers, and industry stakeholders to gain support of our the Total Water Management principles and practices.

Serving more than 74,000 82,000 people in approximately 29,000 32,000 homes within our 397 the Company's 408 square miles of certificated service areas as of December 31, 2022 December 31, 2023, GWRI the Company provides water and wastewater utility services under the regulatory authority of the ACC. Approximately 91.0% 89.3% of the active service connections are customers of the Company's the Company's Global Water - Santa Cruz Water Company, Inc. ("Santa Cruz") and Global Water - Palo Verde Utilities Company, Inc. ("Palo Verde") utilities, which are located within a single service area.

U.S. Water Industry Overview

U.S. Water Industry Areas of Business

The U.S. water industry has two main areas of business:

- *Utility Services to Customers*. This business includes water and wastewater utilities, which are owned and operated by governmental subdivisions or investors in the private sector. Investor-owned water and wastewater utilities are generally economically regulated, including rate regulation, by public utility commissions in the states in which they operate. The utility segment is characterized by high barriers to entry, including high capital spending requirements.
- *General Water Products and Services.* This business includes manufacturing, engineering and consulting companies, and numerous other fee-for-service businesses. The activities of these businesses include the building, financing, and operating of water and wastewater utilities, utility repair services, contract operations, laboratory services, manufacturing and distribution of infrastructure and technology components, and other specialized services. At present, the Company does not perform any unregulated services.

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Key Characteristics of the U.S. Water Industry

In the U.S., the water industry is characterized by:

- *Significant Constraints on the Availability of Fresh Water*. In Arizona, the Arizona Department of Water Resources ("ADWR" ("ADWR") estimates that annual water usage is 7 million acre-feet per year. year, as of 2017. Arizona has the right to use 2.8 million acre-feet from the Colorado River and approximately half of that can be delivered through the Central Arizona Project, a 336-mile long system of aqueducts, tunnels, pumping plants, and pipelines from the Colorado River to central Arizona. The Colorado River is shared by seven U.S. States and Mexico and is presently over-allocated, which means that more surface water right allocations have been issued than the actual average annual flow, with allocations being determined based on data from a period during which flows were significantly higher than in recent years. The Central Arizona Project is the only means of transporting Colorado River water into central Arizona. Approximately 41% of the water used in Arizona comes from groundwater. Water in the western U.S. is being pumped from groundwater sources faster than it is replenished naturally, a condition known as overdraft. In areas of water scarcity, such as the arid western U.S., water recycling represents a relatively simple, inexpensive, and energy-efficient means of augmenting water supply as compared to transporting surface water, groundwater, or desalinated water from other locations. Approximately 70% of the water provided for municipal use is currently utilized for non-potable applications where recycled water could potentially be utilized.
- *Lack of Technology Utilization to Increase Operating Efficiencies and Decrease Operating Costs*. The U.S. water industry has traditionally not taken advantage of advances in technology available to enhance revenue, increase operating efficiencies, and decrease operating costs (including labor and energy costs). Areas of opportunity include automated meter reading, systems management, and administrative functions, such as customer billing and remittance systems. Key drivers for the lack of investment in technology in water and wastewater utilities have been the historical lack of incentives offered or standards imposed by regulators to achieve

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efficiencies and lower costs and the ownership of the U.S. water utility sector, which largely consists of small, undercapitalized, municipally-owned utilities that lack the financial and technical resources to pursue technology opportunities.

- *Highly Fragmented Ownership*. The utility segment of the U.S. water industry is highly fragmented, with approximately 50,000 water utilities and approximately 16,000 community wastewater utilities, according to the U.S. Environmental Protection Agency ("EPA" (“EPA”). The majority of the approximately 50,000 water utilities are serving a population of 5,000 or less, and 85% of the water utilities serve only 10% of the population.
- *Large Public Sector Ownership*. Municipally-owned utilities provide water and wastewater services for the vast majority of the U.S. population. For homes connected to a community water system, approximately 80% are provided service by municipally-owned utilities.
- *Aging Infrastructure in Need of Significant Capital Expenditures*. Water infrastructure in the U.S. is aging and requires significant investment and stringent focus on cost control to upgrade or replace aging facilities and to provide service to growing populations. Throughout the U.S., utilities are required to make expenditures on the rehabilitation of existing utilities and on the installation of new infrastructure to accommodate growth and make improvements to water quality and wastewater discharges mandated by stricter water quality standards. Water quality standards, first introduced with the Clean Water Act in 1972 and the Safe Drinking Water Act in 1974, are becoming increasingly stringent and numerous. For water, the American Water Works Association estimates investment needs for buried drinking water infrastructure will total more than $1 trillion over the next 25 years. The American Society of Civil Engineers estimates capital investment needs to update and grow the nation’s drinking water and wastewater systems is expected to increase to $434 billion $434 billion by 2029.

Private Sector Opportunities

Municipal water utilities typically fund their capital expenditure needs through user-based water and wastewater rates, municipal taxes, or the issuance of bonds. However, raising large amounts of funds required for capital investment is often challenging for municipal water utilities, which affects their ability to fund capital spending. Many smaller utilities also do not have the in-house technical and engineering resources to manage significant infrastructure or technology-related investments. In order to meet their capital spending challenges and take advantage of technology-related operating efficiencies, many municipalities are examining a combination of outsourcing and partnerships with the private sector or outright privatizations.

- Outsourcing involves municipally-owned utilities contracting with private sector service providers to provide services, such as meter reading, billing, maintenance, or asset management services.

- Public-private partnerships among government, operating companies, and private investors include arrangements, such as design, build, and operate contracts; build, own, operate, and transfer contracts; and own, leaseback, and operate contracts.
- Privatization involves a transfer of responsibility for, and ownership of, the utility from the municipality to private investors.

We believe investor-owned utilities that have greater access to capital are generally more capable of making mandated and other necessary infrastructure upgrades to both water and wastewater utilities, addressing increasingly stringent environmental and human health standards, and navigating a wide variety of regulatory processes. In addition, investor-owned utilities that achieve larger scales are able to spread overhead expenses over a larger customer base, thereby reducing the costs to serve each customer. Since many administrative and support activities can be efficiently centralized to gain economies of scale and sharing of best practices, companies that participate in industry consolidation have the potential to improve operating efficiencies, lower costs, and improve service at the same time.

Our Strategy

We are a water resource management company that provides water, wastewater, and recycled water utility services. We believe we are a leader in Total Water Management practices, such as water scarcity management and advanced water recycling applications. Our long-term goal is to become one of the largest investor-owned operators of integrated water and wastewater utilities in areas of the arid western U.S. where water scarcity management is necessary for long-term economic sustainability and growth.

Our growth strategy involves the elements listed below:

- acquiring or forming utilities in the path of prospective population growth;
- expanding our service areas geographically and organically growing our customer base within those areas; and
- deploying our Total Water Management approach into these utilities and service areas.

We believe this plan can be executed in our current service areas and in other geographic areas where water scarcity management is necessary to support long-term growth and in which regulatory authorities recognize the need for water conservation through water recycling.

Total Water Management is a demand-side-management framework (in that it is a solution intended to drive down demand for water supplies versus developing new water supplies) that alleviates the pressures of water scarcity in communities where growth is reasonably expected to outpace potable water supply. Built on an all-encompassing view of the water cycle, Total Water Management promotes sustainable community development through reduced potable water consumption while monetizing the value of water through each stage of delivery, collection, and reuse.

Our business model applies Total Water Management in high growth communities. Components of our Total Water Management approach include:

- Regional planning to reduce overall design and implementation costs, leveraging the benefits of replicable designs, gaining the benefits of economies of scale, and enhancing the Company’s position as a primary premier water and wastewater service provider in the region.

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- For example, the Company has secured four separate area-wide Clean Water Act Section 208 Regional Water Quality Management Plans in its major planning areas, covering more than 500 square miles of land. To obtain these plans, a provider must develop, amongst other things, a regional wastewater solution, including plans for engineering, infrastructure location and size, and goals for the management of treated reclaimed water, which the Company successfully demonstrated in obtaining its plans.

- Stretching a limited resource by maximizing the use of recycled water, using renewable surface water where available and recharging aquifers with any available excess water.

  - For example, the Company's water recycling model has been fully implemented in the City of Maricopa. The Company is the water, wastewater, and recycled water provider for the City of Maricopa, which currently has a population of approximately 64,000. 74,000. A community of this size produces an approximate annual average of 3.45 3.7 million gallons of wastewater per day. Because the Company requires developers

to take back and utilize recycled water within their communities and invest in "purple pipe" recycled water infrastructure during the initial development of subdivisions, the Company is now able to distribute the majority of its recycled water back to the community for beneficial purposes. Approximately 61% 66% of the recycled water goes towards common area non-potable irrigation and for use at a local farm, which allows for the recycled water to naturally recharge into the aquifer. This reduces the total amount of limited ground or surface water that would otherwise be required within the community by almost 30%. To date, the Company has reused approximately 10.7 billion 11.7 billion gallons of recycled water in the City of Maricopa.

- Integrating and standardizing water, wastewater, and recycled water infrastructure delivery systems using a separate distribution system of purple pipes to conserve water resources, reduce energy, treatment, and consumable costs (e.g., chemicals, filter media, other general materials, and supplies), provide operational efficiencies, and align the otherwise disparate objectives of water sales and conservation.

  - In addition to the previous example, which related to the requirements for recycled water usage, the separate distribution system of purple pipes, and water conservation achievements, the Company believes that its model results in additional benefits from an economic perspective due to lower use of power and consumables. For every gallon of recycled water that is directly reused while already on land surface, the need to pump additional scarce groundwater and surface water is eliminated. Such additional groundwater and surface water would otherwise need to be treated and distributed in accordance with the Safe Drinking Water Act, which is costly and requires significant energy.

- Gaining market and regulatory acceptance of broad utilization of recycled water through agreements with developers, strategic relationships with governments, academic research, and publication as industry experts, coupled with public education and community outreach campaigns.

  - For example, the Company has public-private partnerships formally adopted through memorandums of understanding with the City of Maricopa, City of Casa Grande, City of Coolidge and Town of Sahuarita. Each memorandum of understanding reflects the Company's intent to deploy Total Water Management. The Company also has 154 infrastructure coordination and financing agreements with landowners or developer entities that include requirements for usage of recycled water and other attributes that support the Company's Total Water Management model. As discussed above, the Company's integrated provider model, which is focused on the maximum use of recycled water, underpins its Clean Water Act Section 208 Regional Water Quality Management Plans and Designations of Assured Water Supply. In addition, the Company has won numerous awards for education, outreach, and conservation in the water industry.

- Incorporating automated processes, such as supervisory control and data acquisition, automated meter reading, and back-office technologies and "green" billing, which reduce operating costs, improve system availability and reliability, and improve customer satisfaction.

  - *Supervisory Control and Data Acquisition.* The Company employs supervisory control and data acquisition in most of its utility systems, which provides continuous monitoring, instantaneous alarming, and historical trending on all key operating assets, including instrumentation and dynamic components (e.g., pumps, motor-controlled valves, treatment systems, etc.). This data is reported back to the appropriate operations personnel through a standard industry software. The benefits of this system include the significantly enhanced ability to: achieve compliance and safety mandates; reduce service outages; troubleshoot systems; provide for remote operations; and allow for proactive maintenance and lower costs related to efficient real-time operations.

  - *Automated Meter Reading. Infrastructure.* The Company has implemented automated meter reading for 99% of its active customers with a substantial proportion of its remaining customers in the process of or being, or planned to be, upgraded with such functionality. Currently, all meters in our Maricopa service areas allow for automated meter reading. infrastructure. This technology reads each meter numerous times per day (often hourly) and continuously transmits the meter readings back to a centralized data base through a communications tower and cellular transmission units. The data is then presented to the utility, and is made available to customers, through a simple user interface. Reading meters at this frequency provides many benefits to both the utility and the customer. With this data, we can better model demand usage, identify system water loss, identify leaks on the customer side of the meter, monitor for abnormal usage, and present interval, hourly, daily, weekly, or monthly usage back to the customers.

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◦ *Back-Office Technologies and Paperless Billing.* The Company employs a series of technologies that allow for the automation of the billing and remittance process. The Company also provides its customers with over seven ways to pay, with the majority of options being integrated with the Company's back-office technologies. In combination with automated meter reading, this suite of technology has minimized the use of human labor and reduced the potential for human error for the entire billing and remittance process, while providing better customer service.

We believe our Total Water Management-based business model provides us with a significant competitive advantage in high growth, water scarce regions. Based on our experience and discussions with developers, we believe developers prefer our approach because it provides a bundled solution to infrastructure provision and improves housing density in areas of scarce water resources. Developers are also focusing on increased consumer and regulatory demands for environmentally friendly or "green" housing alternatives. Communities prefer the approach because it provides a partnering platform which promotes economic development, reduces their traditional dependence on bond financing and ensures long term water sustainability.

Our competitive advantage facilitates the execution of our growth strategy. We believe our proven conservation methods lead to successful permitting for more connections in expanded and new service areas.

A key component of our water utility business is the use of recycled water. Recycled water is highly treated and purified wastewater that is distributed through a separate distribution system of purple pipes for a variety of beneficial, non-potable uses. Recycled water can be delivered for all common area irrigation needs, as well as delivered direct to homes where it can be used for outdoor residential irrigation. Our Total Water Management model, an integrated approach to the use of potable and non-potable water to manage the entire water cycle, both conserves water and maximizes its total economic value. The application of the Total Water Management model has proven to be effective as a means of water scarcity management that promotes sustainable communities and helps achieve greater dwelling unit density in areas where the availability of sustainable water can be a key constraint on development. Our implementation of the Total Water Management philosophy in Arizona has led to the development of relationships with key regulatory bodies.

Our Regulated Utilities

We own and operate regulated water, wastewater, and recycled water utilities in communities principally located in metropolitan Phoenix and Tucson. Our utilities are regulated by the ACC, as described further under "—Regulation—Arizona Regulatory Agencies" below. As of December 31, 2022 December 31, 2023, our utilities collectively had 56,270 61,791 active service connections offering predictable rate-regulated cash flows. Revenues from our regulated utilities accounted for approximately 100.0% 94.7% of total revenues in 2022. 2023. Our utilities currently possess the high-level regional permits that allow us to implement our business model; thus, we believe we are well-positioned for organic growth in our current service areas that are generally located in Arizona's population growth corridors: Maricopa County, Pinal County and Pima County.

A summary description of our utilities at December 31, 2022 December 31, 2023 is set forth in the following table and described in more detail below:

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Utility	Utility	Date of Acquisition (A) or Formation (F)	Service Provided	Square Miles of Service Area (1)(2)	Active Service Connections (2)	Average Monthly Rate Per Service Connection	Utility	Date of Acquisition (A) or Formation (F)	Service Provided	Square Miles of Service Area (1)	Active Service Connections	Average Monthly Rate Per Service Connection
PINAL COUNTY	**PINAL COUNTY**						**PINAL COUNTY**					
Global Water - Santa Cruz Water Company, Inc.	Global Water - Santa Cruz Water Company, Inc.	2004 (A)	Water	99	26,737	$ 56						
Global Water - Palo Verde Utilities Company, Inc.	Global Water - Palo Verde Utilities Company, Inc.	2004 (A)	Wastewater and Recycled Water	124	26,415	73						
MARICOPA COUNTY	**MARICOPA COUNTY**											
MARICOPA COUNTY												
MARICOPA COUNTY												
Global Water - Hassayampa Utilities Company, Inc.												

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Global Water - Hassayampa Utilities Company, Inc.											
Global Water - Hassayampa Utilities Company, Inc.	Global Water - Hassayampa Utilities Company, Inc.	2005 (F)	Wastewater and Recycled Water	43	—	—	2005 (F)	Wastewater and Recycled Water	43	0	0
Global Water - Belmont Water Company, Inc.	Global Water - Belmont Water Company, Inc.	2006 (A)	Water	111	580	83					
Global Water - Turner Ranches Irrigation, Inc.	Global Water - Turner Ranches Irrigation, Inc.	2018 (A)	Water	7	962	77					
PIMA COUNTY	**PIMA COUNTY**										
PIMA COUNTY											
PIMA COUNTY											
Global Water - Red Rock Water Company, Inc.											
Global Water - Red Rock Water Company, Inc.											
Global Water - Red Rock Water Company, Inc.							2018 (A)	Water		7.0	0
Global Water - Francesca Water Company, Inc.	Global Water - Francesca Water Company, Inc.	2020 (A)	Water	0.4	121	56					
Global Water - Mirabell Water Company, Inc.	Global Water - Mirabell Water Company, Inc.	2020 (A)	Water	0.4	61	74					
Global Water - Lyn Lee Water Company, Inc.	Global Water - Lyn Lee Water Company, Inc.	2020 (A)	Water	1	39	40					
Global Water - Tortolita Water Company, Inc.	Global Water - Tortolita Water Company, Inc.	2020 (A)	Water	0.1	23	57					
Global Water - Las Quintas Serenas Water Company, Inc.	Global Water - Las Quintas Serenas Water Company, Inc.	2021 (A)	Water	2.5	1,252	50					

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Global Water - Rincon Water Company, Inc.	Global Water - Rincon Water Company, Inc.	2022 (A)	Water	9	80	67
Global Water - Farmers Water Company, Inc.						
Total	**Total**			**397**	**56,270**	
Total						
Total				**408**	**61,791**	

(1) Certified areas may overlap in whole or in part for separate utilities.

(2) In February 2023 the Company completed the acquisition of Farmers Water Co., an operator of a water utility with service area in Sahuarita, Arizona and in unincorporated Pima County, Arizona. The acquisition added approximately 3,300 active water connections and 21.5 square miles of service area. Refer to Note 16 - "Subsequent Events" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional details.

Pinal County

The City of Maricopa is located in Pinal County approximately 12 miles south of Phoenix. The relative proximity to a significant urban center, coupled with relatively abundant and inexpensive land, were the key drivers of the real estate boom experienced by this community. While growth has slowed nationally over the past five years, the The City of Maricopa continues to grow, as demonstrated by our addition of 12,692 12,959 active service connections, which represents 6.6% 6.1% annualized growth from December 2017 2018 to December 2022. 2023. Development in the area is still considered to be affordable with the median home value being $349,450 $341,000 compared to $425,000 $429,000 in the Phoenix Metro area.

We operate in this region through Global Water - Santa Cruz Water Company, Inc. ("(“Santa Cruz" Cruz”) and Global Water - Palo Verde Utilities Company, Inc. ("(“Palo Verde" Verde”).

We acquired Santa Cruz and Palo Verde in 2004. Santa Cruz serves 26,737 served 27,766 active service connections as of December 31, 2022 December 31, 2023 and revenues from Santa Cruz represented approximately 40.0% 39.3% and 39.5% 40.0% of our total revenue for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. In January 2022, Santa Cruz acquired Twin Hawks Utility, Inc., which added 18 new connections to Santa Cruz, at the time of acquisition. Palo Verde serves 26,415 served 27,421 active service connections as of December 31, 2022 December 31, 2023 and revenues from Palo Verde represented approximately 51.8% 47.9% and 50.7% 51.8% of our total revenue for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

The Santa Cruz and Palo Verde service areas include approximately 223 205 square miles, which we believe provide further opportunities for growth. Most of the Santa Cruz and Palo Verde infrastructure is less than nineteen twenty years old. Santa Cruz and Palo Verde provide water, wastewater, and wastewater recycled water services, respectively, under an innovative public-private partnership memorandum of understanding with the City of Maricopa in Pinal County for approximately 278 square miles of its

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planning area. We signed a similar memorandum of understanding with the City of Casa Grande to partner in providing water, wastewater, and recycled water services to an approximate 100 square miles of its western region for anticipated growth.

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Rate proceedings were completed in 2022 for both Santa Cruz and Palo Verde , which resulted, among other things, in consolidation of the following utilities into Santa Cruz:

- Global Water - Red Rock Utilities Company, Inc. (water services only)1
- Global Water - Picacho Cove Water Company, Inc. (water services only)

In addition, the following utilities were consolidated into Palo Verde:

- Global Water - Red Rock Utilities Company, Inc. (wastewater and recycled water services only)
- Global Water - Picacho Cove Utilities Company, Inc. (wastewater services only)

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Prior to the consolidation in 2022, Global Water - Red Rock Utilities Company, Inc. provided water and wastewater utility services in Pinal County and had a service area for water utility service in Pima County. Only service areas located in Pinal County were consolidated into Santa Cruz and Palo Verde. Refer to the *Pima County* section for information on Global Water - Red Rock Water Company, Inc. which holds the Pima County water utility service area.

For additional information related to the rate case, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Rate Case Activity”, included in Part II, Item 7 of this report and Note 2 – “Regulatory Decision and Related Accounting and Policy Changes” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report.

Maricopa County

We operate in this region through Global Water - Belmont Water Company, Inc. ("Belmont"), Global Water - Hassayampa Utilities Company, Inc. (“Hassayampa”), and Global Water - Turner Ranches Irrigation, Inc. ("Turner" (“Turner”).

As a result of the rate proceedings completed in 2022, Belmont was formed and consolidated which resulted, among other things, in consolidation of the following utilities:

- utilities into Global Water - Greater Tonopah Water Company, Inc. ("Greater Tonopah"):
- Global Water - Northern Scottsdale Water Company, Inc. (" (“Northern Scottsdale" Scottsdale”)
- Global Water - Eagletail Water Company, Inc. ("Eagletail" (“Eagletail”)

Global Water - Greater Tonopah Water Company, Inc. was then renamed Global Water - Belmont Water Company, Inc. (“Belmont”).

The rate proceedings also resulted in the consolidated consolidation of Global Water - Balterra Utilities Company, Inc. into Hassayampa.

Belmont serves 580 served 622 active service connections as of December 31, 2022 December 31, 2023. The service areas include approximately 111 square miles and provides water services to Maricopa County west of the Hassayampa River and to two small subdivisions in northern Scottsdale. Within the Belmont service area, we have entered into agreements with developers to serve approximately 100,000 home sites plus commercial, schools, parks, and industrial developments at full build-out. The Belmont development is a mixed use, master planned community.

We formed Hassayampa in 2005. Hassayampa is a wastewater utility and has a Certificate of Convenience & Necessity (“CC&N &N”) for approximately 43 square miles in an area in western Maricopa County known as Tonopah. Hassayampa currently has no active service connections; however, its service area lies directly in the expected path of future growth in the far west valley of metropolitan Phoenix, which we believe should provide opportunities for growth once development commences in this area.

We acquired Turner in May 2018. Turner is a non-potable irrigation water utility located in Maricopa County, Arizona, with approximately seven square miles of service area. Turner served 962 residential irrigation customers as of December 31, 2022 December 31, 2023.

We formerly operated additional utilities in Maricopa County through Valencia Water Company, Inc. ("Valencia" (“Valencia”) and Water Utility of Greater Buckeye (" (“Greater Buckeye" Buckeye”). Valencia was consolidated with Greater Buckeye in 2008, and on July 14, 2015, we closed the stipulated condemnation to transfer the operations and assets of Valencia to the City of

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Buckeye. See Note 1 — “Description of Business, Basis “Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — Stipulated Condemnation of the

[1]The Red Rock service area includes territories in both Pinal and Pima Counties, however, only the Pinal County service area was consolidated into Santa Cruz. At this time, the Pima County service area has no active service connections.

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Operations and Assets of Valencia Water Company, Inc.” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

For additional information related to the rate case, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Rate Case Activity”, included in Part II, Item 8 7 of this report and Note 2 — “Regulatory Decision and Related Accounting and Policy Changes” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report.

Pima County

We operate in this region through Global Water - Mirabell Water Company, Inc. (“Mirabell”), Global Water - Francesca Water Company, Inc. (“Francesca”), Global Water - Tortolita Water Company, Inc. (“Tortolita”), Global Water - Lyn Lee Water Company, Inc. (“Lyn Lee”), Global Water - Las Quintas Serenas Water Company, Inc. (“Las Quintas Serenas”), and Global Water - Rincon Water Company, Inc. ("Rincon" (“Rincon”), Red Rock-Pima, and Global Water - Farmers Company, Inc. (“Farmers”).

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We acquired Mirabell in October 2020. Mirabell serves served 61 active water connections as of December 31, 2022 December 31, 2023. Mirabell has a CC&N for 0.4 square miles located in the southwest area of Tucson, Arizona.

We acquired Francesca, Tortolita and Lyn Lee in November 2020. Francesca is located in the southwest area of Tucson, Arizona whereas Tortolita and Lyn Lee are located in Marana, Arizona. As of December 31, 2022 December 31, 2023, Francesca, Tortolita, and Lyn Lee serve 121, served 119, 23, and 39 38 active water connections, respectively.

We acquired Las Quintas Serenas in November 2021. Las Quintas Serenas serves 1,252 served 1,238 active water connections with approximately 2.5 3.0 square miles of service area located in Sahuarita, Arizona.

In January 2022, the Company acquired the assets of Rincon Water Company, Inc., a water utility serving the vicinity of Vail, Arizona. As of December 31, 2023, Rincon served 79 active water connections with approximately 9.0 square miles of service area.

Global Water - Red Rock Water Company, Inc. ("Red Rock") was acquired by the Company in 2018 and holds service areas located in Pima County . At this time, Red Rock has no active service connections.

In February 2023, the Company completed the acquisition of Farmers Water Co., an operator of a water utility with service area in Sahuarita, Arizona through 80 and in unincorporated Pima County, Arizona. As of December 31, 2023, Farmers served 3,462 active water connections and with approximately 9 21.0 square miles of service area.

Regulation

Our water and wastewater utility operations are subject to extensive regulation by U.S. federal, state, and local regulatory agencies that enforce environmental, health, and safety requirements, which affect all of our regulated subsidiaries. These requirements include the Safe Drinking Water Act, the Clean Water Act, and the regulations issued under these laws by the EPA. We are also subject to state environmental laws and regulations, such as Arizona's Aquifer Protection Program and other environmental laws and regulations enforced by the Arizona Department of Environmental Quality ("ADEQ" ("ADEQ"), and extensive regulation by the ACC, which regulates public utilities. The ACC also has broad administrative power and authority to set rates and charges, determine service areas and conditions of service, and authorize the issuance of securities as well as authority to establish uniform systems of accounts and approve the terms of contracts with both affiliates and customers.

We are also subject to various federal, state, and local laws and regulations governing the storage of hazardous materials, the management and disposal of hazardous and solid wastes, discharges to air and water, the cleanup of contaminated sites, dam safety, fire protection services in the areas we serve, and other matters relating to the protection of the environment, health, and safety.

In addition to regulation by governmental entities, our operations may also be affected by civic or consumer advocacy groups. These organizations provide a voice for customers at local and national levels to communicate their service priorities and concerns. Although these organizations may lack regulatory or enforcement authority, they may be influential in achieving service quality and rate improvements for customers.

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We maintain a comprehensive environmental program which addresses, among other things, responsible business practices and compliance with environmental laws and regulations, including the use and conservation of natural resources. Water samples across our water system are analyzed on a regular basis in material compliance with regulatory requirements. Water quality tests are conducted at subcontracted laboratory facilities in addition to providing continuous online instrumentation for monitoring parameters, such as turbidity and disinfectant residuals, and allowing for adjustments to chemical treatment based on changes in incoming water quality. For 2022, 2023, we achieved a compliance rate of 99.7% 99.9% for meeting state and federal drinking water standards and 99.8% 99.9% for compliance with wastewater requirements, for an overall compliance rating of 99.8% 99.9%. Compliance with governmental regulations is of utmost importance to us, and considerable time and resources are spent ensuring compliance with all applicable federal, state, and local laws and regulations.

Safe Drinking Water Act

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The federal Safe Drinking Water Act and regulations promulgated thereunder establish minimum national quality standards for drinking water. The EPA has issued rules governing the levels of numerous naturally occurring and man-made chemical and microbial contaminants and radionuclides allowable in drinking water and continues to propose new rules. These rules also prescribe testing requirements for detecting contaminants, the treatment systems that may be used for removing contaminants, and other requirements. Federal and state water quality requirements have become increasingly more stringent, including increased water testing requirements, to reflect public health concerns. In Arizona, the requirements of the Safe Drinking Water Act are incorporated by reference into the Arizona Administrative Code.

In order to remove or inactivate microbial organisms, the EPA has promulgated various rules to improve the disinfection and filtration of drinking water and to reduce consumers' exposure to disinfectants and by-products of the disinfection process.

Contaminants of emerging concern ("CECs" ("CECs") are chemicals and other substances that have no regulatory standard, but have been discovered in water or in the environment where they had not previously been detected, or were only present at insignificant levels. We believe CECs may form the basis for additional regulatory initiatives and requirements in the future. We rely on governmental agencies to establish regulatory standards regarding CECs and we meet or exceed these standards, when established.

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Although it is difficult to project the ultimate costs of complying with the above or other pending or future requirements, we do not expect current requirements under the Safe Drinking Water Act to have a material impact on our operations or financial condition, although it is possible new methods of treating drinking water may be required if additional regulations become effective in the future. In addition, capital expenditures and operating costs to comply with environmental mandates traditionally have been recognized by state public utility commissions as appropriate for inclusion in establishing rates, although rate recovery may be delayed by "regulatory lag", that is, the delay between the utility's test year and the issuance of a rate order approving new rates.

Clean Water Act

The federal Clean Water Act regulates discharges of liquid effluents from drinking water and wastewater treatment facilities into waters of the U.S., including lakes, rivers, streams and subsurface, or sanitary sewers. In Arizona, with the exception of Clean Water Act Section 208 Regional Water Quality Management Plans, capacity management and operations and maintenance requirements, and source control requirements, wastewater operations are primarily regulated under the Aquifer Protection Permit program and the Arizona Pollutant Discharge Elimination System program.

The EPA certifies Clean Water Act Section 208 Regional Water Quality Management Plans and Amendments which govern the location of water reclamation facilities and wastewater treatment plants. The EPA's 40 C.F.R. Pt. 503 bio-solids requirements are reported to the EPA through the ADEQ. While we are not presently regulated to meet source control requirements, we maintain source control through various Codes of Practice that have been accepted by the ACC as enforceable limits on consumer discharges to sanitary sewer systems. We believe we maintain the necessary permits and approvals for the discharges from our water and wastewater facilities.

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Arizona Regulatory Agencies

The ACC is the regulatory authority in Arizona with jurisdiction over privately-held water and wastewater utilities. The ACC has exclusive constitutional authority related to ratemaking and extensive constitutional authority to approve rates, mandate accounting treatments, authorize long-term financing programs, evaluate significant capital expenditures and plant additions, examine and regulate transactions between a regulated subsidiary and its affiliated entities, and approve or disapprove some reorganizations, mergers, and acquisitions prior to their completion. Additionally, the ACC has statutory authority to oversee service quality and consumer complaints, and approve or disapprove expansion of service areas. The ACC is comprised of five elected members, each serving a four year term.

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Companies that wish to provide water or wastewater service apply for a CC&N with the ACC, which, if granted, allows them to serve customers within a geographic area specified by a legal description of the property. In considering an application for a CC&N, the ACC will determine if the applicant is fit and proper to provide service within a specified area, whether the applicant has sufficient technical, managerial, and financial capabilities to provide the service, and if that service is necessary and in the public interest. Once a CC&N is granted, the utility falls under the ACC's jurisdiction and must abide by the rules and laws under which a public service corporation operates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Rate Case Activity," included in Part II, Item 7 of this report, for additional information regarding rate case activity involving the ACC.

Arizona water and wastewater utilities must also comply with state environmental regulation regarding drinking water and wastewater, including environmental regulations set by Councils of Government (such as the Central Arizona Governments and the Maricopa Association of Governments), the ADEQ, and the ADWR.

The Central Arizona Governments is the designated management authority for Section 208 of the Clean Water Act for Pinal and Gila Counties and administers the requirements of the Regional Water Quality Management Plans and Amendments at the local level. The Maricopa Association of Governments is the designated management authority for Section 208 of the Clean Water Act for Maricopa County and administers the requirements of the Regional Water Quality Management Plans and Amendments at the local level.

The ADEQ regulates water quality and permits water reclamation facilities, discharges of recycled water, re-use of recycled water, and recharge of recycled water. The ADEQ also regulates the clean closure requirements of facilities. The Maricopa County Environmental Services Department has delegated authority for overseeing ADEQ requirements in Maricopa County. The Pima County Department of Environmental Quality has delegated authority for overseeing ADEQ requirements in Pima County.

The ADWR regulates surface water extraction, groundwater withdrawal, designations and certificates of assured water supply, extinguishment of irrigation grandfathered water rights, groundwater savings facilities, recharge facilities, recharge permits, recovery well permits, storage accounts, and well construction, abandonment, or replacement.

Within each regulatory organization, we have invested in developing cooperative relationships at all levels, from staff to executives to elected and appointed officials, and have adopted a proactive attitude toward regulatory compliance.

Assured and Adequate Water Supply Regulations

We intend to seek access to renewable water supplies as we grow our water resource portfolio. However, we currently rely almost exclusively (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to meet future demands in our service areas. Aside from some rights to water through the Central Arizona Project, groundwater (and recycled water derived from groundwater) is the only water supply available to us.

Although we intend to rely on recycled water to help meet water demands in areas, the infrastructure, permits, and customer base necessary to generate and deliver recycled water are not necessarily in place in most of our service areas. In addition, although recycling can extend a limited supply, it does not actually generate a new supply of water.

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As such, although our proposed generation and delivery of recycled water is likely to help reduce the amount of groundwater that will be required to serve future customers, our ability to serve new customers will remain dependent on our ability to access groundwater. Groundwater is a limited resource in Arizona, and access to new uses of groundwater is closely regulated in the areas served by us. See "Risk Factors—Business and Operational Factors—Inadequate water and wastewater supplies could have a material adverse effect upon our ability to achieve the customer growth necessary to increase our revenues," included in Part I, Item 1A of this report, for additional information.

Nearly all of our service areas are located in "Active Management Areas" within which the use of groundwater is regulated by ADWR in order to manage ongoing problems with groundwater overdraft. Under Arizona's assured water supply laws and regulations, a new subdivision inside an Active Management Area must demonstrate that it has an "assured water supply" to the satisfaction of the ADWR before the developer is permitted to sell lots. Demonstration of an assured water supply requires, among other things, that an applicant demonstrate that water supplies will be physically, continuously, and legally available to satisfy the water needs of the proposed use for at least 100 years.

A developer may make an independent showing of an assured water supply resulting in a Certificate of Assured Water Supply ("CAWS" ("CAWS") for a subdivision or may obtain a written commitment for service from a designated water provider, such as a privately owned water company or a municipal water supplier. Under the latter approach, the water provider must demonstrate satisfaction of assured water supply requirements for the developments within its service areas resulting in a Designation of Assured Water Supply ("DAWS" ("DAWS") for the provider.

At present, we have obtained a DAWS in the Maricopa/Casa Grande service territory (Santa Cruz) for approximately 22,900 acre-feet of water use. A DAWS is subject to periodic review and renewal by the ADWR and can be increased as demand grows within the service territory, subject to the physical availability of existing water supplies and any additional supplies acquired for use within the DAWS.

Over time, we anticipate Santa Cruz will apply to increase the DAWS as sufficient increased demand is established in the area. Under our highly efficient Total Water Management model, we have achieved much lower per-unit potable water use rates than would be expected for average developments. In 2022, 2023, we used approximately 7,900 8,750 acre-feet of the annually available 22,914 acre-feet already permitted in the DAWS.

In our West Valley service territory (Greater Tonopah), we are seeking a DAWS in the future. In our other service areas, we rely upon a CAWS obtained by developers to demonstrate an assured water supply, or will apply for a DAWS in the future when required. There is no assurance that the ADWR would provide a new CAWS, DAWS or add any additional acre-feet to a DAWS in the future.

Outside of Arizona's Active Management Areas, the "adequate water supply" program requires a determination of whether there is an adequate water supply—similar to an assured water supply—but it does not necessarily foreclose development when the showing cannot be made. Unless the county government has voted to make the requirement mandatory, a development (outside of Active Management Areas) that cannot demonstrate access to an adequate water supply is generally required only to disclose this fact, although as a practical matter few developments have proceeded on this basis. In addition, whether a water provider to such a development has access to an adequate water supply is nevertheless relevant to its business.

Other Environmental, Health, and Safety (including Water Quality) Matters

Our operations also involve the use, storage, and disposal of hazardous substances and wastes. For example, our water and wastewater treatment facilities store and use chlorine and other chemicals and generate wastes that require proper handling and disposal under applicable environmental regulations. We could also incur remedial costs in connection with any environmental contamination relating to our operations or facilities, releases or our off-site disposal of wastes. Although we are not aware of any material cleanup or decontamination obligations, the discovery of contamination or the imposition of such obligations arising under relevant federal, state, and local laws and regulations in the future could result in additional costs. Our facilities and operations also are subject to requirements under the U.S. Occupational Safety and Health Act and similar laws in Arizona.

Our compliance with all of the environmental, health, and safety (including water quality) requirements described above may be subject to inspections and enforcement measures by federal, state, and local agencies.

Security

Due to security, vandalism, terrorism, and other risks, we take precautions to protect our employees and the water delivered to our customers. In 2002, federal legislation was enacted that resulted in new regulations concerning security of water facilities, including submitting vulnerability assessment studies to the federal government. We have complied with EPA regulations concerning vulnerability assessments and have made filings to the EPA as required. Vulnerability assessments are conducted regularly to evaluate the effectiveness of existing security controls and serve as the basis for further capital investment in security for the facility. Information security controls are deployed or integrated to prevent unauthorized access to company information systems, assure the continuity of business processes dependent upon automation, ensure the integrity of our data and support regulatory and legislative compliance requirements. In addition, communication plans have been developed as a component of our procedures. While we do not make public comments on the details of our

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security programs, we have been in contact with federal, state, and local law enforcement agencies to coordinate and improve the security of our water delivery systems and to safeguard our water supply.

Operations

We treat water to potable standards and also treat, clean, and recycle wastewater for a variety of non-potable uses. A description of these operations follows.

Sources of Water Supply

Our water supplies are primarily derived from groundwater; however, we currently augment these supplies with recycled water and intend to augment them with surface water and increased use of recycled water in the future.

- Potable Water. Our utilities presently employ groundwater systems for potable water production. Water is brought to the surface from underground aquifers (water levels vary from approximately 75 to 700 feet below land surface depending on the area), disinfected and stored in tanks for distribution to customers. In some instances, individual raw water supplies do not meet the legislative requirements for certain constituents. In those cases, we use well-head, centralized, point-of-use, or blending treatment systems to ensure water quality meets potable standards.
- Recycled Water. Recycled water is created by taking wastewater and applying advanced tertiary treatment (i.e., screening, biological reduction, and filtration and disinfection processes) to create a high quality, non-potable water source. Each step is monitored and controlled in order that the stringent requirements for recycled water are continuously met. Recycled water generated by us meets Arizona's Aquifer Water Quality Standards before it leaves the treatment facility and is recognized as Class A+, the highest quality of recycled water regulated by the ADEQ. Recycled water can be used for irrigation, facilities cooling, and industrial applications and in a residential setting for toilet flushing and lawn watering.

See "Risk Factors—Business and Operational Factors—There is no guaranteed source of water," included in Part I, Item 1A of this report, for additional information.

Technology

We use sophisticated technology as a principal means of improving our margins. We focus on technological innovations that allow us to deliver high-quality water and customer service with minimal potential for human error, delays, and inefficiencies. The comprehensive technology platform that we use includes supervisory control and data acquisition (SCADA), automated meter reading (AMR), and geographical information system (GIS) technologies, which we use to map and monitor our physical assets and water resources on an automated, real-time basis with fewer people than the standard water utility model requires. Our systems allow us to detect and resolve potential problems promptly, accurately, and efficiently before they become more serious, which both improves customer service and optimizes and extends the efficient performance and life of our assets. The comprehensive technology platform that we use includes automated meter reading technology, which allows us to read water meters remotely rather than physically, improves water resources accounting, allows for identification of high water usage and water theft from disconnected meters. We also use automated voice, internet billing, payment processing, and customer service applications that contribute to additional reduced headcount and a reduction in associated personnel costs.

Decentralized Treatment Facilities

We design and build standard, decentralized facilities that are scaled to the service areas they serve in order to achieve optimum efficiency in providing both water and wastewater services. The replication of our standard facility also improves design, construction, and operating efficiency because we are able to employ similar, proven processes and equipment and technologies at each of our facilities.

Although there has not traditionally been a significant economic incentive or other reward for automation and resource efficiency in our industry, we believe our use of automation in lieu of labor, together with our emphasis on streamlined operations and conservation, will position us well for continued profitable growth and allow us to take advantage of future incentives or rewards that may be available to water utilities that are able to successfully enhance the use of renewable resources.

Competition

As an owner and operator of regulated utilities, we do not face competition within our existing service areas because Arizona law provides the holder of a CC&N for water and wastewater service with an exclusive right to provide that service within the certificated area, as against other public service corporations. In addition, the high cost of constructing water and wastewater systems in an existing market creates a barrier to entry. We do, however, face competition from other water and wastewater utilities for new service areas and with respect to the acquisition of smaller utilities. We believe our principal competitors for new service areas and acquisitions in Arizona are EPCOR Water Arizona Inc., Arizona

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Water Company, Central States Water Resources, NW Natural Water Company, LLC, Ullico Inc. and Liberty Utilities. We believe competition for new service areas and acquisitions is based on relationships with municipalities and developers, experience in making acquisitions, the ability to

finance and obtain regulatory approval, quality and breadth of products and services, the ability to integrate both water and wastewater services, and implement conservation practices throughout the service areas, price, speed, and ease of implementation.

If we seek to extend our services outside Arizona, we will face competition from other regional or national water utilities for these opportunities.

Although we believe we compete effectively in our regulated businesses, our competitors may have more resources and experience than we have and may therefore have a competitive advantage.

Segment Reporting

We currently operate in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment, and is operated as one reportable segment. We do not have any customers that contribute more than 10% to our revenues or revenue streams. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Segment Reporting" in Part II, Item 7 of this report.

Seasonality

Customer demand for our water during the warmer months is generally greater than other times of the year due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems, and other outside water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature, as well as the timing and overall levels of rainfall. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the customer demand for our water may decrease and therefore, adversely affect our revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting our Results of Operations—Weather and Seasonality," included in Part II, Item 7 of this report, for additional information.

Human Capital Resources

Our employees' employees' significant contributions through innovation and standardization are essential to our realized and continued success. We offer comprehensive compensation and benefits package to attract and retain top talent. In addition to competitive base wages, additional benefits include annual bonus opportunities, employee stock options, Company matched 401(k) plan, healthcare and insurance benefits, flexible spending accounts and paid time off.

As of December 31, 2022 December 31, 2023, we employed 94 106 full-time individuals and 6 3 part-time employees. This represents an increase of twelve nine employees, or 12% 9% from December 31, 2021 December 31, 2022 due primarily to the hiring of additional employees throughout the organization as the company continues to grow. grow and the acquisition of Farmers in February 2023. Currently, none of our employees participate in collective bargaining agreements, and we consider our employee relations to be good.

Our Corporate History

Global Water Resources, LLC ("GWR") was organized in 2003 to acquire, own, and manage a portfolio of water and wastewater utilities in the southwestern region of the United States ("U.S."). Global Water Management, LLC ("GWM") was formed as an affiliated company to provide business development, management, construction project management, operations, and administrative services to GWR and all of its regulated subsidiaries.

In early 2010, the members of GWR made the decision to raise money through the capital markets, and GWR and GWM were reorganized to form Global Water Resources, Inc., a Delaware corporation. The members established a new entity, GWR Global Water Resources Corp. ("GWRC"), which was incorporated under the Business Corporations Act (British Columbia) on March 23, 2010 to acquire shares of our common stock and to actively participate in our management, business, and operations through its representation on our board of directors and its shared management. On December 30, 2010, GWRC completed its initial public offering in Canada and its common shares were listed on the Toronto Stock Exchange. On June 5, 2013, the Company sold GWM.

On May 3, 2016, GWRC merged with and into the Company (the "Reorganization Transaction"). At the effective time of the merger, holders of GWRC's common shares received one share of the Company's common stock for each outstanding common share of GWRC. As a result of the merger, GWRC ceased to exist as a British Columbia corporation and the Company, governed by the corporate laws of the State of Delaware, was the surviving entity. The Reorganization Transaction was conditional upon the concurrent completion of an initial public offering of shares of common stock of the Company in the U.S., which was completed on May 3, 2016.

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Available Information

We maintain an Internet website at *www.gwresources.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act" “Exchange Act”), and proxy statements are accessible through our website, free of charge, as soon as reasonably practicable after these reports are filed electronically with, or furnished to, the SEC. To access these reports, go to our website at *www.gwresources.com*. The foregoing information regarding our website is provided for convenience and the content of our website is not deemed to be incorporated by reference in this report filed with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors, which could materially affect our business, financial condition, or results of operations in future periods. The risks described below are not the only risks facing our company. Additional risks not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or results of operations in future periods.

Legal, Regulatory, and Legislative Factors

We

Proposals to change policy in Arizona made through legislative, regulatory, or ballot initiatives may impact our growth, business plans and financial condition.

In Arizona, a person or organization may file a ballot initiative with the Arizona Secretary of State and, if a sufficient number of verifiable signatures are submitted, the initiative may be placed on the ballot for the public to vote on the matter. Ballot initiatives may relate to any matter, including taxes and policy and regulation related to our industry, and may change statutes or the state constitution in ways that could impact our customers, the Arizona economy, and the Company. The passage of certain initiatives could depress expected population growth, impact our business or growth plans, and have significant obligations under Infrastructure Coordination and Financing Agreements (“ICFAs”), yet funds from a material adverse impact on our ICFAs are dependent on development activities by developers which we do not control and are also subject to certain regulatory requirements.

Prior to 2014, we extended water and wastewater infrastructure financing to developers and builders through ICFAs. These agreements are contracts with developers or builders in which we coordinate and fund the construction financial condition, results of water, wastewater, and recycled water facilities that will be owned and operated by our regulated subsidiaries in advance of completion of developments in the area. Our investment can be considerable, as we phase-in the construction of facilities in accordance with a regional master plan, as opposed to a single development. Developers and builders pay us agreed-upon fees upon the occurrence of specified development events for their development projects. The ACC requires us to record a portion of the funds we receive under ICFAs as contributions in aid of construction (“CIAC”), which are funds or property provided to a utility under the terms of a collection main extension agreement and/or service connection tariff, the value of which are not refundable. Amounts received as CIAC reduce our rate base once expended on utility plants.

The developer is not required to pay the bulk of the agreed-upon fees until a development receives platting approval. Accordingly, we cannot always accurately predict or control the timing of the collection of our fees. If a developer encounters difficulties, such as during a real estate market downturn, that result in a complete or partial abandonment of the development or a significant delay in its completion, we will have planned, built, and invested in infrastructure that will not be supported by development and will not generate either payments under the applicable ICFA operations or cash flows from providing services. As a result, our return on our investment and cash flow stream could be adversely affected. flows.

New or stricter regulatory standards or other governmental actions could increase our regulatory compliance and operating costs, require us to alter our existing treatment facilities, and/or cause us to build additional facilities, which could cause our profitability to suffer, particularly if we are unable to increase our rates to offset such costs.

In Arizona, water and wastewater utilities are subject to regulation by water, environmental, public utility, and health and safety regulators, and we are required to obtain environmental permits from governmental agencies in order to operate our facilities. Regulations relate to, among other things, standards and criteria for drinking water quality and for wastewater discharges, customer service and service delivery standards, waste disposal and raw groundwater abstraction limits, and rates and charges for our regulated services. There may be instances in the future when we are not in or cannot achieve compliance with new and evolving laws, regulations, and permits without incurring additional operating costs. For example, in 2006, the U.S. Environmental Protection Agency ("EPA" (“EPA”) implemented a new arsenic maximum contaminant level, which effectively required the installation and operation of costly arsenic treatment systems at many of our water production facilities.

To comply with federal, state, and local environmental laws, our existing facilities may need to be altered or replaced, which may cause us to incur significant additional costs. Altered and new facilities and other capital improvements must be constructed and operated in accordance with multiple requirements, including, in certain cases, an Aquifer Protection Permit issued by the ADEQ, Arizona Pollution Discharge Elimination System permits from the ADEQ, and an air quality permit from Maricopa or Pinal Counties. The provision of potable water is subject to, among others, the requirements of the federal Safe Drinking Water Act, and effluent from wastewater treatment facilities must comply with other requirements. Regulated contaminants and associated maximum contaminant levels may change over time, requiring us to alter or build additional treatment facilities.

Our costs of complying with current and future governmental laws and regulations could adversely affect our business or results of operations. If we fail to comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators and our operations could be curtailed or shut down. We may also be exposed to product liability or breach of contract claims by third parties resulting from our noncompliance. These laws and regulations are complex and change frequently, and these changes may cause us to incur costs in connection with the remediation of actions that were lawful when they were taken. Failure by us to observe the conditions and comply with the requirements of permits

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and other applicable laws and regulations could result in delays, additional costs, fines, and other adverse consequences, including the inability to proceed with development in our service areas.

We may incur higher compliance or remediation costs than expected in any particular period and may not be able to pass those increased costs along to our customers immediately through rate increases, or at all. This is because we must obtain regulatory approval to increase our rates, which can be time-consuming and costly and our requests for increases may not be approved in part or in full.

We are required to test our water quality for certain parameters and potential contaminants on a regular basis. If the test results indicate that parameters or contaminants exceed allowable limits, we may be required either to commence treatment to remedy the water quality or to develop an alternate water source. Either of these outcomes may be costly, and there can be no assurance that the regulatory authorities would approve rate increases to recover these additional compliance costs. In addition, by the time that test results are available, contaminated water may have been provided to customers, which may result in liability for us and damage our reputation.

In addition, governments or government agencies that regulate our operations may enact legislation or adopt new requirements that could have an adverse effect on our business, including:

- restricting ownership or investment;
- providing for the expropriation of our assets by the government through condemnation or similar proceedings;
- providing for changes to water and wastewater quality standards;
- requiring cancellation or renegotiation of, or unilateral changes to, agreements relating to our provision of water and wastewater services;
- changing regulatory or legislative emphasis on water conservation in comparison to other goals and initiatives;
- promoting an increase of competition among water companies within our designated service areas;
- requiring the provision of water or wastewater services at no charge or at reduced prices;
- restricting the ability to terminate services to customers whose accounts are in arrears;
- restricting the ability to sell assets or issue securities;
- adversely changing tax, legal, or regulatory requirements, including employment, property ownership, or general business regulations;
- changing environmental requirements and the imposition of additional requirements and costs on our operations; and including but not limited to changes adopted in response to regulatory measures to address the COVID-19 pandemic or global climate change;
- changes in the charges applied to raw water abstraction;
- changes in rate making policies; or
- restrictions relating to water use and supply, including restrictions on use, increased offsetting groundwater replenishment obligations, changes to the character of groundwater rights, and settlement of Native American claims.

We have significant obligations under Infrastructure Coordination and Financing Agreements ("ICFAs"), yet funds from our ICFAs are dependent on development activities by developers which we do not control and are also subject to certain regulatory requirements.

Prior to 2014, we extended water and wastewater infrastructure financing to developers and builders through ICFA contracts. Our investment can be considerable, as we phase-in the construction of facilities in accordance with a regional master plan, as opposed to a single development. Developers and builders pay us agreed-upon fees upon the occurrence of specified development events for their development projects. The ACC requires us to record a portion of the funds we receive under ICFAs as contributions in aid of construction ("CIAC"), which are funds or property provided to a utility under the terms of a collection main extension agreement and/or service connection tariff, the value of which are not refundable. Amounts received as CIAC reduce our rate base once expended on utility plants.

The developer is not required to pay the bulk of the agreed-upon fees until a development receives platting approval. Accordingly, we cannot always accurately predict or control the timing of the collection of our fees. If a developer encounters difficulties, such as during a real estate market downturn, that result in a complete or partial abandonment of the development or a significant delay in its completion, we will have planned, built, and invested in infrastructure that will not be supported by development and will not generate either payments under the applicable ICFA or cash flows from providing services. As a result, our return on our investment and cash flow stream could be adversely affected.

We are subject to regulation by the ACC and our financial condition depends upon our ability to recover costs in a timely manner from customers through regulated rates.

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We are subject to comprehensive regulation by several federal, state and local regulatory agencies that significantly influence our business, liquidity, and results of operations. In particular, the ACC is the regulatory authority with jurisdiction over privately-held water and wastewater utilities and our ability to fully recover costs from utility customers in a timely manner. The ACC has exclusive constitutional authority related to ratemaking and extensive constitutional authority to mandate accounting treatments, authorize long-term financing programs, evaluate significant capital expenditures and plant additions, examine and regulate transactions between a regulated subsidiary and its affiliated entities, and approve or disapprove some reorganizations, mergers, and acquisitions prior to their completion. Additionally, the ACC has statutory authority to oversee service quality and consumer complaints, and approve or disapprove expansion of service areas. The ACC is comprised of five elected members, each serving four year terms. Our profitability is affected by the rates we may charge and the timeliness of recovering costs incurred through our rates. Accordingly, our financial condition and results of operations are dependent upon the satisfactory resolution of any rate proceedings and ancillary matters which may come before the ACC. In addition, the ACC may reopen prior decisions and modify otherwise final orders under certain circumstances. Decisions made by the ACC could have a material adverse impact on our financial condition, results of operations and cash flows.

Our water and wastewater systems are subject to condemnation by governmental authorities, which may result in the receipt of less than the fair market value of our assets and a loss of revenue from our operations.

Municipalities and other governmental subdivisions have historically been involved in the provision of water and wastewater services, and efforts may arise from time to time to convert some or all of our assets to public ownership and operation. Arizona law provides for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation. For example, the assets of our former utility subsidiaries, Cave Creek Water Co. and Valencia Water Company, Inc., were acquired from us by municipalities pursuant to condemnation proceedings, and our other utility subsidiaries could be subjects of such proceedings in the future. Should a municipality or other governmental subdivision seek to acquire some or all of our assets through eminent domain, we would likely resist the acquisition.

Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of our management from the operation of our business. Moreover, our efforts to resist any such condemnation may not be successful.

If a municipality or other governmental subdivision succeeds in acquiring some or all of our assets through eminent domain, there is a risk that we will not receive adequate compensation for such assets and that we will incur significant one-time charges. Condemnation also results in a loss of revenue from the operations of the affected utility.

Changes in, interpretations of, or enforcement trends related to tax rules and regulations may adversely affect our effective income tax rates or operating margins and we may be required to pay additional tax assessments.

Our effective income tax rate could be adversely affected by various factors, many of which are outside of our control, including:

- changes in tax laws, regulations, and/or interpretations of such tax laws in multiple jurisdictions, including but not limited to U.S. federal and state regulations or interpretations resulting from the 2017 Tax Cuts and Jobs Act (the "TCJA" “TCJA”);
- increases in corporate tax rates and the availability of deductions or credits;
- tax effects related to purchase accounting for acquisitions; and
- resolutions of issues arising from tax examinations and any related interest or penalties.

Our determination of tax liabilities is always subject to review or examination by applicable tax authorities. Any adverse outcome of such review or examination could have a material adverse effect on our financial condition and results of operations.

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service ("IRS" (“IRS”) and other taxing authorities.

See “Management’s Discussion and Analysis of Results of Operations and Financial Condition —Corporate Transactions —ACC Tax Docket” in Part II, Item 7 of this report for more information on the ACC docket that addresses the utility ratemaking implications of the TCJA.

We are exposed to various risks relating to legal proceedings or claims that could materially adversely affect our operating results.

We are a party to lawsuits in the normal course of our business. Litigation in general can be expensive, lengthy, and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions that we may initiate, can often be expensive and time-consuming. Unfavorable outcomes from these claims and/or lawsuits could materially adversely affect our business, results of operations, and financial condition, and we could incur substantial monetary liability and/or be required to change our business practices.

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Proposals to change policy in Arizona made through ballot initiatives may impact our growth, business plans and financial condition.

In Arizona, a person or organization may file a ballot initiative with the Arizona Secretary of State and, if a sufficient number of verifiable signatures are submitted, the initiative may be placed on the ballot for the public to vote on the matter. Ballot initiatives may relate to any matter, including taxes and policy and regulation related to our industry, and may change statutes or the state constitution in ways that could impact our customers, the Arizona economy, and the Company. The passage of certain initiatives could depress expected population growth, impact our business or growth plans, and have a material adverse impact on our financial condition, results of operations or cash flows.

Our ability to expand into new service areas and to expand current water and wastewater service depends on approval from regulatory agencies. Failure to obtain required regulatory approvals will adversely affect future growth.

In Arizona, the ACC is the regulatory authority that oversees the formation, expansion, and ongoing operations of water and wastewater utilities. The ACC has authority, among other things, to determine service areas for utility providers. In order for our owned utilities to provide water or wastewater service, they must obtain a CC&N for a service area before they can service that area. In addition, our owned utilities and/or the developments that we serve must demonstrate to the ADWR that there exists a 100-year water supply and obtain either a "Certificate of Assured Water Supply," CAWS, which is a certificate issued by the ADWR evidencing sufficient groundwater, surface water, or effluent of adequate quality will be continuously available to satisfy the water needs of the proposed use for at least one hundred years and which applies to a specific subdivision, or a DAWS, which applies to the utility's entire service area. The designation area is generally coterminous with the CC&N and can grow into adjacent areas as needed. Further, our wastewater facilities require ADEQ and/or EPA permits that regulate, among other things, the level of discharges from our facilities, the size of our facilities, and the location of our facilities. Any inability to obtain the necessary regulatory approvals, assured water supplies, or environmental permits would limit our ability to expand our water or wastewater service areas.

If we chose to expand to states other than Arizona, we may have difficulty acquiring the necessary approvals and permits or complying with environmental, health and safety, or quality standards of such states. See "—Business and Operational Factors — Doing business in jurisdictions other than Arizona may present unforeseen regulatory, legal, and operational challenges that could impede or delay our operations or adversely affect our profitability."

Our water and wastewater systems are subject to condemnation by governmental authorities, which may result in the receipt of less than the fair market value of our assets and a loss of revenue from our operations.

Municipalities and other governmental subdivisions have historically been involved in the provision of water and wastewater services, and efforts may arise from time to time to convert some or all of our assets to public ownership and operation. Arizona law provides for the acquisition of public utility property by governmental agencies through their power of eminent domain, also known as condemnation. For example, the assets of our former utility subsidiaries, Cave Creek Water Co. and Valencia Water Company, Inc., were acquired from us by municipalities pursuant to condemnation proceedings, and our other utility subsidiaries could be subjects of such proceedings in the future. Should a municipality or other governmental subdivision seek to acquire some or all of our assets through eminent domain, we would likely resist the acquisition.

Contesting an exercise of condemnation through eminent domain may result in costly legal proceedings and may divert the attention of our management from the operation of our business. Moreover, our efforts to resist any such condemnation may not be successful.

If a municipality or other governmental subdivision succeeds in acquiring some or all of our assets through eminent domain, there is a risk that we will not receive adequate compensation for such assets and that we will incur significant one-time charges. Condemnation also results in a loss of revenue from the operations of the affected utility.

We are subject to environmental risks that may subject us to clean-up costs or litigation that could adversely affect our business, operating results, financial condition, and prospects.

Under various federal and state environmental laws, regulations, ordinances, and other requirements, a current or previous owner or operator of real property or a facility may be liable for the costs of removal, remediation, or containment of hazardous or toxic substances on, under, in, or released from such property. These liabilities are not limited to a potential effect on our water supply and include, but are not limited to, liabilities associated with air, soil, or groundwater contamination at any real estate or facilities we own or operate, including liabilities assumed in an acquisition of another utility. Environmental laws often impose liability regardless of whether the owner or operator knew of or was responsible for the presence of the hazardous or toxic substances. Although we currently conduct environmental screening assessments on new properties that we propose to acquire or use to identify significant sources of contaminants on surrounding properties, these assessments are not comprehensive, nor have they been conducted for all of the property owned or used by us. As a result, hazardous or toxic substances may exist at properties owned or used by us. If hazardous or toxic substances are discovered at real property or facilities owned or used by us (including a landfill owned by another party that is used by us for disposal of hazardous substances), we could incur significant remediation costs, liability exposure, or litigation expenses that could adversely affect our profitability, results of operations, liquidity, and cash flows.

We are subject to regulation by the Arizona Corporation Commission and our financial condition depends upon our ability to recover costs in a timely manner from customers through regulated rates.

We are subject to comprehensive regulation by several federal, state and local regulatory agencies that significantly influence our business, liquidity, and results of operations and our ability to fully recover costs from utility customers in a timely manner. The ACC is the regulatory authority with jurisdiction over water and wastewater utilities. The ACC has exclusive authority to approve rates, mandate accounting treatments, authorize long-term financing programs, evaluate significant capital expenditures and plant additions, examine and regulate transactions between a regulated subsidiary and its affiliated entities, and approve or disapprove some reorganizations, mergers, and acquisitions prior to their completion. Additionally, the ACC has statutory authority to oversee service quality and consumer complaints, and approve or disapprove expansion of service areas. The ACC is comprised of five elected members, each serving four year terms. Our profitability is affected by the rates we may charge and the timeliness of recovering costs incurred through our rates. Accordingly, our financial condition and results of operations are dependent upon the satisfactory resolution of any rate proceedings and ancillary matters which may come before the ACC. In addition, the ACC may reopen prior decisions and modify otherwise final orders under certain circumstances. Decisions made by the ACC could have a material adverse impact on our financial condition, results of operations and cash flows.

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Business and Operational Factors

The risk of natural adverse weather conditions, pandemic outbreaks, global political events, war, or terrorism could disrupt our business, impacting operating costs and capital expenditures.

Our facilities are located in areas which have been and could be subject to natural disasters such as drought, floods, fires or earthquakes. Adverse weather conditions or other extreme changes in the weather, including resulting electrical and technological failures, may disrupt our business and adversely affect operating costs and capital expenditures. In addition, our service areas are susceptible to pandemic outbreaks, terrorist acts, and operations may be affected by disruptive political events, both global and domestic, such as civil unrest in countries in which our vendors are located or products are manufactured, and in the US where protests and other disturbances may affect our ability to operate.

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Inadequate water and wastewater supplies could have a material adverse effect upon our ability to achieve the customer growth necessary to increase our revenues.

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. In many areas of Arizona (including certain areas that we service), water supplies are limited and, in some cases, current usage rates exceed sustainable levels for certain water resources. Additionally, regulatory restrictions on the use of groundwater and the development of groundwater wells, lack of available water rights, drought, overuse of local or regional sources of water, protection of threatened species or habitats, or other factors, including climate change, may limit the availability of ground or surface water. No assurance can be given that we will be able to produce or purchase enough water to fully satisfy future customer demand. Further, we can make no guarantee that we will always have access to an adequate supply of water that will meet all quality standards, or that the cost of water will not adversely affect our operating results.

As discussed above, we currently rely predominantly (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to meet future demands in our service areas. At present, groundwater (and recycled water derived from groundwater) is the primary water supply available to us. In areas where we have not applied for a DAWS, we have not performed hydrological studies or modeling to evaluate the amount of groundwater likely to be available to meet present and expected future demands. Insofar as we intend to rely on the pumping of groundwater

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and the generation and delivery of recycled water to meet future demands in our current service areas, our ability and/or the ability of developers inside of our service areas to meet regulatory requirements and to demonstrate assured and adequate water supplies is essential to the continued growth of our service connections and our capacity to supply water to our customers. In the event that our wells cannot meet customer demand, we may, under certain circumstances, purchase water from surrounding municipalities, agencies, and other utilities. However, the cost of purchasing water is typically more expensive than producing it. Furthermore, these alternative sources may not always have an adequate supply to sell to us.

Insufficient availability of water or wastewater treatment capacity could materially and adversely affect our ability to provide for expected customer growth necessary to increase revenues. We continuously look for new sources of water to augment our reserves in our service areas, but have not yet obtained material surface water rights. Our ability to obtain such rights may depend on factors beyond our control, such as the future availability of Colorado River water supplies. We also plan to construct facilities and obtain the necessary permits to recharge recycled water to stretch and augment our existing and planned future water supplies, but do not yet have this capability in all of our service areas. As a result, it is possible that, in the future, we will not be able to obtain sufficient water or water supplies to increase customer growth necessary to increase or even maintain our revenues.

If we are unable to access adequate water supplies, such water shortage could adversely affect our business operations, results of operations, cash flow, and financial position in a variety of other ways, which may include, but are not limited to, the following:

- result in water rationing;
- adversely affect water supply mix by causing us to rely on more expensive purchased water;
- adversely affect operating costs;
- increase the risk of contamination to water systems due to the inability to maintain sufficient pressure;
- increase capital expenditures for building pipelines to connect to alternative sources of supply, new wells to replace those that are no longer in service or are otherwise inadequate to meet the needs of customers, and reservoirs and other facilities to conserve or reclaim water; and
- result in regulatory authorities refusing to approve new service areas if an adequate water supply cannot be demonstrated and restrictions on new customer connections may be imposed in existing service areas if there is not sufficient water.

We may or may not be able to recover increased operating and construction costs as a result of water shortages on a timely basis, or at all, for our regulated utilities through the rate setting process.

We may have difficulty recruiting and retaining qualified personnel, and due to the technical and specialized nature of our business, our profitability may suffer if we do not have the necessary workforce.

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Our operating utilities require some of our employees to be certified operators of record, a designation requiring specialized training and certification in water and wastewater systems. As workers with these qualifications retire in the industry, we may be unable to replace them readily in view of the relatively low number of younger workers that we believe are entering the workforce to pursue this line of work. Our operations require a variety of other technical skills and specialties in the areas of engineering, systems analysis, laboratory work, and equipment repair, and we may have difficulty recruiting and retaining personnel with these skills. If we cannot maintain an employee base with the skills necessary to conduct our operations, our efficiency, margins, and ability to expand our business could be adversely affected.

We do not control when and where a developer may request service within our service areas, and if this occurs outside the location and capacity of existing infrastructure, it may require significantly more capital expenditures than currently anticipated.

If a developer has an ICFA, and/or once a developer has entered into a service agreement with our utility subsidiary and the property being developed has been included within a service area, we have the obligation to serve under the terms of those

agreements and existing regulations. Although we have built substantial modern infrastructure within these utilities in areas where development is currently occurring, there is the potential that a developer may request service in another location within the service area. Extending/expanding the existing infrastructure to provide service may result in the need to make additional, currently unplanned, capital improvements and there is no guarantee that we may recover our costs timely. As a result, our return on our investment and cash flow stream could be adversely affected.

If we do not manage our anticipated growth effectively, we may not be able to develop or implement the infrastructure necessary to support our operations and could suffer a loss of profitability.

Although we may not be able to achieve similar growth as we have seen since our formation in 2003, or grow at all, in future periods, we expect to continue to significantly expand our facilities, infrastructure, marketing, testing, management, and administrative operations, as well as our financial and accounting controls. This expansion has placed, and will continue to place, strain on our management and administrative, operational, technical, and financial infrastructure. If management is unable to manage growth effectively, the quality of our services, our ability to attract and retain key personnel, and our business or prospects could be harmed significantly.

To manage growth effectively, we must:

- continue to expand our water management capacity;
- retain key management and augment our management team;
- continue to enhance our technology, operations, and financial and management systems;
- manage multiple relationships with our customers, regulators, suppliers, and other third parties; and
- expand, train, and manage our employee base.

We may not be able to effectively manage any expansion in one or more of these areas, and our failure to do so could harm our ability to maintain or increase revenues and operating results. The expenses incurred in pursuing growth could increase without a corresponding increase in our revenue base, which could decrease operating results and profit margin. In addition, future growth may require us to make significant capital expenditures or incur other significant expenses and may divert the attention of our personnel from our core business operations, any of which could affect our financial performance adversely.

Increased operating expenses associated with the expansion of our business may negatively impact our operating income.

Increased operating expenses associated with any expansion of our business may negatively impact our income as we, among other things:

- seek to acquire new utilities and service areas;
- expand geographically in and outside of Arizona;
- make significant capital expenditures to support our ability to provide services in our existing service areas;
- fund development costs for our system and technology; and
- incur increased general and administrative expenses as we grow.

As a result of these factors, we may not sustain or increase our profitability on an ongoing basis.

We face risks associated with the design, construction, and operation of our systems that may adversely affect our business and financial condition.

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We are responsible for the design, construction, installation, and maintenance of our water treatment, reclamation, and distribution systems. We could be adversely affected by a failure to complete our construction projects on time or on budget, and a substantial delay in the progress of construction due to adverse weather, work stoppages, shortages of materials or labor, non-issuances of permits, nonperformance of suppliers or contractors, or other factors could result in a material increase in the overall cost of such projects.

We cannot guarantee that our systems will operate as designed or be free from defects. The failure of our systems to operate properly could cause significant public harm. Any defects in our systems or significant reliability, quality, or performance problems with respect to our systems or services could have a number of negative effects on our profitability, results of operations, liquidity, and cash flows, including:

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- loss of revenues;
- diversion of management and development resources and the attention of engineering personnel;
- significant customer relations problems;
- increased repair, support, and insurance expenses;

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- adverse regulatory actions; and
- legal actions for damages by our customers, including but not limited to damages based on commercial losses and effects on human health.

Operating costs, construction costs, and costs of providing services can be volatile and may rise faster than revenue.

Our ability to increase rates over time is dependent upon approval of rate increases by the ACC, which may be inclined, for political or other reasons, to limit rate increases. However, our costs are subject to market conditions and other factors, and may increase significantly. For example, costs for chemicals used to treat water and wastewater, as well as costs for power used to operate pumps and other equipment, can be volatile. See "—Operational Factors—We depend on an adequate supply of electricity and chemicals for the delivery of our water, and an interruption in the supply of these inputs or increases in their prices could adversely affect our results of operations."

Additionally, the second largest component of our operating costs after water production is made up of salaries and wages. These costs are affected by the local supply and demand for qualified labor. Other large components of our costs are general insurance, workers' compensation insurance, employee benefits, and health insurance costs. These costs may increase disproportionately to rate increases authorized by utility regulators and may have a material adverse effect on our financial condition and results of operations.

We depend on an adequate supply of electricity and chemicals for the delivery of our water, and an interruption in the supply of these inputs or increases in their prices could adversely affect our results of operations.

We rely on purchased electrical power to operate the wells and pumps that are needed in order to supply potable and recycled water to our customers. An extended interruption in power supply that we cannot remediate through the use of backup generators could adversely affect our ability to continue these operations. Electrical power costs are beyond our control and can increase unpredictably in substantial amounts. Under these circumstances, our cash flows between our general rate case filings and our earnings may be adversely affected until the ACC has authorized a rate increase.

In addition, we require bulk supplies of chemicals for water and wastewater treatment, and if we were to suffer an interruption of supply that we cannot replace quickly, we might not be able to perform these functions adequately. Supply chain constraints may result in increased costs of supplies, products and materials that are critical to or used in the Company's business operations. Also, some chemicals are available from a single source or a limited number of sources. There is no assurance that these suppliers will continue to produce the chemicals in the quantities and quality and at the times they are needed. Moreover, the replacement of any of these suppliers could lead to significant delays and increase in our costs.

Climate variability may cause increased volatility in weather and may impact water usage and related revenue or require additional expenditures, all of which may not be fully recoverable in rates or otherwise.

The issue of climate variability is receiving increasing attention nationally and worldwide. There is consensus among climate scientists that there will be worsening of weather volatility in the future associated with climate variability. Many climate variability predictions present several potential challenges to water and wastewater utilities, including us, such as:

- increased frequency and duration of droughts;
- challenges associated with changes in temperature or increases in ocean levels;
- potential degradation of water quality;
- decreases in available water supply and changes in water usage patterns;
- increased precipitation and flooding;
- increased frequency and severity of storms and other weather events;
- increases in disruptions in service;

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- increased costs to repair damaged facilities; or
- increased costs to reduce risks associated with the increasing frequency and severity of natural events, including to improve the resiliency and reliability of our water and wastewater treatment and conveyance facilities and systems.

Because of the uncertainty of weather volatility related to climate variability, we cannot predict its potential impact on our business, financial condition, results of operations, cash flows and liquidity. Furthermore, laws and regulations have been enacted that seek to reduce or limit greenhouse gas emissions and require additional reporting and monitoring, and these

regulations may become more pervasive or stringent in light of changing governmental agendas and priorities, although the exact nature and timing of these changes is uncertain. There can be no assurance that we would be able to recover any expenditures or costs associated with the impact of climate variability and related laws and regulations on a timely basis, or at all, for our regulated utilities through the rate setting process.

The risk of natural adverse weather conditions, pandemic outbreaks, global political events, war, or terrorism could disrupt our business, impacting operating costs and capital expenditures.

Our facilities operations of regulated utilities are currently located exclusively in the state of Arizona, and more specifically approximately 85.6% of our active service connections are within a single municipality, which increases the impact of local conditions on our results of operations.

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The customers of our regulated utilities are currently located exclusively in the state of Arizona and ***85.6%*** of our active service connections are located in areas which have been the City of Maricopa, Arizona. As a result, we cannot diversify or mitigate the risks presented by local regulatory, economic, political, demographic, and could be subject to natural disasters such as drought, floods, fires or earthquakes. Adverse weather conditions or in this area. An adverse change in any of these conditions would therefore affect our profitability, results of operations, liquidity, and cash flows more significantly than if our utilities operated more broadly in other extreme changes geographic areas.

We depend on an adequate supply of electricity and chemicals for the delivery of our water, and an interruption in the weather, including resulting electrical and technological failures, may disrupt our business and supply of these inputs or increases in their prices could adversely affect operating costs our results of operations.

We rely on purchased electrical power to operate the wells and capital expenditures. In addition, pumps that are needed in order to supply potable and recycled water to our service areas are susceptible to pandemic outbreaks, terrorist acts, and operations may be affected by disruptive political events, both global and domestic, such as civil unrest customers. An extended interruption in countries in which our vendors are located or products are manufactured, and in power supply that we cannot remediate through the US where protests and other disturbances may use of backup generators could adversely affect our ability to operate. continue these operations. Electrical power costs are beyond our control and can increase unpredictably in substantial amounts. Under these circumstances, our cash flows between our general rate case filings and our earnings may be adversely affected until the ACC has authorized a rate increase.

In addition, we require bulk supplies of chemicals for water and wastewater treatment, and if we were to suffer an interruption of supply that we cannot replace quickly, we might not be able to perform these functions adequately. Supply chain constraints may result in increased costs of supplies, products and materials that are critical to or used in the Company's business operations. Also, some chemicals are available from a single source or a limited number of sources. There is no assurance that these suppliers will continue to produce the chemicals in the quantities and quality and at the times they are needed. Moreover, the replacement of any of these suppliers could lead to significant delays and increase in our costs.

Our utilities business is subject to seasonal fluctuations and other weather-related conditions, such as droughts, which could adversely affect the supply of and demand for our services and our results of operations.

We depend on an adequate water supply to meet the present and future needs of our customers. Whether we have an adequate water supply depends upon a variety of factors, including underground water supply from which groundwater is pumped, the rate at which it is recharged by rainfall and snowpack, and changes in the amount of water used by our customers. In particular, the arid western U.S. region, which includes our present and potential service areas, has been required to deal with general conditions of water scarcity exacerbated by extended periods of drought.

Drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. Any future interruption to our water supply or restrictions on water usage during drought conditions or other legal limitations on water use could result in decreased customer billing and lower revenues or higher expenses that we would not be able to recoup without prior regulatory approval for a rate increase, which may not be granted. These conditions could also lead to increases in capital expenditures needed to build infrastructure to secure alternative water sources. Furthermore, customers may use less water even after a drought has ended because of conservation patterns developed during the drought. Population growth could also decline under drought conditions as individuals and businesses move out of the area or elect not to relocate there. Lower water use for any reason could lead to lower revenue.

Demand for water is seasonal and varies with temperature and rainfall levels. If temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease, which would adversely affect our profitability, results of operations, liquidity, and cash flows. Consequently, the results of

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operations for one quarter are not necessarily indicative of results for future quarters or the full year.

If future acquisitions do not achieve sufficient profitability relative to expenses and investment, our business and ability to finance our operations could be materially adversely affected.

A typical element of a utility growth strategy is the acquisition or development of other water and wastewater utilities. The potential negotiation of future acquisitions and development of new projects could require us to incur significant costs and expose us to significant risks, including:

- risks relating to the condition of assets acquired and exposure to residual liabilities of prior businesses;
- operating risks, including equipment, technology and supply problems, failure to achieve expected synergies and operating efficiencies, regulatory requirements, and approvals necessary for acquisitions;
- risks that potential acquisitions may require the disproportionate attention of our senior management, which could distract them from the management of our existing business;
- risks related to our ability to retain experienced personnel of the acquired company; and

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- risks that certain acquisitions may require regulatory approvals, which could be refused or delayed and which could result in unforeseen regulatory expenses or unfavorable regulatory conditions.

These issues could have a material adverse effect on our business and our ability to finance our operations. The businesses and other assets we acquire in the future may not achieve sufficient revenue or profitability to justify our investment, and any difficulties we may encounter in the integration process could interfere with our operations, reduce operating margins, and

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divert management's management's attention. Acquisitions could also result in dilutive issuance of our equity securities, incurrence of debt and contingent liabilities, and fluctuations in quarterly results and expenses.

The nature of our business exposes us to various liability claims, which may exceed the level of our insurance coverage and thereby not be reimbursed fully by insurance proceeds, or not be covered by our insurance at all, and may also make it difficult for us to obtain insurance coverage at affordable rates.

In recent years, societal factors have resulted in increased litigation and escalating monetary claims against industries and employers. Although the national insurance market currently provides insurance coverage at affordable premiums, there is no guarantee this will continue or that we will continue to be able to obtain coverage against catastrophic claims and losses. While we may self-insure for some risks in the future, should an uninsured or underinsured loss occur, we may be unable to meet our obligations as they become due.

The operation of our utilities is subject to the normal risks of occupancy as well as the additional risks of receiving, processing, treating, and disposing of water and waste materials. As a safeguard, we currently maintain general liability and workers' compensation insurance coverage, subject to deductibles at levels we believe are sufficient to cover future claims made during the respective policy periods. However, we may be exposed to multiple claims, including workers' compensation claims, that do not exceed our deductibles, and, as a result, we could incur significant out-of-pocket costs that could materially adversely affect our business, financial condition, and results of operations. In addition, the cost of insurance policies may increase significantly upon renewal of those policies as a result of general rate increases for the type of insurance we carry as well as our historical experience and experience in our industry. Our future claims may exceed the coverage level of our insurance, and insurance may not continue to be available on economically reasonable terms, or at all. If we are required to pay significantly higher premiums for insurance, are not able to maintain insurance coverage at affordable rates, or if we must pay amounts in excess of claims covered by our insurance, we could experience higher costs that could materially adversely affect our business, financial condition, and results of operations.

We may have difficulty recruiting and retaining qualified personnel, and due to the technical and specialized nature of our business, our profitability may suffer if we do not have the necessary workforce.

Our operating utilities require some of our employees to be certified operators of record, a designation requiring specialized training and certification in water and wastewater systems. As workers with these qualifications retire in the industry, we may be unable to replace them readily in view of the relatively low number of younger workers that we believe are entering the workforce to pursue this line of work. Our operations require a variety of regulated utilities are currently located exclusively other technical skills and specialties in the state areas of Arizona, engineering, systems analysis, laboratory work, and more specifically approximately 91.0% equipment repair, and we may have difficulty recruiting and retaining personnel with these skills. If we cannot maintain an employee base with the skills necessary to conduct our operations, our efficiency, margins, and ability to expand our business could be adversely affected.

Contamination of the water supplied by us may result in disruption in our active service connections services, loss of credibility, lower demand for our services, and potential liability that could adversely affect our business and financial condition.

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Our water supplies are within subject to contamination, including contamination from compounds, chemicals in groundwater systems, pollution resulting from man-made sources (such as perchlorate and methyl tertiary butyl ether), and possible biological terrorist attacks. Contamination of water sources can lead to human death and illness, damage to natural resources and other parts of the environment, and cause other harms. Among other things, if we are found to be liable for consequences of water contamination arising out of human exposure to hazardous substances in our water supplies or other damage, we would be subject to civil or criminal enforcement actions, litigation, and other proceedings or clean up obligations. Further, our insurance policies may not apply or be sufficient to cover the costs of these claims, which could be significant.

Cleaning up water sources can be very expensive and if we are required to do so, it could have a single municipality, which increases the impact of local conditions material and adverse effect on our business, operating results, and financial condition. In the event that our water supply is contaminated, we may have to interrupt or stop the use of operations. that water supply until we are able to treat the water or to substitute the supply of water from another water source, including, in some cases, through the purchase of water from a supplier. We may incur significant costs in order to warn consumers and to treat the contaminated source through expansion of current treatment facilities or development of new treatment methods. Using a new water source is generally associated with increased costs compared to an existing water source

The customers

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and, as indicated above, purchasing water is typically more expensive than obtaining the water from other means. If we are unable to treat or substitute our regulated utilities are currently located exclusively water supply in the state of Arizona and 91.0% of a cost-effective manner, our active service connections are located in the City of Maricopa, Arizona. As a result, we cannot diversify or mitigate the risks presented by local regulatory, economic, political, demographic, and weather conditions in this area. An adverse change in any of these conditions would therefore affect our profitability, financial condition, results of operations, cash flow, liquidity, and cash flows more significantly than if our utilities operated more broadly in other geographic areas. reputation may be adversely affected. We may not be able to recover costs associated with treating contaminated water or developing new sources of supply through the rate setting process or through insurance.

We may have difficulty accomplishing our growth strategy within and outside of our current service areas. This would cause us to rely more heavily on regulatory rate increases to increase our revenues.

Our ability to expand our business, both within our current service areas and into new areas, involves significant risks, including, but not limited to:

- not receiving or maintaining necessary regulatory permits, licenses, or approvals;
- downturns in economic or population growth and development in our service areas;
- risks related to planning and commencing new operations, including inaccurate assessment of the demand for water, engineering and construction difficulties, and inability to begin operations as scheduled;
- droughts or water shortages that could increase water conservation efforts to a point that materially reduces revenue;
- regulatory restrictions or other factors that could adversely affect our access to sources of water supply;
- our potential inability to identify suitable acquisition opportunities or to form the relationships with developers and municipalities necessary to form strategic partnerships; and
- barriers to entry presented by existing water utilities in prospective service areas.

If we are unable to execute our growth strategy effectively, we will need to rely more heavily on regulatory rate increases to increase our revenue. However, there can be no assurance that the regulatory authorities will approve any rate increases.

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We face competition for new service areas and acquisition targets.

We face competition from other water and wastewater utilities for new service areas and with respect to acquisitions of smaller utilities. These competitors consist primarily of municipalities and investor-owned utilities seeking expansion opportunities. Some of our competitors are larger than we are and have more resources and access to capital than we do. If we are unable to compete effectively for new service areas and acquisitions of existing utilities, our ability to increase our rate base and revenue could be adversely affected.

Service interruptions, including due to any disruption or problem at our facilities could increase our expenses.

A natural disaster (such as an earthquake, fire, or flood) or an act of terrorism could cause substantial delays in our operations, damage or destroy our equipment or facilities, and cause us to incur additional expenses and lose revenue. The insurance we maintain against natural disasters may not be adequate to cover our losses in any particular case, which would require us to expend significant resources to replace any destroyed assets, thereby materially and adversely affecting our financial condition and prospects.

Other global incidents, such as the COVID-19 pandemic, could have a similar effect of disrupting our business to the extent they reach and impact the service areas in which we operate, the availability of supplies we need, the customers we serve, or the employees who operate our businesses. See “—Business and Operational Factors — The COVID-19 global pandemic could adversely effect our business operations, cash flows, and financial position to an extent that is difficult to predict” for additional information.

Any failure of our network of treatment facilities, water and wastewater pipes and water reservoirs could result in losses and damages that may affect our financial condition and reputation.

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Our utilities distribute water and collect wastewater through an extensive network of pipes and store water in reservoirs located across our service areas. A failure of major pipes or reservoirs could result in injuries and property damage for which we may be liable. The failure of major pipes and reservoirs may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Any failures and shutdowns may limit our ability to supply water in sufficient quantities to customers and to meet the water and wastewater delivery requirements prescribed by applicable utility regulators, which would adversely affect our financial condition, results of operations, cash flow, liquidity, and reputation.

Risks associated with the collection, treatment, and disposal of wastewater and the operation of water utilities may impose significant costs that may not be covered by insurance, which could result in increased insurance premiums.

The wastewater collection, treatment, and disposal operations of our utilities are subject to substantial regulation and involve significant environmental risks. If collection or sewage systems fail, overflow, or do not operate properly, untreated wastewater or other contaminants could spill onto nearby properties or into nearby streams and rivers, potentially causing damage to persons or property, injury to the environment including aquatic life, and economic damages, which may not be recoverable in rates. This risk is most acute during periods of substantial rainfall or flooding, which are the main causes of sewer overflow and system failure. Liabilities resulting from such damage could adversely and materially affect our business, results of operations, and financial condition. Moreover, in the event that we are deemed liable for any damage caused by overflow, losses might not be covered by insurance policies, and such losses may make it difficult to secure insurance in the future at acceptable insurance premium rates. Similarly, any related business interruption or other losses might not be covered by insurance policies, which would also make it difficult for us to secure insurance in the future at acceptable insurance premium rates.

We may also incur liabilities under environmental laws and regulations requiring investigations and cleanup of environmental contamination at our properties or at off-site locations where there have been adverse environmental impacts. The discovery of

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previously unknown conditions, or the imposition of cleanup obligations in the future, could result in significant costs, and could adversely affect our financial condition, results of operations, cash flow, and liquidity. Such remediation losses may not be covered by insurance policies and may make it difficult for us to secure insurance in the future at acceptable insurance premium rates.

Contamination of the water supplied by us may result in disruption in our services, loss of credibility, lower demand for our services, and potential liability

We are subject to industrial risks that could adversely affect our business results of operations.

The operations of our water and financial condition.

Our water supplies wastewater treatment plants involve physical, chemical, and biological processes and the use of pumps, generators, and other industrial equipment. As a result, our operations are subject to contamination, various industrial risks, including contamination from compounds, chemicals in groundwater systems, pollution chemical spills, discharges or releases of toxic or hazardous substances or gases, effects resulting from man-made sources (such as perchlorate confined operating spaces, fires, explosions, mechanical failures, storage tank leaks, and methyl tertiary butyl ether), and possible biological terrorist attacks. Contamination electric shock. These risks can result in personal injury, loss of water sources can lead to human death and illness, life, catastrophic damage to natural resources or destruction of property and other parts equipment or environmental damage, and related legal proceedings, including those commenced by regulators, neighbors, or others. They may also result in an unanticipated interruption or suspension of our operations and the environment, and cause other harms. Among other things, if we are found imposition of liability. The loss or shutdown over an extended period of operations at any of our treatment facilities or any losses relating to be liable for consequences of water contamination arising out of human exposure to hazardous substances in our water supplies or other damage, we would be

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subject to civil or criminal enforcement actions, litigation, and other proceedings or clean up obligations. Further, our insurance policies may not apply or be sufficient to cover the costs of these claims, which could be significant.

Cleaning up water sources can be very expensive and if we are required to do so, it risks could have a material and adverse effect impact on our business, operating profitability, results of operations, liquidity, and financial condition. In the event that cash flows.

Service interruptions, including due to any disruption or problem at our water supply is contaminated, facilities could increase our expenses.

A natural disaster (such as an earthquake, fire, or flood) or an act of terrorism could cause substantial delays in our operations, damage or destroy our equipment or facilities, and cause us to incur additional expenses and lose revenue. The insurance we maintain against natural disasters may have not be adequate to interrupt or stop the use of that water supply until we are able cover our losses in any particular case, which would require us to treat the water or expend significant resources to substitute the supply of water from another water source, including, in some cases, through the purchase of water from a supplier. We may incur significant costs in order to warn consumers replace any destroyed assets, thereby materially and to treat the contaminated source through expansion of current treatment facilities or development of new treatment methods. Using a new water source is generally associated with increased costs compared to an existing water source and, as indicated above, purchasing water is typically more expensive than obtaining the water from other means. If we are unable to treat or substitute our water supply in a cost-effective manner, adversely affecting our financial condition results and prospects.

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Other global incidents, such as a pandemic, could have a similar effect of disrupting our business to the extent they reach and impact the service areas in which we operate, the availability of supplies we need, the customers we serve, or the employees who operate our businesses. See "—Business and Operational Factors — Pandemics, epidemics or disease outbreaks, such as the COVID-19 pandemic, could adversely affect our business operations, cash flow, liquidity, flows, and reputation may be adversely affected. We may not be able financial position to recover costs associated with treating contaminated water or developing new sources of supply through the rate setting process or through insurance. an extent that is difficult to predict." for additional information.

We are subject to adverse publicity and reputational risks, which make us vulnerable to negative customer perception and could lead to increased regulatory oversight or other sanctions.

Water and wastewater utilities, including Palo Verde and Santa Cruz, have large customer bases and as a result are exposed to public criticism regarding, among other things, the reliability of their water and wastewater services, the quality of water provided, the timeliness and accuracy of bills that are provided for such services, and the quality of customer service. Adverse publicity and negative customer sentiment may render regulators and government officials less likely to view us in a favorable light, and may cause us to be susceptible to less favorable regulatory outcomes, as well as increased regulatory oversight, lower rates, and more stringent regulatory requirements. Unfavorable regulatory outcomes may include the enactment of more stringent laws and regulations governing our operations, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

We are subject to industrial risks that could adversely affect our results of operations.

The operations of our water and wastewater treatment plants involve physical, chemical, and biological processes and Pandemics, epidemics or disease outbreaks, such as the use of pumps, generators, and other industrial equipment. As a result, our operations are subject to various industrial risks, including chemical spills, discharges or releases of toxic or hazardous substances or gases, effects resulting from confined operating spaces, fires, explosions, mechanical failures, storage tank leaks, and electric shock. These risks can result in personal injury, loss of life, catastrophic damage to or destruction of property and equipment or environmental damage, and related legal proceedings, including those commenced by regulators, neighbors, or others. They may also result in an unanticipated interruption or suspension of our operations and the imposition of liability. The loss or shutdown over an extended period of operations at any of our treatment facilities or any losses relating to these risks could have a material adverse impact on our profitability, results of operations, liquidity, and cash flows.

The COVID-19 global pandemic, could adversely affect our business operations, cash flows, and financial position to an extent that is difficult to predict.

The COVID-19 pandemic has adversely affected economies, supply chains, workforce participation and financial markets across the globe. Since the initial outbreak, new variants occurrence of COVID-19 that are significantly more contagious than previous strains, have emerged. The spread of these new strains initially caused many government authorities and businesses to reimplement prior restrictions in an effort to lessen the spread of COVID-19 and its variants; however, while many of these restrictions have been lifted, uncertainty remains pandemics, epidemics or disease outbreaks, such as to whether additional restrictions may be initiated or again reimplemented in responses to surges in COVID-19 cases.

While the COVID-19 pandemic, did not have a material effect on could adversely affect our business operations, results of operations, cash flows, and financial position for the year ended December 31, 2022, the COVID-19 pandemic and the related responses from government authorities could adversely impact us in a number of ways, including, but not limited to, the following:

- position. These impacts may include, among others, disruptions to our operations and business activities, including any closures of offices or facilities, and to those of governmental agencies regulating our business, suppliers, customers, and other business partners;
- reduced reduce demand for our water and wastewater services from our commercial customers, particularly as if businesses are shutdown;
- greater difficulty in collecting customer receivables;

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- a slowdown or disruption in the supply chain for the supplies used in our operations, including chemicals used to treat water and wastewater, in addition to higher costs;
- and limitations on employee resources, productivity, and availability, including due to sickness, government restrictions, labor supply shortages, and the desire of employees to avoid contact with large groups of people;
- people. There would be many variables and uncertainties associated with any future pandemics, epidemics or disease outbreaks, including, but not limited to, the duration and severity of the outbreak; the extent of travel restrictions, business closures and other measures imposed by governmental authorities; availability of vaccines; and other factors that may be currently unknown or considered immaterial, to fully assess the potential legislative or regulatory efforts to impose new requirements impact on our operations;
- a continuation of worsening of general economic conditions, including increased inflation;
- an increase in the cost or the difficulty to obtain debt or equity financing could affect our financial condition or future investment opportunities; and

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- an increase in regulatory restrictions or continued market volatility could hinder our ability to execute strategic business activities, including acquisitions, as well as negatively impact our stock price.

Additionally, the COVID-19 pandemic could affect our internal controls over financial reporting as a portion of our workforce is required to work from home and therefore new processes, procedures, and controls could be required to respond to changes in our business environment. Further, should any key employees become ill from COVID-19 and unable to work, the attention of the management team could be diverted.

Any of the foregoing could adversely affect our business operations, results of operations, cash flows, and financial position. The potential effects

 the COVID-19 pandemic may also impact our other risk factors described in this "Risk Factors" section. The degree to which the COVID-19 pandemic impacts our business operations, results of operations, cash flows, and financial position will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted. This includes, but is not limited to, the duration and spread of the COVID-19 pandemic; its severity; the emergence and severity of its variants; the actions to contain the virus or treat its impact, such as the availability and efficacy of vaccines (particularly with respect to emerging strains of the virus) and potential hesitancy to utilize them; general economic factors, such as increased inflation; supply chain constraints; labor supply issues; restrictions on travel and transportation; and how quickly and to what extent normal economic and operating conditions can resume.

See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—COVID-19 Update,” included in Part II, Item 7 of this report, for additional information.

Doing business in jurisdictions other than Arizona may present unforeseen regulatory, legal, and operational challenges that could impede or delay our operations or adversely affect our profitability.

We may decide to pursue growth opportunities in states other than Arizona. Other states may present substantially different regulatory frameworks, and we may have difficulty acquiring the necessary approvals and permits or complying with environmental, health and safety, or quality standards. In addition, it may become more costly or difficult for us to comply with a multitude of standards and requirements across multiple states.

Other states may also expose us to new legal precedents, condemnation risks, and liability concerns based on state legislation or case law.

Our cost structure in other states may be significantly different than our current cost structure due to regional differences. For example, our cost structure may be significantly impacted by differences in labor and energy costs in other markets and the significant portion of overall production costs that they represent.

If the general public perceives recycled water to be unsafe, we will have difficulty executing our business plan and could face a loss of revenue.

Our Total Water Management model emphasizes the maximum use of recycled water for non-potable purposes. To implement this model, we cultivate relationships with developers, municipalities, and members of the communities we serve and focus on educating them regarding the benefits and safety of recycled water. If the recycled water supplied to customers is contaminated, either as a result of terrorism, system failure, pipeline, or other causes, public perception regarding the safety of recycled water would likely suffer, regardless of whether we are at fault and potentially even if the contaminated water was supplied by another person. Public perception of an unsafe water supply would harm our business, particularly with respect to our ability to implement water recycling as a key element of our business strategy.

Market and Financial Factors

We will need additional capital to grow our business, and additional financing may not be available to us on favorable terms when required, or at all.

Adequate funds to support our growth may not be available when needed or on terms acceptable to us. We may need to raise additional funds to support more rapid expansion, improve our facilities and infrastructure, develop new and enhanced technologies, or respond to evolving regulatory standards. We may experience difficulty in raising the necessary capital due to volatility in the capital markets or increases in the cost of infrastructure finance. Increasingly stringent bond rating standards could make it more difficult for us to finance our growth by issuing tax-exempt bonds as we have in the past. In addition, we require regulatory approval from the ACC for some means of raising capital, such as issuance of debt by our regulated utilities, and approval may be denied or delayed. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of expansion opportunities, make the capital expenditures necessary to support our growth, or otherwise execute our strategic plan.

Foreclosure rates in our service areas, as well as other factors affecting real estate development, could affect the growth of our regulated customer base or result in a decline in our revenue.

A slowdown or severe downturn in the housing market could have an adverse effect on our operating results and financial condition. During periods of economic distress, there may be an increase in home foreclosures and vacancies. For example, during the economic downturn beginning in 2008, our utilities experienced an increase in the number of vacant homes, reaching a peak of 4,020 vacant connections as of February 28, 2009, approximately 11.9% of our total connections at the time. Accordingly, in the event of an economic downturn, we may experience a material reduction in revenues. Although the U.S. economy and housing market continue to perform well, we cannot predict the overall trajectory of the market. Our growth depends significantly on increased residential and commercial development in our service areas, and if developers or builders are unable to complete additional residential and commercial projects, our revenue may decline.

Our existing indebtedness could affect our business adversely and limit our ability to plan for or respond to growth opportunities, and we may be unable to generate sufficient cash flow to satisfy our liquidity needs.

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As of December 31, 2022 December 31, 2023, we had total indebtedness of $108.8 million$108.0 million. In addition, we may incur substantial additional indebtedness in the future. Our indebtedness could have important consequences, including:

- limiting our ability to obtain future additional financing we may need to fund future working capital, capital expenditures, acquisitions, or other corporate requirements; and
- limiting, by the financial and other restrictive covenants in our debt agreements, our ability to borrow additional funds and to pay dividends.

Our ability to incur significant future indebtedness will depend in part on our ability to generate cash flow. This ability is affected by general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations or if we are unable to borrow money or otherwise generate funds sufficient to enable us to fund our liquidity needs, we may be unable to plan for or respond to growth opportunities, which could adversely affect our operating results and business prospects.

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Our growth depends significantly on increased residential and commercial development in our service areas, and if developers or builders are unable to complete additional residential and commercial projects, our revenue may not increase.

The growth of our customer base depends almost entirely on the success of developers in developing residential and commercial properties within our CC&N areas. A CC&N is a permit issued by the ACC allowing a public service corporation to serve a specified area, and preventing other public service corporations from offering the same services within the specified area, which we refer to as "service areas." Real Moreover, real estate development is a cyclical industry and industry. For example, the growth rate of development, especially residential development, from 2006 through 2019, both nationally and in Arizona had been below historical rates. During the second half of 2020, residential real estate development began to rise to similar 2006 rates and strong growth continued through 2021. While 2022 presented signs of market stabilization, indicators of market cooling appeared towards the end of the year.

The single family housing market is affected by a number of national and regional economic factors, including:

- interest rates and general levels of economic output;
- levels of activity in the local real estate market;

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- the state of domestic credit markets, mortgage standards, and availability of credit;
- competition from other builders and other projects in the area and other states;
- federal programs to assist home purchasers;
- costs and availability of labor and materials;
- government regulations affecting land development, home building, and mortgage financing;
- availability of financing for development and for home purchasers;
- changes in the income tax treatment relating to real property ownership;
- unexpected increases in development costs;
- increased commute times and fuel costs that may adversely affect the desirability of outlying suburbs;
- availability of, among other things, other utilities, adequate transportation, and school facilities; and
- environmental problems with such land.

While many developers presently hold necessary zoning approvals, land development within our service areas could also be affected by changes in governmental policies, including, but not limited to, governmental policies to restrict or control development. This may include, for example, actions by the local school districts to restrict admissions to local schools because of inadequate classroom space or, because of other problems, such as failure by local municipalities to approve plats for the development. An increase in current residential foreclosure rates or a deep or prolonged slowdown of the development process and the related absorption rate within the various developments in our service areas because of any or all of the foregoing could materially and adversely affect growth of our customer base and the generation of revenue.

Many national builders and developers in our service areas own or control substantial amounts of the developable land in these areas. There can be no assurance that these builders and developers have the financial capability to continue and complete their developments.

Foreclosure rates in our service areas, as well as other factors affecting real estate development, could affect the growth of our regulated customer base or result in a decline in our revenue.

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A slowdown or severe downturn in the housing market could have an adverse effect on our operating results and financial condition. During periods of economic distress, there may be an increase in home foreclosures and vacancies. For example, during the economic downturn beginning in 2008, our utilities experienced an increase in the number of vacant homes, reaching a peak of 4,020 vacant connections as of February 28, 2009, approximately 11.9% of our total connections at the time. Accordingly, in the event of an economic downturn, we may experience a material reduction in revenues. Although the U.S. economy and housing market continue to perform well, we cannot predict the overall trajectory of the market. Our growth depends significantly on increased residential and commercial development in our service areas, and if developers or builders are unable to complete additional residential and commercial projects, our revenue may decline.

Technology Factors

Maintaining our operational technology and information technology systems or implementing new systems could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations, and profitability.

Upgrades and improvements to computer systems and networks, or the implementation of new systems, may require substantial amounts of management's time and financial resources to complete, and may also result in system or network defects or operational errors due to multiple factors, including employees' ability to effectively use such new or upgraded system. While we continue to implement technology to improve our business processes and customer interactions, any technical or other difficulties in transitioning, upgrading or improving existing or implementing new technology systems may increase costs beyond those anticipated and have an adverse or disruptive effect on our operations and reporting processes, including our internal control over financial reporting. We may also experience difficulties integrating current systems with new or upgraded systems, which may impact our ability to serve our customers effectively or efficiently. Although we make efforts to minimize any adverse impact on our controls, business and operations, we cannot assure that all such impacts have been or will be mitigated, and any such impacts could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

Our information technology systems may be vulnerable to unauthorized external or internal threats due to hacking, ransomware, viruses, or other cybersecurity breaches.

As operators of critical infrastructure, we may face a heightened risk of cyberattacks from internal or external sources. For example, a hacker accessed a Florida water treatment plant's plant's control system and attempted to increase the amount of lye used to treat the water to a potentially dangerous level. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact our customers, employees, suppliers and other third parties. Further, third parties, including vendors, suppliers and contractors, who perform certain services for us or administer and maintain our sensitive information, could also be targets of cyberattacks and unauthorized access. While we have instituted safeguards to protect our information technology systems, those safeguards may not always be effective due to the evolving nature of cyberattacks and cyber vulnerabilities. We cannot guarantee that such protections will be completely successful in the event of a cyberattack.

If our information technology systems, or that of third parties on which we rely on, are affected by a significant cyber breach, this could result in, among other things, a significant disruption to our operations; costly investigations and remediation; misappropriation of confidential information of the Company or that of our customers, employees, business partners or others; litigation and potential liability; enforcement actions and investigations by regulatory authorities; loss of customers and contracts; harm to our reputation; and a loss of management time, attention and resources from our regular business operations, any of which could have a negative impact on our business, results of operations, and cash flows. These types of events, either impacting our facilities or the industry in general, could also cause us to incur additional security and insurance related costs.

Our cyber insurance is subject to a number of exclusions and may not cover the total loss or damage caused by a breach. In addition, the costs of responding to and recovering from a cyber incident may not be covered by insurance.

We rely on information technology systems to assist with the management of our business and customer relationships. A disruption or interruption of these systems could adversely affect our business and operations.

Our information technology systems, which includes information technology functions that are outsourced to various third-party service providers and software vendors, are an integral part of our business. For example, our information technology

systems allow us, among other things, to bill our customers, provide customer service through our call center, manage certain financial records, track assets and accounts receivable collections, read water meters remotely, identify high water usage, and identify water theft from disconnected meters. A disruption of our information technology systems could significantly limit our ability to manage and operate our business efficiently, which in turn could cause our business to suffer and cause our results of operations to be reduced.

Further, our information technology systems are vulnerable to damage or interruption from:

- power loss, computer systems failures, and internet, telecommunications, or data network failures;
- operator negligence or improper operation by, or supervision of, employees;

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- physical and electronic loss of customer data, including as a result of or security breaches, cyberattacks, misappropriation, and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and

- fires, floods, earthquakes, and other natural disasters.

Damages or interruptions due to any of the foregoing could result in, among other things, difficulties managing and operating our business efficiently, such as with the timely issuances of billings, physical and electronic loss of customer, employee or financial data, security breaches, misappropriation of property, and other adverse consequences. The lack of redundancy for some of our information technology systems, including billing systems, could exacerbate the impact of any of the foregoing events. Additionally, we may not be successful in further developing, implementing or acquiring technology to enable us to continue to operate at our current level of efficiency or to meet the future needs of our business. Any of the foregoing could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

Maintaining

We rely on telecommunications vendors to interlink our operational technology sites and enable centralized management of Information and Operation Technologies. Disruption of those interlinks may adversely affect our results of operations.

The centralized management of information technology systems or implementing new systems and operation technologies rely on functions that are provided by third-party providers and are an integral part of our business. A disruption of those interlinks could result in higher than expected costs or otherwise adversely impact our internal controls environment, operations, and profitability.

Upgrades and improvements to computer systems and networks, or the implementation of new systems, may require substantial amounts of management's time and financial resources to complete, and may also result in system or network defects or operational errors due to multiple factors, including employees' ability to effectively use such new or upgraded system. While we continue to implement technology to improve our business processes and customer interactions, any technical or other difficulties in transitioning, upgrading or improving existing or implementing new technology systems may increase costs beyond those anticipated and have an adverse or disruptive effect on our operations and reporting processes, including our internal control over financial reporting. We may also experience difficulties integrating current systems with new or upgraded systems, which may impact significantly limit our ability to serve our customers effectively or efficiently. Although we make efforts to minimize any adverse impact on our controls, business manage and operations, we cannot assure that all such impacts have been or will be mitigated, and any such impacts could have a material adverse impact on operate our business financial condition, efficiently, which in turn could cause our business to suffer and adversely affect our results of operations, and cash flows. operations.

Risks Related to the Ownership of Our Common Stock

The concentration of our stock ownership with our officers, directors, certain stockholders, and their affiliates will limit your ability to influence corporate matters.

Our directors, executive officers, and stockholders holding more than 5% of our capital stock and their affiliates beneficially own, in the aggregate, approximately 54% of our outstanding common stock, including 45% beneficially owned in the aggregate by our former director, William S. Levine, and current director Jonathan L. Levine. As a result, these stockholders are able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of us or our assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us. There can be no assurance that their interests will not conflict with the interests of our other stockholders.

Our common stock may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above your purchase price.

The market price for our common stock is likely to be volatile, due to many factors, outside our control, including those described elsewhere in this "Risk Factors" section, as well as the following:

- our operating and financial performance and prospects;
- our quarterly or annual earnings or those of other companies in our industry compared to market expectations;
- conditions that impact demand for our services;
- future announcements concerning our business or our competitors' businesses;
- regulatory developments, including those related to the ACC;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- the size of our public float;

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- coverage by or changes in financial estimates by investment analysts or failure to meet their expectations;
- the market's perception towards our reduced disclosure as a result of being a "smaller“smaller reporting company” as defined in the Exchange Act;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in laws or regulations which adversely affect our industry or us;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- changes in senior management or key personnel;

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- issuances, exchanges, or sales, or expected issuances, exchanges, or sales of our capital stock;
- changes in our dividend policy;
- adverse resolution of new or pending litigation against us; and
- changes in general market, economic, and political conditions in the U.S., and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war (including the ongoing war wars between Russia and Ukraine) Ukraine and between Israel and Hamas), other geopolitical uncertainties, public health concerns, (including health epidemics or outbreaks of communicable diseases such as the COVID-19 pandemic), and responses to such events.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies in our industry. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

We cannot assure you that we will pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends on our common stock.

We currently intend to continue to pay a regular monthly dividend on our common stock of $0.02483 $0.02508 per share ($0.29796 0.30096 per share annually). However, our future dividend policy is subject to our compliance with applicable law, and is dependent on, among other things, our results of operations, financial condition, level of indebtedness, capital requirements, contractual restrictions, restrictions in our debt agreements and on the terms of any preferred stock we may issue in the future, business prospects, and other factors that our board of directors may deem relevant. Dividend payments are not mandatory or guaranteed; there can be no assurance that we will continue to pay a dividend in the future.

Our failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act as a public company could have a material adverse effect on our business and share price.

We have to comply with Section 404(a) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act" “Sarbanes-Oxley Act”). Section 404(a) of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. Additionally, once we are no longer deemed a smaller reporting company that is a non-accelerated filer, our independent registered public accounting firm will be required pursuant to Section 404(b) of the Sarbanes-Oxley Act to attest to the effectiveness of our internal control over financial reporting on an annual basis. The rules governing the standards that must be met for our management to assess our internal control over financial reporting are complex and require significant documentation, testing, and possible remediation.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We may encounter problems or delays for any requested improvements and receiving a favorable attestation in connection with the attestation to be provided by our independent registered public accounting firm after we cease to be a smaller reporting

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company that is a non-accelerated filer. If our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls after we cease to be a smaller reporting company that is a non-accelerated filer, investors could lose confidence in our financial information and the price of our common stock could decline.

Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weakness or significant deficiency and management may not be able to remediate any such material weakness or significant deficiency in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations, and cause stockholders to lose confidence in our reported financial information, all of which could materially and adversely affect our business and share price.

Taking advantage of the reduced disclosure requirements applicable to smaller reporting companies may make our common stock less attractive to investors.

We are a "smaller “smaller reporting company" company” as defined in the Exchange Act. As such, we are eligible to take advantage of certain exemptions from various reporting requirements that are otherwise applicable generally to public companies including, but not limited to, (i) not being required to comply with the auditor attestation requirements of

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Section 404(b) of the Sarbanes-Oxley Act (so long as we also remain a non-accelerated filer); (ii) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and (iii) reduced disclosure obligations regarding financial statements.

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We may take advantage of the scaled disclosures available to smaller reporting companies for so long as our voting and non-voting common stock held by non-affiliates is less than $250 million measured on the last business day of our second fiscal quarter, or our annual revenue is less than $100 million during the most recently completed fiscal year and our voting and non-voting common stock held by non-affiliates is less than $700 million measured on the last business day of our second fiscal quarter.

We cannot predict if investors will find our common stock less attractive as a result of our taking advantage of these exemptions and as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Delaware law, certain provisions in our certificate of incorporation and bylaws, and regulations of the ACC may prevent efforts by our stockholders to change the direction or management of the Company.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult, including, but not limited to, the following:

- only allowing our board of directors, Chairman of our board of directors, Chief Executive Officer, or President to call special meetings of our stockholders;
- setting forth specific procedures regarding how our stockholders may present proposals or nominate directors for election at stockholder meetings;
- requiring advance notice and duration of ownership requirements for stockholder proposals;
- permitting our board of directors to issue preferred stock without stockholder approval; and
- limiting the rights of stockholders to amend our bylaws.

These provisions could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team.

Additionally, the ACC must determine that certain types of transactions will not impair our financial status, prevent us from attracting capital at fair and reasonable terms, or impair our ability to provide safe, reasonable, and adequate service. Pursuant to this regulatory mandate, the ACC may impose conditions that could discourage, delay, or prevent a transaction involving a change in control of our company.

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General Risk Factors

If our operating and financial performance in any given period does not meet the guidance that we provide to the public or the expectations of investment analysts, our stock price may decline.

We may provide public guidance on our expected operating and financial results for future periods. Any such guidance will be comprised of forward-looking statements subject to the risks and uncertainties described in this Form 10-K and in our other public filings with the SEC and public statements. Whether or not we provide guidance, investment analysts may publish their estimates of our future financial performance. Our actual results may not always be in line with or exceed any guidance we have provided or the expectations of investment analysts, especially in times of economic uncertainty. If, in the future, our operating or financial results for a particular period do not meet any guidance we provide or the expectations of investment analysts or if we or investment analysts reduce estimates of our performance for future periods, the market price of our common stock may decline.

If investment analysts cease to publish research or reports about our business or if they publish negative evaluations of our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that investment analysts publish about us or our business. However, if no or few analysts commence coverage of the Company, the trading price of our stock would likely decrease. Even if we do obtain such analyst coverage, if one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our common stock could decline. If one or more of these analysts cease to cover our

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common stock, we could lose visibility in the market for our stock, which in turn could cause our common stock price to decline.

Substantial future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares.

We have also filed a registration statement registering under the Securities Act of 1933, as amended (the "Securities Act"), the shares of our common stock reserved for issuance in respect of stock options and other incentive awards granted to our officers and certain of our employees. If these officers or employees cause a large number of securities to be sold in the public market, such sales could also reduce the trading price of our common stock and impede our ability to raise future capital.

If investment analysts cease to publish research or reports about our business or if they publish negative evaluations of our common stock, the price of our common stock could decline.

The trading market for our common stock will rely in part on the research and reports that investment analysts publish about us or our business. However, if no or few analysts commence coverage of the Company, the trading price of our stock would likely decrease. Even if we do obtain such analyst coverage, if one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our common stock could decline. If one or more of these analysts cease to cover our common stock, we could lose visibility in the market for our stock, which in turn could cause our common stock price to decline.

We incur costs as a result of being a public company in the U.S.

As a public company in the U.S., we incur significant legal, accounting, insurance, and other expenses, including costs associated with U.S. public company reporting requirements. The expenses incurred by U.S. public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action, and potentially civil litigation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

Rapidly evolving threats to the cybersecurity landscape necessitate ongoing efforts to manage the risk of unauthorized access to the Company's information systems and devices, including those of the Company and of third-party providers. The Company is subject to laws and rules issued by multiple government agencies concerning safeguarding and maintaining the confidentiality of our security, customer, and business information. The company employs various aspects of risk assessment regularly, and to the extent possible, continuously. Further, the Company uses a defense in depth, or layered, approach to strengthen the security environment and mitigate the impact of any potential threats. Cybersecurity risks are strategically managed under the leadership of the Vice President, IT Operations and Security, who has achieved preeminent certification as a Certified Information Security Manager (CISM) and Certified Cloud Security Professional (CCSP) and has served as the most senior IT resource in many different roles.

Management regularly assesses new and emerging risks by keeping apprised of current events and actual or anticipated threats within the industry and the overall security environment, which is used along with a risk-based approach to plan and implement changes or improvements to the security environment. The Company has engaged independent experts to assess the security environment for potential vulnerabilities or weaknesses and has plans for future engagements periodically to supplement the expertise and processes established within the Company. Thorough updates are provided to the board of directors quarterly by the Vice President, Information Technology (IT) Operations and Security. The directors may ask questions or engage in further discussion related to the security environment.

Employees are one of our most valuable resources and it is essential that education, particularly related to social engineering, is persistent and relevant. The Company requires ongoing cybersecurity awareness training for all employees, including weekly simulated emails to test the knowledge and reaction of employees. The training is, customized based on actual events or anticipated emerging threats, keeping the education applicable and purposeful.

The Company utilizes various continuous monitoring methods for identification and notification of attempted unauthorized system access. Tools deployed throughout the Company track these attempts allowing for trend analysis and strategic adaptation. The Company has also established an incident response policy that thoroughly and systematically documents the Company's response and assigns responsibility to facilitate timely, organized and appropriate action during a security event or incident, including assessment of the impact and materiality of the event or incident. Incident management is led by the

Security Incident Response Team, under the primary leadership of the Vice President, IT Operations and Security, in which the process is categorized by the detection, analysis, containment, eradication and recovery phases and is inclusive of post-incident activities.

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In the regular course of our business, the Company manages a range of sensitive security, customer, and business systems information. A security breach of our information systems such as theft or the inappropriate release of certain types of information, including confidential customer, employee, financial or system operating information, could have a material adverse impact on our financial condition, results of operations or cash flows. The Company operates in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite implementation of security measures, the technology systems are vulnerable to disability, failures or unauthorized access. Facilities, information technology systems and other infrastructure facilities and systems and physical assets could be targets of such unauthorized access. Failures or breaches of our systems could impact the reliability of systems and also subject the Company to financial harm. If the technology systems were to fail or be breached and if the Company is unable to recover in a timely way, fulfilling critical business functions and sensitive confidential data could be compromised, which could have a material adverse impact on the Company's financial condition, results of operations or cash flows.

The Company has experienced, and expects to continue experiencing, these types of threats and attempted intrusions. The implementation of additional security measures could increase costs and have a material adverse impact on the Company's financial results. Cyber insurance has been obtained to provide coverage for a portion of the losses and damages that may result from a security breach of information technology systems, but such insurance may not cover the total loss or damage caused by a breach. In addition, all costs of responding to and recovering from a cyber incident may not be covered by insurance. These types of events could also require significant management attention and resources, and could adversely affect the Company's reputation with customers and the public.

As operators of critical infrastructure, the Company may face a heightened risk of cyberattacks from internal or external sources. Unauthorized access to confidential information located or stored on these systems could negatively and materially impact customers, employees, suppliers and other third parties. Further, third parties, including vendors, suppliers and contractors, who perform certain services or administer and maintain our sensitive information, could also be targets of cyberattacks and unauthorized access. While the Company has instituted safeguards to protect the information technology systems, those safeguards may not always be effective due to the evolving nature of cyberattacks and cyber vulnerabilities. The Company cannot guarantee that such protections will be completely successful in the event of a cyberattack.

If the information technology systems, or that of third parties on which the Company relies, are affected by a significant cyber breach, this could result in, among other things, a significant disruption to operations; costly investigations and remediation; misappropriation of confidential information of the Company or that of customers, employees, business partners or others; litigation and potential liability; enforcement actions and investigations by regulatory authorities; loss of customers and contracts; harm to reputation; and a loss of management time, attention and resources from regular business operations, any of which could have a negative impact on business, results of operations, and cash flows. As previously discussed, the Company is subject to laws and rules issued by multiple government and private agencies concerning safeguarding and maintaining the confidentiality of our security, customer, and business information. The increasing promulgation of rules and standards will increase our compliance costs and our exposure to the potential risk of violations of the standards.

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ITEM 2. PROPERTIES

The following table lists the principal properties that we own or lease:

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Nature of Property	Location	Operated By	Owned or Leased
Corporate Offices	Phoenix, Arizona	Global Water Resources, Inc.	Leased
Wastewater Treatment Utility Plant	2 Wastewater Treatment Plants - Maricopa, Arizona	Global Water - Palo Verde Utilities Company, Inc.	Owned
Global Water Center - Regional Office	Maricopa, Arizona	Global Water - Palo Verde Utilities Company, Inc.	Owned
Wastewater Utility Plant	8 Lift Stations - Maricopa, Arizona	Global Water - Palo Verde Utilities Company, Inc.	Owned
Wastewater Utility Plant	Red Rock, Arizona	Global Water - Palo Verde Utilities Company, Inc.	Owned
Water Utility Plant	16 Well Sites - Maricopa, Arizona	Global Water - Santa Cruz Water Company, Inc.	Owned
Water Utility Plant	6 Water Distribution Sites - Maricopa, Arizona	Global Water - Santa Cruz Water Company, Inc.	Owned
Water Utility Plant	Red Rock, Arizona	Global Water - Santa Cruz Water Company, Inc.	Owned
Water Utility Plant	14 sites - Maricopa County, Arizona	Global Water - Belmont Water Company, Inc.	Owned
Irrigation Utility Plant	Mesa, Arizona	Global Water - Turner Ranches Irrigation, Inc.	Owned
Water Utility Plant	Water Distribution Site - Tucson, Arizona	Global Water - Mirabell Water Company, Inc.	Owned
Water Utility Plant	Well Site - Tucson, Arizona	Global Water - Mirabell Water Company, Inc.	Owned
Water Utility Plant	2 Water Distribution Sites - Tucson, Arizona	Global Water - Francesca Water Company, Inc.	Owned
Water Utility Plant	2 Well Sites - Tucson, Arizona	Global Water - Francesca Water Company, Inc.	Owned
Water Utility Plant	Marana, Arizona	Global Water - Tortolita Water Company, Inc.	Owned
Water Utility Plant	Marana, Arizona	Global Water - Lyn Lee Water Company, Inc.	Owned
Water Utility Plant	Water Distribution Site, Sahuarita, Arizona	Global Water - Las Quintas Serenas Water Company, Inc.	Owned
Water Utility Plant	2 Well Sites, Sahuarita, Arizona	Global Water - Las Quintas Serenas Water Company, Inc.	Owned
Water Utility Plant	2 Water Distribution Site Sites - Vail, Arizona	Global Water - Rincon Water Company, Inc.	Owned
Water Utility Plant	4 Water Distribution Sites - Vail, Sahuarita, Arizona	Global Water - Rincon Farmers Water Company, Inc.	Owned
Water Utility Plant	3 Well Sites - Sahuarita, Arizona	Global Water - Farmers Water Company, Inc.	Owned
Water Utility Plant	3 Water Distribution Sites - Green Valley, Arizona	Global Water - Farmers Water Company, Inc.	Owned
Water Utility Plant	Well Site - Red Rock, Arizona	Global Water - Red Rock Utility Water Company	Owned
Global Water Center - Regional Office	Green Valley, Arizona	Global Water - Farmers Water Company, Inc.	Leased

We believe that our existing properties are adequate to meet our current needs.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we the Company may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To our knowledge, we are the Company is not involved in any legal proceeding which is expected to have a material effect on us. the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NASDAQ Global Market ("NASDAQ") under the symbol "GWRS". Our common stock began trading on the NASDAQ on April 28, 2016.

Shareholders

As of March 8, 2023 March 6, 2024, there were approximately [16] 56 shareholders of record of our common stock. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

Dividends

We currently intend to continue to pay a regular monthly dividend of $0.02483 0.02508 per share ($0.29796 (0.30096 per share annually). However, our future dividend policy is subject to our compliance with applicable law, and is dependent on, among other things, our results of operations, financial condition, level of indebtedness, capital requirements,

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contractual restrictions, restrictions in our debt agreements and on the terms of any preferred stock we may issue in the future, business prospects, and other factors that our board of directors may deem relevant. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition – Liquidity and Capital Resources” in Part II, Item 7 of this report for a discussion of provisions of our senior secured notes and our revolving credit facility that limit the payment of dividends.

Performance Graph

The following graph compares the relative performance of our common stock, the S&P 500 Index, and our Peer Group Index. This graph covers the period from December 31, 2017 December 31, 2018 through December 31, 2022 December 31, 2023. The graph assumes that $100 was invested on December 31, 2017 December 31, 2018 in the common stock of GWRS, the S&P 500 Index, and our Peer Group Index, and also assumes reinvestment of dividends. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

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* Peer group includes American States Water Company, American Water Works, Aqua America, Inc., Artesian Resources Corp., California Water, SJW Group, Middlesex Water Company, and York Water Co.

		12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23
Global Water Resources, Inc.	Global Water Resources, Inc.	$100.00	$163.04	$211.78	$232.44	$248.02	$221.51						
S&P 500 Index	S&P 500 Index	$100.00	$120.76	$155.64	$180.94	$218.36	$184.96						
Peer Group Index*	Peer Group Index*	$100.00	$161.07	$207.70	$231.18	$264.86	$279.76						

Issuer Purchases of Equity Securities

The following table presents information with respect to purchases of common stock we made during the three months ended December 31, 2022.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to 31, 2022	—	$ —	—	—
November 1 to 30, 2022	—	$ —	—	—
December 1 to 31, 2022	—	$ —	—	—
Total	—		—	

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 to 31, 2022	201	$ 9.52	—	—
November 1 to 30, 2022	9,921	$ 11.35	—	—
December 1 to 31, 2022	—	$ —	—	—
Total	10,122		—	

Unregistered Sales of Equity Securities

None.

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ITEM 6. [RESERVED]

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ITEM 7. MANAGEMENT'S MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management’s discussion and analysis of Global Water Resources, Inc.'s ’s (the "Company" “Company”, "GWRI" “GWRI”, "we" “we”, or "us" “us”) financial condition and results of operations (“MD&A”) relate to the year ended December 31, 2022 December 31, 2023 and should be read together with the consolidated financial statements and accompanying notes included in Part II, Item 8 of this report.

Overview

GWRI is a water resource management company that owns, operates, and manages twenty-nine water, wastewater, and recycled water systems in strategically located communities, principally in metropolitan Phoenix and Tucson, Arizona. The Company seeks to deploy an integrated approach, referred to as “Total Water Management.” ” Total Water Management is a comprehensive approach to water utility management that reduces demand on scarce non-renewable water sources and costly renewable water supplies, in a manner that ensures sustainability and greatly benefits communities both environmentally and economically. This approach employs a series of principles and practices that can be tailored to each community:

- Reuse of recycled water, either directly or to non-potable uses, through aquifer recharge, or possibly direct potable reuse in the future;
- Regional planning;
- Use of advanced technology and data;
- Employing respected subject matter experts and retaining thought and application leaders;
- Leading outreach and educational initiatives to ensure all stakeholders including customers, development partners, regulators, and utility staff are knowledgeable on the principles and practices of our the Total Water Management approach; and
- Establishing partnerships with communities, developers, and industry stakeholders to gain support of our the Total Water Management principles and practices.

COVID-19 Update

Our water and wastewater services are essential services and we intend to continue to provide those services for our customers. We continue to monitor the impact of the COVID-19 pandemic on our business and operations, including how it will impact our customers, employees, suppliers, vendors, and business partners. While the COVID-19 pandemic did not have a material effect on our business operations, results of operations, cash flows, and financial position for the years ended December 31, 2022 and 2021, we are unable to predict the ultimate extent to which our business operations, results of operations, cash flows, and financial position will be impacted by the COVID-19 pandemic. The degree to which the COVID-19 pandemic impacts our business operations, results of operations, cash flows, and financial position will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted. This includes, but is not limited to, the duration and spread of the COVID-19 pandemic; its severity; the emergence and severity of its variants; the actions to contain the virus or treat its impact, such as the availability and efficacy of vaccines (particularly with respect to emerging strains of the virus) and potential hesitancy to utilize them; general economic factors, such as increased inflation; supply chain constraints; labor supply issues; restrictions on travel and transportation; and how quickly and to what extent normal economic and operating conditions can resume.

Further, our current results and financial condition discussed herein may not be indicative of future operating results and trends. Refer to “Risk Factors” included in Part I, Item 1A of this report for additional risks we face due to the COVID-19 pandemic.

Business Outlook

The There was a trend of positive growth in new connections during 2022. For 2023, growth continued at a moderate rate during the first half of the year with the second half exhibiting increases in 2021 and 2022. the rate of connection growth. According to the 2020 most recent U.S. Census Data, estimates, the Phoenix metropolitan statistical area (“MSA”) is the 11th largest MSA in the U.S. and had a an estimated population of 4.8 5.0 million, an increase of 14% 3.5% over the 4.2 4.8 million people reported in the 2010 2020 Census. Metropolitan Phoenix continues to grow due to its comparatively affordable housing, excellent weather, large and growing universities, a diverse employment base, and low taxes. The Employment and Population Statistics Department of the State of Arizona predicts that the Phoenix metropolitan area will have a population of 5.8 million people by 2030 and 6.5 million by 2040. During the twelve months ended December 31, 2022 December 31, 2023, Arizona’s employment rate increased by 3.1% 2.0%, ranking the state in the top twenty nationally for job growth.

According to the W.P. Carey School of Business Greater Phoenix Blue Chip Real Estate Consensus Panel (the "Greater “Greater Phoenix Blue Chip Panel" Panel”), during 2022 the single-family housing market experienced a decline weakness in permits issued with

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approximately 24,600 issued in during 2022 as compared to approximately 31,000 issued in 2021. and 2023, however, the outlook for single-family housing is improving. The Greater Phoenix Blue Chip Panel expects anticipates single-family permit increases in 2024 due to the decrease combination of the improvement shown in annual single-family housing permits to continue into the second half of 2023 with recovery the expectations of modestly declining mortgage rates in 2024. However, according During both 2022 and 2023, multi-family permits trended upwards adding stability to the Greater market.

Phoenix Blue Chip Panel, is being recognized as the outlook top market for multi-family activity is expected to be more stable, with 13,700 manufacturing growth and 12,300 multi-family housing permits expected was ranked number one out of the top 15 growth markets for 2023 and 2024, respectively. largest projected job gains by global real estate firm Newmark Group.

Despite the a general slowdown in housing in for the Phoenix metropolitan area primarily due to inflation and increased interest rates, management believes that we are well-positioned to benefit from the growth expected in the Phoenix metropolitan area due to the availability of lots, and existing infrastructure in place within our services areas. areas, and increased activity related to multi-family developments.

Factors Affecting our Results of Operations

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Our financial condition and results of operations are influenced by a variety of industry-wide factors, including but not limited to:

- population and community growth;
- economic and environmental utility regulation;
- economic environment;
- the need for infrastructure investment;
- production and treatment costs;
- weather and seasonality; and
- access to and quality of water supply.

The COVID-19 pandemic may impact the degree to which these factors affect our financial condition and results of operations as discussed above under "COVID-19 Update."

We are Company is subject to economic regulation by the state regulator, the ACC. The U.S. federal and state governments also regulate environmental, health and safety, and water quality matters. We continue The Company continues to execute on our the strategy to optimize and focus the Company in order to provide greater value to our customers and shareholders by aiming to deliver predictable financial results, making prudent capital investments, and focusing our efforts on earning an appropriate rate of return on our investments.

Population and Community Growth

Population and community growth in the metropolitan Phoenix area served by our utilities have a direct impact on our earnings. An increase or decrease in our active service connections will affect our revenues and variable expenses in a corresponding manner. As of December 31, 2022 December 31, 2023, active service connections increased 2,388, 5,521, or 4.4% 9.8%, to 56,270 61,791 compared to 53,882 56,270 active service connections as of December 31, 2021 December 31, 2022, primarily due to the acquisition of Farmers Water Co. (“Farmers”) and organic growth in our service areas. Approximately 91.0% 89.3% of the 56,270 61,791 active service connections are serviced by our Global Water - Santa Cruz Water Company, Inc. (“Santa Cruz”) and Global Water - Palo Verde Utilities Company, Inc. (“Palo Verde”) utilities as of December 31, 2022 December 31, 2023.

The graph below presents the historical change in active and total connections for our ongoing operations over the past five years.

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Economic and Environmental Utility Regulation

We are subject to extensive regulation of our rates by the ACC, which is charged with establishing rates based on the provision of reliable service at a reasonable cost while also providing an opportunity to earn a fair rate of return on rate base for investors of utilities. The ACC uses a historical test year to evaluate whether the plant in service is used and useful, to assess whether costs were prudently incurred, and to set “just and reasonable” rates. Rate base is typically the depreciated original cost of the plant in service (net of contributions in aid of construction (“CIAC”) and advances in aid of construction (“AIAC”) which are funds or property provided to a utility under the terms of a main extension agreement, the value of which may be refundable), that has been determined to have been “prudently invested” and “used and useful”, although the reconstruction cost of the utility plant may also be considered in determining the rate base. The ACC also decides on an applicable capital structure based on actual or hypothetical analyses. The ACC determines a “rate of return” on that rate base, which includes the approved capital structure and the actual cost of debt and a fair and reasonable cost of equity based on the ACC's ACC's judgment. The overall revenue requirement for rate making purposes is established by multiplying the rate of return by the rate base and adding “prudently” reasonably incurred operating expenses for the test year, depreciation, and any applicable pro forma adjustments.

On July 3, 2023, our Palo Verde and Santa Cruz utilities filed an application with the ACC for approval of an accounting order to defer and record as a regulatory asset both the depreciation expense recorded for the Company’s Southwest Plant and the carrying cost of that plant at the authorized rate of return set in Palo Verde’s and Santa Cruz’s most recent rate order, until the plant is considered for recovery in the utilities’ next rate case. In January 2024, the Company discovered that approximately $7.8 million of construction costs for the Southwest Plant had been prematurely included as “plant in service” for rate-making purposes in 2007 and were reflected in the calculation of customer rates in Rate Decision No. 71878 (September 15, 2010). Those costs were also included as “plant in service” in Rate Decision No. 74364 (February 26, 2014) and Rate Decision No. 78644 (July 27, 2022). The Company disclosed this information to the ACC on March 1, 2024. Although to date the ACC has not taken any action, the ACC could require the Company to reduce rates going forward or take other actions that would be unfavorable to the Company. The final outcome and resolution of this matter cannot be predicted and the results, while not reasonably estimable at this time, could be material to the Company and its financial condition.

To ensure an optimal combination of access to water and water conservation balanced with a fair rate of return for investors, our water utility operating revenue is based on two components: a fixed fee and a consumption or volumetric fee. For our water utilities, the fixed fee, or “basic service charge,” provides access to water for residential usage and has generally been set at a level to produce approximately 50% of total water revenue. The volumetric fee is based on the total volume of water supplied to a given customer after the minimum number of gallons, if any, covered by the basic service charge, multiplied by a price per gallon set by a tariff approved by the ACC. A discount to the volumetric rate applies for customers that use less than an amount specified by the ACC. For all investor-owned water utilities, the ACC requires has, as a policy matter, required the establishment of inverted tier conservation-oriented rates, meaning that the price of water increases as consumption increases. For wastewater utilities, wastewater collection, and treatment can be based on volumetric or fixed fees. Our wastewater utility services are billed based solely on a fixed fee, determined by the size of the water meter installed. Recycled water is sold on a volumetric basis with no fixed fee component.

We are required to file rate cases with the ACC to obtain approval for a change in rates. Rate cases and other rate-related proceedings can take a year or more to complete. As a result, there is frequently a delay, or regulatory lag, between the time of a capital investment or incurrence of an operating expense increase and when those costs are reflected in rates. We believe it is common industry practice to file for a rate increase every three to five years. Refer to “—Rate Case Activity” below and Note 2 – “Regulatory Decision and Related Accounting and Policy Changes” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

Additionally, our water and wastewater utility operations are subject to extensive regulation by U.S. federal, state, and local regulatory agencies that enforce environmental, health, and safety requirements, which affect all of our regulated subsidiaries. Environmental, health and safety, and water quality regulations are complex and change frequently, and they have tended to become more stringent over time. Although it is difficult to project the ultimate costs of complying with pending or future requirements, we do not expect current requirements under current regulation regulations to have a material impact on our operations or financial condition, although it is possible new methods of treating drinking water may be required if additional regulations become effective in the future. For example, on March 14, 2023, the U.S. Environmental Protection Agency (“EPA”) announced the proposed National Primary Drinking Water Regulation (“NPDWR”) for the treatment of six per- and polyfluoroalkyl substances or compounds (“PFAS”).

The NPDWR proposed maximum contaminant levels (“MCLs”) for PFAS in drinking water. If finalized as proposed, the regulation will require public water systems, including those owned by GWRI, to monitor drinking water for these compounds. It will also require public water systems to notify customers and treat drinking water to reduce the compounds if the MCL is exceeded. The proposed NPDWR was issued for public comment and the EPA expects to finalize the regulation by early 2024. Once the rule is finalized, water systems will be required to comply with the NPDWR after a specified implementation period, anticipated to be three years from the rule-adoption date. The Company is currently reviewing the proposed regulation with our current treatment standards and expects that the regulation, once finalized, will result in changes to or addition of certain treatment processes that will require increased capital expenditures and water treatment and other operating costs. As other newer or stricter standards are introduced in the future, they could also increase our operating expenses. We would generally expect to recover expenses associated with compliance for environmental and health and safety standards through rate increases, but this recovery may be affected by regulatory lag.

Capital expenditures and operating costs required as a result of water quality standards have been traditionally recognized by the ACC as appropriate for inclusion in establishing rates or in a separate surcharge.

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Infrastructure Investment

Capital expenditures for infrastructure investment are a component of the rate base on which our regulated utility subsidiaries are allowed to earn an equity rate of return. Capital expenditures for infrastructure provide a basis for earnings growth by expanding our "used and useful" rate base, which is a component of our permitted return on investment and revenue requirement. We are generally able to recover a rate of return on these capital expenditures (return on equity and debt), together with debt service and certain operating costs, through the rates we charge.

We have an established capital improvement plan to make targeted capital investments to repair and replace existing infrastructure as needed, address operating redundancy requirements, improve our overall financial performance and expand our infrastructure in areas where growth is occurring.

Production and Treatment Costs

Our water and wastewater services require significant production resources and therefore result in significant production costs. Although we are permitted to recover these costs through the rates we charge, regulatory lag can decrease our margins and earnings if production costs or other operating expenses increase significantly before we are able to recover them through increased rates. Our most significant costs include labor, chemicals used to treat water and wastewater, and power used to operate pumps and other equipment. Power and chemical costs can be volatile. However, we employ a variety of technologies and methodologies to minimize costs and maximize operational efficiencies.

Cybersecurity Risks

In the regular course of our business, we manage a range of sensitive security, customer, and business systems information. A security breach of our information systems such as theft or the inappropriate release of certain types of information, including confidential customer, employee, financial or system operating information, could have a material adverse impact on our financial condition, results of operations or cash flows. We operate in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure. Despite implementation of security measures, our technology systems are vulnerable to disability, failures or unauthorized access. Our facilities, information technology systems and other infrastructure facilities and systems and physical assets could be targets of such unauthorized access. Failures or breaches of our systems could impact the reliability of our systems and also subject us to financial harm. If our technology systems were to fail or be breached and if we are unable to recover in a timely way, we may not be able to fulfill critical business functions and sensitive confidential data could be compromised, which could have a material adverse impact on our financial condition, results of operations or cash flows.

We are subject to laws and rules issued by multiple government agencies concerning safeguarding and maintaining the confidentiality of our security, customer, and business information. The increasing promulgation of rules and standards will increase our compliance costs and our exposure to the potential risk of violations of the standards.

We have experienced, and expect to continue to experience, these types of threats and attempted intrusions. The implementation of additional security measures could increase costs and have a material adverse impact on our financial results. We have obtained cyber insurance to provide coverage for a portion of the losses and damages that may result from a security breach of our information technology systems, but such insurance may not cover the total loss or damage caused

by a breach. These types of events could also require significant management attention and resources, and could adversely affect Global Water Resources' reputation with customers and the public.

Weather and Seasonality

Our ability to meet the existing and future water demands of our customers depends on an adequate supply of water. Drought, overuse of sources of water, the protection of threatened species or habitats, or other factors may limit the availability of ground and surface water.

Also, customer usage of water and recycled water is affected by weather conditions, particularly during the summer. Our water systems generally experience higher demand in the summer due to the warmer temperatures and increased usage by customers for irrigation and other outdoor uses. However, summer weather that is cooler or wetter than average generally suppresses customer water demand and can have a downward effect on our operating revenue and operating income. Conversely, when weather conditions are extremely dry, our business may be affected by government-issued drought-related warnings and/or water usage restrictions that would artificially lower customer demand and reduce our operating revenue.

The limited geographic diversity of our service areas makes the results of our operations more sensitive to the effect of local weather extremes. The second and third quarters of the year are generally those in which water services revenue and wastewater services revenues are highest. For additional information and risks associated with weather and seasonality, see "Risk Factors," included in Part I, Item 1A of this report.

Access to and Quality of Water Supply

In many areas of Arizona (including certain areas that we service), water supplies are limited and, in some cases, current usage rates exceed sustainable levels for certain water resources. We currently rely predominantly (and are likely to continue to rely) on the pumping of groundwater and the generation and delivery of recycled water for non-potable uses to

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meet future demands in our service areas. At present, groundwater (and recycled water derived from groundwater) is the primary water supply available to us. In addition, regulatory restrictions on the use of groundwater and the development of groundwater wells, lack of available water rights, drought, overuse of local or regional sources of water, protection of threatened species or habitats, or other factors, including climate change, may limit the availability of ground or surface water. Notwithstanding Additionally, in the foregoing, we majority of the Phoenix Active Management Area, the Arizona Department of Water Resources ("ADWR") has paused the issuance of new certificates of assured water supply based on groundwater and paused modifications of any designations of assured water supply for the increase in groundwater. Approximately 1.76% of the Company's water connections are located within the Phoenix Active Management Area. We believe that we have an adequate supply of water to service our current demand and growth for the foreseeable future. future in our service areas. For additional information and risks associated with the access to and quality of water supply, see "Risk Factors," included in Part I, Item 1A of this report.

Rate Case Activity

On July 3, 2023, our Palo Verde and Santa Cruz Water utilities filed an application with the ACC for approval of an accounting order to defer and record as a regulatory asset the depreciation expense recorded for the Company's Southwest Plant, plus the carrying cost at the authorized rate of return set in Palo Verde's and Santa Cruz's most recent rate order, until the plant is considered for recovery in the utilities' next rate case. Refer to Note 2 – "Regulatory Decision and Related Accounting and Policy Changes" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

On June 27, 2023, seven of the Company's regulated utilities each filed a rate case application with the ACC for water rates based on a 2022 test year. In addition to a rate increase, the Company requested, among other things, the consolidation of water rates for certain of its utilities, including Mirabell, Lyn Lee, Francesca, Tortolita, Rincon, Las Quintas Serenas, and Red Rock, each located in Pima County. Of the Company's utilities, these utilities filing rate applications make up approximately 3% of the Company's active service connections. On February 29, 2024, the Company entered into a settlement agreement with ACC Utilities Division Staff regarding the rate case application, which will be considered by an Administrative Law Judge and the ACC for approval. The agreement includes, among other things, a recommended annual revenue increase of approximately $351,000, acquisition premiums for six of the Company's utilities, a capital structure matching the Company's previous rate of 55% equity with a 9.6% return on equity, consolidation of the seven utilities, and an accounting deferral for Rincon. There can be no assurance that the ACC will approve the settlement agreement and the ACC could take other actions as a result of the rate case. Further, it is possible that the ACC may determine to decrease future rates. There can also be no assurance as to the timing of when an approved rate increase (if any) would go into effect.

On July 27, 2022, the ACC issued Rate Decision No. 78644 relating to the Company's recent Company's previous rate case involving 12 of the Company's Company's regulated utilities, consisting which consisted of approximately 96% of the Company's Company's active service connections at the time of the rate case application filing. Pursuant to Rate Decision No. 78644, the ACC approved, among other things, a collective annual revenue requirement increase of approximately $2.2 million (including the acquisition premiums discussed below) based on 2019 test year service connections, and phased-in over approximately two years, as follows:

	Incremental	Cumulative
August 1, 2022	$ 1,457,462	$ 1,457,462
January 1, 2023	$ 675,814	$ 2,133,277
January 1, 2024	$ 98,585	$ 2,231,861

To the extent that the number of active service connections has increased and continues to increase from 2019 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or the Company experiences declining usage per customer, the Company may not realize all of the anticipated revenues.

The ACC also approved: (i) the consolidation of water and/or wastewater rates to create economies of scale that are beneficial to all customers when rates are consolidated; (ii) acquisition premiums relating to the Company's acquisitions of its Red Rock and Turner Ranches utilities, which increase the rate base for such utilities and result in an increase in the annual collective revenue requirement included in the table above; (iii) the Company's ability to annually adjust rates to flow through certain changes in property tax expense, and/or changes in primarily related to income tax expense, taxes, without the necessity of a rate case proceeding; and (iv) a sustainable water surcharge, which will allow semiannual surcharges to be added to customer bills based on verified costs of new water resources.

Finally, Rate Decision No. 78644 requires required the Company to work with ACC staff and the Residential Utility Consumer Office to prepare a Private Letter Ruling request to the Internal Revenue Service ("IRS") to clarify whether the failure to eliminate the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the Internal Revenue Code ("IRC"

("IRC") would violate the normalization provisions of Section 168(i)(9) of the IRC. If the The IRS accepts accepted the request and issues issued its ruling, Private Letter Ruling, dated September 22, 2023. The Private Letter Ruling determined that the deferred taxes attributable to assets condemned in a copy transaction governed by Section 1033 of the IRC must be eliminated and failure to do so would violate the normalization provisions of Section 168(i)(9) of the IRC. As required by Rate Decision No. 78644, the Private Letter Ruling was provided to the ACC. Within 90 days after providing the ruling to the ACC ACC Staff shall prepare, for ACC consideration, a memorandum and proposed order regarding guidance issued within the Private Letter Ruling. This may result in no further action will be taken by the ACC, which we are unable as documented in Decision No. 79258.

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During the fourth quarter 2023, the Company notified the ACC of its intention to predict due to the uncertainties involved, that could have an adverse impact on our financial condition, results of operations file a rate case for Farmers during 2024 and cash flows. for Santa Cruz and Palo Verde in 2025.

Refer to Note 2 – "Regulatory Decision and Related Accounting and Policy Changes" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

Corporate Transactions

Recent Acquisitions Private Placement Offering of 6.91% Senior Secured Notes

On April 14, 2022 October 26, 2023, the Company signed entered into a definitive note purchase agreement for the issuance of an aggregate principal amount of $20 million of 6.91% Senior Secured Notes due on January 3, 2034. Pursuant to acquire Farmers Water Co., an operator the terms of a water utility with service area in Pima County, Arizona. On February 1, 2023, the note purchase agreement, the Company completed issued the acquisition of Farmers Water Co. notes on January 3, 2024.

Refer to Note 16 11 - "Subsequent Event" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

On January 20, 2022, the Company acquired the assets of Rincon Water Company, Inc., a water utility in Pima County, Arizona. The acquisition added an additional 73 connections and approximately 8.6 square miles of service area at the time of acquisition.

On January 13, 2022, the Company acquired the assets of Twin Hawks Utility, Inc., a water utility in Pinal County, Arizona. The acquisition added an additional 18 connections and approximately 0.5 square miles of service area at the time of acquisition.

On November 3, 2021, the Company completed the stock acquisition by merger of Las Quintas Serenas Water Company, Inc. ("Las Quintas"), an operator of a water utility with service area in Pima County, Arizona, adding. 1,100 connections with approximately 2.5 square miles of service area at the time of acquisition.

On February1, 2023 the Company completed the acquisition of Farmers Water Co., an operator of a water utility with service area in Sahuarita, Arizona and in unincorporated Pima County, Arizona. The acquisition added approximately 3,300 active water connections and 21.5 square miles of service area. Refer to Note 16 - "Subsequent Events" "Debts" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional details.

ACC Tax Docket

Private Placement Offering of Common Stock

On September 20, 2018 June 8, 2023, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities due to lower corporate tax rates under the TCJA. Rate Decision No. 76901 adopted Company entered into a phase-in approach securities purchase agreement for the reductions to match issuance and sale by the phase-in Company of our revenue requirement under Rate Decision No. 74364 enacted in February 2014. In 2021, the final year an aggregate of 230,000 shares of the phase-in, Company's common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, Securities Act of 1933, as amended (the "Securities Act"), and Northern Scottsdale utilities were Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $415,000, $669,000, $16,000, and $5,000, respectively. The ACC also approved a carrying cost of 4.25% on regulatory liabilities resulting $2.8 million from the difference offering.

Farmers Acquisition

On February 1, 2023, the Company acquired all of the fully phased-in rates to be applied equity of Farmers, an operator of a water utility with service area in 2021 versus Pima County, Arizona. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of service area in Sahuarita, Arizona and the years leading up to 2021 (i.e., 2018 through 2020).

On July 27, 2022, surrounding unincorporated area of Pima County at the ACC issued Rate Decision No. 78644, which approved an adjustor mechanism for income taxes. The adjustor mechanism permits time of the Company to flow through potential changes to state and federal income tax rates as well as refund or collect funds related to TCJA. The Company expects any remaining TCJA recovery to be addressed through the income tax adjustor. acquisition. Refer to Note 2 – "Regulatory Decision and Related Accounting and Policy Changes" 15 - "Acquisitions" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information. details.

Public Offering of Common Stock

On November 27, 2018, February 20, 2019, February 28, 2019, and January 23, 2020 August 1, 2022, the ACC adopted orders relating Company completed a public offering of 1,150,000 shares of common stock at a public offering price of $13.50 per share, which included 150,000 shares issued and sold to the funding for income taxes on CIAC underwriter following the exercise in full of its option to purchase additional shares of common stock. The Company received net proceeds of approximately $14.9 million from the offering after deducting underwriting discounts and AIAC, which became taxable for our regulated utilities under commissions and offering expenses paid by the TCJA. However, effective January 1, 2021, CIAC and AIAC for regulated water and sewage disposal facility companies are excluded from income under IRC Section 118. Company. Certain of the Company's directors and/or their affiliates purchased an aggregate of 652,000 shares of common stock at the public offering price.

Stipulated Condemnation of the Operations and Assets of Valencia

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On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of Valencia to the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement and stipulated final judgment of condemnation wherein the City of Buckeye acquired all the operations and assets of Valencia and assumed operation of the utility upon close. The City of Buckeye is obligated to pay the Company a growth premium equal to $3,000 for each new water meter installed within Valencia's prior service areas in the City of Buckeye, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement.

Public Offering of Common Stock

On August 1, 2022, the Company completed a public offering of 1,150,000 shares of common stock at a public offering price of $13.50 per share, which included 150,000 shares issued and sold to the underwriter following the exercise in full of its option to purchase additional shares of common stock. The Company received net proceeds of approximately $14.9 million from the offering after deducting underwriting discounts and commissions and offering expenses paid by the Company.

Segment Reporting

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing operating performance. In consideration of the Financial Accounting Standards Board's Accounting Standards Codification 280, *Segment Reporting*, we are the Company is not organized around specific products and services, geographic regions, or regulatory

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environments. We The Company currently operate operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

While we report the Company reports revenue, disaggregated by service type, on the face of our the statement of operations, we do the Company does not manage the business based on any performance measure at the individual revenue stream level. We do The Company does not have any customers that contribute more than 10% to our the Company's revenues or revenue streams. Additionally, the chief operating decision maker uses consolidated financial information to evaluate our performance, which is the same basis on which he communicates our results and performance to our the Company's board of directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of our the Company's resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that we are the Company is currently organized and operated as one operating and reportable segment.

Comparison of Results of Operations for the Years Year Ended December 31, 2022 December 31, 2023 and 2021 2022

The following table summarizes our results of operations for the years year ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands, except for share amounts):

		For the Year Ended December 31,		For the Year Ended December 31,	
		2022	2021	2023	2022
Revenues	Revenues	$44,728	$41,914		
Operating expenses	Operating expenses	36,909	34,935		
Operating income	Operating income	7,819	6,979		
Total other expense	Total other expense	(1,379)	(2,220)		
Income before income taxes	Income before income taxes	6,440	4,759		
Income tax expense	Income tax expense	(934)	(1,150)		
Net income	Net income	$ 5,506	$ 3,609		

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Basic earnings per common share	Basic earnings per common share	$	0.24	$	0.16

Basic earnings per common share

Basic earnings per common share

Diluted earnings per common share	Diluted earnings per common share	$	0.24	$	0.16

Revenues – The following table summarizes our revenues for the years year ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands):

	For the Year Ended December 31,	
	2022	2021
Water services	$ 20,885	$ 18,944
Wastewater and recycled water services	23,843	22,241
Unregulated revenues	—	729
Total revenues	$ 44,728	$ 41,914

	For the Year Ended December 31,	
	2023	2022
Water services	$ 24,860	$ 20,885
Wastewater and recycled water services	25,382	23,843
Unregulated revenues	2,786	—
Total revenues	$ 53,028	$ 44,728

Total revenues increased $2.8 million $8.3 million, or 6.7% 18.6%, to $53.0 million for the year ended December 31, 2023 compared to $44.7 million for the year ended December 31, 2022 compared to $41.9 million for the year ended December 31, 2021. The increase in revenue reflects elevated consumption during 2023 related to higher average temperatures and lower average precipitation, primarily during the 4.4% increase peak usage months, ICFA revenue earned during 2023 that did not occur in active service connections due the prior year, increased rates related to organic growth, combined with Rate Decision No. 78644, new connections associated with the acquisition of Las Quintas Serenas Farmers in November 2021, as well as the increase in rates related to Rate Decision No. 78644. The increase in revenue was partially offset by the ICFA revenue recognized in 2021 that did not recur in 2022. February 2023, and organic connection growth.

Water Services – Water services revenue increased $1.9 million $4.0 million, or 10.2% 19.0%, to $24.9 million for the year ended December 31, 2023 compared to $20.9 million for the year ended December 31, 2022 compared to $18.9 million for the year ended December 31, 2021. The increase in water services revenue was primarily related to organic growth in connections, the weather conditions discussed above prompting higher consumption during high usage months, the acquisition of Las Quintas Serenas, and Farmers, an increase in rates related to Rate Decision No. 78644. 78644, and organic connection growth.

Water services revenue based on consumption increased $0.6 million $2.2 million, or 7.3% 23.4%, to $11.4 million for the year ended December 31, 2023 compared to $9.2 million for the year ended December 31, 2022 compared to $8.6 million for the year ended December 31, 2021. The increase was primarily driven by the acquisition of Las Quintas Serenas, growth weather conditions discussed above resulting in connections and a 14.8% increase in consumption, the Farmers acquisition, an increase in rates related to Rate Decision No. 78644. 78644, and organic connection growth.

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Active water connections increased 4.4% 15.1% to 34,370 as of December 31, 2023 from 29,855 as of December 31, 2022 from 28,594 as of December 31, 2021, primarily due to the Farmers acquisition and organic growth in our service areas.

Water consumption increased 7.8% 14.8% to 3.5 billion 4.0 billion gallons for the year ended December 31, 2022, December 31, 2023 compared to 3.2 billion gallons 3.5 billion for the year ended December 31, 2021 December 31, 2022. The increase in water consumption was primarily due related to organic growth the considerable increase in our service areas combined with new connections associated with consumption during the acquisition of Las Quintas Serenas. third quarter which we believe can be attributed to the higher temperatures and lower precipitation, primarily during high usage months, as compared to the same period in 2022.

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Water services revenue associated with the basic service charge, excluding miscellaneous charges, increased $1.2 million $1.7 million, or 11.9% 15.5%, to $12.8 million for the year ended December 31, 2023 compared to $11.1 million for the year ended December 31, 2022 compared to $9.9 million for the year ended December 31, 2021. The increase was primarily due to the increase in active service connections which included organic growth combined with largely from new connections associated with the acquisition of Las Quintas, Farmers, as well as an increase in rates due to Rate Decision No. 78644.

Wastewater and Recycled Water Services – Wastewater and recycled water services revenue increased $1.6 million, or 7.2% 6.5%, to $25.4 million for the year ended December 31, 2022 December 31, 2023 compared to $23.8 million for the year ended December 31, 2021 December 31, 2022. The increase in wastewater and recycled water services revenue was primarily driven by a $1.5 million increase in wastewater services revenue. The increase in

higher wastewater services revenue reflects of $1.4 million resulting from the 3.8% increase in active wastewater connections which increased 4.5% to from 26,415 as of December 31, 2022 from 25,288 to 27,421 as of December 31, 2021 December 31, 2023, combined with an increase in rates due to Rate Decision No. 78644.

Recycled water services revenue, which is based on the number of gallons delivered and directly impacted by wastewater volume, increased by approximately $0.1 million or 9.7%, 9.9% to $1.4 million for the year ended December 31, 2023 from $1.2 million for the year ended December 31, 2022 compared to $1.1 million for the year ended December 31, 2021. The increase in recycled water services revenue was primarily driven by the increase in number of gallons consumed combined with an increase in rates due to Rate Decision No. 78644. The volume of recycled water delivered increased 44 million rose by 12.6% with 818 million gallons or 6.4%, delivered for the year ended December 31, 2023 compared to 727 million gallons delivered for the year ended December 31, 2022. In addition, the volume of wastewater processed increased 6.2% to 1.4 billion gallons for the year ended December 31, 2022 compared to 683 million December 31, 2023 from 1.3 billion gallons for the year ended December 31, 2021 December 31, 2022.

Operating Expenses – The following table summarizes our operating expenses for the year ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands):

	For the Year Ended December 31,	
	2022	2021
Operations and maintenance	$ 10,889	$ 10,299
General and administrative	16,130	15,146
Depreciation	9,890	9,490
Total operating expenses	$ 36,909	$ 34,935

	For the Year Ended December 31,	
	2023	2022
Operations and maintenance	$ 12,669	$ 10,889
General and administrative	16,636	16,130
Depreciation and amortization	11,437	9,890
Total operating expenses	$ 40,742	$ 36,909

Operations and Maintenance – Operations and maintenance costs, consisting of personnel costs, production costs (primarily chemicals and purchased electrical power), maintenance costs, and property tax, increased $0.6 million approximately $1.8 million, or 5.7% 16.3%, to $12.7 million for the year ended December 31, 2022 December 31, 2023 compared to $10.9 million for the year ended December 31, 2021 December 31, 2022.

Total personnel expenses increased $0.1 million approximately $0.9 million, or 2.0% 25.7%, to $4.4 million for the year ended December 31, 2023 compared to $3.5 million for the year ended December 31, 2022 compared to $3.4 million for the year ended December 31, 2021. The increase in personnel expenses was primarily related salary attributable to the Farmers acquisition in February 2023, increased medical costs, an increase in headcount, and wage increases, partially offset by lower medical expenses. a cost of living adjustment that impacted five months of 2022 as compared to all months of 2023.

Utilities Utility power and related expenses increased $0.3 million, or 13.3%, $0.4 million to $2.7 million for the year ended December 31, 2023 compared to $2.3 million for the year ended December 31, 2022 compared same period in 2022. The additional power costs were attributable to $2.0 million increased pump usage related to escalated consumption and additional connections, from both the Farmers acquisition and organic growth.

Contract services increased $0.2 million to $1.6 million for the year ended December 31, 2021. The increase was attributable to higher electric utility expense due to increased pump usage December 31, 2023 from additional connections and escalated consumption.

Contract services increased $0.2 million, or 14.4%, to $1.4 million for the year ended December 31, 2022 compared to $1.2 million for the year ended December 31, 2021. The increase was primarily due to increased costs for billing software related to the additional connections period over period, cloud storage services, and billing distribution services as a result of additional customers.

Chemicals, consumables and supplies increased $0.2 million to $0.7 million for the year over year. ended December 31, 2023 from $0.5 million for the year ended December 31, 2022. The increase is primarily attributable to higher consumption driving the need for more chemicals, consumables and supplies, increased prices as a result of inflation, and

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the Farmers acquisition.

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General and Administrative – General and administrative costs include the day-to-day expenses of office operations, personnel costs, legal and other professional fees, insurance, rent, and regulatory fees. These costs increased $1.0 million $0.5 million, or 6.5% 3.1%, to $16.6 million for the year ended December 31, 2022 December 31, 2023 compared to $16.1 million for the year ended December 31, 2021 December 31, 2022.

Personnel related costs increased $0.4 million $1.1 million, or 7.0% 17.3%, to $7.5 million for the year ended December 31, 2023 compared to $6.4 million for the year ended December 31, 2022 compared to $5.9 million for the year ended December 31, 2021. The increase was primarily related salary and wage increases partially offset by lower as a result of increased personnel, higher medical expenses. expenses, and a cost of living adjustment.

Information technology expenses increased $0.2 million, or 25.0%, to $1.0 million for the year ended December 31, 2023 compared to $0.8 million for the year ended December 31, 2022. The increase was substantially due to higher costs related to service agreements and software licenses.

Board compensation expense increased $0.2 million, or 41.1%, to $0.5 million for the year ended December 31, 2023 compared to $0.3 million for the year ended December 31, 2022. The increase was primarily due to the change in our stock price during the year ended December 31, 2023 compared to the year ended December 31, 2022.

Regulatory expense decreased $0.3 million, or 76.7%, to $0.1 million for the year ended December 31, 2023 compared to $0.4 million for the year ended December 31, 2022. The decrease was primarily attributable to expenses incurred related to the substantial rate case activity in 2022 that did not occur in 2023.

Professional fees expenses decreased $0.6 million, or 21.6%, to $2.0 million for the year ended December 31, 2023 compared to $2.6 million for the year ended December 31, 2022. The decrease was primarily related to legal fees incurred for acquisition related matters during 2022 that did not occur in 2023.

Deferred compensation expense decreased $1.0 million $0.4 million, or 39.0% 21.0%, to $1.2 million for the year ended December 31, 2023 compared to $1.6 million for the year ended December 31, 2022 compared to $2.6 million for the year ended December 31, 2021. The decrease was resulted primarily due from vesting related expenses of restricted stock awards that occurred in 2022 and not in 2023 in addition to the impact of fully exhausted option expenses in August 2023, all partially offset by the change in our the stock price used in the valuation of options that are accounted for as liability awards, where our stock price decreased impacting certain valuations during the year ended December 31, 2022 December 31, 2023 as compared to an overall increase in stock price during the year ended December 31, 2021 December 31, 2022. Refer to Note 14 13 — "Deferred Compensation Awards" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

Board compensation expense decreased $0.4 million, or 50.4%, to $0.3 million for the year ended December 31, 2022 compared to $0.7 million for the year ended December 31, 2021. The decrease was primarily due to the decrease in our stock price during the year ended December 31, 2022 compared to the year ended December 31, 2021.

Regulatory expense increased $0.3 million, or 20.3%, to $0.4 million for the year ended December 31, 2022 compared to $0.1 million for the year ended December 31, 2021. The increase is primarily related to expenses incurred relating to the rate case activity during 2022.

Rent expenses increased $0.1 million, or 67.8%, to $0.3 million for the year ended December 31, 2022 compared to $0.2 million for the year ended December 31, 2021. The increase was primarily related to a new corporate office lease agreement that commenced May 2022.

Professional fees expenses increased $0.6 million, or 30.2%, to $2.6 million for the year ended December 31, 2022 compared to $2.0 million for the year ended December 31, 2021. The increase was primarily related to legal fees incurred in connection with the rate case and acquisition related matters.

Depreciation and amortization - Depreciation and amortization expense increased $0.4 million $1.5 million, or 4.2% 15.6%, to $11.4 million for the year ended December 31, 2023, compared to $9.9 million for the year ended December 31, 2022, compared to $9.5 million for the year ended December 31, 2021. The increase was primarily driven by increased depreciation due to the increase in fixed assets, partially offset by a reduction $0.4 million of which was attributable to depreciation of the Southwest Plant in amortization Maricopa, Arizona. Approximately $0.2 million of intangible assets. the depreciation for the year ended December 31, 2023 was attributable to the Farmers acquisition.

Other Expense – Other expense totaled $1.4 million for the year both years ended December 31, 2022 compared to $2.2 million for the year ended December 31, 2021. December 31, 2023 and 2022. The improvement increase of $0.8 million $0.1 million in other expense was related to the $1.1 million increase a $0.1 million decrease in income associated with Buckeye growth premiums as a result of increased fewer new meter connections in the area, combined with a decrease an increase in interest expense of $1.2 million primarily attributable to $0.1 million, and a $0.1 million increase in other expense, offset by an increase in capitalized interest the equity portion of allowance for funds used during construction of $0.3 million for the year ended December 31, 2021 December 31, 2023. This was partially offset by $1.5 million of income recognized on the sale of a wireless communication tower in 2021 that did not recur in 2022.

Income Tax Expense – Income tax expense of $0.9 million $2.9 million was recorded for the year ended December 31, 2022 December 31, 2023 compared to $1.2 million $0.9 million for the year ended December 31, 2021 December 31, 2022. The decrease was primarily driven by During the 2017 TCJA year ended December 31, 2022, the Company

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recorded a tax benefit of approximately $0.7 million from the reversal of approximately $0.7 million, offset by an the regulatory liability related to Rate Decision No. 78622. Also contributing to the increase in income tax expense was higher pre-tax net income for the year ended December 31, 2022 December 31, 2023.

Net Income – Our Net income totaled $8.0 million for the year ended December 31, 2023 compared to net income totaled of $5.5 million for the year ended December 31, 2022 compared to net income of $3.6 million for the year ended December 31, 2021. The $1.9 million $2.5 million increase was primarily attributable to organic growth the acquisition in operating revenue as a result of Las Quintas Serenas in November 2021, escalated consumption and increased rates related to Rate Decision No. 78644, the recognition of approximately $0.5 million $2.8 million of ICFA related revenue, and operating revenue of $1.1 million resulting from the Farmers acquisition in allowance for funds used during construction ("AFUDC"), February 2023, partially offset by an increase in operational operating expenses of approximately $0.6 million and an increase in approximately $1.0 million in general and administrative $1.8 million, higher depreciation expenses primarily driven by personnel related costs of $3.8 million, and increased regulatory expenses incurred due to rate case activity during 2022. tax expense of $1.9 million.

Outstanding Share Data

As of March 8, 2023 March 6, 2024, there were 23,871,046 24,175,241 shares of our the Company's common stock outstanding and stock based stock-based awards outstanding to acquire an additional 517,980 425,884 shares of our the Company's common stock outstanding. stock.

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Liquidity and Capital Resources

Our The Company's capital resources are provided by internally generated cash flows from operations as well as debt and equity financing. Additionally, our its regulated utility subsidiaries receive advances and contributions from customers, home builders, and real estate developers to partially fund construction necessary to extend service to new areas. We use our The Company uses capital resources primarily to:

- fund operating costs;
- fund capital requirements, including construction expenditures;
- pay dividends; make debt and interest payments;
- fund acquisitions;
- make debt and interest payments; and
- invest in new and existing ventures. pay dividends.

Our The Company's utility subsidiaries operate in rate-regulated environments in which the amount of new investment recovery may be limited. Such recovery will take place over an extended period of time because recovery through rate increases is subject to regulatory lag.

As of December 31, 2022 December 31, 2023, we have the Company has no notable near-term cash expenditures, other than the principal payments for our its Series B senior secured notes in the amount of $1.9 million due in each of both June 2024 and December of 2023. 2024. While specific facts and circumstances could change, we believe the Company believes that we have sufficient with the cash on hand and the ability to draw on our its $15.0 million revolving line of credit, (which reflects the increased borrowing amount under this recently amended facility as discussed below), and it will be able to generate sufficient cash flows to meet our its operating cash flow requirements and capital expenditure plan, as well as remain in compliance with our its debt covenants, for the next twelve months and beyond.

In March 2014, we the Company initiated a dividend program to declare and pay a monthly dividend. On November 30, 2022 November 30, 2024, we the Company announced a monthly dividend increase from $0.02458 0.02483 per share ($0.29496 (0.29796 per share annually) to $0.02483 0.02508 per share ($0.29796 (0.30096 per share annually). Although we expect the Company expects that monthly dividends will be declared and paid for the foreseeable future, the declaration of any dividends is at the discretion of our the Company's board of directors and is subject to legal requirements and debt service ratio covenant requirements (refer to "—Senior Secured Notes" Notes" and "— "—Revolving Credit Line" Line").

Cash from Operating Activities

Cash flows provided by operating activities are used for operating needs and to meet capital expenditure requirements. Our The Company's future cash flows from operating activities will be affected by economic utility regulation, infrastructure investment, growth in service connections, customer usage of water, compliance with environmental health and safety standards, production costs, weather, and seasonality.

For the year ended December 31, 2022 December 31, 2023, our net cash provided by operating activities totaled $23.3 million approximately $25.4 million compared to $20.4 million $23.3 million for the year ended December 31, 2021 December 31, 2022. The $3.0 million $2.1 million increase in cash from operating activities was primarily driven by the improvement in net income and increased depreciation expense for the year ended December 31, 2022 December 31, 2023 compared to the year ended December 31, 2021. December 31, 2022, as well as an increase in current liabilities for 2023 as compared to the prior year. All of which was partially offset by an overall decrease in noncurrent liabilities largely attributable to the reduction of deferred revenue - ICFA resulting from revenue recognition during 2023 that did not occur during 2022.

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Cash from Investing Activities

Our The net cash used in investing activities totaled approximately $28.6 million for the year ended December 31, 2023 compared to $34.2 million for the year ended December 31, 2022 compared to $20.3 million for the year ended December 31, 2021. The $13.9 million increase $5.6 million decrease in cash used in investing activities was primarily driven by the increase a decrease in capital expenditures of $15.7 million, offset by a decrease of approximately $1.9 million in cash paid for acquisitions $11.7 million for the year ended December 31, 2022 December 31, 2023 compared to the year ended December 31, 2021. December 31, 2022, partially offset by the $6.2 million cash paid for the acquisition of Farmers (net of cash acquired) in 2023.

We continue The Company continues to invest capital prudently in our existing, core service areas where we are the Company is able to deploy our the Total Water Management model as this includes any required maintenance capital expenditures and the construction of new water and wastewater treatment and delivery facilities. Our The projected capital expenditures and other investments are subject to periodic review and revision to reflect changes in economic conditions and other factors. As a result, we the Company may reduce adjust capital expenditures to correspond with any decreases substantial changes in demand for housing in our service areas.

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Cash from Financing Activities

Our The net cash provided by financing activities totaled $5.0 million $0.4 million for the year ended December 31, 2022 December 31, 2023, a $12.9 million $4.6 million change, as compared to the $7.9 million $5.0 million in cash used in provided by financing activities for the year ended December 31, 2021 December 31, 2022. This change was primarily driven by a decrease of $12.1 million in proceeds from the $14.9 million sale of stock and a $0.8 million decrease in net proceeds received from our public offering advances in aid of common stock in August 2022, construction, partially offset by an increase of $6.7 million in other contributions and a $1.9 million principal payment for our Series B senior secured notes $2.3 million increase in line of credit borrowings, net of payments, for the year ended December 31, 2022 December 31, 2023.

Debt

Senior Secured Notes

On June 24, 2016, we the Company issued two series of senior secured notes with a total principal balance of $115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of $28.8 million and bears an interest rate of 4.38% over a twelve-year term, with the principal payment due on June 15, 2028 (the “Series A Notes”). Series B carries a principal balance of $86.3 million and bears an interest rate of 4.58% over a 20-year term. term, with the principal payment due on June 15, 2036 (the “Series B Notes”). The Series B was Notes were interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter beginning December 2021. The proceeds of the senior secured notes Series A Notes and the Series B Notes were primarily used to refinance our the Company’s long-term tax exempt bonds, pursuant to an early redemption option at 103%, plus accrued interest, as a result of the Company’s U.S. initial public offering of our its common stock in May 2016.

The senior secured notes Series A Notes and the Series B Notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. Consolidated EBITDA is calculated as net income plus depreciation and amortization, taxes, interest, and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, and dividend or stock repurchases. The senior secured notes Series A Notes and the Series B Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. The debt service ratio increases to 1.25 for any fiscal quarter during the period from and after June 30, 2024. As of December 31, 2022 December 31, 2023, the Company was in compliance with its financial debt covenants. covenants relating to the Series A Notes and the Series B Notes.

Additionally, on January 3, 2024, the Company issued $20.0 million aggregate principal amount of 6.91% Senior Secured Notes due on January 3, 2034 (the “6.91% Notes” and collectively with the Series A Notes and the Series B Notes, the “Senior Secured Notes”). The 6.91% Notes will accrue interest at 6.91% per annum from the date of issuance, payable semi-annually on January 3 and July 3 of each year, beginning on July 3, 2024, with a balloon payment due on January 3, 2034.

The 6.91% Notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The 6.91% Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service coverage ratio of 1.20 for any fiscal quarter ended on or before June 15, 2024 and 1.25 for any fiscal quarter ended during the period from and after June 16, 2024.

The Senior Secured Notes are collateralized by a security interest in the Company’s equity interest in its subsidiaries, including all payments representing profits and qualifying distributions. The Senior Secured Notes also have certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments; engage in certain affiliate transactions; and change the nature of the business.

Debt issuance costs as of both December 31, 2023 and December 31, 2022 were $0.4 million and 2021 were $0.5 million. , respectively.

Revolving Credit Line

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On April 30, 2020, the Company entered into an agreement with The Northern Trust, Company, an Illinois banking corporation (the "Northern Trust Loan Agreement" ("Northern Trust"), which was initially for a two-year revolving line of credit initially up to $10.0 million with an initial maturity date of April 30, 2022. This credit facility, which may be used to refinance existing indebtedness, to acquire assets to use in and/or expand the Company's business, and for general corporate purposes, initially bore an interest rate equal to the London Interbank Offered Rate (LIBOR) plus 2.00% and has had no unused line fee. This

The Company and Northern Trust have subsequently amended the credit facility replaced agreement on multiple occasions (as amended, the previous revolving line of credit with MidFirst Bank, which was terminated in April 2020. As of December 31, 2022, we had no outstanding borrowings under this credit line.

On April 30, 2021, the Company and The Northern Trust Company entered into an amendment to the Northern "Northern Trust Loan Agreement pursuant Agreement") to, which, among other things, (i) extend the scheduled maturity date for the revolving line to July 1,

Table of credit was extended to April 30, 2024. Contents

On July 26, 2022, the Company and The Northern Trust Company entered into a second amendment to the Northern Trust Loan Agreement, which, among other things, further extended the maturity date for the revolving line of credit to July 1, 2024, increased 2025; (ii) increase the maximum principal amount available for borrowing to $15.0 million and replaced million; (iii) replace the LIBOR interest rate provisions. Refer with provisions based on the Secured Overnight Financing Rate (SOFR); and (iv) add a quarterly facility fee equal to Note 1 – "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements - Corporate Transactions - Revolving Line of Credit" 0.35% of the Notes to average daily unused amount of the Consolidated Financial Statements included in Part II, Item 8 revolving line of this report for additional information.credit.

Similar to the senior secured notes, Senior Secured Notes, the Northern Trust Loan Agreement requires the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The Northern Trust Loan Agreement also contains a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. Additionally, the Northern Trust Loan Agreement contains certain restrictive covenants that limit, among other things, the Company's ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments (including dividends); engage in certain affiliate transactions; and change the nature of the business. The foregoing covenants are subject to various qualifications and limitations as set forth in the Northern Trust Loan Agreement. Pursuant to the Northern Trust Loan Agreement, the revolving credit facility is subject to certain customary events of default after which the revolving credit facility could be declared due and payable if not cured within the grace period or, in certain circumstances, could be declared due and payable immediately. Refer to Note 11 — "Debt" "Debt" of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report for additional information. As of December 31, 2022 December 31, 2023, the Company was in compliance with its financial debt covenants. covenants under the Northern Trust Loan Agreement.

As of December 31, 2022 December 31, 2023, the Company had no outstanding borrowings of approximately $2.3 million under this the revolving line of credit line with The Northern Trust Company. The Company incurred $0 Trust. There were approximately $25,000 and $95,000 in $9,812 unamortized debt issuance costs relating as of December 31, 2023 and December 31, 2022, respectively.

Refer to Note 11 — "Debt" of the Notes to the Northern Trust Loan Agreement as Consolidated Financial Statements included in Part II, Item 8 of December 31, 2022 this report for additional information.

Other Financing Activity

On June 8, 2023, the Company entered into a securities purchase agreement for the issuance and December 31, 2021, respectively.

Financing Activity sale by the Company of an aggregate of 230,000 shares of the Company's common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the Securities Act and Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $2.8 million from the offering.

On August 1, 2022, the Company completed a public offering of 1,150,000 shares of common stock at a public offering price of $13.50 per share, which included 150,000 shares issued and sold to the underwriter following the exercise in full of its option to purchase additional shares of common stock. The Company received net proceeds of approximately $14.9 million $14.9 million from the offering after deducting underwriting discounts and commissions and offering expenses paid by the Company.

Insurance Coverage

The Company carries various property, casualty, and financial insurance policies with limits, deductibles, and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. The Company is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on the Company's short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations Insurance Coverage

In The Company carries various property, casualty, and financial insurance policies with limits, deductibles, and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. The Company is self-insured to the course extent that losses are within the policy deductible or exceed the amount of normal business activities, the Company enters into insurance maintained. Such losses could have a variety of contractual obligations and commitments. Some result in direct obligations material adverse effect on the Company's balance sheet while others are firm commitments or commitments based on uncertainties Company's short-term and undetermined execution times. long-term financial condition and the results of operations and cash flows.

The following table summarizes our contractual cash obligations as of December 31, 2022 (in thousands):

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			Payments Due By Period			
		Total	Less than 1 Year	2 - 3 Years	3 - 5 Years	More than 5 Years
Long term debt obligations	$	108,778	$ 3,789	$ 7,578	$ 7,578	$ 89,833
Interest on long-term debt (1)	$	41,293	4,902	9,278	8,576	18,537
Finance lease obligation	$	597	200	294	103	—
Operating lease obligation	$	1,663	285	713	665	—
Total (2)	$	152,331	$ 9,176	$ 17,863	$ 16,922	$ 108,370

(1) Interest on the long-term debt is based on the fixed rates of the Company's senior secured notes.

(2) In addition to these obligations, the Company pays annual refunds on AIAC over a specific period of time based on operating revenues generated from developer-installed infrastructure. The refund amounts are considered an investment in infrastructure and eligible for inclusion in future rate base. These refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels, and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually over the next two decades, and amounts not paid by the contract expiration dates become nonrefundable and are transferred to CIAC.

Insurance Coverage

We carry The Company carries various property, casualty, and financial insurance policies with limits, deductibles, and exclusions consistent with industry standards. However, insurance coverage may not be adequate or available to cover unanticipated losses or claims. We are The Company is self-insured to the extent that losses are within the policy deductible or exceed the amount of insurance maintained. Such losses could have a material adverse effect on our the Company's short-term and long-term financial condition and the results of operations and cash flows.

Contractual Obligations

In the course of normal business activities, the Company enters into a variety of contractual obligations and commitments. Some result in direct obligations on the Company's balance sheet while others are firm commitments or commitments based on uncertainties and undetermined execution times.

The following table summarizes the Company's contractual cash obligations as of December 31, 2023 (in thousands):

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			Payments Due By Period			
		Total	Less than 1 Year	2 - 3 Years	3 - 5 Years	More than 5 Years
Long term debt obligations	$	125,221	$ 3,836	$ 7,682	$ 36,416	$ 77,287
Interest on long-term debt (1)	$	50,199	5,406	11,691	10,359	22,743
Finance lease obligation	$	691	242	381	68	—
Interest on capital lease	$	65	29	32	4	—
Operating lease obligation	$	1,663	285	713	665	—
Interest on operating lease	$	90	42	47	1	
Total (2)	$	177,929	$ 9,840	$ 20,546	$ 47,513	$ 100,030

(1) Interest on the long-term debt is based on the fixed rates of the Company's Series A Notes and the Series B Notes.

(2) In addition to these obligations, the Company pays annual refunds on AIAC over a specific period of time based on operating revenues generated from developer-installed infrastructure. The refund amounts are considered an investment in infrastructure and eligible for inclusion in future rate base. These refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels, and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually over the next two decades, and amounts not paid by the contract expiration dates become nonrefundable and are transferred to CIAC.

Critical Accounting Policies, Judgments, and Estimates

The application of critical accounting policies is particularly important to our the Company's financial condition and results of operations and provides a framework for management to make significant estimates, assumptions, and other judgments. Additionally, our the Company's financial condition, results of operations, and cash flow are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. Although our management believes that these estimates, assumptions, and other judgments are appropriate, they relate to matters that are inherently uncertain and that may change in subsequent periods. Accordingly, changes in the estimates, assumptions, and

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other judgments applied to these accounting policies could have a significant impact on our the Company’s financial condition and results of operations as reflected in our its financial statements.

Accounting for Rate Regulation

Because the Company’s subsidiaries are regulated businesses, the Company is subject to the authoritative guidance for accounting for the effects of certain types of regulation. Application of this guidance requires accounting for certain transactions in accordance with regulations adopted by the ACC. Utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

When our the Company’s regulated subsidiaries file rate cases, their capital assets, operating costs and other matters are subject to review, and disallowances may occur, and the Company may be required to write-off related regulatory assets that are not specifically recoverable and determine if other assets might be impaired. See Note 2 – “Regulatory Decision
and Related Accounting and Policy Changes” of the Notes to the Consolidated Financial Statements included in Part II,
Item 8 of this report for more information regarding our the Company’s rate proceedings. Management continually evaluates the anticipated recovery, settlement or refund of regulatory assets, liabilities, and revenues subject to refund and provides for allowances and/or reserves that it believes to be necessary. In the event that management’s assessment as to the probability of the inclusion in the ratemaking process is incorrect, the associated regulatory asset or liability will be adjusted to reflect the change in assessment or the impact of regulatory approval of rates.

Income Taxes

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Estimation of income taxes includes an evaluation of the recoverability of deferred tax assets based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company’s assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company’s ability to utilize the underlying future tax deductions changes, the Company would be required to recognize fewer of the tax deductions as assets, which would increase the income tax expense in the period in which the determination is made. Additionally, an evaluation of the recoverability of deferred tax gains is based on an assessment of the Company's Company’s ability to fully utilize the deferred tax gain before it expires. The Company's Company’s assessment is based upon the ability to acquire qualifying properties. If the assessment of the Company's Company’s ability to fully utilize the deferred tax gain changes, the Company would be required to recognize income tax expense in the period in which the deferred tax gain expires.

Acquisitions

Acquisitions are accounted for as a business combination under ASC 805, “Business Combinations” and the purchase price is allocated to the acquired utility assets and liabilities based on the acquisition-date fair values. Fair values are determined in accordance with ASC 820 “Fair Value Measurement,” which allows for the characteristics of the acquired assets and liabilities to be considered, particularly restrictions on the use of the asset and liabilities. Regulation is considered a restriction on the use of the assets and liabilities, as it relates to inclusion in rate base, and a fundamental input to measuring the fair value in a business combination. Substantially all of the Company’s operations are subject to the rate-setting authority of the ACC and are accounted for pursuant to accounting guidance for regulated operations under ASC 980, “Regulated Operations.” As such, the fair value of the acquired assets and liabilities subject to these rate-setting provisions approximates the pre-acquisition carrying values and does not reflect any net valuation adjustments.

In some acquisitions, the Company is required to pay the seller an amount for each new account established in the service area, up to an agreed upon aggregate amount, referred to as a growth premium. The obligation period of the growth premium varies and is based on the purchase agreement. The Company accounts for the growth premium as additional consideration to the purchase and the fair value of the growth premium liability is calculated using a discounted cash flow technique, which utilizes unobservable inputs developed by the Company using significant judgement in estimates and assumptions. Significant inputs used in the fair value calculation are follows: year of the first meter installation, total new accounts per year, years to complete full build out, and discount rate. While the Company uses the best available estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, such estimates are inherently uncertain and subject to refinement. Events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. Any adjustments subsequent to the conclusion of the acquisition’s measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, will be recorded in the Company’s Consolidated Statements of Operations.

Recent Accounting Pronouncements

A discussion of recently issued and recently issued but not yet adopted accounting pronouncements is included in Note 1 – “Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements - Corporate Transactions - Revolving Line of Credit" Recent Accounting Pronouncements” of the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this report and is incorporated herein by reference.

Off Balance Sheet Arrangements

As of December 31, 2022 December 31, 2023 and 2021, we 2022, the Company did not have any off-balance sheet arrangements.

Item 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Global Water Resources, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Global Water Resources, Inc. and subsidiaries (the "Company") as of December 31, 2022 December 31, 2023 and 2021 2022, the related consolidated statements of operations, shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2022 December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022 December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Regulatory Matters - Impact of Rate Regulation on the Financial Statements — Refer to Note 2 to the financial statements

Critical Audit Matter Description

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The Company's regulated utilities are subject to rate regulation by the Arizona Corporation Commission (the "ACC"), and are therefore subject. The ACC has jurisdiction with respect to Accounting Standards Codification Topic 980, Regulated Operations ("ASC 980"). In accordance with ASC 980, the rates charged to water and wastewater service customers in Arizona are intended to recover the costs of the provision of service plus a reasonable return in the same period. Arizona. Management has determined it meets the requirements under accounting principles generally accepted in the United States of America to prepare its financial statements applying the specialized rules to account for the effects of cost-based rate regulation. Accounting for the economics effects of rate regulation impacts multiple has a pervasive effect on the financial statement line items and disclosures, such as property, plant, and equipment; regulatory assets and liabilities; revenues; operation and maintenance expense; and depreciation expense. statements.

The ACC establishes rates that are designed to permit the recovery of the cost of service and a return on investment. Decisions to be made by the ACC in the future will impact the accounting for regulated operations, including decisions about the amount of

allowable costs and return on invested capital included in rates and any refunds that may be required. While the Company has indicated it expects to recover costs from customers through regulated rates, there is a risk that the ACC will not approve: approve (1) full recovery of the costs of providing utility service, or (2) full recovery of all amounts invested in the utility business and a reasonable return on that investment.

We identified the impact of rate regulation as a critical audit matter due to the significant judgments that underlie the Company's regulatory account balances and disclosures and the high degree of subjectivity involved in assessing the impact of future regulatory orders on the financial statements. Management judgments include assessing the likelihood of (1) recovery in future rates of incurred costs, and (2) a refund to customers. Given that management's accounting judgments are based on assumptions about the outcome of future regulatory decisions and interpretation of new or revised regulatory decisions, by the ACC, auditing these judgments required specialized knowledge of accounting for rate regulation and the rate setting process due to its inherent complexities and pervasive impact on the financial statements. complexities.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the uncertainty of future decisions by the ACC included the following, among others:

- We read relevant regulatory orders and settlements issued by the ACC for the Company and other public utilities in Arizona, regulatory statutes, interpretations, procedural memorandums, filings made by interveners and utilities, and other publicly available information to assess the likelihood of recovery in future rates or of a future reduction in rates based on precedents of the ACC's treatment of similar costs under similar circumstances. We evaluated the external information and compared such information to management's regulatory asset and liability balances for completeness.
- We obtained supporting documentation from management, as appropriate, regarding probability the likelihood of recovery for regulatory assets in future rates or refund or of a future reduction in rates for regulatory liabilities not yet addressed in a regulatory order to assess management's assertion that amounts are probable of recovery or a future reduction in rates. order.
- We evaluated the Company's disclosures related to the impacts of rate regulation, including the balances recorded and regulatory developments.

/s/ DELOITTE & TOUCHE LLP

Tempe, Arizona
March 8, 2023 6, 2024

We have served as the Company's auditor since 2003.

GLOBAL WATER RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS SHEET
(in thousands, except share and per share amounts)

		December 31, 2022	December 31, 2021
	December 31, 2023		
ASSETS	ASSETS		

	December 31, 2023	December 31, 2022
ASSETS		

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PROPERTY, PLANT AND EQUIPMENT:	PROPERTY, PLANT AND EQUIPMENT:		
PROPERTY, PLANT AND EQUIPMENT:			
PROPERTY, PLANT AND EQUIPMENT:			
Land			
Land			
Land	Land	$ 1,480	$ 1,338
Depreciable property, plant and equipment	Depreciable property, plant and equipment	344,043	313,700
Construction work-in-progress	Construction work-in-progress	66,039	53,511
Other	Other	697	697
Less accumulated depreciation	Less accumulated depreciation	(124,522)	(113,380)
Net property, plant and equipment	Net property, plant and equipment	287,737	255,866
CURRENT ASSETS:	CURRENT ASSETS:		
Cash and cash equivalents	Cash and cash equivalents	6,561	12,637
Accounts receivable — net		2,139	1,994
Cash and cash equivalents			
Cash and cash equivalents			
Accounts receivable, net			
Customer payments in-transit	Customer payments in-transit	462	201
Unbilled revenue	Unbilled revenue	2,557	2,510
Taxes, prepaid expenses, and other current assets		2,439	1,645
Taxes, prepaid expenses and other current assets			
Total current assets	Total current assets	14,158	18,987
OTHER ASSETS:	OTHER ASSETS:		
Goodwill	Goodwill	4,957	5,730
Intangible assets — net		10,139	10,339
Regulatory asset		3,169	2,336
Goodwill			
Goodwill			

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Intangible assets, net			
Regulatory assets			
Restricted cash	Restricted cash	1,001	806
Right-of -use asset		1,891	—
Right-of-use assets			
Other noncurrent assets	Other noncurrent assets	34	10
Total other assets			
Total other assets			
Total other assets	Total other assets	21,191	19,221
TOTAL ASSETS	TOTAL ASSETS	$ 323,086	$ 294,074
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES AND SHAREHOLDERS’ EQUITY			
CURRENT LIABILITIES:	CURRENT LIABILITIES:		
CURRENT LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable			
Accounts payable			
Accounts payable	Accounts payable	$ 2,173	$ 2,120
Accrued expenses	Accrued expenses	8,056	9,191
Customer and meter deposits	Customer and meter deposits	1,682	1,646
Long-term debt — current portion		3,833	3,833
Leases — current portion		505	142
Customer and meter deposits			
Customer and meter deposits			
Long-term debt, current portion			
Leases, current portion			
Total current liabilities	Total current liabilities	16,249	16,932
NONCURRENT LIABILITIES:	NONCURRENT LIABILITIES:		
Line of credit			
Line of credit			
Line of credit			
Long-term debt	Long-term debt	104,945	108,734

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Long-term lease liabilities	Long-term lease liabilities	1,616	199
Deferred revenue - ICFA	Deferred revenue - ICFA	20,974	19,035
Regulatory liability		6,371	7,421
Regulatory liabilities			
Advances in aid of construction	Advances in aid of construction	93,656	84,578
Contributions in aid of construction — net		26,404	21,326
Contributions in aid of construction, net			
Deferred income tax liabilities, net	Deferred income tax liabilities, net	5,949	3,269
Acquisition liability		1,773	1,773
Acquisition liabilities			
Other noncurrent liabilities	Other noncurrent liabilities	755	778
Total noncurrent liabilities	Total noncurrent liabilities	262,443	247,113
Total liabilities	Total liabilities	278,692	264,045
Commitments and contingencies (Refer to Note 15)			
SHAREHOLDERS' EQUITY:			
Common stock, $0.01 par value, 60,000,000 shares authorized; 24,095,139 and 22,832,013 shares issued as of December 31, 2022 and December 31, 2021, respectively.		239	228
Treasury stock, 224,093 and 182,445 shares at December 31, 2022 and December 31, 2021, respectively.		(2)	(2)
Commitments and contingencies (Refer to Note 16)	Commitments and contingencies (Refer to Note 16)		
SHAREHOLDERS' EQUITY:			
Common stock, $0.01 par value, 60,000,000 shares authorized; 24,492,918 and 24,095,139 shares issued as of December 31, 2023 and December 31, 2022, respectively.			
Common stock, $0.01 par value, 60,000,000 shares authorized; 24,492,918 and 24,095,139 shares issued as of December 31, 2023 and December 31, 2022, respectively.			

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Common stock, $0.01 par value, 60,000,000 shares authorized; 24,492,918 and 24,095,139 shares issued as of December 31, 2023 and December 31, 2022, respectively.			
Treasury stock, 317,677 and 224,093 shares at December 31, 2023 and December 31, 2022, respectively.			
Paid in capital	Paid in capital	44,157	29,803
Retained earnings	Retained earnings	—	—
Total shareholders' equity		44,394	30,029
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 323,086	$ 294,074
Total shareholders' equity			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			

See accompanying notes to the consolidated financial statements

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GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)

		Year Ended December 31,			
		2022	2021		
		Year Ended December 31, Year Ended December 31, Year Ended December 31,			
	2023			2023	2022
REVENUES:	REVENUES:				
Water services Water services					
Water services	Water services	$ 20,885	$ 18,944		
Wastewater and recycled water services	Wastewater and recycled water services	23,843	22,241		
Unregulated revenues	Unregulated revenues	—	729		
Total revenues	Total revenues	44,728	41,914		

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OPERATING EXPENSES:	OPERATING EXPENSES:		
OPERATING EXPENSES:			
OPERATING EXPENSES:			
Operations and maintenance	Operations and maintenance	10,889	10,299
Operations and maintenance			
Operations and maintenance			
General and administrative	General and administrative	16,130	15,146
Depreciation and amortization	Depreciation and amortization	9,890	9,490
Total operating expenses	Total operating expenses	36,909	34,935
OPERATING INCOME	OPERATING INCOME	7,819	6,979
OTHER INCOME (EXPENSE):	OTHER INCOME (EXPENSE):		
OTHER INCOME (EXPENSE):			
OTHER INCOME (EXPENSE):			
Interest income			
Interest income			
Interest income	Interest income	65	19
Interest expense	Interest expense	(4,036)	(5,201)
Allowance for equity funds used during construction			
Other		2,592	2,962
Other, net			
Other, net			
Other, net			
Total other expense	Total other expense	(1,379)	(2,220)
INCOME BEFORE INCOME TAXES	INCOME BEFORE INCOME TAXES	6,440	4,759
INCOME TAX BENEFIT (EXPENSE)		(934)	(1,150)
INCOME BEFORE INCOME TAXES			
INCOME BEFORE INCOME TAXES			
INCOME TAX EXPENSE			
NET INCOME	NET INCOME	$ 5,506	$ 3,609
Basic earnings per common share			

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Basic earnings per common share			
Basic earnings per common share	Basic earnings per common share	$ 0.24	$ 0.16
Diluted earnings per common share	Diluted earnings per common share	$ 0.24	$ 0.16
Dividends declared per common share	Dividends declared per common share	$ 0.30	$ 0.29
Weighted average number of common shares used in the determination of:	Weighted average number of common shares used in the determination of:		
Weighted average number of common shares used in the determination of:			
Weighted average number of common shares used in the determination of:			
Basic			
Basic			
Basic	Basic	23,172,733	22,619,469
Diluted	Diluted	23,332,356	22,902,970

See accompanying notes to the consolidated financial statements

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GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENT STATEMENTS OF SHAREHOLDERS’ EQUITY
(in thousands, except share and per share amounts)

Common Stock Shares	Common Stock Shares	Common Stock	Treasury Stock Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Total Equity
BALANCE - December 31, 2021							

	Common Stock Shares	Common Stock	Treasury Stock Shares	Treasury Stock	Paid-in Capital	Retained Earnings	Total Equity
Dividend declared $0.30 per share							
Dividend declared $0.30 per share							
Dividend declared $0.30 per share							

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Issuance of Common Stock							
Treasury stock							
Stock option exercise							
Stock compensation							
Net income							
BALANCE - December 31, 2022							
BALANCE - December 31, 2020	22,690,477	227	(102,711)	(1)	31,962	—	32,188
Dividend declared $0.29 per share	—	—	—	—	(3,000)	(3,609)	(6,609)
Dividend declared $0.30 per share							
Dividend declared $0.30 per share							
Dividend declared $0.30 per share							
Issuance of Common Stock Issuance of Common Stock	54,163	—	—	—	—	—	—
Treasury stock	—	—	(79,734)	(1)	3	—	2
Stock option exercise							
Stock option exercise							
Stock option exercise Stock option exercise	87,373	1	—	—	—	—	1
Stock compensation Stock compensation	—	—	—	—	838	—	838
Net income Net income	—	—	—	—	—	3,609	3,609
BALANCE - December 31, 2021	22,832,013	228	(182,445)	(2)	29,803	—	30,029
Dividend declared $0.30 per share	—	—	—	—	(1,383)	(5,506)	(6,889)
Issuance of common stock	1,150,000	11	—	—	14,782	—	14,793
Treasury Stock	—	—	(41,648)	—	304	—	304
Stock option exercise	113,126	—	—	—	22	—	22
Stock compensation	—	—	—	—	629	—	629
Net income	—	—	—	—	—	5,506	5,506
BALANCE - December 31, 2022	24,095,139	239	(224,093)	(2)	44,157	—	44,394
BALANCE - December 31, 2023							

See accompanying notes to the consolidated financial statements

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GLOBAL WATER RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

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		Year Ended December 31,	
		2022	2021
	Year Ended December 31,		Year Ended December 31,
	2023	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:	CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	Net income	5,506	$ 3,609
Net income			
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred compensation			
Deferred compensation			
Deferred compensation	Deferred compensation	1,529	2,884
Depreciation and amortization	Depreciation and amortization	9,889	9,490
Right of use amortization	Right of use amortization	182	—
Amortization of deferred debt issuance costs and discounts	Amortization of deferred debt issuance costs and discounts	44	90
(Gain) Loss on disposal of fixed assets	(Gain) Loss on disposal of fixed assets	4	18
Provision for doubtful accounts receivable		103	86
Provision for credit losses			
Deferred income tax expense	Deferred income tax expense	1,367	(307)
Changes in assets and liabilities			
Accounts receivable			
Accounts receivable			
Accounts receivable	Accounts receivable	(248)	82
Other current assets	Other current assets	210	(1,076)
Accounts payable and other current liabilities	Accounts payable and other current liabilities	(1,830)	415

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Other noncurrent assets	Other noncurrent assets	387	(300)
Other noncurrent liabilities	Other noncurrent liabilities	6,193	5,395
Net cash provided by operating activities	Net cash provided by operating activities	23,336	20,386
CASH FLOWS FROM INVESTING ACTIVITIES:	CASH FLOWS FROM INVESTING ACTIVITIES:		
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures			
Capital expenditures			
Capital expenditures	Capital expenditures	(33,984)	(18,250)
Cash paid for acquisitions, net of cash acquired	Cash paid for acquisitions, net of cash acquired	(180)	(2,068)
Other cash flows from investing activities			
Other cash flows from investing activities			
Other cash flows from investing activities	Other cash flows from investing activities	(24)	(1)
Net cash used in investing activities	Net cash used in investing activities	(34,188)	(20,319)
CASH FLOWS FROM FINANCING ACTIVITIES:	CASH FLOWS FROM FINANCING ACTIVITIES:		
CASH FLOWS FROM FINANCING ACTIVITIES:			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid			
Dividends paid			
Dividends paid	Dividends paid	(6,889)	(6,609)
Advances in aid of construction	Advances in aid of construction	2,344	3,817
Refunds of advances for construction	Refunds of advances for construction	(1,140)	(1,007)
Refunds of developer taxes		—	(1,364)

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Proceeds from stock option exercise			
Proceeds from stock option exercise			
Proceeds from stock option exercise	Proceeds from stock option exercise	3	4
Payments for taxes related to net shares settlement of equity awards	Payments for taxes related to net shares settlement of equity awards	(585)	(656)
Principal payments under finance lease	Principal payments under finance lease	—	(147)
Line of credit borrowings, net			
Loan borrowings			
Loan repayments	Loan repayments	259	(4)
Repayments of bond	Repayments of bond	(3,833)	(1,917)
Proceeds from sale of stock	Proceeds from sale of stock	14,812	—
Proceeds from sale of stock			
Proceeds from sale of stock			
Debt issuance costs paid		—	(46)
Net cash provided by (used in) financing activities		4,971	(7,929)
INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		(5,881)	(7,862)
Payments of offering costs for sale of stock			
Payments of offering costs for sale of stock			
Payments of offering costs for sale of stock			
Other contributions			
Net cash provided by financing activities			
INCREASE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH			

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CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	CASH, CASH EQUIVALENTS, AND RESTRICTED CASH — Beginning of period	13,443	21,305
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of period	CASH, CASH EQUIVALENTS, AND RESTRICTED CASH – End of period	7,562	13,443

See accompanying notes to the consolidated financial statements

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Supplemental disclosure of cash flow information:

		Year Ended December 31,	
		2022	2021
	Year Ended December 31,	Year Ended December 31,	
	2023	2023	2022
Cash and cash equivalents	Cash and cash equivalents	$6,561	$12,637
Restricted Cash	Restricted Cash	1,001	806
Total cash, cash equivalents, and restricted cash	Total cash, cash equivalents, and restricted cash	$7,562	$13,443

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GLOBAL WATER RESOURCES, INC.
Notes to the Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION, CORPORATE TRANSACTIONS, SIGNIFICANT ACCOUNTING POLICIES, AND RECENT ACCOUNTING PRONOUNCEMENTS

Description of Business

GWRI Global Water Resources, Inc. (the “Company”, “GWRI”, “we”, “us”, or “our”) is a holding water resource management company that currently owns, operates, and operates manages twenty-nine water, wastewater, and wastewater recycled water systems in strategically targeted located communities, primarily principally in the metropolitan areas of Phoenix and Tucson, Arizona. Serving more than 74,000 82,000 people in approximately 29,000 32,000 homes within our 397 the Company’s 408 square miles of certificated service areas as of December 31, 2022 December 31, 2023, GWRI the Company provides water and wastewater utility services under the regulatory authority of the ACC. Arizona Corporation Commission (“ACC”). Approximately 91.0% 89.3% of the active service connections are customers of the Company’s Global Water - Santa Cruz Water Company, Inc. (“Santa Cruz”) and Global Water - Palo Verde Utilities Company, Inc. (“Palo Verde”) utilities, which are located within a single service area.

Basis of Presentation and Principles of Consolidation

The Company's Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP" (“GAAP”) and include the accounts of GWRI the Company and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

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The Company prepares its financial statements in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC" (“SEC”). The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Corporate Transactions

Private Placement Offering of 6.91% Senior Secured Notes

On October 26, 2023, the Company entered into a note purchase agreement for the issuance of an aggregate principal amount of $20 million of 6.91% Senior Secured Notes due on January 3, 2034. Pursuant to the terms of the note purchase agreement, the Company issued the notes on January 3, 2024.

ACC Rate Case Private Placement Offering of Common Stock

On July 27, 2022 June 8, 2023, the ACC issued Rate Decision No. 78644 relating Company entered into a securities purchase agreement for the issuance and sale by the Company of an aggregate of 230,000 shares of the Company’s common stock at a purchase price of $12.07 per share in an offering exempt from registration pursuant to Section 4(a)(2) of the Company's recent rate case. Pursuant to Rate Decision No. 78644, the ACC approved, among other things, a collective annual revenue requirement increase Securities Act of 1933, as amended (the “Securities Act”), and Rule 506 promulgated thereunder. The Company received gross proceeds of approximately $2.2 million (including $2.8 million from the acquisition premiums discussed below) based on 2019 test year service connections, and phased-in over approximately two years.

The ACC also approved: (i) the consolidation offering. One of water and/or wastewater rates to create economies of scale that are beneficial to all customers when rates are consolidated.; (ii) acquisition premiums relating to the Company’s acquisitions directors purchased an aggregate of its Red Rock and Turner Ranches utilities, which increase the rate base for such utilities and result in an increase 30,000 shares of common stock in the annual collective revenue requirement; (iii) offering at the Company’s ability to annually adjust rates to flow through changes in property tax expense and/or changes in income tax expense, without the necessity of a rate case proceeding; and (iv) a sustainable water surcharge, which will allow semiannual surcharges to be added to customer bills based on verified costs of new water resources.

Refer to Note 2 – “Regulatory Decision and Related Accounting and Policy Changes” for additional information. purchase price.

Public Offering of Common Stock

On August 1, 2022, the Company completed a public offering of 1,150,000 shares of common stock at a public offering price of $13.50 per share, which included 150,000 shares issued and sold to the underwriter following the exercise in full of its option to purchase additional shares of common stock. The Company received net proceeds of approximately $14.9 million from the offering after deducting underwriting discounts and commissions and offering expenses paid by the Company. Certain of the Company’s directors and/or their affiliates purchased an aggregate of the 652,000 shares of common stock at the public offering price.

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Recent Acquisitions Farmers Acquisition

On April 14, 2022 February 1, 2023, the Company signed a definitive agreement to acquire acquired all of the equity of Farmers Water Co. (“Farmers”), an operator of a water utility with service area in Pima County, Arizona. On February 1, 2023, the Company completed the acquisition of Farmers Water Co. Refer to Note 16 - "Subsequent Event" for additional information.

On January 20, 2022, the Company acquired the assets of Rincon Water Company, Inc., a water utility in Pima County, Arizona. The acquisition added an additional 73 approximately 3,300 active water service connections and approximately 8.6 21.5 square miles of service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County at the time of the acquisition.

On January 13, 2022, the Company acquired the assets

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Table of Twin Hawks Utility, Inc., a water utility in Pinal County, Arizona. The acquisition added an additional 18 connections and approximately 0.5 square miles of service area at the time of acquisition. Contents

On November 3, 2021, the Company completed the stock acquisition by merger of Las Quintas Serenas Water Company, Inc. ("Las Quintas"), an operator of a water utility with service area in Pima County, Arizona, adding 1,100 connections with approximately 2.5 square miles of service area at the time of acquisition.

Stipulated Condemnation of the Operations and Assets of Valencia Water Company, Inc.

On July 14, 2015, the Company closed the stipulated condemnation to transfer the operations and assets of Valencia Water Company, Inc. ("Valencia" (“Valencia”) to the City of Buckeye. Terms of the condemnation were agreed upon through a settlement agreement and stipulated final judgment of condemnation wherein the City of Buckeye acquired all the operations and assets of Valencia and assumed operation of the utility upon close. The City of Buckeye is obligated to pay the Company a growth premium equal to $3,000 for each new water meter installed within Valencia’s prior service areas in the City of Buckeye, for a 20-year period ending December 31, 2034, subject to a maximum payout of $45.0 million over the term of the agreement. The Company received growth premiums of $2.5 million $2.4 million and $1.4 million $2.5 million for the years ended December 31, 2022 December 31, 2023 and 2021, respectively. 2022, respectively, and has received an aggregate of $10.7 million in growth premiums to date. The growth premiums are included in “Other, net” on the Consolidated Statements of Operations.

Significant Accounting Policies

Regulation

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Our The Company's regulated utilities and certain other balances are subject to regulation by the ACC and are therefore subject to Accounting Standards Codification Topic 980, *Regulated Operations* ("ASC 980") (See Note 2 – "Regulatory Decision and Related Accounting and Policy Changes").

Property, Plant and Equipment

Property, plant, and equipment is stated at cost less accumulated depreciation provided on a straight-line basis (See Note 5 – "Property, Plant and Equipment").

Depreciation rates for asset classes of utility property, plant, and equipment are established by the ACC. The cost of additions, including betterments and replacements of units of utility fixed assets are charged to utility property, plant, and equipment. When units of utility property are replaced, renewed, or retired, their cost plus removal or disposal costs, less salvage proceeds, is charged to accumulated depreciation.

For non-utility property, plant, and equipment, depreciation is calculated by the straight-line method over the estimated useful lives of depreciable assets. Cost and accumulated depreciation for non-utility property, plant, and equipment retired or disposed of are removed from the accounts and any resulting gain or loss is included in earnings.

In addition to third party costs, direct personnel costs and indirect construction overhead costs may be capitalized. Interest incurred during the construction period is also capitalized as a component of the cost of the constructed assets, which represents the cost of debt and equity associated with construction activity. Expenditures for maintenance and repairs are charged to expense.

Revenue Recognition—Water Services

Water services revenues are recorded when service is rendered or water is delivered to customers. However, in addition to the monthly basic service charge, the determination and billing of water sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each reporting period,

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amounts of water delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is recorded.

Water connection fees are the fees associated with the application process to set up a customer to receive utility service on an existing water meter. These fees are approved by the ACC through the regulatory process and are set based on the costs incurred to establish services including the application process, billing setup, initial meter reading, and service transfer. Because the amounts charged for water connection fees are set by our regulator the ACC and not negotiated in conjunction with the pricing of ongoing water service, the connection fees represent the culmination of a separate earnings process and are recognized when the service is provided. For both the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company recognized $0.3 million in connection fees.

Meter installation fees are the fees charged to developers or builders associated with installing new water meters. Certain fees for meters are regulated by the ACC, and are refundable to the end customer over a period of time. Refundable meter installation fees are recorded as a liability upon receipt.

Revenue Recognition—Wastewater and Recycled Water Services

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Wastewater and recycled water services revenues are generally recognized when service is rendered. Wastewater services are billed at a fixed monthly amount per connection, and recycled water services are billed monthly based on volumetric fees.

Revenue Recognition—Unregulated Revenues

Unregulated revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated revenues are limited to rental revenue and revenues resulting from certain infrastructure coordination and financing agreement arrangements ("ICFAs" ("ICFAs").

ICFAs are agreements with developers and homebuilders whereby GWRI, which owns the operating utilities, provides services Refer to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder. Services provided within these agreements include coordination of construction services Note 3 – "Revenue Recognition - Unregulated Revenue" for water and wastewater treatment facilities as well as financing, arranging, and coordinating the provision of utility services.

As these arrangements are with developers and not with the end water or wastewater customer, revenue recognition coincides with the completion of our performance obligations under the agreement with the developer and our ability to provide fitted capacity for water and wastewater service. Payments for ICFAs are usually received in advance and are recorded as deferred revenue until earned. Pursuant to Rate Decision No. 74364, as funding is received 70% of ICFAs are now recorded as a hook-up fee ("HUF") liability until the HUF liability is fully funded, with the remaining amount recorded as revenue once all components of revenue recognition are met (See Note 2 – "Regulatory Decision and Related Accounting and Policy Changes"). additional information.

Allowance for Doubtful Accounts Credit Losses

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Provisions are made for doubtful accounts due to the inherent uncertainty around the collectability of accounts receivable. The allowance for doubtful accounts credit losses is recorded as bad debt expense, and is classified as general and administrative expense. The allowance for doubtful accounts credit losses is determined considering the age of the receivable balance, type of customer (e.g., residential or commercial), payment history, as well as specific identification of any known or expected collectability issues (see Note 6 – "Accounts Receivable").

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments in debt instruments with an original maturity of three months or less.

Restricted Cash

Restricted cash represents cash deposited relating to HUF hook-up fees ("HUF") tariffs and asset retirement obligations. The following table summarizes the restricted cash balance as of December 31, 2022 December 31, 2023 and 2021 2022 (in thousands):

		December 31, 2022	December 31, 2021		
	December 31, 2023			December 31, 2023	December 31, 2022
HUF funds	HUF funds	$ 161	$ 16		
Certificate of deposits	Certificate of deposits	$ 840	790		
		$ 1,001	$ 806		

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company's valuation allowance totaled zero as of December 31, 2022 December 31, 2023 and 2021 2022 (see Note 12 – "Income Taxes").

We evaluate The Company evaluates uncertain tax positions using a two-step approach. Recognition (step one) occurs when we conclude it is concluded that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when we the Company subsequently determine that a tax position no longer meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited, and to the extent that uncertain tax positions exist, we provide expanded disclosures. disclosures are provided.

Basic and Diluted Earnings per Common Share

Basic earnings per share ("EPS") in each period of this report were calculated by dividing net income by the weighted-average number of shares during those periods. Diluted EPS includes additional weighted-average common stock equivalents (options and restricted stock awards), if dilutive. Unless otherwise noted, the term "Earnings Per Share" refers to Basic EPS. A reconciliation of the denominator used in Basic and Diluted EPS calculations is show in the following

table:

	Year Ended December 31,					Year Ended December 31,
		December 31, 2022	December 31, 2021			
(In thousands)	*(In thousands)*			*(In thousands)*	2023	2022

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Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	23,173	22,619
Effect of dilutive securities:	Effect of dilutive securities:		
2017 Option grant		106	164
2019 Option grant		26	61
2020 Restricted stock awards		27	56
2021 Restricted stock awards		—	3
Option grants			
Option grants			
Option grants			
Restricted stock awards			
Restricted stock awards			
Restricted stock awards			
Total dilutive securities			
Total dilutive securities			
Total dilutive securities	Total dilutive securities	159	284
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	23,332	22,903
Anti-dilutive shares excluded from earnings per diluted shares (1)	Anti-dilutive shares excluded from earnings per diluted shares (1)	185	—

(1) Shares were excluded from the dilutive-effect calculation because the outstanding awards' awards' exercise prices were greater than the average market price of the Company's Company's common stock.

Refer to Note 13 – "Deferred Compensation Awards" for additional information regarding the option and restricted stock grants.

Goodwill

Goodwill represents the excess purchase price over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized, it is instead tested for impairment annually, or more often if circumstances indicate a possible impairment may exist. As required, we evaluate the Company evaluates goodwill for impairment annually, and do so as of November 1 of each year, and at an interim date if indications of impairment exist. When testing goodwill for impairment, we the Company may assess qualitative factors, including macroeconomic conditions, industry and market considerations, overall financial performance, and entity specific events to determine whether it is more likely than not that the fair value of an operating and reportable segment is less than its carrying amount. We utilize The Company utilizes internally developed discounted future cash

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flow models, third-party appraisals, or broker valuations to determine the fair value of the reporting unit. Under the discounted cash flow approach, we utilize the Company utilizes various assumptions requiring judgment, including projected future cash flows, discount rates, and capitalization rates. Our The estimated future cash flows are based on historical data, internal estimates, and external sources. We then compare the The estimated fair value is then compared to the carrying value. If the carrying value is in excess of the fair value, an impairment charge is recorded to asset impairments within our the Company's consolidated statement of operations in the amount by which the reporting unit's unit's carrying value exceeds its fair value, limited to the carrying value of goodwill. Refer to Note 7 — "Goodwill "Goodwill and Intangible Assets" Assets" for additional information about goodwill.

Intangible Assets

Intangible assets not subject to amortization consist of certain permits expected to be renewable indefinitely, water rights, and certain service areas acquired in transactions which did not meet the definition of business combinations for accounting purposes, and are considered to have indefinite lives. Intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more often if certain circumstances indicate a possible impairment may exist. Amortized intangible assets consist primarily of acquired ICFA contract rights. Refer to Note 2 – "Regulatory "Regulatory Decision and Related Accounting and Policy Changes" for additional information about ICFAs.

Impairment of Long-Lived Assets

Management evaluates the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If an indicator of possible impairment exists, an undiscounted cash flow analysis would be prepared to determine whether there is an actual impairment. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using appraisals or valuation techniques such as the present value of expected future cash flows.

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Debt Issuance Costs

In connection with the issuance of some certain of our the Company's long-term debt, we have the Company has incurred legal and other costs that we believe are believed to be directly attributable to realizing the proceeds of the debt issued. These costs are netted against long-term debt and amortized as interest expense using the effective interest method over the term of the respective debt. Amortization of debt issuance costs and discounts totaled approximately $0.04 million for both the year years ended December 31, 2022 December 31, 2023 and approximately $0.09 million for the year ended December 31, 2021, respectively. 2022.

Advances in Aid of Construction ("AIAC" ("AIAC") and Contributions in Aid of Construction ("CIAC" ("CIAC")

The Company has various agreements with developers, whereby funds, water line extensions, or wastewater line extensions are provided to the Company by the developers and are considered refundable AIAC. These AIAC are non-interest-bearing and are subject to refund to the developers through annual payments that are computed as a percentage of the total annual gross revenue earned from customers connected to utility services constructed under the agreement over a specified period. Upon the expiration of the agreements' refunding period, the remaining balance of the AIAC becomes nonrefundable and at that time is considered CIAC. CIAC are amortized as a reduction of depreciation expense over the estimated remaining life of the related utility plant. For rate-making purposes, utility plant funded by AIAC or CIAC are excluded from rate base. There was no AIAC balance transferred to CIAC for the years ended December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022.

Fair Value of Financial Instruments

The carrying values of cash equivalents, accounts receivables, and accounts payable approximate fair value due to the short-term maturities of these instruments. See Note 11 – "Debt" for information as to the fair value of our long-term debt. Our The refundable AIAC have a carrying value of $93.7 million $111.5 million and $84.6 million $93.7 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Portions of these non-interest-bearing instruments are payable annually through 2032 and amounts not paid by the contract expiration dates become nonrefundable. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rate increases. However, the fair value of these amounts would be less than their carrying value due to the non-interest-bearing feature.

Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing operating performance. In consideration of ASC 280—*Segment Reporting* the Company notes it is not organized

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around specific products and services, geographic regions, or regulatory environments. The Company currently operates in one geographic region within the State of Arizona, wherein each operating utility operates within the same regulatory environment.

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While the Company reports its revenue, disaggregated by service type, on the face of its Statements of Operations, the Company does not manage the business based on any performance measure at the individual revenue stream level. The Company does not have any customers that contribute more than 10% to the Company's revenues or revenue streams. Additionally, the Company notes that the CODM uses consolidated financial information to evaluate the Company's performance, which is the same basis on which he communicates the Company's results and performance to the Board of Directors. It is upon this consolidated basis from which he bases all significant decisions regarding the allocation of the Company's resources on a consolidated level. Based on the information described above and in accordance with the applicable literature, management has concluded that the Company is currently organized and operated as one operating and reportable segment.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In February June 2016, the Financial Accounting Standards Board ("FASB" ("FASB") issued ASU 2016-02, Accounting Standards Update ("ASU") 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which changed the impairment model for certain financial assets that have a contractual right to receive cash, including trade and loan receivables. The new model required recognition based upon an estimation of expected credit losses rather than recognition of losses based on the probability of occurrence.

Table of ContentsLeases (Topic 842) ("ASU 2016-02", or "ASC 842"). ASC 842 requires lessees to record a right-of-use asset and corresponding lease obligation for lease arrangements with a term of greater than twelve months and requires additional disclosures about leasing arrangements.

The Company implemented ASC 842 on January 1, 2021 is a public business entity that qualifies as a smaller reporting company, and therefore ASU 2016-13 was effective for annual reporting periods beginning after December 15, 2022. The implementation Company adopted the standard utilizing the modified retrospective method for its trade receivables and unbilled revenue on January 1, 2023. Based on the composition of the Company's trade receivables and unbilled revenue, and expected future credit losses, the adoption of ASU 2016-13 did not result in have a material changes to our impact on its consolidated financial statements. Refer to Note 4 — "Leases" for additional information.

In August 2018, December 2019, the FASB issued ASU 2018-15, *Customer's 2019-12, Simplifying the Accounting for Implementation Costs Incurred Income Taxes (Topic 740). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The guidance also simplifies the accounting for franchise taxes, transactions that result in a Cloud Computing Arrangement That Is a Service Contract* (Topic 350) ("ASU 2018-15"). ASU 2018-15 amends ASC 350 to include step-up in its scope implementation costs the tax basis of a Cloud Computing Arrangement ("CCA") that is a service contract goodwill, and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized the effect of enacted changes in a CCA that is considered a service contract. tax laws or rates in interim periods. The Company implemented adopted ASU 2018-15 on January 1, 2021. The implementation 2019-12 during the first quarter of 2021 prospectively and the adoption did not result in have a material changes impact to our consolidated financial statements.the Company's Consolidated Financial Statements.

In January 2017, October of 2021, the FASB issued ASU 2017-04, *Intangibles - Goodwill 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 Contract Liabilities from the impairment test which requires entities to determine the implied Contracts with Customers. In a business combination, an acquirer generally recognizes assets acquired and liabilities assumed, including contract assets and contract liabilities, at their respective fair value of goodwill to measure if any impairment expense is necessary. Instead, entities will record impairment expenses based on the amount by which acquisition date. ASU 2021-08 requires that in a business combination, an acquirer should recognize and measure contract assets acquired and contract liabilities assumed in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The guidance provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts with customers in a business combination. The guidance is effective for annual reporting unit's carrying value exceeds its fair value, not to exceed periods beginning after December 15, 2022, including interim periods within those fiscal years. ASU 2021-08 should be applied prospectively for acquisitions occurring on or after the carrying amount effective date of goodwill. the amendments, and early adoption is permitted. The Company implemented adopted ASU 2017-04 2021-08 on January 1, 2021. The implementation January 1, 2023 prospectively and the adoption did not result in have a material changes impact to our the Company's Consolidated Financial Statements.

Future Adoption of Accounting Standards

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is assessing the impact that adopting this new standard will have on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures that expands disclosures of significant segment expenses and includes new disclosures for entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is assessing the impact that adopting this new standard will have on its consolidated financial statements.

2. REGULATORY DECISION AND RELATED ACCOUNTING AND POLICY CHANGES

Our The Company's regulated utilities and certain other balances are subject to regulation by the ACC and meet the requirements for regulatory accounting found within Accounting Standards Codification ("ASC 980, 980"), *Regulated Operations*.

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In accordance with ASC 980, rates charged to utility customers are intended to recover the costs of the provision of service plus a reasonable return in the same period. Changes to the rates are made through formal rate applications with the ACC, which we have done the Company has customarily done.

During the fourth quarter 2023, the Company notified the ACC of its intention to file a rate case for all Farmers during 2024 and for Santa Cruz and Palo Verde in 2025.

On July 3, 2023, the Company's Palo Verde and Santa Cruz utilities filed an application with the ACC for approval of our operating an accounting order to defer and record as a regulatory asset the depreciation expense recorded for the Company's Southwest Plant, plus the carrying cost at the authorized rate of return set in Palo Verde's and Santa Cruz's most recent rate order, until the plant is considered for recovery in the utilities' next rate case. The Southwest Plant was substantially constructed prior to 2009 to provide water, wastewater, and recycled water utility services for the area southwest of the City of Maricopa. Due to the unprecedented collapse of the housing market during the Great Recession, the nearly completed plant remained idle for well over a decade. The total cost of the Southwest Plant was approximately $38.4 million. In July 2023, $27.5 million related to the water production plant and a portion of the wastewater processing plant was placed in service, with the remaining parts of the Southwest Plant to be placed in service once sufficient flows, provided by connection growth, are established. There can be no

assurance, however, that the ACC will approve the application as submitted and the ACC could take other actions regarding the application.

In January 2024, the Company discovered that approximately $7.8 million of construction costs for the Southwest Plant had been prematurely included as "plant in service" for rate making purposes in 2007 and were reflected in the calculation of customer rates in Rate Decision No. 71878 (September 15, 2010). Those costs were also included as "plant in service" in Rate Decision No. 74364 (February 26, 2014) and Rate Decision No. 78644 (July 27, 2022). The Company disclosed this circumstance to the ACC on March 1, 2024. Although to date the ACC has not taken any action, the ACC could require the Company to reduce rates going forward or take other actions that would be unfavorable to the Company. The final outcome and resolution of this matter cannot be predicted and the results, while not reasonably estimable at this time, could be material to the Company and its financial condition.

On June 27, 2023, seven of the Company's regulated utilities each filed a rate case application with the ACC for increased water rates based on a 2022 test year. In addition to a rate increase, the Company requested, among other things, the consolidation of water rates for certain of its utilities, including Global Water-Mirabell Water Company, Inc. ("Mirabell"), Global Water-Lyn Lee Water Company, Inc. ("Lyn Lee"), Global Water-Francesca Water Company, Inc. ("Francesca"), Global Water-Tortolita Water Company, Inc. ("Tortolita"), Global Water-Rincon Water Company, Inc. ("Rincon"), Global Water-Las Quintas Serenas Water Company, Inc. ("Las Quintas Serenas"), and Global Water-Red Rock Water Company, Inc. ("Red Rock"), each located in Pima County. Of the Company's utilities, these utilities filing rate applications make up approximately 3% of the Company's active service connections. On February 29, 2024, the Company entered into a settlement agreement with the ACC Utilities Division Staff regarding the rate case application, which will be considered by an Administrative Law Judge and the ACC for approval. The agreement includes, among other things, a recommended annual revenue increase of approximately $351,000, acquisition premiums for six of the Company's utilities, a capital structure matching the Company's previous rate of 55% equity with a 9.6% return on equity, consolidation of the seven utilities, and which are described below. an accounting deferral for Rincon. There can be no assurance that the ACC will approve the settlement agreement and the ACC could take other actions as a result of the rate case. Further, it is possible that the ACC may determine to decrease future rates. There can also be no assurance as to the timing of when an approved rate increase (if any) would go into effect.

On July 27, 2022, the ACC issued Rate Decision No. 78644 relating to the Company's recent Company's previous rate case. Pursuant to Rate Decision No. 78644, the ACC approved, among other things, a collective annual revenue requirement increase of approximately $2.2 million (including the acquisition premiums discussed below) based on 2019 test year service connections, and phased-in over approximately two years, as follows:

	Incremental	Cumulative
August 1, 2022	$ 1,457,462	$ 1,457,462
January 1, 2023	$ 675,814	$ 2,133,277
January 1, 2024	$ 98,585	$ 2,231,861

To the extent that the number of active service connections has increased and continues to increase from 2019 levels, the additional revenues may be greater than the amounts set forth above. On the other hand, if active connections decrease or the Company experiences declining usage per customer, the Company may not realize all of the anticipated revenues.

Rate Decision No. 78644 also addressed the primary impacts of the TCJA Federal Tax Cuts and Jobs Act (the "TCJA") on the Company, which is includes the reduction of the federal income tax rate from 35 percent to 21 percent beginning on January 1, 2018. The TCJA required the Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate. For the Company's regulated entities, substantially all of the change in deferred income taxes is recorded as an offset to either a regulatory asset or liability because the impact of changes in the rates are expected to be recovered from or refunded to customers.

On September 20, 2018, the ACC issued Rate Decision No. 76901, which set forth the reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities due to the TCJA. Rate Decision No. 76901 adopted a phase-in approach for the reductions to match the phase-in of our revenue requirements under Rate Decision No. 74364. In 2021, the final year of the phase-in, the aggregate annual reductions in revenue for our Santa Cruz, Palo Verde, Greater Tonopah, and Northern Scottsdale utilities were approximately $415,000, $669,000, $16,000, and $5,000, respectively. The ACC also approved a carrying cost of 4.25% on regulatory liabilities resulting from the difference of the fully phased-in rates to be applied in 2021 versus the years leading up to 2021 (i.e., 2018 through 2020).

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Rate Decision No. 76901, however, did not address the impacts of the TCJA on accumulated deferred income taxes (“ADIT”), including excess ADIT (“EADIT”). Subsequently, Rate Decision No. 78644 approved an adjustor mechanism for income taxes. The adjustor mechanism taxes (as described below) that permits the Company to flow through potential changes to state and federal income tax rates as well as refund or collect funds related to TCJA.

The ACC also approved:

(i) the consolidation of water and/or wastewater rates to create economies of scale that are beneficial to all customers when rates are consolidated;

(ii) acquisition premiums relating to the Company’s acquisitions of its Red Rock and Turner Ranches utilities, which increase the rate base for such utilities and result in an increase in the annual collective revenue requirement included in the table above;

(iii) the Company’s ability to annually adjust rates to flow through certain changes in tax expense, primarily related to income taxes, without the necessity of a rate case proceeding; and

(iv) a sustainable water surcharge, which will allow semiannual surcharges to be added to customer bills based on verified costs of new water resources.

Finally, Rate Decision No. 78644 requires required the Company to work with ACC staff and the Residential Utility Consumer Office to prepare a Private Letter Ruling request to the Internal Revenue Service (“IRS”) to clarify whether the failure to eliminate the deferred taxes attributable to assets condemned in a transaction governed by Section 1033 of the Internal Revenue Code ("IRC" (“IRC”) would violate the normalization provisions of Section 168(i)(9) of the IRC. If the The IRS accepts accepted the request and issues issued its ruling, Private Letter Ruling, dated September 22, 2023. The Private Letter Ruling determined that the deferred taxes attributable to assets condemned in a copy transaction governed by Section 1033 of the IRC must be eliminated and failure to do so would violate the normalization provisions of Section 168(i)(9) of the IRC. As required by Rate Decision No. 78644, the Private Letter Ruling was provided to the ACC. Within 90 days after providing the ruling to the ACC ACC Staff shall prepare, for ACC consideration, a memorandum and proposed order regarding guidance issued within the Private Letter Ruling. This may result in no further action will be taken by the ACC, which we are unable to predict due to the uncertainties involved, that could have an adverse impact on our financial condition, results of operations and cash flows. as documented in Decision No. 79258.

Certain accounting implications related to Rate Decision No. 78644 were recognized and recorded as of June 30, 2022, and are as follows:

- Reclassification of Red Rock Water, Red Rock Wastewater, and Turner Ranches acquisition premiums of approximately $0.8 million in the aggregate from goodwill to regulatory assets to be included in rate base. The premiums are to be amortized over 25 years.
- Reversal of the 2017 TCJA tax reform regulatory liability of approximately $0.8 million, which was recorded as a reduction to income tax expense for approximately $0.7 million, and as a reduction to interest expense for approximately $0.1 million.
- Write-off of approximately $0.3 million in capitalized rate case costs.

***Infrastructure Coordination Regulatory Assets and Financing Agreements** – ICFAs Liabilities*

Regulatory assets and liabilities are agreements with developers and homebuilders whereby GWRI, the indirect parent result of operating in a regulated environment in which the ACC establishes rates that are designed to permit the recovery of the operating utilities, provides services to plan, coordinate, cost of service and finance the water a return on investment. The Company capitalizes and wastewater infrastructure records regulatory assets for costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. Regulatory assets are amortized over the future periods that the costs are expected to be recovered. Final determination of whether a regulatory asset can be recovered is decided by the ACC in regulatory proceedings. If the Company determines that a portion of the regulatory assets is not recoverable in customer rates, the Company would be required to recognize the loss of the assets disallowed.

If costs expected to be performed or subcontracted by incurred in the developer or homebuilder. future are currently being recovered through rates, the Company records those expected future costs as regulatory liabilities.

The Company’s regulatory assets and liabilities consist of the following (in thousands):

	Recovery Period	December 31, 2023	December 31, 2022
Regulatory Assets			
Income taxes recoverable through future rates (1)	Various	$ 1,404	$ 1,482
Rate case expense surcharge(2)	2 years	221	467
Acquisition premiums(3)	25 years	1,269	1,220
Other regulatory assets		4	—
Total regulatory assets		$ 2,898	$ 3,169
Regulatory Liabilities			
Income taxes payable through future rates(1)		$ 488	$ 508
Acquired ICFAs(4)		4,896	5,863
Depreciation adjustment(5)		692	—

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Total regulatory liabilities	$	6,076	$	6,371

Under (1) The TCJA required the ICFAs, GWRI has Company to re-measure all existing deferred income tax assets and liabilities to reflect the reduction in the federal tax rate. For the Company's regulated entities, substantially all of the change in deferred income taxes is recorded as an offset to either a contractual obligation regulatory asset or liability because the impact of changes in the rates are expected to ensure physical capacity exists be recovered from or refunded to customers.

(2) Rate Decision No. 78743, issued on October 24, 2022, approved approximately $0.5 million in rate case expenses to be recovered through its regulated utilities for water and wastewater a rate case expense surcharge over a two-year period.

(3) Rate Decision No. 78319, issued on December 3, 2021, approved an acquisition premium to be amortized over 25 years related to the landowner/developer when needed. This obligation persists regardless of connection growth. Fees for these services are typically a negotiated amount per equivalent dwelling unit for the specified development or portion of land. Payments are generally due in installments, with a portion due upon signing acquisition of the agreement, Company's Rincon utility. Amortization will begin once the Company receives a portion due upon completion decision on its rate case filed in June 2023 that would approve the acquisition premium to be included in customer rates. The acquisition premium balance as of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. The agreements are generally recorded against the land with the appropriate recorder's office and must be assumed in the event of a sale or transfer of the land. The regional planning and coordination of the infrastructure in the various service areas has been an important part of GWRI's business model. December 31, 2023 was approximately $0.5 million.

Rate Decision No. 74364 prescribes that 78644, issued on July 27, 2022, approved acquisition premiums related to the acquisitions of the ICFA funds received, approximately 70% of Company's Turner Ranches and Red Rock utilities. Amortization began in 2022 as the ICFA funds will be recorded acquisition premiums were included in customer rates as approved in the associated utility subsidiary decision. The acquisition premium balance as a hook-up fee ("HUF") liability, with the remaining 30% to be recorded as deferred revenue, which the Company accounts for in accordance with the Company's of December 31, 2023 was approximately $0.8 million.

(4) The acquired ICFA revenue recognition policy. A HUF tariff, specifying the dollar value of a HUF for each utility, was approved by the ACC as part of Rate Decision No. 74364. The Company is responsible for assuring the full HUF value is paid from ICFA proceeds, and recorded in its full amount, even if it results in recording less than 30% of the ICFA fee as deferred revenue.

The Company accounts for the portion allocated to the HUF as a CIAC contribution. However, in accordance with the ACC directives the CIAC is not deducted from rate base until the HUF funds are expended for utility plant. Such funds are segregated in a separate bank account and used for plant. A HUF liability is established and amortized as a reduction of depreciation expense over the useful life of the related plant once the HUF funds are utilized for the construction of plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction. The Company records 30% of the funds received, up until the HUF liability is fully funded, as deferred revenue, which is to be recognized as revenue once the obligations specified within the ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred.

As of December 31, 2022 and 2021, ICFA deferred revenue recorded on the consolidated balance sheet totaled $21.0 million and $19.0 million, respectively, which represents deferred revenue recorded for ICFA funds received on contracts.

As the Company now expects to experience an economic benefit from the approximately 30% portion of future ICFA funds, 30% of the regulatory liability or $3.4 million, was reversed in 2014. The remaining 70% of the regulatory liability, or $7.9 million, will continue to be recorded on the balance sheet.

The intangible assets amortize when the corresponding ICFA funds are received in proportion to the amount of total cash expected to be received under the underlying agreements. The recognition of amortization expense will be partially offset by a corresponding reduction of the regulatory liability.

As of December 31, 2022, the regulatory liability recorded on the consolidated balance sheet totaled $6.4 million of which $5.9 million relates to the offset of intangible assets related to ICFA contracts obtained in connection with our the Santa Cruz, Palo Verde, and Sonoran Utility Services, LLC ("Sonoran") acquisitions. When funds are received related to the acquired ICFA, a portion of these funds reduce the acquired ICFA regulatory liability and partially offset the amortization expense recognition of the related intangible asset.

(5) Rate Decision No. 78644, issued on July 27, 2022, approved an adjustment to update previously approved depreciation rates.

3. REVENUE RECOGNITION

Regulated Revenue

The Company's Company's operating revenues are primarily attributable to regulated services based upon tariff rates approved by the ACC. Regulated service revenues consist of amounts billed to customers based on approved fixed monthly fees and consumption fees, as well as unbilled revenues estimated from the last meter reading date to the end of the accounting period utilizing historical customer data recorded as accrued revenue. The measurement of sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, the Company estimates consumption since the date of the last meter reading and a corresponding unbilled revenue is recognized. The unbilled revenue estimate is based upon the number of unbilled days that month and the average daily customer billing rate from the previous month (which fluctuates based upon customer usage). The Company applies the invoice practical expedient and recognizes revenue from contracts with customers in the amount for which the Company has a right to invoice. The Company has the right to invoice for the volume of consumption, service charge, and other authorized charges.

The Company satisfies its performance obligation to provide water, wastewater, and recycled water services over time as the services are rendered. Regulated services may be terminated by the customers at will, and, as a result, no separate financing component is recognized for the Company's Company's collections from customers, which generally require payment within 15 days of billing. The Company applies judgment, based principally on historical payment experience, in estimating its customers' customers' ability to pay.

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Total revenues do not include sales tax as we consider ourselves the Company considers itself a pass-through conduit for collecting and remitting sales taxes.

Unregulated Revenue

Unregulated revenues represent those revenues that are not subject to the ratemaking process of the ACC. Unregulated For the year ended December 31, 2023, unregulated revenues are limited primarily related to rental revenue and imputed the revenues resulting from recognized on a portion of ICFA funds received.

ICFAs are agreements with developers and homebuilders where the Company, which owns the operating utilities, provides services to plan, coordinate, and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or homebuilder. Services provided within these agreements include coordination of construction services for water and wastewater treatment facilities as well as financing, arranging, and coordinating the provision of utility services. In return, the developers and homebuilders pay the Company an agreed-upon amount per dwelling unit for the specified development land legally described in the agreement, or a portion of land. In addition, under thereof. Under ICFA agreements, the Company has a

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contractual obligation to ensure physical capacity exists through its regulated utilities for the provision of water and wastewater utility service to the developer land when needed. This obligation persists regardless of connection growth.

Fees for these services are typically a negotiated amount per equivalent dwelling unit for the land legally described in the agreement, or a portion thereof. Payments are generally due in installments, with a portion due upon signing of the agreement, a portion due upon completion of certain milestones, and the final payment due upon final plat approval or sale of the subdivision. The payments are non-refundable. The agreements are generally recorded against the land with the appropriate recorder's office and must be assumed in the event of a sale or transfer of the land. The regional planning and coordination of the infrastructure in the various service areas has been an important part of the Company's business model.

Payments for ICFAs are usually received in advance. Rate Decision No. 74364 requires a HUF tariff to be established for all ICFAs that come due and are paid subsequent to December 31, 2013, which is a set amount per equivalent dwelling unit determined by the ACC based on the utility and meter size. Also pursuant to Rate Decision No. 74364, as payments are received, 70% of the payment must be recorded as HUF liability until the HUF liability is fully funded, with the remaining amount initially recorded to deferred revenue until earned. The Company is responsible for assuring that the full HUF tariff, which is the set amount determined by the rate decision, is funded in the HUF liability, even if it results in recording less than 30% of the overall ICFA funds as deferred revenue. ICFA revenue is recorded when the Company completes the performance obligations under the agreement.

The Company accounts for the portion of ICFA funds allocated to the HUF liability as a contribution in aid of construction ("CIAC"). However, in accordance with the ACC directives, the CIAC is not deducted from rate base until the HUF funds are expended for utility plant. Such funds are restricted and segregated in a separate bank account and used for plant. For facilities required under a HUF or ICFA, the utilities must first use the HUF moneys received, after which, it may use debt or equity financing for the remainder of construction.

As these arrangements are with developers and not with the end water or wastewater customer, revenue recognition coincides with the completion of the Company's performance obligations under the agreement with the developer and its regulated utilities' ability to provide fitted capacity for water and wastewater service. The Company exercises judgment when estimating the number of equivalent dwelling units that its regulated utilities have capacity to serve. The Company believes that services provided within these services agreements are not distinct in the context of the contract because they are highly interdependent with the Company's its regulated utilities' ability to provide fitted capacity for water and wastewater services. The Company concluded that the goods and services provided under ICFA contracts constitute a single performance obligation.

ICFA revenue is recognized at a point in time when the Company has the necessary capacity in place within its infrastructure to provide water/wastewater services to the developer. The Company exercises judgment when estimating the number of equivalent dwelling units that the Company has capacity to serve.

	December 31, 2022 Balance	Payments Allocated to Deferred Revenue	Revenue Recognized	December 31, 2023 Balance
Deferred Revenue - ICFA	$ 20,974	$ 1,468	$ (2,786)	$ 19,656

	December 31, 2021 Balance	Payments Allocated to Deferred Revenue	Revenue Recognized	December 31, 2022 Balance
Deferred Revenue - ICFA	$ 19,035	$ 1,939	$ —	$ 20,974

Disaggregated Revenues

For the years ended December 31, 2022 December 31, 2023 and 2021, 2022, disaggregated revenues from contracts with customers by major source and customer class are as follows (in thousands):

	Year Ended December 31,	
	2022	2021
REGULATED REVENUE		

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Water Services		
Residential	$ 15,114	$ 13,697
Irrigation	2,899	2,917
Commercial	1,165	868
Construction	830	691
Other water revenues	877	771
Total water revenues	20,885	18,944
Wastewater and recycled water services		
Residential	21,346	19,743
Commercial	888	1,020
Recycled water revenues	1,242	1,132
Other wastewater revenues	367	346
Total wastewater and recycled water revenues	23,843	22,241
TOTAL REGULATED REVENUE	44,728	41,185
UNREGULATED REVENUE		
ICFA revenues	—	683
Rental revenues	—	46
TOTAL UNREGULATED REVENUE	—	729
TOTAL REVENUE	$ 44,728	$ 41,914

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	Year Ended December 31,	
	2023	2022
REGULATED REVENUE		
Water Services		
Residential	$ 17,541	$ 15,114
Irrigation	3,483	2,899
Commercial	1,540	1,165
Construction	1,388	830
Other water revenues	908	877
Total water revenues	24,860	20,885
Wastewater and recycled water services		
Residential	22,423	21,346
Commercial	1,243	888
Recycled water revenues	1,365	1,242
Other wastewater revenues	351	367
Total wastewater and recycled water revenues	25,382	23,843
TOTAL REGULATED REVENUE	50,242	44,728
UNREGULATED REVENUE		
ICFA revenues	2,786	—
TOTAL UNREGULATED REVENUE	2,786	—
TOTAL REVENUE	$ 53,028	$ 44,728

Contract Balances

Our

The Company’s contract assets and liabilities consist of the following (in thousands):

	December 31, 2022	December 31, 2021
CONTRACT ASSETS		

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Accounts receivable				
Water services	$	1,179	$	1,139
Wastewater and recycled water services		1,124		987
Total contract assets(1)	$	2,303	$	2,126
CONTRACT LIABILITIES				
Deferred revenue - ICFA	$	20,974	$	19,035
Refund liability - regulated(2)		—		762
Total contract liabilities	$	20,974	$	19,797

(1) The increase in accounts receivable was primarily due to increased connections through organic growth and rate increases resulting from Rate Decision No. 78644. Refer to Note 2— "Regulatory Decision and Related Accounting and Policy Changes" for further details.

(2) The decrease in refund liability related to tax reform is due to the phase-in approach approved in Rate Decision No. 76901. Refer to Note 2— "Regulatory Decision and Related Accounting and Policy Changes" for further details.

	December 31, 2023		December 31, 2022	
CONTRACT ASSETS				
Accounts receivable				
Water services	$	1,588	$	1,179
Wastewater and recycled water services		1,379		1,124
Total contract assets	$	2,967	$	2,303
CONTRACT LIABILITIES				
Deferred revenue - ICFA	$	19,656	$	20,974
Total contract liabilities	$	19,656	$	20,974

Remaining Performance Obligations

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted revenue expected to be recognized in future periods was approximately $19.7 million and $21.0 million at December 31, 2023 and $19.0 million at December 31, 2022 and December 31, 2021, respectively. Deferred revenue - ICFA is recognized as revenue once the obligations specified within the applicable ICFA are met, including construction of sufficient operating capacity to serve the customers for which revenue was deferred. Due to the uncertainty of future events, the Company is unable to estimate when to expect recognition of deferred revenue - ICFA.

4. LEASES

On January 1, 2021, the Company adopted ASC 842 using the modified retrospective method. The Company elected the practical expedient package when scoping and identifying leases. As such, the Company has not reassessed: 1) whether any expired or existing contracts are or contain leases; 2) the lease classification for any expired or existing leases; and 3) the initial direct costs for any existing leases. The Company notes that this practical expedient applies to all expired or existing contracts as of the effective date of the Company's adoption. The Company elected this practical expedient package for all lessee and lessor arrangements.

The Company measures the lease liability at the present value of future lease payments, excluding variable payments based on usage or performance, and calculates the present value using implicit rates. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

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During the year ended December 31, 2023, the Company entered into five new finance leases for vehicles with either 48 month terms, all of which include a purchase option, and one new office equipment lease with a 60 month term. During the year ended December 31, 2022, the Company entered into nine new finance leases for vehicles with either 48 or 60 month terms, all of which include a purchase option. option, and an office equipment lease with a 60 month term.

January 10, 2022,

During August 2021, the Company entered into a five-year finance new ten-year and nine-month office lease agreement with a commencement date of June 1, 2024. The rent expense will be $5,200 for office equipment which expires on January 31, 2027. There is no purchase option each full calendar month after a period of abated rent, with escalating rent commencing in March 2026 and annual escalations annually thereafter. Tenant improvement payments are incorporated into the lease agreement but at an additional month payment of $1,840 with escalations following the Company controls and obtains substantially all of same schedule as the benefit from the identified asset.

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base rent.

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In December 2021, the Company entered into a new five-year corporate office lease agreement with a commencement date of May 1, 2022. The new monthly rent expense increased to $23,750 for each full calendar month commencing on May 1, 2022 through April 30, 2025 and will increase to $41,572 for each calendar month commencing on May 1, 2025 through April 30, 2027. On March 1, 2022 the Company amended the terms of the lease to incorporate construction of tenant improvements. Should the Company incur additional costs in excess of the landlord improvement allowance, the Company will have the option of paying the expenses at time of possession or amortized over the lease term as additional rent at three percent cost of funds.

Rent expense arising from the operating leases totaled approximately $319,000 $394,000 and $197,000 $319,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

In January 2019, the Company's corporate office lease agreement was amended to extend the term of the lease, with a commencement date of March 1, 2019 and termination date of May 31, 2022. As such, the Company's monthly rent expense increased to approximately $16,000 under this lease.

The right-of-use ("ROU" (“ROU”) asset recorded represents the Company’s right to use an underlying asset for the lease term and ROU lease liability represents the Company’s obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

Right-of-use

ROU assets at December 31, 2023 and December 31, 2022 consist of the following (in thousands):

	December 31, 2023	December 31, 2022
Financing Lease	$ 561	$ 405
Operating Lease	1,180	1,486
Total	$ 1,741	$ 1,891

Lease liabilities at December 31, 2023 and 2021 December 31, 2022 consist of the following (in thousands):

	December 31, 2022	December 31, 2021
Finance Leases	$ 405	$ —
Operating Lease	1,486	—
Total	$ 1,891	$ —

	December 31, 2023	December 31, 2022
Financing Lease	$ 623	$ 597
Operating Lease	1,300	1,524
Total	$ 1,923	$ 2,121

Lease liabilities

At December 31, 2023, the remaining aggregate annual minimum lease payments are as follows (in thousands):

	Finance Lease Obligations	Operating Lease Obligations
2024	$ 242	$ 294
2025	213	431
2026	168	499
2027	62	166
2028	6	—
Thereafter	—	—
Subtotal	691	1,390
Less: amount representing interest	(68)	(90)
Total	$ 623	$ 1,300

5. PROPERTY, PLANT AND EQUIPMENT

Depreciable property, plant and equipment at December 31, 2022 December 31, 2023 and 2021 December 31, 2022 consist of the following (in thousands):

	December 31, 2022	December 31, 2021
Finance Leases	$ 597	$ 341
Operating Lease	1,524	—
Total	$ 2,121	$ 341

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5. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment at December 31, 2022 and 2021 consist of the following (in thousands):

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		Year Ended December 31,			
		2022	2021		
		December 31, 2023		December 31, 2023	December 31, 2022
Equipment	Equipment	55,178	49,859		
Office buildings and other structures	Office buildings and other structures	54,647	50,264		
Transmission and distribution plant	Transmission and distribution plant	234,218	213,577		
Total property, plant, and equipment		344,043	313,700		
Total property, plant and equipment					

Depreciation of property, plant and equipment is computed based on the estimated useful lives as follows:

	Useful Lives
Equipment	3 to 30 years
Office buildings and other structures	30 years
Transmission and distribution plant	10 to 50 years

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6. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2022 December 31, 2023 and 2021 December 31, 2022 consist of the following (in thousands):

	December 31, 2022	December 31, 2021
Billed receivables	$ 2,303	$ 2,126
Less allowance for doubtful accounts	$ (164)	(132)
Accounts receivable – net	$ 2,139	$ 1,994

	December 31, 2023	December 31, 2022
Billed receivables	$ 2,967	$ 2,303
Less provision for credit losses	(122)	(164)
Accounts receivable, net	$ 2,845	$ 2,139

The following table summarizes the allowance for doubtful accounts credit loss activity as of and for the years ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands).

	Balance at Beginning of Period	Additions Charged to Expense	Charged to Other Accounts	Write-offs	Balance at End of Period
Allowance for doubtful accounts:					
Year Ended December 31, 2022	$ (132)	$ (99)	$ (8)	$ 75	$ (164)
Year Ended December 31, 2021	$ (205)	$ (27)	$ (10)	$ 110	$ (132)

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	Balance at Beginning of Period	Additions Charged to Expense	Charged to Other Accounts	Write-offs	Balance at End of Period
Allowance for credit losses:					
Year Ended December 31, 2023	$ (164)	$ (76)	$ (6)	$ 124	$ (122)
Year Ended December 31, 2022	$ (132)	$ (99)	$ (8)	$ 75	$ (164)

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The goodwill balance was $5.0 million $10.8 million at December 31, 2022. The balance December 31, 2023 and is related to the Turner, Red Rock, Mirabell, Francesca, Tortolita, Lyn Lee, Las Quintas Serenas, Rincon, and Twin Hawks, and Farmers acquisitions. As of June 30, 2022, the Company reclassified approximately $0.8 million $0.8 million of goodwill to regulatory assets related to Red Rock Water, Red Rock Wastewater, and Turner Ranches acquisition premiums as a result of Rate Decision No. 78644 (refer to Note 2 - "Regulatory "Regulatory Decision and Related Accounting and Policy Changes" Changes" for additional information). The Farmers acquisition contributed approximately $6.0 million to the change in the goodwill balance (refer to Note 15 - "Acquisitions" for additional information). There were no indicators of impairment identified as a result of the Company's Company's review of events and circumstances related to its goodwill subsequent to the acquisitions. The Company recorded no goodwill impairment in 2023 and 2022.

As of December 31, 2023 and December 31, 2022, the goodwill balance consisted of the following (in thousands):

	December 31, 2022 Balance	Acquisition Activity	December 31, 2023 Balance
Goodwill	$ 4,957	$ 5,863	$ 10,820

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Intangible Assets

As of December 31, 2022 December 31, 2023 and 2021 December 31, 2022, intangible assets consisted of the following (in thousands):

		December 31, 2022			December 31, 2021			December 31, 2023			December 31, 2022		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount						
	Gross Amount							Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
INDEFINITE LIVED INTANGIBLE ASSETS:	INDEFINITE LIVED INTANGIBLE ASSETS:							INDEFINITE LIVED INTANGIBLE ASSETS:					
CP Water Certificate of Convenience & Necessity service area	CP Water Certificate of Convenience & Necessity service area	1,532		$ 1,532	$ 1,532		$ 1,532						
Intangible trademark	Intangible trademark	13		13	13		13						
Franchise contract rights	Franchise contract rights	132		132	130		130						
Organizational costs	Organizational costs	87		87	68		68						
		1,764		1,764	1,743		1,743						

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Total indefinite lived intangible assets							
DEFINITE LIVED INTANGIBLE ASSETS:	DEFINITE LIVED INTANGIBLE ASSETS:						
Acquired ICFAs	Acquired ICFAs	17,978	(14,785)	3,193	17,978	(14,565)	3,413
Sonoran contract rights	Sonoran contract rights	7,406	(2,224)	5,182	7,407	(2,224)	5,183
		25,384	(17,009)	8,375	25,385	(16,789)	8,596
Total definite lived intangible assets							
Total intangible assets	Total intangible assets	$27,148	$ (17,009)	$10,139	$27,128	$ (16,789)	$10,339

DEFINITE LIVED INTANGIBLE ASSETS:

A Certificate of Convenience & Necessity ("("CC&N"&N") is a permit issued by the ACC allowing a public service corporation to serve a specified area, and preventing other public service corporations from offering the same services within the specified area. The CP Water CC&N intangible asset was acquired through the acquisition of CP Water Company in 2006. This CC&N permit has no outstanding conditions that would require renewal.

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Franchise contract rights and organizational costs relate to our the 2018 acquisition of Red Rock. Rock and the 2023 acquisition of Farmers. Franchise contract rights are agreements with Pima and Pinal counties for Red Rock and Pima county for Farmers that allow the Company to place infrastructure in public right-of-way and permits expected to be renewable indefinitely. The organizational costs represent fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation and preparing it to conduct business.

Acquired ICFAs and Sonoran contract rights related relate to our acquired rights under certain ICFAs through the 2004 acquisition of Santa Cruz and Palo Verde and the 2005 acquisition of Sonoran Utility Services, LLC assets, respectively. The Acquired ICFAs and Sonoran contract rights are amortized when cash is received in proportion to the amount of total cash expected to be received under the underlying agreements. Due to the uncertainty of the timing of when cash will be received under ICFA agreements and contract rights, we the Company cannot reliably estimate when the remaining intangible assets' assets' amortization will be recorded. Amortization in the amount of $0.2 $1.4 million and $0.8 $0.2 million was recorded for these balances for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

8. TRANSACTIONS WITH RELATED PARTIES

The Company provides medical benefits to our employees through our its participation in a pooled plan sponsored by an affiliate of a significant shareholder and director of the Company. Medical claims paid to the plan were approximately $0.9 million and $1.8 million $1.0 million for the years year ended December 31, 2022 December 31, 2023 and 2021, respectively. $0.9 million for the year ended December 31, 2022.

Refer to Note 1 — "Description of Business, Basis "Basis of Presentation, Corporate Transactions, Significant Accounting Policies, and Recent Accounting Pronouncements — Corporate Transactions — Public Transactions" (specifically the "Public Offering of Common Stock" Stock" and "Private Placement Offering of Common Stock" sections) for additional information regarding other related party disclosures.

9. ACCRUED EXPENSES

Accrued expenses at December 31, 2022 December 31, 2023 and 2021 December 31, 2022 consist of the following (in thousands):

	December 31, 2022	December 31, 2021
Deferred compensation	$ 818	$ 1,211
Property taxes	1,195	1,238
[illegible]abilities	1,585	605
Interest	483	492
Dividend payable	593	547
Asset retirement obligation	697	697
	December 31, 2023	December 31, 2022
Property taxes	$ 1,242	$ 1,195

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Accrued project liabilities / Accrued bonus	[illegible]	[illegible]
Customer prepayments	[illegible]	[illegible]
Other accrued liabilities / Asset retirement obligations	[illegible]	[illegible]
Dividend payable / Total accrued expenses	$ [illegible]	$ [illegible]
Accrued Bonus	602	557
Interest	480	483
Deferred compensation	239	818
Accrued purchase orders	200	515
Other accrued liabilities	1,179	1,025
Total accrued expenses	$ 7,129	$ 8,056

10. FAIR VALUE

Fair Value of Financial Instruments

FASB ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company's Company's assumptions (unobservable inputs). The hierarchy consists of three levels, as follows:

- Level 1 - Quoted market prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are either directly or indirectly observable.
- Level 3 - Unobservable inputs developed using the Company's Company’s estimates and assumptions, which reflect those that the Company believes market participants would use.

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Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2022 December 31, 2023 and 2021 December 31, 2022 were as follows (in thousands):

	December 31, 2022				December 31, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset/Liability Type:								
HUF Funds - restricted cash(1)	$ 161	$ —	$ —	$ 161	$ 16	$ —	$ —	$ 16
Demand Deposit(2)	50	—	—	50	135	—	—	135
Certificate of Deposit - Restricted(1)	—	840	—	840	—	790	—	790
Long-term debt(3)	—	103,611	—	103,611	—	125,650	—	125,650
Acquisition Liability(4)	—	—	838	838	—	—	838	838
Total	$ 211	$104,451	$838	$105,500	$151	$126,440	$838	$127,429

	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
HUF Funds - restricted cash(1)								
HUF Funds - restricted cash(1)								
Acquisition Liability(3)								

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(1) HUF Funds - restricted cash and Certificate of Deposit - Restricted are presented on the Restricted cash line item of the Company's Company's consolidated balance sheets and are valued at amortized cost, which approximates fair value. The increase was primarily driven by additional funds received in growth areas of several utilities.

(2) Demand Deposit is presented on the Cash and cash equivalents line item of the Company's Company's consolidated balance sheets and is valued at amortized cost, which approximates fair value.

(3) The fair value of our debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

(4) As part of the Red Rock acquisition, the Company is required to pay to the seller a growth premium equal to $750 (not in thousands) for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date, or twenty years from the acquisition date. The fair value of the acquisition liability was calculated using a discounted cash flow technique which utilized unobservable inputs developed using the Company's Company's estimates and assumptions. Significant inputs used in the fair value calculation are as follows: year of the first meter installation, total new accounts per year, years to complete full build out, and discount rate.

In addition, as part of the Farmers acquisition, the Company is required to pay the seller a growth premium equal to $1,000 (not in thousands) for each new account established in the service area, up to a total aggregate growth premium of $3.5 million. The obligation period of the growth premium commences on

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the closing date of the acquisition and ends (i) ten years after the first new account for residential purposes is established on land that is, at the time of the closing date of the acquisition, undeveloped or unplatted and owned by the seller within the service area or (ii) ten years after the date of closing if a new account (as previously described) has not been established. The fair value of the acquisition liability was calculated using a discounted cash flow technique which utilized unobservable inputs developed using the Company's estimates and assumptions. Significant inputs used in the fair value calculation are as follows: year of the first meter installation, total new accounts per year, years to complete full build out, and discount rate.

11. DEBT

The outstanding balances and maturity dates for short-term (including the current portion of long-term debt) and long-term debt as of December 31, 2022 December 31, 2023 and 2021 December 31, 2022 are as follows (in thousands):

	December 31, 2022		December 31, 2021	
	Short-term	Long-term	Short-term	Long-term
BONDS AND NOTES PAYABLE -				
4.380% Series A 2016, maturing June 2028	—	28,750	$ —	$ 28,750
4.580% Series B 2016, maturing June 2036	3,833	76,667	3,833	80,500
	3,833	105,417	3,833	109,250
OTHER				
Debt issuance costs	—	(472)	—	(516)
Total debt	$ 3,833	$ 104,945	$ 3,833	$ 108,734

	December 31, 2023		December 31, 2022	
	Short-term	Long-term	Short-term	Long-term
BONDS AND NOTES PAYABLE -				
4.38% Senior Secured Notes, Series A, maturing June 2028	$ —	28,750	$ —	$ 28,750
4.58% Senior Secured Notes, Series B, maturing June 2036	3,833	72,833	3,833	76,667
	3,833	101,583	3,833	105,417
OTHER				
Debt issuance costs	—	(426)	—	(472)
Loan Payable	47	184	—	—
Total debt	$ 3,880	$ 101,341	$ 3,833	$ 104,945

Debt is measured at fair value on a recurring basis as of December 31, 2023 and December 31, 2022 as follows (in thousands):

	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Long-term debt(3)	—	100,746	—	100,746	—	103,611	—	103,611

(3) The fair value of debt was estimated based on interest rates considered available for instruments of similar terms and remaining maturities.

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2016 Senior Secured Notes

On June 24, 2016, the Company issued two series of senior secured notes with an aggregate a total principal balance of $115.0 million at a blended interest rate of 4.55%. Series A carries a principal balance of $28.8 million and bears an interest rate of 4.38% over a twelve-year term, with the principal payment due on June 15, 2028 (the “Series A Notes”). Series B carries a principal balance of $80.5 million $76.7 million and bears an interest rate of 4.58% over a 20-year term. term, with the principal payment due on June 15, 2036 (the “Series B Notes”). The Series B was Notes were interest only for the first five years, with $1.9 million principal payments paid semiannually thereafter beginning December 2021. The senior secured notes are collateralized by a security interest in the Company’s equity interest in its subsidiaries, including all payments representing profits and qualifying distributions. Debt issuance costs totaled $0.5 million as of both December 31, 2022 and 2021.

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The senior secured notes Series A Notes and the Series B Notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. Consolidated EBITDA is calculated as net income plus depreciation and amortization, taxes, interest and other non-cash charges net of non-cash income. Consolidated debt service is calculated as interest expense, principal payments, and dividend or stock repurchases. The senior secured notes Series A Notes and the Series B Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. The debt service ratio increases to 1.25 for any fiscal quarter during the period from and after June 30, 2024. As of December 31, 2022 December 31, 2023, the Company was in compliance with its financial debt covenants. covenants relating to the Series A Notes and the Series B Notes.

Additionally, on October 26, 2023, the Company entered into a note purchase agreement for the issuance of an aggregate principal amount of $20,000,000 of 6.91% Senior Secured Notes due on January 3, 2034 (the “6.91% Notes” and collectively with the Series A Notes and the Series B Notes, the “Senior Secured Notes”). Pursuant to the terms of the Note Purchase Agreement, the Company issued the Notes on January 3, 2024. The 6.91% Notes will accrue interest at 6.91% per annum from the date of issuance, payable semi-annually on January 3 and July 3 of each year, beginning on July 3, 2024, with a balloon payment due on January 3, 2034.

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The 6.91% Notes require the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The 6.91% Notes also contain a provision limiting the payment of dividends if the Company falls below a debt service coverage ratio of 1.20 for any fiscal quarter ended on or before June 15, 2024 and 1.25 for any fiscal quarter ended during the period from and after June 16, 2024.

The Senior Secured Notes are collateralized by a security interest in the Company’s equity interest in its subsidiaries, including all payments representing profits and qualifying distributions. The Senior Secured Notes also have certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments; engage in certain affiliate transactions; and change the nature of the business.

Revolving Credit Line

On April 30, 2020, the Company entered into an agreement with The Northern Trust Company, an and Illinois banking corporation (the "Northern Trust Loan Agreement" (“Northern Trust”), which was initially for a two-year revolving line of credit initially up to $10.0 million with an initial a maturity date of April 30, 2022. This credit facility, which may be used to refinance existing indebtedness, to acquire assets to use in and/or expand the Company’s business, and for general corporate purposes, initially bore an interest rate equal to the London Interbank Offered Rate (LIBOR) plus 2.00% and has had no unused line fee. On April 30, 2021, the

The Company and The Northern Trust Company entered into an amendment to have subsequently amended the Northern credit facility agreement on multiple occasions (as amended, the “Northern Trust Loan Agreement pursuant Agreement”) to, which, among other things, (i) extend the scheduled maturity date to July 1, 2025; (ii) increase the maximum principal amount available for borrowing to $15.0 million; (iii) replaced the Company's LIBOR interest rate provisions with provisions based on the Secured Overnight Financing Rate (SOFR); and (iv) add a quarterly facility fee equal to 0.35% of the average daily unused amount of the revolving credit line was extended from April 30, 2022 to April 30, 2024. As of December 31, 2022, the Company had no outstanding borrowings under this credit line. There were $9,812 and $17,191 unamortized debt issuance costs as of December 31, 2022 and December 31, 2021, respectively. credit.

The Northern Trust Loan Agreement requires the Company to maintain a debt service coverage ratio of consolidated EBITDA to consolidated debt service of at least 1.10 to 1.00. The Northern Trust Loan Agreement also contains a provision limiting the payment of dividends if the Company falls below a debt service ratio of 1.25. However, for the quarter ending ended June 30, 2021 through the quarter ending March 31, 2024, the debt service ratio drops to 1.20. Additionally, the Northern Trust Loan Agreement contains certain restrictive covenants that limit, among other things, the Company’s ability to: create liens and other encumbrances; incur additional indebtedness; merge, liquidate or consolidate with another entity; dispose of or transfer assets; make distributions or other restricted payments (including dividends); engage in certain affiliate transactions; and change the nature of the business. The foregoing covenants are subject to various qualifications and limitations as set forth in the Northern Trust Loan Agreement. Pursuant to the Northern Trust Loan Agreement, the revolving credit facility is subject to certain customary events of default after which the revolving credit facility could be declared due and payable if not cured within the grace period or, in certain circumstances, could be declared due and payable immediately. As of December 31, 2022 December 31, 2023, the Company was in compliance with its financial debt covenants.

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On July 26, 2022, the Company and The Northern Trust Company entered into the second amendment (the "Second Modification Agreement") to covenants under the Northern Trust Loan Agreement, which, among other things, further extended Agreement.

As of December 31, 2023 and December 31, 2022, the scheduled maturity date for the revolving outstanding borrowings on this credit line of credit from April 30, 2024 to July 1, 2024, increased the maximum principal amount available for borrowing from $10.0 million to $15.0 were approximately $2.3 million and replaced the LIBOR interest rate provisions with provisions based on the Secured Overnight Financing Rate (SOFR).

In 2020, Accounting Standards Update (ASU) 2020-04 was issued establishing ASC 848, Reference Rate Reform, $0, respectively. There were approximately $25,000 and in 2021 ASU 2021-01 was issued, Reference Rate Reform (Topic 848): Scope (collectively, ASC 848). ASC 848 contains practical expedients for reference rate reform related activities that impact $9,812 unamortized debt leases, derivatives issuance costs as of December 31, 2023 and other contracts. The guidance in ASC 848 is optional and may be elected over time as reference rate reform activities occur. In 2022, ASU 2022-06 was issued, Deferral of the Sunset Date of Topic 848 (ASU 2022-06) December 31, 2022, to defer the sunset date of ASC 848 to December 31, 2024. ASU 2022-06 is effective immediately for all companies. The Company continues to evaluate the impact of ASC 848. respectively.

At December 31, 2022 December 31, 2023, the remaining aggregate annual maturities of debt and minimum lease payments under finance lease obligations are as follows (in thousands):

		Debt	Finance Lease Obligations
2023		$ 3,789	$ 200
2024			
2024			
2024	2024	3,789	159
2025	2025	3,789	135
2025			
2025			
2026			
2026			
2026	2026	3,789	94
2027	2027	3,789	9
2027			
2027			
2028			
2028			
2028			
Thereafter			
Thereafter			
Thereafter	Thereafter	89,833	—
Subtotal	Subtotal	108,778	597
Less: amount representing interest		—	—
Subtotal			
Subtotal			
Less: amount representing unamortized discount and debt issuance costs			
Less: amount representing unamortized discount and debt issuance costs			
Less: amount representing unamortized discount and debt issuance costs			
Total	Total	$ 108,778	$ 597
Total			
Total			

12. INCOME TAXES

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12. INCOME TAXES

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company did not have any valuation allowances or unrecognized tax benefits.

The income tax expense from continuing operations for the years ended December 31, 2022 December 31, 2023 and 2021 2022 is comprised of the following (in thousands):

		2022			2023		
		Federal	State	Total	Federal	State	Total
Current income tax expense (benefit)	Current income tax expense (benefit)	$(1,551)	$(252)	$(1,803)			
Deferred income tax expense (benefit)	Deferred income tax expense (benefit)	$ 2,265	$ 472	$ 2,737			
Income tax expense	Income tax expense	$ 714	$ 220	$ 934			

	2021		
	Federal	State	Total
Current income tax expense (benefit)	$ 1,142	$ 257	$ 1,399
Deferred income tax expense (benefit)	(215)	(34)	$ (249)
Income tax expense	$ 927	$ 223	$ 1,150

ASC 740, *Income Taxes*, prescribes the method to determine whether a deferred tax asset is realizable and significant weight is given to evidence that it can be objectively verified. As of December 31, 2022 and 2021, the Company recorded no valuation allowance.

	2022		
	Federal	State	Total
Current income tax expense (benefit)	$ (1,551)	$ (252)	$ (1,803)
Deferred income tax expense (benefit)	2,265	472	$ 2,737
Income tax expense	$ 714	$ 220	$ 934

The following table summarizes the Company's temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities, as of December 31, 2022 December 31, 2023 and 2021 2022 (in thousands):

		December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
DEFERRED TAX ASSETS:	DEFERRED TAX ASSETS:				
Taxable meter deposits	Taxable meter deposits	7	$ 19		
Taxable meter deposits					
Taxable meter deposits					
Net operating loss carry forwards	Net operating loss carry forwards	3,623	—		

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Balterra intangible asset acquisition	Balterra intangible asset acquisition	224	224
Deferred gain on ICFA funds received	Deferred gain on ICFA funds received	5,216	4,734
AIAC	AIAC	4,099	3,899
Other	Other	1,539	1,231
Total deferred tax assets	Total deferred tax assets	14,708	10,107
Net deferred tax asset			
Net deferred tax asset			
Net deferred tax asset	Net deferred tax asset	14,708	10,107
DEFERRED TAX LIABILITIES:	DEFERRED TAX LIABILITIES:		DEFERRED TAX LIABILITIES:
Regulatory liability	Regulatory liability	(243)	(257)
CP Water intangible asset acquisition	CP Water intangible asset acquisition	(381)	(381)
ICFA intangible asset	ICFA intangible asset	(625)	(641)
Property, plant and equipment	Property, plant and equipment	(17,936)	(10,962)
Gain on condemnation of Valencia	Gain on condemnation of Valencia	(81)	(222)
Other Liabilities	Other Liabilities	(1,391)	(913)
Total deferred tax liabilities	Total deferred tax liabilities	(20,657)	(13,376)
Net deferred tax liability	Net deferred tax liability	$(5,949)	$(3,269)

As of December 31, 2022 December 31, 2023, we have the Company has approximately $14.6 $4.4 million remaining net operating loss (“NOL”) carry forwards.

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The Company had a regulatory asset of $1.4 million and $3.2 million at December 31, 2023 and $2.3 million at December 31, 2022 and December 31, 2021, respectively, related to the 2017 Federal Tax Cuts and Jobs Act (the "TCJA") signed into law on December 22, 2017. The regulatory liability of $0.8 million $0.8 million at December 31, 2021 was reversed as of June 30, 2022 due to Rate Decision No. 78664. The reversal was recorded as a reduction to income tax expense for approximately $0.7 million, and a reduction to interest expense for approximately $0.1 million. Refer to Note 2 - "Regulatory Decision and Related Accounting Policy and Changes."

The effective tax rates for the years ended December 31, 2022 December 31, 2023 and 2021 2022 were 14.3% 26.5% and 24.2% 14.3%, respectively. The effective tax rate for the year ended December 31, 2022 December 31, 2023 was lower higher than the federal statutory rate of 21% primarily due to driven by the 2017 TCJA reversal state income taxes, share based compensation, and IRC Section 4534 interest. of approximately $0.7 million for the year ended 2022.

On November 15, 2021, the Infrastructure Investment and Jobs Act was signed into law and became Public Law No. 117-58, which excludes AIAC and CIAC for regulated water and sewage disposal facility companies from income under IRC Section 118, effective January 1, 2021.

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13. DEFERRED COMPENSATION AWARDS

Stock-based compensation

Stock-based compensation related to option awards is measured based on the fair value of the award. The fair value of stock option awards is determined using a Black-Scholes option-pricing model. We recognize The Company recognizes compensation expense associated with the options over the vesting period.

2017 stock option grant

In August 2017, GWRI's GWRI’s Board of Directors granted stock options to acquire 465,000 shares of GWRI's GWRI’s common stock to employees throughout the Company. The options were granted with an exercise price of $9.40, the market price of the Company's Company’s common shares on the NASDAQ Global Market at the close of business on August 10, 2017. The options vested over a four-year period, with 25% having vested in August 2018, 25% having vested in August 2019, 25% having vested in August 2020, and 25% vesting having vested in August 2021. The options have a 10-year life. The Company expensed the $1.1 million fair value of the stock option grant ratably over the four-year vesting period. Stock-based compensation expense of $0.0 million and $0.2 million was recorded for years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 August 2021, these options were fully expensed. As of December 31, 2023, 46,370 84,292 options have been exercised and 100,309 114,587 options have been forfeited with 318,321 266,121 options outstanding.

2019 stock option grant

In August 2019, GWRI's GWRI’s Board of directors granted stock options to acquire 250,000 shares of GWRI's GWRI’s common stock to employees throughout the Company. The options were granted with an exercise price of $11.26, the market price of the Company's Company’s common shares on the NASDAQ Global Market at the close of business on August 13, 2019. The options vest over a four-year period, with 25% having vested in August 2020, 25% having vested in August 2021, 25% having vested in August 2022, and 25% vesting in August 2023. The options have a 10-year life. The Company will expense the $0.8 million fair value of the stock option grant ratably over the four-year vesting period. Stock-based compensation expense of $0.2 million $92,000 and $174,000 was recorded for both years the year ended December 31, 2022 December 31, 2023 and 2021. 2022, respectively. As of December 31, 2022 December 31, 2023, 11,251 12,764 options have been exercised and 39,090 77,473 options have been forfeited with 199,659 159,763 options outstanding.

A summary of stock option activity is as follows (in thousands, except option prices and years):

		Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options Outstanding at December 31, 2020		626	$	10.12	7.3	2,683.6
Options Vested at December 31, 2020		348	$	9.72	7.0	1,629.7
Granted		—				
Exercised	$	(87)	$	9.95		
Forfeited	$	(18)	$	11.17		
Options Outstanding at December 31, 2021	$	520	$	10.12	6.6	3,635.4
Options Vested at December 31, 2021	$	420	$	9.84	6.2	3,050.9
Granted	$	—				
Exercised	$	(2)	$	9.61		
Forfeited	$	—				
Options Outstanding at December 31, 2022	$	518	$	10.12	5.4	1,638.4
Options Vested at December 31, 2022	$	468	$	10.00	5.3	1,537.6

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life		Aggregate Intrinsic Value
Options Outstanding at December 31, 2021	520	$	10.12	6.6	$	3,635.4
Options Vested at December 31, 2021	420	$	9.84	6.2	$	3,050.9
Granted	—					
Exercised	(2)	$	9.61			
Forfeited	—					
Cancelled	—					
Options Outstanding at December 31, 2022	518	$	10.12	5.4	$	1,638.4

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Options Vested at December 31, 2022	468	$	10.00	5.3	$	1,537.6
Granted	—					
Exercised	(41)	$	9.47			
Forfeited	(52)	$	10.79			
Cancelled	—					
Options Outstanding at December 31, 2023	426	$	10.10	4.4	$	1,270.1
Options Vested at December 31, 2023	426	$	10.10	4.4	$	1,270.1

Phantom stock/ stock units/Restricted stock units

Restricted stock units compensation

are granted in the first quarter based on the prior year's performance and vest over a three-year period. The units are credited quarterly using the closing price of the Company's common stock on the applicable record date for the respective quarter. The following table details total awards granted and the number of units outstanding as of December 31, 2022 December 31, 2023, along with the amounts paid to holders of the phantom stock units ("PSUs" ("PSUs") and/or restricted stock units ("RSUs" ("RSUs") for the

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years ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands, except unit amounts):

			Amounts Paid For the Year Ended December 31,	
Grant Date	**Units Granted**	**Units Outstanding**	**2022**	**2021**
Q1 2018	30,907	—	$ —	$ 39
Q1 2019	32,190	—	45	180
Q1 2020	22,481	1,824	108	125
Q1 2021(1)	27,403	11,155	132	118
Q1 2022(1)	22,262	16,697	79	—
Total	135,243	29,676	$ 364	$ 462

			Amounts Paid For the Year Ended December 31,	
Grant Date	**Units Granted**	**Units Outstanding**	**2023**	**2022**
Q1 2019	32,190	—	$ —	$ 45
Q1 2020	22,481	—	24	108
Q1 2021(1)	27,403	2,133	106	132
Q1 2022(1)	22,262	8,890	88	79
Q1 2023(1)	30,366	21,824	86	—
Total	134,702	32,847	$ 304	$ 364

(1) Pursuant to the Global Water Resources, Inc. 2020 Omnibus Incentive Plan, effective May 7, 2020, long-term incentive awards are no longer granted in the form of PSUs and are granted as RSUs instead.

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Stock appreciation rights compensation

The following table details the recipients of the stock appreciation rights ("SARs" ("SARs") awards, the grant date, units granted, exercise price, outstanding units as of December 31, 2022 December 31, 2023 and amounts paid during the years ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands, except unit and per unit amounts):

					Amounts Paid For the Year Ended December 31,	
Recipients	**Grant Date**	**Units Granted**	**Exercise Price**	**Units Outstanding**	**2022**	**2021**
Members of Management (1)(2)	Q1 2015	299,000	$ 4.26	65,500	$ 62	$ 269
Members of Management (1)(3)	Q3 2017	103,000	$ 9.40	17,000	—	321
Members of Management (1)(4)	Q1 2018	33,000	$ 8.99	8,250	—	189
Total		735,000		90,750	$ 62	$ 779

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Recipients	Grant Date	Units Granted	Exercise Price	Units Outstanding	Amounts Paid For the Year Ended December 31, 2023	2022
Members of Management (1)(2)	Q1 2015	299,000	$ 4.26	12,500	$ 399	$ 62
Members of Management (1)(3)	Q3 2017	103,000	$ 9.40	—	33	—
Members of Management (1)(4)	Q1 2018	33,000	$ 8.99	8,250	—	—
Total		435,000		20,750	$ 432	$ 62

(1) The SARs vest ratably over 16 quarters from the grant date.

(2) The exercise price was determined to be the fair market value of one share of GWRC GWR Global Water Resources Corp. stock on the grant date of February 11, 2015.

(3) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of August 10, 2017.

(4) The exercise price was determined to be the fair market value of one share of GWRI stock on the grant date of March 12, 2018.

For the twelve months year ended December 31, 2022 and 2021, December 31, 2023, the Company recorded approximately $0.04 $0.2 million and $1.1 million of negative compensation expense related to the PSUs/RSUs and SARs, respectively. SARs. No negative compensation was recorded for the year ended December 31, 2022 . These are liability awards, so when the stock price decreases, cumulative compensation expense is reduced, which can lead to negative compensation in a given period. Based on GWRI's closing share price on December 30, 2022 December 29, 2023 (the last trading date of the year) quarter), deferred compensation expense to be recognized over future periods is estimated for the years ending December 31 as follows (in thousands):

		PSUs	SARs	RSUs
2023		241	—	
2024	2024	99	—	
2024				
2024				
2025				
Total	Total	340	—	
Total				
Total				

Restricted stock compensation awards

On May 7, 2020, the Company's Company's stockholders approved the Global Water Resources, Inc. 2020 Omnibus Incentive Plan which allows restricted stock awards as a form of compensation. A restricted stock award ("RSA" ("RSA") represents the right to receive a share of the Company's Company's common stock. RSAs vest over two to three years, beginning on the date of the grant. The Company assumes that forfeitures will be minimal and recognizes forfeitures as they occur, which results in a reduction in compensation expense. During

The following table details the RSA units granted during the year ended December 31, 2022, 87,000 RSAs were issued. The Company recorded approximately $1.3 million of December 31, 2023 and 2022 as well as the compensation expense related to the grant and partial vesting of RSAs for the year years ended December 31, 2022. During the year ended December 31, 2021, 177,490 RSAs were issued. The Company recorded approximately $1.2 million December 31, 2023 and 2022 (in thousands, except unit amounts):

Table of compensation expense related to the grant and partial vesting of RSAs for the year ended December 31, 2021. Contents

	For the Year Ended December 31, 2023	2022
Compensation expense	$ 972	$ 1,344
RSAs issued	22,500	0

The following table summarizes the RSA transactions for the year ended December 31, 2022 December 31, 2023:

	Number of RSAs	Weighted Average Fair Value
Nonvested RSAs at the beginning of period	225,664	$ 14.89
Granted	87,000	16.53
Vested	69,224	13.83

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Forfeited	50,972		14.02
Nonvested RSAs at the end of period	192,468	$	15.57

	December 31, 2022 Balance	Forfeited	Vested	Granted	December 31, 2023 Balance
Nonvested Number of RSAs	192,468	24,835	91,783	22,500	98,350
Weighted Average Fair Value	$ 15.57	12.22	10.83	10.78	$ 12.35

14. SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information for the years year ended December 31, 2022 December 31, 2023 and 2021 2022 (in thousands):

	For the Year Ended December 31,	
	2023	2022
Supplemental cash flow information:		
Cash paid for interest - net of amounts capitalized	$ 4,686	$ 1,450
Cash paid for income taxes	$ 706	$ 1,589
Non-cash financing and investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 1,747	$ 158
Business acquisition through issuance of contingent consideration payable	$ 1,330	$ —
Finance lease additions	$ 240	$ —

15. ACQUISITIONS

Acquisition of Farmers Water Company

On February 1, 2023, the Company acquired all of the equity of Farmers, an operator of a water utility with service area in Pima County, Arizona, for a total consideration of $7.6 million consisting of $6.2 million in cash plus a growth premium estimated at $1.4 million. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County at the time of acquisition.

The acquisition was accounted for as a business combination under ASC 805, “Business Combinations” and the purchase price was allocated to the acquired utility assets and liabilities based on the acquisition-date fair values. Fair values are determined in accordance with ASC 820 “Fair Value Measurement,” which allows for the characteristics of the acquired assets and liabilities to be considered, particularly restrictions on the use of the asset and liabilities. Regulation is considered both a restriction on the use of the assets and liabilities, as it relates to inclusion in rate base, and a fundamental input to measuring the fair value in a business combination. Substantially all the Company’s operations are subject to the rate-setting authority of the ACC and are accounted for pursuant to accounting guidance for regulated operations. The rate-setting and cost recovery provisions currently in place for the Company’s regulated operations provide revenues derived from costs, including a return on investment of assets and liabilities included in rate base. As such, the fair value of the Company’s assets and liabilities subject to these rate-setting provisions approximates the pre-acquisition carrying values and does not reflect any net valuation adjustments.

Under the terms of the purchase agreement, the Company is obligated to pay the seller a growth premium equal to $1,000 for each new account established in the service area, up to a total aggregate growth premium of $3.5 million. The obligation period of the growth premium commences on the closing date of the acquisition and ends (i) ten years after the first new account for residential purposes is established on land that is, at the time of the closing date of the acquisition, undeveloped or unplatted and owned by the seller within the service area or (ii) ten years after the date of closing if a new account (as described above) has not been established. The assumptions and estimates used in determining the acquisition liability related to the growth premium are consistent with previous acquisitions. As of December 31, 2023, the remaining liability was $1.3 million.

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	For the Year Ended December 31,	
	2022	2021
Supplemental cash flow information:		
Cash paid for interest	$ 11,355	$ 5,226
Cash paid for taxes	$ 1,589	$ 1,613
Non-cash financing and investing activities:		
Capital expenditures included in accounts payable and accrued liabilities	$ 158	$ —

The purchase price allocation of the net assets acquired in the transaction is as follows (in thousands):

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Net assets acquired:		
Cash	$	28
Accounts receivable		72
Property, plant and equipment		10,386
Construction work-in-progress		126
Prepaids		8
Intangibles(1)		7
Other taxes		(35)
Other accrued liabilities		(55)
Developer deposits		(22)
AIAC		(1,481)
CIAC		(7,322)
Total net assets assumed		1,712
Goodwill		5,863
Total purchase price	$	7,575

15.(1) Intangibles consist of franchise contract rights and organization costs. Refer to Note 7 — "Goodwill & Intangible Assets" for additional information regarding the intangibles.

The goodwill reflects the value paid primarily for the long-term potential for connection growth as a result of the Company's increased scale and diversity, opportunities for synergies, and an improved risk profile.

While the Company uses the best available estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, such estimates are inherently uncertain and subject to refinement. Events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results. As a result, during the one-year measurement period from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Any adjustments subsequent to the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, will be recorded in the Company's Consolidated Statements of Operations.

16. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has operating and finance leases for vehicles, office equipment, and office space. Refer to Note 4 – "Leases" for additional information.

On October 16, 2018, the Company completed the acquisition of Red Rock, an operator of a water and a wastewater utility with service areas in the Pima and Pinal counties of Arizona. Under the terms of the purchase agreement, the Company is obligated to pay to the seller a growth premium equal to $750 for each new account established within three specified growth premium areas, commencing in each area on the date of the first meter installation and ending on the earlier of ten years after such first installation date or twenty years from the acquisition date. As of December 31, 2022 December 31, 2023, no meters have been installed and no accounts have been established in any of the three growth premium areas.

Contingencies

From time to time, in the ordinary course of business, the Company may be subject to pending or threatened lawsuits in which claims for monetary damages are asserted. Management is not aware of any legal proceeding of which the ultimate resolution could materially affect our the Company's financial position, results of operations, or cash flows.

16. SUBSEQUENT EVENT

The Company has evaluated subsequent events through March 8, 2023, which is the date the financial statements was available to be issued and also the filing date. There are no other subsequent events that require disclosure, except for the following:

Acquisition of Farmers Water Co.

On February 1, 2023, the Company acquired all of the equity of Farmers Water Co., an operator of a water utility with service area in Pima County, Arizona, for a total consideration of $6.2 million. The acquisition added approximately 3,300 active water service connections and approximately 21.5 square miles of CC&N service area in Sahuarita, Arizona and the surrounding unincorporated area of Pima County. The acquisition was accounted for as a business combination under ASC 805, "Business Combinations." The purchase price will be allocated to the acquired utility assets and liabilities assumed based on the seller's book value at acquisition as the historical cost of these assets and liabilities will be the amount the amounts that will continue to be reflected in customer rates. The initial accounting for the business combination is incomplete at this time due to the close proximity of the acquisition close date to the issuance date of these consolidate financial statements.

Under the terms of the purchase agreement, the Company is obligated to pay the seller a growth premium equal to $1,000 for each new account established in the service area, up to a total aggregate growth premium of $3.5 million. The obligation period of the growth premium commences on the closing date of the acquisition and ends ten years after the first

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new account for residential purposes is established or ten years after the date of closing if a new account has not been established.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, reviewed and evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-K. 10-K pursuant to Rule 13a-15(b) and 15d-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2022 December 31, 2023, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2022 December 31, 2023.

This Form 10-K does not include an attestation report of our registered public accounting firm because, as a smaller reporting company and non-accelerated filer, our registered public accounting firm is not required to issue such an attestation report.

Changes in Internal Control over Financial Reporting

There was no material change in our internal control over financial reporting (as such term is defined under Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fiscal quarter ended December 31, 2022 December 31, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None. Rule 10b5-1 Trading Plans

During the three months ended December 31, 2023, none of our directors or officers (as defined in Exchange Act Rule 16a-1(f)) adopted or terminated a "Rule 10b5–1 trading arrangement" or a "non-Rule 10b5–1 trading arrangement," each as defined in Item 408 of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be included under the following captions in our definitive proxy statement relating to our 2023 2024 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2022 December 31, 2023 (the "Proxy Statement" "Proxy Statement") and is incorporated herein by reference: "Proposal One: Election of Directors", "Executive Officers", "Other Matters—Delinquent Section 16(a) Reports", "Other Matters—Code of Ethical Business Conduct", and "Corporate Governance—Board and Committee Information".

ITEM 11. EXECUTIVE COMPENSATION

We are a smaller reporting company as defined in the Exchange Act and are not required to provide certain disclosures regarding executive compensation required of certain larger public companies.

The information required by this Item 11 will be included under the following captions in our Proxy Statement and is incorporated herein by reference: "Corporate Governance—Compensation of Directors" and "Executive Compensation".

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be included under the following captions in our Proxy Statement and is incorporated herein by reference: “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information”.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be included under the following captions in our Proxy Statement and is incorporated herein by reference: “Corporate Governance—Independence of Directors” and “Certain Relationships and Related Transactions”.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be included under the following caption in our Proxy Statement and is incorporated herein by reference: “Audit Matters—Independent Auditor’s Fees”.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules.

Our consolidated financial statements are included in Part II, Item 8 of this report. All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission SEC are included in the consolidated financial statements, including the notes thereto, or are inapplicable, and therefore have been omitted.

(b) Exhibit

See Exhibit Index.

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EXHIBIT INDEX

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Exhibit Number	Description of Exhibit	Method of Filing
2.1.1	Arrangement Agreement	Incorporated by reference to Exhibit 2.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
2.1.2	Plan of Arrangement	Incorporated by reference to Exhibit 2.1.2 of Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on April 13, 2016
3.1	Second Amended and Restated Certificate of Incorporation of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
3.2	Amended and Restated Bylaws of Global Water Resources, Inc.	Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 4.1 of Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on April 26, 2016
4.2	Form of 4.38% Senior Secured Notes, Series A due on June 15, 2028	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
4.3	Form of 4.58% Senior Secured Notes, Series B due on December 15, 2036	Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
4.4	Description of Company's Company's securities	Incorporated by reference to Exhibit 4.4 to the Company's Company's Annual Report on Form 10-K filed with the SEC on March 5, 2020.
10.1	Settlement Agreement for Stipulated Condemnation with the City of Buckeye, Arizona, dated March 19, 2015	Incorporated by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.2	License Agreement with City of Maricopa, Arizona, dated November 9, 2006	Incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.3	Employment Agreement with Ron Fleming, dated May 4, 2021*	Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.4	Employment Agreement with Michael J. Liebman, dated May 4, 2021*	Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.5	Employment Agreement with Christopher D. Krygier, dated May 4, 2021*	Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.6	Infrastructure Coordination Agreement with Pecan Valley Investments, LLC, dated January 28, 2004	Incorporated by reference to Exhibit 10.5 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.7	Infrastructure Coordination Agreement with JNAN, LLC, dated July 1, 2004	Incorporated by reference to Exhibit 10.6 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.8	Infrastructure Coordination and Finance Agreement with Dana B. Byron and Jamie Maccallum, dated July 21, 2006	Incorporated by reference to Exhibit 10.7 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.9	Infrastructure Coordination and Finance Agreement with The Orchard at Picacho, LLC, dated January 8, 2008	Incorporated by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.10	Infrastructure Coordination, Finance and Option Agreement with Sierra Negra Ranch, LLC, dated July 10, 2006	Incorporated by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.11	Infrastructure Coordination and Finance Agreement, dated December 20, 2007	Incorporated by reference to Exhibit 10.10 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.12.1	GWR Global Water Resources Corp. Stock Option Plan*	Incorporated by reference to Exhibit 10.17.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.12.2	First Amendment to GWR Global Water Resources Corp. Stock Option Plan, dated September 12, 2012*	Incorporated by reference to Exhibit 10.17.2 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016

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Exhibit Number	Description of Exhibit	Method of Filing
10.12.3	Second Amendment to GWR Global Water Resources Corp. Stock Option Plan*	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
10.12.4	Third Amended to Global Water Resources, Inc. Stock Option Plan*	Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on March 13, 2018
10.13.1	Employment Agreement with Joanne Ellsworth, dated November 9, 2021*	Filed herewith
10.13.1	Global Water Resources, Inc. First Amended and Restated Stock Appreciation Rights Plan, dated March 23, 2015*	Incorporated by reference to Exhibit 10.18 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.13.2	Amendment to Global Water Resources, Inc. First Amended and Restated Stock Appreciation Rights Plan*	Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
10.14.1	Global Water Resources, Inc. Deferred Phantom Stock Unit Plan, dated January 1, 2011*	Incorporated by reference to Exhibit 10.19 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.14.2	Amendment to Global Water Resources, Inc. Deferred Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
10.14.3	Second Amendment to Global Water Resources, Inc. Deferred Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on August 8, 2017
10.14.4	Third Amendment to Global Water Resources, Inc. Deferred Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on December 6, 2017
10.14.5	Fourth Amendment to Global Water Resources, Inc. Deferred Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on March 13, 2018
10.15.1	Global Water Resources, Inc. Phantom Stock Unit Plan, dated May 1, 2015*	Incorporated by reference to Exhibit 10.20 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.15.2	Amendment to Global Water Resources, Inc. Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
10.16.1	GWR Global Water Resources Corp. Deferred Phantom Stock Unit Plan, dated January 1, 2011*	Incorporated by reference to Exhibit 10.21 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
10.16.2	Amendment to GWR Global Water Resources Corp. Deferred Phantom Stock Unit Plan*	Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
10.17	Securities Purchase Agreement, dated June 5, 2013	Incorporated by reference to Exhibit 10.22 of Amendment No. 1 to the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on March 17, 2016
10.18	Amended and Restated Agreement, dated September 10, 2019, by and among certain wholly-owned subsidiaries of Global Water Resources, Inc. and Global Water Management, LLC	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on September 12, 2019
10.19.1	Note Purchase Agreement, dated as of May 20, 2016, by and among Global Water Resources, Inc. and certain Initial Purchasers	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 26, 2016
10.19.2	Amendment No. 1 to Note Purchase Agreement, dated December 19, 2017, by and among Global Water Resources, Inc. and the noteholders party thereto	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report Form 8-K filed with the SEC on December 22, 2017
10.19.3	Amendment No. 2 to Note Purchase Agreement dated May 20, 2016 and Amendment No. 1 to Security Agreements dated as of June 24, 2016, dated April 18, 2018, by and among Global Water Resources, Inc., Global Water, LLC, West Maricopa Combine, LLC, U.S. Bank, National Association, as collateral agent, and the noteholders party thereto	Incorporated by reference to Exhibit 10.7 of the Company's Company's Current Report on Form 8-K filed with the SEC on April 25, 2018
10.20	Guaranty Agreement, dated as of June 24, 2016, by Global Water, LLC	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
10.21	Guaranty Agreement, dated as of June 24, 2016, by West Maricopa Combine, Inc.	Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
10.22	Pledge and Security Agreement, dated as of June 24, 2016, by and between Global Water Resources, Inc. and U.S. Bank National Association, as collateral agent	Incorporated by reference to the Exhibit 10.4 to Company's Current Report on Form 8-K filed with the SEC on June 28, 2016

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Exhibit Number	Description of Exhibit	Method of Filing
10.23	Pledge and Security Agreement, dated as of June 24, 2016, by and between Global Water, LLC and U.S. Bank National Association, as collateral agent	Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
10.24	Pledge and Security Agreement, dated as of June 24, 2016, by and between West Maricopa Combine, Inc. and U.S. Bank National Association, as collateral agent	Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on June 28, 2016
10.25	Standstill Agreement, dated March 19, 2021, by and among Global Water Resources, Inc., Levine Investments Limited Partnerships, William S. Levine, Jonathan L. Levine, and Andrew M. Cohn	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on March 24, 2021
10.26	Global Water Resources, Inc. 2018 Stock Option Plan*	Incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 6, 2018
10.27	Global Water Resources, Inc. 2020 Omnibus Incentive Plan*	Incorporated by reference to Exhibit 10.10 of the Company's Company's Quarterly Report on Form 10-Q filed with the SEC on August 6, 2020
10.28	Loan Agreement, dated April 30, 2020, by and between Global Water Resources, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.29	Guaranty Agreement, dated as of April 30, 2020, by Global Water, LLC	Incorporated by reference to Exhibit 10.2 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.30	Guaranty Agreement, dated as of April 30, 2020, by West Maricopa Combine, LLC	Incorporated by reference to Exhibit 10.3 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.31	Pledge and Security Agreement, dated as of April 30, 2020, by and between Global Water Resources, Inc. and U.S. Bank National Association, as collateral agent	Incorporated by reference to Exhibit 10.4 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.32	Pledge and Security Agreement, dated as of April 30, 2020, by and between Global Water LLC and U.S. Bank National Association, as collateral agent	Incorporated by reference to Exhibit 10.5 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.33	Pledge and Security Agreement, dated as of April 30, 2020, by and between West Maricopa Combine, LLC and U.S. Bank National Association, as collateral agent	Incorporated by reference to Exhibit 10.6 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 6, 2020
10.34	Restricted Stock Agreement with Ron L. Fleming, dated May 8, 2020*	Incorporated by reference to Exhibit 10.1 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 8, 2020
10.35	Restricted Stock Agreement with Michael J. Liebman, dated May 8, 2020*	Incorporated by reference to Exhibit 10.2 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 8, 2020
10.36	Form of Restricted Stock Agreement*	Incorporated by reference to Exhibit 10.3 of the Company's Company's Current Report on Form 8-K filed with the SEC on May 8, 2020
10.37	Modification Agreement dated April 30, 2021, by and between Global Water Resources, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.5 of the Company's Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.38	Guaranty Agreement, dated as of April 30, 2021, by Global Water Holdings, Inc.	Incorporated by reference to Exhibit 10.6 of the Company's Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.39	Pledge and Security Agreement, dated as of April 30, 2021, by and between Global Water Holdings, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.7 of the Company's Company's Quarterly Report on Form 10-Q filed with the SEC on May 6, 2021
10.40	Second Modification Agreement, dated July 26, 2022 by and between Global Water Resources, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on July 27, 2022.
10.41	First Amendment to Employment Agreement with Christopher D. Krygier, dated February 6, 2023	Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed July 27, 2022 with the SEC on February 10, 2023.
10.42	Securities Purchase Agreement, dated June 8, 2023, by and between Global Water Resources, Inc. and the purchasers party thereto	Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed with the SEC on June 12, 2023.
10.43	Third Modification Agreement, dated June 28, 2023, by and between Global Water Resources, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on June 30, 2023.
10.44	Note Purchase Agreement, dated October 26, 2023, by and between Global Water Resources, Inc. and Jackson National Life Insurance Company	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on November 1, 2023.
10.45	Fourth Modification Agreement, dated October 26, 2023, by and between Global Water Resources, Inc. and The Northern Trust Company	Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on November 1, 2023.

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Exhibit Number	Description of Exhibit	Method of Filing
10.46	Amendment No. 2 to Security Agreements, dated October 26, 2023, between and among Global Water Resources, Inc., Global Water, LLC, West Maricopa Combine, LLC, Global Water Holdings, Inc., and U.S. Bank Trust Company, National Association, in its capacity as collateral agent	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on November 1, 2023.
10.47	Guaranty Agreement, dated as of January 3, 2024, by Global Water, LLC	Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.48	Guaranty Agreement, dated as of January 3, 2024, by Global Water Holdings, Inc.	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.49	Guaranty Agreement, dated as of January 3, 2024, by West Maricopa Combine, LLC	Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.50	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water Resources, Inc. and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.51	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water, LLC and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.52	Pledge and Security Agreement, dated as of January 3, 2024, by and between Global Water Holdings, Inc. And U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.53	Pledge and Security Agreement, dated as of January 3, 2024, by and between West Maricopa Combine, LLC and U.S. Bank Trust Company, National Association, as collateral agent	Incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed with the SEC on January 4, 2024.
10.54	Employment Agreement with Joanne Ellsworth, dated November 9, 2021*	Incorporated by reference to Exhibit 10.13.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2022.
14.1	Code of Ethics	Incorporated by reference to Exhibit 14.1 of the Company's Current Report on Form 8-K filed with the SEC on May 4, 2016
21.1	Subsidiaries of Global Water Resources, Inc.	Filed herewith
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	Filed herewith
24.1	Power of Attorney	See signature page hereto
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	Furnished herewith

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Exhibit Number	Description of Exhibit	Method of Filing
97	Global Water Resources, Inc. Clawback Policy	Filed herewith
99.1	Arizona Corporation Commission Decision No. 74364	Incorporated by reference to Exhibit 99.1 of the Company's Registration Statement on Form S-1 (File No. 333-209025) filed with the SEC on January 19, 2016
99.199.2	Arizona Corporation Commission Decision No. 78644	Incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed with the SEC on July 14, 2022 Filed herewith
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Filed herewith
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101. PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith

* Management contract or compensatory plan or arrangement.

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ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Global Water Resources, Inc.

Date: March 8, 2023 March 6, 2024	By:	/s/ Ron L. Fleming
		Ron L. Fleming
		President, Chief Executive Officer and Chairman of the Board

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Ron L. Fleming and Michael J. Liebman, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ron L. Fleming	President, Chief Executive Officer, and Chairman of the Board	March 8, 2023 6, 2024
Ron L. Fleming	(Principal Executive Officer)	
/s/ Michael J. Liebman	Chief Financial Officer and Corporate Secretary	March 8, 2023 6, 2024
Michael J. Liebman	(Principal Financial and Accounting Officer)	
/s/ Jonathan L. Levine	Director	March 8, 2023 6, 2024
Jonathan L. Levine		
/s/ Richard M. Alexander	Lead Independent Director	March 8, 2023 6, 2024
Richard M. Alexander		
/s/ Andrew M. Cohn	Director	March 8, 2023 6, 2024
Andrew M. Cohn		
/s/ Debra Coy	Director	March 8, 2023 6, 2024
Debra Coy		
/s/ Brett Huckelbridge	Director	March 8, 2023 6, 2024
Brett Huckelbridge		
/s/ David Rousseau	Director	March 8, 2023 6, 2024
David Rousseau		

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Exhibit 21.1

List of Subsidiaries

The registrant's subsidiaries are listed below, omitting certain entities that have de minimis activity, if considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2023.

	State of Jurisdiction
Global Water Resources, Inc.	Delaware
Global Water, LLC	Delaware
West Maricopa Combine, LLC	Arizona
Global Water Holdings, Inc.	Arizona
Global Water - Belmont Water Company, Inc.	Arizona
Global Water - CP Water Company, Inc.	Arizona
Global Water - Farmers Water Company, Inc.	Arizona
Global Water - Francesca Water Company, Inc.	Arizona
Global Water - Hassayampa Utilities Company, Inc.	Arizona
Global Water - Las Quintas Serenas Water Company, Inc.	Arizona
Global Water - Lyn Lee Water Company, Inc.	Arizona
Global Water - Mirabell Water Company, Inc.	Arizona
Global Water - Palo Verde Utilities Company, Inc.	Arizona
Global Water - Red Rock Water Company, Inc.	Arizona
Global Water - Rincon Water Company, Inc.	Arizona
Global Water - Santa Cruz Water Company, Inc.	Arizona
Global Water - Tortolita Water Company, Inc.	Arizona
Global Water - Turner Ranches Irrigation, Inc.	Arizona

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-273896 on Form S-3 of our report dated March 6, 2024, relating to the financial statements of Global Water Resources, Inc. and subsidiaries, appearing in this Annual Report on Form 10-K for the year ended December 31, 2023.

/S/ DELOITTE & TOUCHE LLP

Tempe, Arizona
March 6, 2024

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Ron L. Fleming, certify that:

1. I have reviewed this Annual Quarterly Report on Form 10-K 10-Q of Global Water Resources, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2023 March 6, 2024

By: /s/ Ron L. Fleming

Ron L. Fleming

President, Chief Executive Officer and Chairman of the Board

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael J. Liebman, certify that:

1. I have reviewed this Annual Quarterly Report on Form 10-K 10-Q of Global Water Resources, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2023 March 6, 2024

By: /s/ Michael J. Liebman

Michael J. Liebman

Chief Financial Officer and Corporate Secretary

EXHIBIT 32.1

Certification of Chief Executive Officer and Chief Financial Officer

PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Quarterly Report on Form 10-K 10-Q of Global Water Resources, Inc. (the "Company") for the year quarter ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Ron L. Fleming, as Chief Executive Officer of the Company, and Michael J. Liebman, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Ron L. Fleming

Ron L. Fleming

President, Chief Executive Officer and Chairman of the Board

Date: March 8, 2023 March 6, 2024

By: /s/ Michael J. Liebman

Michael J. Liebman

Chief Financial Officer and Corporate Secretary

Date: March 8, 2023 March 6, 2024

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GLOBAL WATER RESOURCES, INC.
CLAWBACK POLICY

I. Introduction.The Board of Directors (the "Board") of Global Water Resources, Inc. (the "Company") hereby adopts this Policy (the "Policy") to provide for the recovery of erroneously awarded incentive-based compensation from certain executive officers. This Policy shall be effective as of December 1, 2023 (the "Effective Date") and shall supersede and replace any prior similar clawback or recoupment policies adopted by the Company. All capitalized terms used but not otherwise defined herein shall have the meanings set forth in Section X (Definitions) below.

II. Administration. The Board, or its designee, shall have sole and express authority to interpret and administer this Policy. All determinations made by the Board, or its designee, shall be final and binding on all affected individuals. This Policy is intended to comply with Section 10D of the Securities Exchange Act of 1934 (the "Exchange Act"), the rules of the Securities and Exchange Commission ("SEC"), and Section 5608 of the Nasdaq Stock Market Rules (the "Nasdaq Clawback Rules") and this Policy shall be interpreted, to the greatest extent possible, consistent with such intent. To the extent that any provision of this Policy is inconsistent with applicable law or the attendant regulations, in each case as then in effect, the Board, or its designee, shall administer this Policy to comply with the law or regulations then in effect.

III. Recovery of Erroneously Awarded Compensation. The Company will recover reasonably promptly any Erroneously Awarded Compensation received in the event of an Accounting Restatement, in accordance with applicable laws and regulations, the Nasdaq Clawback Rules, and the following terms:

a. **Amount of Erroneously Awarded Compensation**. Following an Accounting Restatement, the Board, or its designee, shall determine the amount of Erroneously Awarded Compensation received by each Executive Officer and promptly notify each Executive Officer with a notice specifying the amount of any Erroneously Awarded Compensation together with a demand for repayment or return of such compensation. The amount of Erroneously Awarded Compensation subject to recovery under this Policy may be reduced to account for an amount that the Company previously recovered by the Company from the Executive Officer, pursuant to another recovery obligation, for such Erroneously Awarded Compensation.

   Unless the Board, or its designee, provides otherwise, this Policy shall only apply with respect to Incentive Compensation received by an Executive Officer:

   i. On or after October 2, 2023, which is the effective date of the Nasdaq Clawback Rules;

   ii. After beginning service as an Executive Officer;

   iii. Who served as an Executive Officer at any time during the performance period related to the Incentive Compensation;

   iv. While the Company has a class of securities listed on a national securities exchange or a national securities association; and

   v. During the applicable Clawback Period.

b. **Method of Recovery**. The Board, or its designee, shall determine, in its sole discretion, the appropriate method of recovering Erroneously Awarded Compensation based on the applicable facts and circumstances. Except as set forth in Section IV (Exception to Full Recovery) below, the Company may not accept an amount less than the total amount of Erroneously Awarded Compensation. If an Executive Officer fails to reasonably promptly repay all Erroneously Awarded Compensation to the Company, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer.

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IV. **Exception to Full Recovery**. Notwithstanding anything herein to the contrary, the Company shall not be required to recover any Erroneously Awarded Compensation if the majority of independent directors of the Board, or a committee of independent directors of the Board, determines that recovery would be impracticable **and** at least one of the following conditions are met:

a. The direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered **and** the Company has made a reasonable attempt to recover the Erroneously Awarded Compensation, documented such attempt(s), **and** provided such documentation to Nasdaq;

b. Recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation and a copy of the opinion is provided to Nasdaq; or

c. Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to Company employees, to fail to meet the requirements of Sections 401(a)(13) or 411(a) of the Internal Revenue Code of 1986, as amended, and any regulations thereunder.

V. **Disclosure Requirements**. The Company will comply with all applicable securities laws, rules and regulations, including the disclosure requirements regarding executive compensation as provided by the SEC and Nasdaq Clawback Rules. The Company may also, but is not obligated to, provide additional disclosure beyond that required by applicable law when the Company deems it to be appropriate and determines that such disclosure is in the best interests of the Company and its stockholders. This Policy shall be filed as an exhibit to the Company's Annual Report on Form 10-K.

VI. **No Indemnification**. The Company shall not insure or indemnify any Executive Officer against the loss of any Erroneously Awarded Compensation recovered pursuant to the terms of this Policy.

VII. **Amendment; Termination**. The Board may, in its sole discretion, amend this Policy from time to time and shall amend this Policy as it deems necessary or appropriate. The Board may terminate this Policy at any time. Notwithstanding the foregoing, no such amendment or termination of this Policy shall take effect if the amendment or termination would cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

VIII. **Other Recovery Rights**. The Board intends that this Policy be applied to the fullest extent of the law. The Board may require that any employment agreement, equity award agreement, or similar agreement or contract, as a condition to the grant or receipt of any benefit thereunder, require an Executive Officer to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy, in any plan, program, or agreement and any other legal remedies available to the Company.

IX. **Successors**. This Policy shall be binding and enforceable against all Executive Officers and their beneficiaries, heirs, executors, administrators or other legal representatives.

X. **Definitions**

a. **"Accounting Restatement"** means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

b. **"Accounting Restatement Date"** means the earlier to occur of:

i. the date the Board, a committee of the Board, or Company officers conclude, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement; or

ii. the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.

c. **"Clawback Period"** means the three completed fiscal years immediately preceding an Accounting Restatement Date and any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years; provided, however, that a transition period of nine to 12 months will be deemed a completed fiscal year.

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d. **“Erroneously Awarded Compensation”** means the amount of Incentive Compensation received during the Clawback Period that exceeds the amount of Incentive Compensation that otherwise would have been received had it been determined based on the restated amounts (and such amount must be calculated without regard to any taxes paid). If the Incentive Compensation is based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement, then:

   i. the amount shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive Compensation was received; and

   ii. the Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq.

   For purposes of this Policy, Incentive Compensation received means the actual or deemed receipt of the Incentive Compensation. Incentive Compensation is deemed received in the Company’s fiscal period during which the Financial Reporting Measure specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period.

e. **“Executive Officer”** means each individual who is currently or was previously designated as an “officer” of the Company within the meaning of Section 16 of the Securities Exchange Act of 1934 and Rule 16a-1 promulgated thereunder. For the avoidance of doubt, the identification of an executive officer for purposes of this Policy shall include each executive officer who is or was identified by the Company pursuant to Item 401(b) of Regulation S-K or Item 6.A of Form 20-F, as applicable, as well as the Company’s principal financial officer and principal accounting officer.

f. **“Financial Reporting Measure”** means measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are also Financial Reporting Measures. A Financial Reporting Measure need not be presented within the financial statements or included in a filing with the SEC.

g. **“Incentive Compensation”** means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

h. **“Nasdaq”** means The Nasdaq Stock Market.

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2 3 DOCKET NOS. SW-20445A-20-0214, et al. BY THE COMMISSION: INTRODUCTION This matter concerns the rate applications of 11 water and wastewater utilities: Global Water - 4 Palo Verde Utilities Company, Inc. ("Palo Verde"), Global Water - Santa Cruz Water Company, 5 Global Water - Santa Cruz Water Company, Inc. ("Santa Cruz"), Global Water - Red Rock Utilities 6 Company, Inc. ("Red Rock"), Global Water - Northern Scottsdale Water Company, Inc. ("NSWC"), 7 Global Water - Turner Ranches Irrigation, Inc. ("Turner Ranches"), Global Water - Eagletail Water 8 Company, Inc. ("Eagletail"), Global Water - Greater Tonopah Water Company, Inc. ("GTWC"), 9 Global Water - Balterra Utilities Company, Inc. ("Balterra"), Global Water - Hassayampa Utilities 10 Company, Inc. ("Hassayampa"), Global Water - Picacho Cove Utilities Company, Inc. ("Picacho 11 Utilities"), and Global Water - Picacho Cove Water Company, Inc. ("Picacho Water") (collectively, 12 the "Global Water Utilities" or "Applicants"). The last permanent rates for Santa Cruz, Palo Verde, 13 NSWC, and GTWC were authorized by the Arizona Corporation Commission ("Commission") in 14 Decision No. 74364 (February 26, 2014); Red Rock's rates were authorized by the Commission in 15 Decision No. 75163 (July 15, 2015); Eagletai I's rates were authorized in Decision No. 75829 I 6 (December 5, 2016); Turner Ranches' rates were approved in Decision No. 75746 (September 19, 17 2016); Picacho Water and Picacho Utilities' rates were established in Decision No. 70312 (April 24, 18 2008); Balterra's rates were approved in Decision No. 68742 (June 5, 2006); and Hassayampa's rates 19 were established in Decision No. 68922 (August 29, 2006). 20 In Decision No. 77168 (April 26, 2019), as modified by Decision Nos. 77624 and 77625 (May 21 14, 2020), the Commission directed the Global Water Utilities to file a rate case by August 28, 2020, 22 using a test year ending December 31 , 2019. On August 28, 2020, Applicants filed separate 23 applications for each of the Global Water Utilities, in compliance with Decision No. 77168. 24 I. PROCEDURAL HISTORY 25 On July 9, 2020, Palo Verde filed a notice with the Commission indicating its intent to proceed 26 with a rate case in Docket No. SW-20445A-20-0214. On the same date, notices of intent to proceed 27 with a rate case were filed by Red Rock in Docket No. WS-04245A-20-0215, NSWC in Docket No. 28 9 DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. W-03720A-20-0216, Turner Ranches in Docket No. W-01677A-20-0217, Balterra in Docket No. SW- 2 20403A-20-0218, Eagletail in Docket No. W-03936A-20-0219, Hassayampa in Docket No. SW- 3 20422A-20-0220, Picacho Utilities in Docket No. SW-20494A-20-0221, GTWC in Docket No. W- 4 02450A-20-0222, Santa Cruz in Docket No. W-20446A-20-0223, and Picacho Water in Docket No. 5 W-20495A-20-0224. 6 On August 28, 2020, the Global Water Utilities filed a Rate Application in each of the above 7 captioned dockets. 8 On September 25, 2020, Staff filed a Sufficiency Letter in each of the above captioned matters 9 stating that each rate application had met the sufficiency requirements as outlined in Arizona 10 Administrative Code ("A.AC.") R 14-2-103. Pursuant to Staff's sufficiency determination, Palo Verde 11 and Santa Cruz were classified as Class A utilities; Red Rock was classified as a Class C utility; GTWC 12 and Turner Ranches were classified as Class D utilities; and Balterra, Eagletail, Hassayampa, NSWC, 13 Picacho Utilities, and Picacho Water were classified as Class E utilities. 14 On October 23, 2020, by Procedural Order, the above captioned matters were consolidated, a 15 hearing was scheduled to commence May 24, 2021 , and other procedural deadlines were established. 16 On January 15, 2021, the Applicants fi led an Unopposed Motion for Extension of Hearing and 17 Procedural Dates. On that same date, the Global Water Utilities filed Notice of Filing Affidavit of 18 Mailing Public Notice to All Customers of the Global Water Utilities. 19 On January 22, 2021, a Procedural Order was issued rescheduling the hearing to commence on 20 August 9, 2021. 21 On April 23, 2021, Chairwoman Lea Marquez Peterson ("Chairwoman Marquez Peterson") 22 filed correspondence. 23 On May 18, 2021, the Global Water Utilities filed a response to Chairwoman Marquez 24 Peterson's correspondence. 25 On July 8, 2021, Staff filed a Request for Extension of Time to file surrebuttal testimony by 26 one week, until July 19, 2021, and made a companion request to extend Global Water Utilities' 27 rejoinder testimony filing deadline by one week, until July 29, 2021. 28 On July 9, 2021, by Procedural Order Staff's Request for Extension of Time was granted. DECISION NO. 78644 - ---- DOCKET NOS. SW-20445A-20-0214, et al. On the same date, by separate Procedural Order a virtual format for the hearing scheduled to 2 begin on August 9, 2021, was established. 3 On July 16, 2021, the Applicants filed an Unopposed Motion for Extension of Time to file 4 parties' surrebuttal testimony from July 19, 2021, until July 21, 2021, and to file its rejoinder testimony 5 from July 29, 2021, until August 2, 2021. 6 On July 16, 2021 , by Procedural Order, the Global Water Utilities' Unopposed Motion for 7 Extension of Time was granted and procedural deadlines were established. 8 On July 21 , 2021, RUCO filed Notice of Filing Surrebuttal Testimonies. 9 On July 21 , 2021, Staff filed Notice of Filing Surrebuttal Testimony. 10 On July 22, 2021, the telephonic pre-hearing conference was held as scheduled. The Global 11 Water Utilities, RUCO, and Staff were represented through counsel. During the proceeding, various 12 procedural matters were discussed including the scheduling of witnesses. 13 On July 27, 2021, Staff filed a Notice of Errata. 14 On July 30, 2021, the Applicants filed a Motion for Discovery Procedural Conference to discuss 15 a discovery dispute stemming from outstanding discovery requests made to Staff concerning 16 consultants to which Staff generally objected on relevance grounds. 17 On the same date, by Procedural Order, the Global Water Utilities' Request for a Procedural 18 Conference was granted and a telephonic procedural conference was scheduled for August 2, 2021. 19 On August 2, 2021, the telephonic procedural conference was held as scheduled. 20 On the same date, the Applicants filed a Notice of Filing Supplemental Citation of Legal 21 Authority. 22 On August 3, 2021 , the Applicants filed their Rejoinder Testimony. 23 On the same date, the Global Water Utilities filed a Notice of Filing Witness Summaries of the 24 Global Water Utilities' Witnesses. 25 On August 3, 2021, Staff filed Notice of Filing Witness Summaries. 26 On August 4, 2021, RUCO filed an Objection to Rejoinder Testimony of Joanne Ellsworth. 27 28 On the same date, Staff filed Notice of Filing List of Exhibits. On August 10, 2021, the Global Water Utilities filed a List of Hearing Exhibits. 11 DECISION NO. _47.o8G<64 ..... 4+---- DOCKET NOS. SW-20445A-20-0214, et al. On August 5, 2021 , the Global Water Utilities filed a Notice of Filing Joint Issues Matrix. 2 On August 6, 2021, RUCO filed a Notice of Filing Supplemental Surrebuttal Testimony of 3 Jeffrey Michlik. 4 On the same date, RUCO filed a Notice of Filing List of Witness and Exhibits and Filing 5 Confidential Testimonies Under Seal. 6 On August 6, 2021 , RUCO filed Exhibit RUCO-12. 7 Also on August 6, 2021 , the Applicants filed a Supplemental List of Hearing Exhibits. 8 On August 9, 2021 , the hearing commenced as scheduled. 9 Also, on August 9, 2021, the Global Water Utilities filed a Second Supplemental List of Hearing 10 Exhibits. 11 On the same date, RUCO filed a Notice of Filing List of Exhibits. 12 13 14 15 On August 10, 2021, the Applicants filed a Notice of Filing Opening Statement Presentation. Also on August 10, 2021 , RUCO filed a Notice of Filing List of Exhibits. On the same date, Staff filed a Notice of Filing List of Exhibits. Also on the same date, the Global Water Utilities filed a Notice of Errata, providing notice of 16 an error in the Rejoinder Testimony of Jon Corwin. 17 On August 11 , 2021 , the Global Water Utilities fi led a Third Supplemental List of Hearing 18 Exhibits. 19 On August 12, 2021 , Staff filed a Notice of Filing Updated Exhibit List and Supplemental 20 Exhibit. 21 On August 13, 2021, the Applicants filed a Fourth Supplemental List of Hearing Exhibits. 22 On August 13, 2021, Staff filed a Notice of Errata regarding Frank M. Smaila Direct Testimony 23 Exhibit S-6. 24 On August 18, 2021 , the Global Water Utilities filed a Notice of Withdrawal of the Proposed 25 Voluntary Water Availability Fee. 26 On August 19, 2021 , the Applicants filed a Fifth Supplemental List of Hearing Exhibits. 27 28 On the same date, RUCO filed a Notice of Filing List of Exhibits. On August 20, 2021 , RUCO filed a Notice of Errata regarding the List of Exhibits filed on 12 DECISION NO. 78644

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August 19, 2021. 2 On August 20, 2021, the Global Water Utilities filed a Sixth Supplemental List of Hearing 3 Exhibits. 4 On August 20, 2021 , the Global Water Utilities filed a Notice of Filing Additional Schedules 5 Requested by the Administrative Law Judge. 6 On August 20, 2021 , Staff filed a Memorandum clarifying its revised recommendation 7 concerning acquisition premiums. 8 On August 23, 2021, Staff filed a Notice of Filing List of Exhibits. 9 On August 25, 2021, the Global Water Utilities filed a Seventh Supplemental List of Hearing 10 Exhibits. 11 On August 26, 2021, RUCO filed a Notice of Filing List of Exhibits. 12 On August 26, 2021, , the Global Water Utilities filed an Eighth Supplemental List of Hearing 13 Exhibits. 14 On August 27, 2021, the Applicants filed a Ninth Supplemental List of Hearing Exhibits. 15 On August 27, 2021, Staff filed Notice of Filing List of Exhibits. 16 On August 31, 2021, RUCO filed a Response to Chairwoman Marquez Peterson regarding Ex 17 Parte Communication. 18 On September 1, 2021 , the Global Water Utilities filed its Tenth Supplemental List of Hearing 19 Exhibits. 20 On September 2, 2021, the Global Water Utilities filed its Eleventh Supplemental List of 21 Hearing Exhibits. 22 On September 3, 2021 , the Global Water Utilities filed its Twelfth Supplemental List of Hearing 23 Exhibits. 24 Also on September 3, 2021 , the evidentiary hearing concluded. A briefing schedule was 25 established requiring simultaneous initial briefs to be fi led by October 6, 2021 , and simultaneous reply 26 briefs to be filed by October 22, 2021. 27 On that same date, Staff filed a Notice of Filing Late Filed Exhibits. 28 On September 7, 2021, by Procedural Order, the briefing schedule was memorial ized and other 13 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. procedural deadlines were established. 2 On September 13, 2021, the Applicants filed an Unopposed Motion to File Final Schedules on 3 October 7, 2021. 4 On September 14, 2021, by Procedural Order, the Global Water Utilities' request to file final 5 schedules on October 7, 2021, was granted. 6 7 On October 6, 2021, closing briefs were filed by the Global Water Utilities1, RUCO2, and Staff. On October 7, 2021 , the Global Water Utilities filed Notice of Filing Applicants' Final 8 Standalone Schedules and Notice of Filing Applicants' Proposed Consolidated Final Schedules. 9 Also on October 7, 2021, Staff filed Staff's Notice of Filing Late Filed Exhibit including Exhibit 10 S-21, Staffs final rate schedules. 11 12 On October 22, 2021, reply briefs were filed by the Applicants3, RUCO, and Staff. Between December 18, 2020, and October 22, 2021, approximately 15 public comments were 13 received. Twelve of the public comments4 generally expressed disagreement with the applications and 14 cited reasons including bills under existing rates are already high and that bills are typically higher than 15 municipal bills for water service within metropolitan Phoerux. Three of the public comments, including 16 one from Ricky Horst, manager of the City of Maricopa on behalf of the City of Maricopa expressed 17 support for the applications and favorably noted the Global Water Utilities' proposed phase-in of the 18 rate increase and proposed rate consolidation. 19 Telephonic public comment proceedings were held on April 19, 2021 , May 8, 2021, and May 20 24, 2021. During the April 19 public comment proceeding, one speaker, Ricky Horst, Manager of the 21 City of Maricopa provided comment supporting the Global Water Utilities' applications. No person 22 came forward to provide public comment during either the May 8 or May 24 public comment 23 proceedings. 24 25 26 1 The Global Water Utilities' brief was filed after hours on October 6, 2021 , and docketed on October 7, 202 1. 2 RUCO also attached final schedules to its Closing Brief. 3 The Global Water Utilities' reply brief was received after hours on October 22, 2021 , and docketed on October 25, 2021. 27 4 Comments in opposition were received from Joseph Williams, Carmen Deese, Hattie Sturgill, Nicole Covington, Kenneth 28 Phelps, Samantha Dittman, Robert Kolvick, Scott Holmes, David Mayer, Gary Lowe, Leonard Gonchar, and Robert Serrano. 14 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 DISCUSSION 2 IL 3 BACKGROUND The Global Water Utilities are wholly owned by Global Water, LLC, which in tum is wholly 4 owned by Global Water Resources, Inc. ("GWRI"), a water resource management company that is the 5 ultimate parent of more than a dozen regulated water, wastewater, and recycled water utilities located 6 primarily in Maricopa, Pima, and Pinal counties. GWRI is publicly traded on the NASDAQ and the 7 Toronto Stock Exchange. 8 9 10 A. Summary of Water and Wastewater Systems The Global Water Utilities' water and wastewater systems are as follows: 1. Santa Cruz 11 Santa Cruz is a class A public service corporation providing water utility service to 12 approximately 21,565 connections during the test year. Santa Cruz is composed of two active water 13 systems, and a third inactive water system. The Santa Cruz water system serves in and around the City 14 of Maricopa. Santa Cruz employs seven potable water wells capable of producing a cumulative I 2,600 15 16 17 18 19 gallons per minute ("GPM") and six non-potable weils. The system utilizes a blending plan with a capacity of 13,200 GPM and utilizes two chlorination systems and a Supervisory Control and Data Acquisition ("SCADA") system. The system has five storage tanks providing a total capacity of approximately 6.5 million gallons, and five 10,000-gallon pressure tanks. The system also has various booster pumps, fire hydrants, backup generators and a distribution system. 20 During the test year, Santa Cruz's Santa Cruz water system sold 2,208,575,555 gallons and had 21 another 20,837,589 gallons accounted for nonrevenue uses. Compared against 2,395,902,000 gallons 22 23 24 25 26 27 28 pumped, the level of accountable water usage indicates a 6.95 percent water loss rate. Santa Cruz's CP Water system sold 1,039,300 gallons compared to 1,110,956 purchased from Arizona Water Company for an approximate 6.29% water loss rate. Staff projects that the Santa Cruz system could reasonably be expected to grow to 24,800 connections by 2022. Staff believes that the current system capacity provides adequate water supply to serve the existing customer base and reasonable growth. 15 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-02 l 4, et al. The CP Water system has no wells, treatment, storage tanks, pressure tanks, booster pumps, or 2 fire hydrants. The system has a two-inch interconnection by which it receives potable water supplied 3 from Arizona Water Company's Pinal Valley water system with a capacity of approximately 160 GPM. 4 The CP Water system serves approximately 15 connections. Staffs analysis indicates that the 160 5 GPM capacity serving the CP Water system is sufficient to serve potentially over 500 additional 6 customers and on that basis Staff concludes the CP Water system has adequate capacity to serve 7 existing customers and reasonable growth. 8 Although currently not serving any customers, the Southwest water system consists of one 9 potable water well capable of producing approximately 2,100 GPM, a chlorination system, a storage 10 tank with total capacity of 2,500,000 gallons, a single l 0,000-gallon pressure tank, two booster pumps 11 and a distribution system although it although it was not serving any customers during the Test Year. 5 12 The Southwest water system is the result of Santa Cruz's request to extend its Certificate of 13 Convenience and Necessity ("CC&N") to serve a master plaimed community which was approved in 14 Decision No. 68448 (February 2, 2006). A downturn in the economy stalled development of the master 15 planned community and thus no customers have materialized although facilities have been constructed 16 to provide service. The water facilities comprising the Southwest water system, known as the Terrazo 17 Water Distribution Plant are a portion of the $33 million investment made by the Global Water Utilities 18 to construct the facilities described as the Southwest Treatment Plant and discussed further below. 19 2. Palo Verde 20 Palo Verde is a Class A public service corporation delivering wastewater utility service to 21 approximately 21,300 customers in and around the City of Maricopa. 6 Palo Verde is divided between 22 the Palo Verde Campus 1 and Palo Verde Campus 2 wastewater systems. a. Palo Verde Campus 1 23 24 Palo Verde Campus 1, has a treatment plant with a wastewater treatment capacity of 5,000,000 25 gallons per day ("GPD") and produces Class A+ quality recycled water that is used by lakes throughout 26 Maricopa for irrigation and other purposes. Campus 1 was designed with a regional scope and therefore 27 5 Ex. S-6 at 20. 28 6 Ex. S-6 at 100, 106. 16 DECISION NO. _7_8_64_4__

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DOCKET NOS. SW-20445A-20-0214, et al. maximized the utilization of gravity mains. However, Palo Verde's Campus I wastewater system also 2 includes seven lift stations, and 9.8 miles of force mains, much of which was introduced by the 3 acquisition of the 387 Domestic Water Improvement District ("387 DWID") in 2005, which was 4 merged into Palo Verde's Campus 1 wastewater system. 5 Campus 1 also includes a generator with each of the seven lift stations in its collection system, 6 an eighth lift station at the treatment plant, headworks, anoxic and aerobic treatment, clarifiers, media 7 filters, ultraviolet disinfection, recycled water storage lagoons, a recycled water pump station, a 8 SCAD A system and a collection system with approximately 201 miles of gravity mains. 9 Campus 1 experienced its peak day flow in February of the test year when it recorded single- 10 day flow of 3,844,000 GPD. Based on Staffs calculations, Campus 1 is using approximately 76.8 11 percent of its permitted capacity. 12 During the test year, Campus 1 provided service to approximately 21,300 customer 13 connections. Based on growth projections extrapolated from historical growth data, Staff states that 14 the customer base could conceivably reach 22,500 connections by 2022. Staffs analysis indicates that 15 the Campus 1 system's treatment capacity of 5 million GPD and design capacity of 12 million GPD is 16 adequate to serve its customer base and reasonable growth. 1 7 b. Palo Verde Campus 2 18 Palo Verde's Campus 2 wastewater system includes the Southwest Treatment Plant located at 19 the southwest corner of Peters & Nall Road and Green Road in the City of Maricopa. The Campus 2 20 wastewater system currently serves no customers as the new master planned development that the plant 21 was intended to serve halted all construction due to the economic downturn in the mid-2000's. The 22 economic downturn occurred abruptly after the Southwest Treatment Plant was completed. 23 The wastewater system is comprised ofheadworks, sequential batch reactors, post-equalization, 24 media filters, ultraviolet disinfection, and a recycled water pump. Based on ADEQ permits, the 25 Southwest Treatment Plant is authorized for 1 million GPD in treatment capacity and it is designed for 26 an ultimate capacity of 9 million GPO. To avoid allowing plant to deteriorate in place, Palo Verde 27 opted to remove some assets from Campus 2 to be used in Campus 1. 28 According to Palo Verde, approximately 20,000 to 30,000 GPD of wastewater flow, the 17 DECISION NO. 78S44 DOCKET NOS. SW-20445A-20-0214, et al. equivalent to 200 to 250 homes, is necessary to operate the Southwest Treatment Plant. Until the 2 necessary flows materialize, the Campus 2 system will employ a vault and haul process whereby 3 wastewater flows are collected through a lift station, vaulted to a truck and delivered to Campus 1 for 4 treatment. Campus 2's ADEQ pennitting authorizes up to 50,000 GPO, or approximately 350 homes. 5 worth of wastewater flows for vaulting and hauling. When adequate flows are generated within 6 Campus 2's wastewater system, new equipment to replace equipment removed and being utilized in 7 Campus I will be necessary to bring Campus 2 into full operation. 8 Palo Verde projects the first customer homes to receive service will begin within the Amarillo 9 Creek development in July 2022, to be followed by Palomino Ranch in mid-2023. New customers are 10 also projected to initiate service within the Midway development in the second quarter of 2024, and 11 Cactus Springs in the fourth quarter of 2024. 12 3. Red Rock 13 Red Rock is a Class C public service corporation providing water

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and wastewater service to 14 approximately 900 water connections and 900 wastewater connections in the test year. Red Rock is 15 comprised of two separate systems, one active with customers and the other inactive. The active system 16 is located in Pinal County, approximately 30 miles n01thwest of Tucson, just west of Interstate- I 0. 7 17 Red Rock also includes a service territory in Pima County, south and east of Tucson, just east of 18 Interstate-19, that is not currently serving customers and has no plant. 19 a. Water System 20 Red Rock's water system includes two groundwater wells with a combined capacity of 21 approximately 1,500 GPM, a Nitrate Treatment Facility ("NTF") that utilizes a blending plan for 1,500 22 GPM, a chlorination system, a SCADA system, a single 900,000-gallon storage tank, two 5,000-gallon 23 pressure tanks, booster pumps with a combined output of approximately 1,500 GPM, 85 fire hydrants. 24 a 350 kW generator, and a distribution system. 25 One of Red Rock's wells, Well No. 1, produces water that exceeds maximum contaminant 26 levels for nitrates, whereas Well No. 2 produces water that is well below the maximum contaminant 27 28 7 Ex. S-6 at 15. 18 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 level. To address the nitrate contamination issue, the Red Rock water system blends water from both 2 wells, which requires Well No. 2 to be in continuous operation. The NTF also treats the water produced 3 from Well No. 1 but it is an expensive process. The blending process alone is not sufficient to meet 4 the needs of the distribution system at all times and thus the blending plan is supplemented by treatment 5 from the NTF. To improve economy of operation, Red Rock has implemented screening of segments 6 of Well No. 1, cordoning off elevations within the aquifer with high nitrate contamination to lower 7 nitrate levels in pumped water which has resulted in nitrate levels below the maximum contaminant 8 level independent of blending processes or NTF treatment. 9 During the test year, Red Rock sold 55,638,175 gallons of water and could account fo r a further 10 3,150,950 gallons expended for other purposes. Compared to 59,619,000 gallons pumped, the level of 11 Red Rock's water loss is approximately 1.39%. 12 Based on the Red Rock water system's 1,500 GPM well capacity and 900,000 gallons of 13 storage, Staff concludes the system has adequate capacity to serve its existing customer base and 14 reasonable growth which Staff projects could reach 1,030 customers by 2022. 15 b. Wastewater System 16 Red Rock's wastewater system includes a lift station, media filters, ultraviolet disinfection, 17 sequential batch reactors, a recycled water storage lagoon, a SCADA system, and approximately 13 18 miles of collection mains that served approximately 880 customer connections during the test year. 19 Red Rock's wastewater system has a treatment and design capacity of 300,000 GPM. The wastewater 20 system experienced 159,036 GPO in flows during its peak day flow. Based on Staffs calculation of 21 peak day flows, Red Rock's water reclamation faci lity is presently using 53 percent of its permitted 22 capacity. 23 Staff projects a reasonable level of growth in the future could conceivably increase Red Rock's 24 wastewater customer base to 1,000 connections by 2022. Based on the system's 53 percent utilization 25 of its 300,000 GPM of capacity, Staff concludes that Red Rock's wastewater system is adequate to 26 serve current customers and reasonable growth. 27 28 19 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 4. GTWC 2 GTWC is a Class D public service corporation delivering water utility service via eight separate 3 water systems to approximately 400 total connections in a rural area located approximately 50 miles 4 west of Phoenix, along Interstate 10. 8 5 a. Buckeye Ranch System 6 GTWC's Buckeye Ranch water system consists of two potable water wells capable of a 7 combined 170 GPM output, an Arsenic Treatment Facility ("A TF"), a SCAD A system, a chlorination 8 system, two storage tanks with a combined capacity of 370,000 gallons, a 1,500-gallon pressure tank, 9 booster pumps with a combined output of approximately 2,100 GPM, 14 fire hydrants, and a 10 distribution system serving approximately 120 connections in the test year. 11 In the test year, GTWC's Buckeye Ranch system pumped 16,746,000 gallons but sold 12 13,365,698 gallons and could account for another 452,647 gallons used for non-sale purposes. 13 Consequently, the Buckeye Ranch water system experienced an approximate 17.28% water loss rate 14 during the test year. 15 Stafrs projected growth forecast estimates that the Buckeye Ranch system could conceivably 16 have as many as 130 connections by 2022. Based on Buckeye Ranch's 170 GPM of water production 17 and 370,000 gallons of storage, Staff concludes that the system has adequate capacity to serve existing 18 customers and reasonable growth. 19 b. Dixie Water System 20 GTWC's Dixie Water system is composed of a single well producing 40 GPM, a chlorination 21 system, a SCADA system, two storage tanks with combined capacity of 16,000 gallons, a 500-gallon 22 pressure tank, a booster pump capable of delivering 50 GPM, and a distribution system serving 40 23 customer connections in the test year. 24 During the test year, Dixie Water sold approximately 2,365,231 gallons compared to 2,513,000 25 gallons pumped and could account for an additional 32,103 unsold gallons for a test year water loss 26 rate of 4.6%. 27 28 8 Ex. S-6 at 38-67. 20 DECISION NO. 78644 -----

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DOCKET NOS. SW-20445A-20-0214, et al. Based on Staff's growth projections, the Dixie Water system could increase to 41 connections 2 by 2022. Based on the 40 GPM of water supplied by its well and its 16,000 gallons of storage, Staff 3 concludes that the Dixie Water system has adequate capacity to serve its existing customers and 4 reasonable growth. 5 6 c. Garden City System GTWC's Garden City water system is comprised of one potable water well with an output of 7 30 GPM, a SCADA system, a chlorination system, two storage tanks with a combined capacity of 8 27,000 gallons, a 2,000-gallon pressure tank, a booster pump capable of providing 50 GPM, and a 9 distribution system serving approximately 20 connections in the test year. 10 During the test year, GTWC's Garden City water system reported 1,391 ,359 gallons sold and 11 accounted for a further 201,21 l unsold gallons. Compared to 1,861,000 gallons pumped, the Garden 12 City water system's water loss rate was 14.42%. 13 Staffs analysis indicates that the Garden City water system is projected to remain at 20 14 connections into the near future. Based on the 30 GPM of well production and 27,000 gallons of 15 storage, Staff asserts that the Garden City water system has adequate capacity to serve its customers 16 and future growth. 17 d. Roseview System 18 GTWC's Roseview water system consists of a potable water well producing 30 GPM, 20 Point 19 of Use Arsenic treatment units, a SCAD A system, a chlorination system, two storage tanks providing 20 16,000 gallons of capacity, booster pumps that deliver a combined total of 60 GPM, a 1,000-gallon 21 pressure tank, and a distribution system serving 20 connections in the test year. 22 During the test year, the Roseview water system pumped 1,343,000 gallons, sold 1,305,182 23 gallons and could account for an additional 21 ,699 gallons that were unsold for a water loss rate of 24 1.2%. 25 Staff's growth projections for the Roseview water system suggest it could be serving as many 26 as 28 customers by 2022. Based upon its well production capacity of 30 GPM and 16,000 gallons of 27 storage, Staff concludes the Roseview water system has adequate capacity to serve existing customers 28 and reasonable growth. 21 DECISION NO. 78644 1 2 DOCKET NOS. SW-20445A-20-0214, et al. e. West Phoenix Estates No. 1 System GTWC's West Phoenix Estates No. I ("WPEI ") water system comprises a single potable water 3 well capable of producing 26 GPM, a SCADA system, a single 3,000-gallon storage tank, two 30- 4 gallon storage bladders, a booster pump capable of delivering 50 GPM, and a six miles of distribution 5 mains in its distribution system to serve nine connections in the test year. The WPEI water system 6 treatment system uses point of use arsenic treatment and a chlorination system. 7 During the test year, WPEI sold 275,792 gallons and could account for another 90,290 gallons 8 that went unsold. Compared to 376,000 gallons pumped, WPEI 's water loss rate was calculated to be 9 10.71%. l O Based on extrapolating from historical customer growth, Staff projects the customer base within 11 the WPEI water system to remain steady at nine connections into the near future. Staff believes that 12 the 26 GPM of water production and 3,000 gallons of storage provide adequate capacity to service its 13 current customers and reasonable growth. 14 f. W. Phoenix Estates No. 6 System 15 GTWC's West Phoenix Estates No. 6 ("WPE6") water system has a single potable water well 16 capable of producing 25 GPM, a fluoride/arsenic treatment facility, a SCAD A system, a chlorination 1 7 system, two storage tanks with a combined capacity of 31 ,000 gallons, a raw water settling tank, a 18 2,000-gallon pressure tank, a booster pump capable of delivering 50 GPM, and a distribution system 19 serving approximately 30 connections in the test year. The customer base is highly dispersed and the 20 distribution system includes over 10 miles of water mains. 21 WPE6's test year reported water sales amount to 1,550,249 gallons and an additional 145,774 22 unsold gallons were accounted for. However, GTWC's WPE6 water system reported 2, l 81,000 23 gallons pumped for an annual water loss rate of 22.24%. 24 Based on limited projected growth in the near term for the WPE6 water system, Staff 25 determined that the 25 GPM of well production and 31,000 gallons of storage provide adequate 26 capacity to serve current customers and reasonable future growth. 27 g. W. Phoenix Estates No. 7 System 28 GTWC's West Phoenix Estates No. 7 ("WPE7") water system employs a single potable water 22 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 well producing approximately 20 GPM, a SCADA system, a 5,400-gallon storage tank, an 800-gallon 2 pressure tank, a booster pump capable of delivering 50 GPM and a distribution system serving seven 3 connections in the test year. WPE7's treatment system utilizes a chlorination system as well as point 4 of use arsenic treatment. 5 During the test year, WPE7 reported 288,736 gallons sold and could account for 79,6959 6 additional unsold gallons. However, WPE7 reported 780,000 gallons pumped during the test year for 7 a test year water loss rate of 52. 77%. 8 Staff projects limited customer growth into the immediate future and based on 20 GPM of water 9 production and 5,400 gallons of storage, Staff views WPE7 as possessing adequate capacity to serve 10 its existing customers and reasonable projected growth. 11 12 h. Sunshine System GTWC's Sunshine water system is comprised of a potable water well producing 100 GPM, an 13 Arsenic Treatment Facility, a chlorination system, a SCADA system, two storage tanks with combined 14 capacity of 150,000 gallons, a 5,000-gallon pressure tank, booster pumps delivering 900 GPM, eight 15 fire hydrants, an 80kW generator, and a distribution system serving approximately 170 connections in 16 the test year. 17 During the test year, GTWC's Sunshine system reported 12,443,440 gallons sold and could 18 account for an additional 458,280 gallons of unsold water. Compared to 13,956,000 gallons pumped, 19 Sunshine water system's reported test year water loss rate was 7.55%. 20 Based on available data, Staff projected growth within the Sunshine water system could 21 conceivably reach 191 connections by 2022. Staff concludes that the 100 GPM of water production 22 and 150,000 gallons of storage provide adequate capacity to serve current customers and future growth 23 within the Sunshine water system. 24 25 26 5. Turner Ranches Turner Ranches is a Class D public service corporation delivering irrigation and fire protection 27 9 The Staff engineering testimony (Ex. S-6 at 78) indicates 796,950 gallons were unsold but accounted for which is greater than the total gallons pumped for the year. Based on the indicated water loss rate, the record indicates that the accounted 28 unsold water reported in the Staff testimony is likely be a typographical error. Arithmetically, an account unsold water amount of 79,695 produces a water loss rate of 52.77 percent. 23 DECISION NO. ?8644 DOCKET NOS. SW-20445A-20-0214, et al. water to approximately 950 connections in the test year. Turner Ranches serves a territory located 2 approximately 25 miles east of Phoenix that principally includes the Leisure World and Superstition 3 Springs communities and associated golf courses. 10 Turner Ranches' water system consists of five non- 4 potable water wells with a combined output of approximately 5,200 GPM, a SCADA system, six 5 reservoirs, six booster pumps, a single 230 kW generator, and 137 fire hydrants. 6 During the test year, Turner Ranches reported 645,838,000 gallons sold to 666,740,000 gallons 7 pumped for an approximate 3.13% water loss rate. 8 Staff's analysis indicates the system has adequate water supply to serve existing customers and 9 reasonable growth into the future. 10 11 6. Eagletail Eagletail is a Class E public service corporation providing water utility service to approximately 12 60 customer connections in a rural area approximately 66 miles west of Phoenix, south of Interstate 13 10. 11 The water system includes a single potable well with a capacity of approximately 400 GPM, a 14 chlorination system, a SCADA system, a storage tank with 125,000 gallons of capacity, a 5,000-gallon 15 pressure tank, booster pumps that can provide a cumulative 700 GPM, a single 200 kW generator and 16 a distribution system. Notably, Eagletail 's customer base is widely dispersed and the distribution 1 7 system includes over 24 miles of water mains. 18 During the test year, Eagletail reported 3,521,295 gallons sold and could account for 162,250 19 gallons that were unsold. Compared to 6,136,000 gallons pumped, Eagletail had a test year water loss 20 rate of 39.97%. 21 Staff's growth projections suggest that Eagletail 's customer base could reach 65 customers by 22 2022. Based on the water system's 400 GPM well and 125,000 gallons of storage, Staff's analysis 23 indicates the system has adequate capacity to serve existing customers and reasonable growth. 7. NSWC 24 25 26 27 NSWC is a Class E public service corporation providing water utility service to approximately 10 Ex. S-6 at 24. 28 11 Ex. S-6 at 28 24 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. 1 92 connections in a rural area located approximately 30 miles northeast of downtown Phoenix.12 2 NSWC's water system employs two potable water wells capable of a combined output of 160 GPM, a 3 chlorination system, a SCADA system, a 250,000-gallon storage tank, a 5,000-gallon pressure tank, 4 booster pumps with a combines output of 1,320 GPM, 55 fire hydrants, a standpipe and a distribution 5 system. 6 During the test year, NSWC reported 26,339,739 gallons sold and could account for 193,787 7 gallons that were not sold. NSWC reported 28,241,000 gallons pumped for a water loss rate of 6.05 8 percent. 9 Staffs analysis indicates that growth could see NSWC's customer base reach 101 connections 10 by 2022. Based on the system's 160-GPM well production and 250,000 gallons of storage, Staff 11 concludes the system has adequate capacity to serve existing customers and reasonable growth. 12 13 8. Balterra Balterra is a Class E public service corporation certificated to provide wastewater service to a 14 territory located approximately 50 miles west of Phoenix, near Tonopah in Maricopa County. Balterra 15 currently has no plant in service and no customers. 13 16 17 18 date. 19 20 Balterra has an ADEQ pennit allowing up to 0.55 million GPO in wastewater flows. According to Balterra, no development has occurred within Balterra's wastewater system to 9. Hassayampa Hassayampa is a Class E public service corporation certificated to provide wastewater service 21 to a territory west of the Town of Buckeye, approximately three miles north of Interstate-I 0. 22 Hassayampa presently has no plant in service and no customers. 14 23 24 Hassayampa has an ADEQ permit authorizing up to 1.0 million GPO in wastewater flows. The Hassayampa wastewater system is currently in the planning, design, and engineering phase 25 to provide service to its first customers beginning in 2022. 26 27 12 Ex. S-6 at 72. 13 Ex. S-6 at 116. 28 14 Ex. S-6 at 116. 25 DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. 10. Picacho Utilities 2 Picacho Utilities is a Class E public service corporation certificated to provide wastewater 3 service to a territory approximately three miles east of the City of Eloy in Pinal County. Picacho 4 Utilities has no plant in service and no customers at this time.15 5 6 Picacho Utilities does not currently have an ADEQ pennit authorizing any wastewater flows. The Picacho Utilities wastewater system is currently in the planning, design, and engineering 7 phase to provide service to its first customers beginning in 2022. 8 9 11. Picacho Water Picacho Water is a Class E public service corporation certificated to provide water utility 10 service to a territory located approximately three miles east of the City of Eloy in Pinal County. 11 Picacho Water has no plant in service and no customers at this time.16 12 According to Picacho Water, industrial and commercial development is planned within the area 13 and it has signed an agreement to provide water service (Picacho Utilities has signed an agreement to 14 provide wastewater service) to Nikola Corporation. At the time that this rate application was fi led, the 15 Nikola site was not within the Picacho Water's approved CC&N. Since then, the Commission has 16 issued Decision No. 78246 (September 29, 2021) approving the extension of Picacho Water and 17 Picacho Utilities' CC&Ns to the Nikola site. 18 19 B. Compliance Staff obtained Compliance Status Reports ("CSR") from Arizona Department of Environmental 20 Quality ("ADEQ") and Maricopa County Environmental Services Department ("MCESD") for each of 21 the Applicants' water and wastewater systems involved in the present proceeding. Based on the CSRs, 22 each of the Applicants' water systems are currently providing water that meets quality standards 23 required under 40 Code of Federal Regulations part 141 (National Primary Drinking Water 24 Regulations) and A.A.C. Title 18, Chapter 4. 25 Regarding the Applicants' wastewater systems, Palo Verde's wastewater system is in 26 compliance. However, Red Rock's wastewater system is not in current compliance. According to an 27 15 Ex. S-6at116. 28 16 Ex. S-6atl9. 26 DECISION NO. _7_8_64_4__ DOCKET NOS. SW-20445A-20-0214, et al. ADEQ CSR dated March 11 , 2021, Red Rock's wastewater facility was out of compliance due to issues 2 with E. Coli, and Turbidity in Routine Discharge and Reuse during the period from July l , 2019, to 3 June 30, 2020. Staff explains that the cause for the noncompliance is that Red Rock's wastewater 4 system had only one Sequential Batch Reactor ("SBR") to process all wastewater flows and Red Rock 5 experienced problems with the sand media fi lters as well. Red Rock has since placed a second SBR 6 into use and has rebuilt the sand media filter, in addition to repairing broken filter drains. 7 Staff notes that even when the underlying cause for the noncompliance is resolved, ADEQ 8 requires the facility to operate a full year with no violations before it will be determined to be in 9 compliance with ADEQ requirements. 10 Staff also obtained CSRs from Arizona Department of Water Resources ("ADWR") for each 11 of the Applicants' water systems. Based on the ADWR CSRs, all of the Applicants' water systems 12 regulated by ADWR are compliant with ADWR requirements governing water providers and/or 13 community water systems. 14 Staff found that the Applicants are in compliance with all trackable Commission compliance 15 requirements. 16 17 18 C. Staff Recommendations 1. System Upgrade Recommendations a. Non-NSF Certified Galvanized Steel Pipe 19 Staffs examination of the Eagletail water system discovered that the system uses galvanized 20 steel pipe and fittings at the booster pump station. Staff explains that galvanized steel pipe is a desirable 21 construction material because it has low initial material cost, long service life, resists damage during 22 transport, installation, and during service, has a low maintenance cost, and it installs quickly. However, 23 galvanized steel pipe also contains zinc which can react with the water borne in the pipe to generate 24 internal rust and water discoloration as well as defonnation of the pipe interior to impede flow and case 25 low water pressure. Further, the zinc coatings often contain lead and Staff observes that a study of 26 water samples from some homes with galvanized steel pipe contained lead at levels that would prompt 27 action from the United States Environmental Protection Agency. 28 27 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. Eagletail confirmed that the pipe and fittings in question do not contain the National Sanitation 2 Foundation ("NSF") certification seal demonstrating that they are an approved material for use in a 3 drinking water system per ADEQ rule R18-5-213(B). 4 Non-NSF certified galvanized steel pipe and fittings were also observed in use in GTWC for 5 the booster pump stations and well discharge lines of the Dixie Water, Garden City, Roseview, WPEI , 6 WPE6 and WPE7 water systems. 7 Staff recommends that the non-NSF certified galvanized steel pipe and fittings used in the 8 booster pump station and production well discharge lines of Eagletail 's and GTWC's Dixie Water, 9 Garden City, Roseview, WPEl, WPE6 and WPE7 water systems be replaced with NSF certified 10 materials. Further, Staff recommends that Eagletail and GTWC be required to file with Docket Control 11 as compliance items in this docket, documentation demonstrating that the non-NSF certified pipe and 12 fittings have been replaced within a year of the effective date of the Decision in this matter. 13 b. Power Transfer Switch 14 Staffs notes that GTWC's Buckeye Ranch water system lacks backup power to serve its 15 booster pumps, which will cause loss of water service in the event of a power disruption. GTWC's 16 Dixie Water, Garden City, Roseview, WPEI , WPE6, and WPE7 water systems also lack a backup 17 power solution in the event of power failure. 18 Instead ofrequiring the installation of a backup generator, Staff recommends that GTWC install 19 a transfer switch to facilitate rapid hook up of a temporary generator to power booster pumps during 20 outages. Staff also recommends that GTWC be required to file, with Docket Control as a compliance 21 item in this docket, documentation including photos demonstrating the installation of the transfer 22 switch at the Buckeye Ranch, Dixie Water, Garden City, Roseview, WPEl , WPE6, and WPE7 booster 23 pump stations within one year of the effective date of the Decision in this matter. 24 c. Second Booster Pump 25 Staff is concerned that GTWC's Dixie Water system relies on a single booster pump, the loss 26 of which would prevent pumping of water to customers. Staff notes that ADEQ's Engineering Bulletin 27 No. 10 requires "[a] minimum of two complete pumping units shall be provided, each capable of 28 delivering the required flow while maintaining minimum system pressures." 28 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Additionally, GTWC's Garden City, WPEI, WPE6, and WPE7 lack second booster pumps to 2 continue providing service in the event that their booster pumps fail. 3 Staff recommends that GTWC be required to install an additional booster pump to serve the 4 Dixie Water, Garden City, WPEI , WPE6, and WPE7 water systems. Staff further recommends that 5 GTWC be required to file with Docket Control as a compliance item in this docket, documentation, 6 including photo evidence, demonstrating that an additional booster pump has been installed in the Dixie 7 Water, Garden City, WPEI, WPE6, and WPE7 water systems within one year of the effective date of 8 the Decision in this matter. 9 2. Compliance Recommendations 10 Staff recommends that Red Rock be ordered to file with Docket Control, as a compliance item 11 in this docket, a copy of an ADEQ CSR for Red Rock indicating that it is compliant with ADEQ 12 requirements within 180 days from the effective date of a Decision in this matter. 13 14 3. Water Loss Staff is concerned by the high rates of water loss experienced by Eagletail and GTWC's 15 Buckeye

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Ranch, Garden City, WPEI , WPE6, and WPE7 water systems. Staff asserts that in no 16 circumstance should water loss exceed 15 percent. 17 According to Eagletail, the water loss rate was approximately 47 percent before GWRI acquired 18 the system from its prior owners. Eagletail attributes the high water loss rate to a combination of a 19 leaking storage tank and leaking water mains, antiquated service meters, and corroded service line 20 saddles. Additionally, Eagletail notes the lengthy water mains serving the system compared to the 21 relatively few customers and asserts that sparsely populated service territories will have more fittings 22 and longer lengths of water main per metered connection leading to more opportunities for leaks. In 23 addition to replacing the storage tank in 2018, Eagletail has been replacing customer meters in 24 conjunction with its rollout of SCAD A infrastructure which has contributed to reducing the water loss 25 rate to approximately 40 percent. Eagletail has also recently employed drone surveillance to identify 26 areas along water mains exhibiting unusual vegetation as a pointer to locate potential leaks. 27 28 GTWC attributes its Buckeye Ranch water loss rate to antiquated facilities serving a widely 29 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. dispersed, rural customer base, similar to Eagletail. In contrast, GTWC's Garden City water system 2 has experienced several main breaks, three occurring in 2019 on the same section of water main. The 3 Garden City system likewise serves a sparsely populated, rural community and it has identified another 4 four miles of water mains which require continuous attention to minimize water loss. GTWC explains 5 that the WPEl and WPE6 systems also have lengthy spans of water mains, six and 1 O miles, 6 respectively, serving their likewise thinly populated communities that require constant maintenance to 7 minimize water loss. GTWC attributes WPE7's water loss rate to a span of water main that is 8 particularly prone to main breaks, having suffered five mainline breaks in 2019, three of them in the 9 month of January alone. GTWC also notes that difficulty in identifying and locating leaks in the WPE7 10 system is exacerbated by the widely spread-out customer base. 11 Staff recommends that Eagletail and GTWC monitor the water loss for a 12-month period. If 12 the reported water loss continues to exceed 10 percent, Staff recommends requiring Eagletail and 13 GTWC, as applicable, submit a water loss reduction report containing a detailed analysis and plan to 14 reduce water loss to acceptable rates for the water systems with the continuing high water loss rates. 15 The water loss reduction report should also include a detailed cost/benefit analysis explaining why 16 reducing water loss below 10 percent is infeasible if Eagletail or GTWC believes it is not cost effective 17 to attain a lower than 10 percent water loss rate. Staff further recommends that Eagletail and GTWC, 18 as appropriate, be required to file the water loss reduction report with Docket Control, in this docket as 19 a compliance item, within 18 months of the effective date of a Decision issued in this matter. 20 21 4. Depreciation Rates The Global Water Utilities did not propose new water or wastewater depreciation rates. Only 22 a select few water and wastewater depreciation rates for certain National Association of Regulatory 23 Utility Commissioners ("NARUC") account numbers were included in the applications. Staff 24 recommends that the Applicants be required to use Staff's typical and customary water and wastewater 25 depreciation rates for the full range of accounts recognized under the NARUC uniform system of 26 accounts, as contained within the attachments to the testimony of Staff witness Frank Smaila17• 27 28 17 Ex. S-6, Attachment 7 (Depreciation Rates-Water) and Attachment 13 (Depreciation Rates-Wastewater). 30 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. D. Global Water Utilities Response 2 The Global Water Utilities agree with Staff's depreciation rate reconunendation. Regarding 3 Staff's recommended galvanized steel pipe replacement, power transfer switch, and backup booster 4 pump recommendations, the Applicants note that a transfer switch and backup generator have already 5 been installed at Buckeye Ranch and no further action is necessary for that system. 18 The Global Water 6 Utilities do not object to Staff's recommendations for the installation of transfer switches at the Dixie, 7 Roseview, WPE 1, WPE6, and WPE7 water systems. 19 The Applicants also accept Staff's galvanized 8 steel pipe replacement recommendations.20 9 Responding to Staff's identification of an ADEQ compliance issue relating to Red Rock, the 10 Applicants assert that the turbidity issues prompting the ADEQ noncompliance finding trace their 11 origin to inaccurate reporting by a contractor employed by Red Rock's prior owner.21 Consequently, 12 the Global Water Utilities were unaware of the problem at the time of acquisition but have since made 13 improvements to address the problems as failed or neglected equipment has been identified and 14 replaced. Applicants point to sensitivity to the rate impacts from the extensive capital improvements 15 prompting the decision to apply greater effort toward rehabilitating the existing sand filtration system 16 which also contributed to protracting the time to resolve ultimately the cause of the noncompliance. 17 However, Applicants assert that ADEQ inspected the improvements made to Red Rock wastewater on 18 December 21 , 2020,22 to ensure compliance with its Aquifer Protection Permit and found no 19 deficiencies or potential deficiencies. 20 Concerning the water loss issues noted by Staff, the Global Water Utilities did not provide any 21 testimony contradicting Staff's analysis and produced a revised 2019 water loss analysis23 generally 22 confirming Staff's conclusion that water loss is concentrated in Eagletail, which Applicants represent 23 is approximately 40%, and within GTWC, which averages approximately 13% across its constituent 24 systems. The Applicants did not offer any argument or objection to Staff's water loss 25 26 18 Ex. A-40 at 15. 19 id. 20 id. 27 21 Ex. A-40 at 10. 22 Ex. A-40, attachment Corwin Rebuttal-2. 28 23 Ex. A-39 31 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. recommendations. E. Resolution 2 3 Staff's recommendation for the Global Water Utilities to use the Commission's typical 4 depreciation rates is reasonable and should be adopted. 5 Staff's recommendation that Applicants replace the non-certified galvanized steel pipe at the 6 booster pump stations and discharge lines for Eagletail and GTWC's Dixie Water, Garden City, 7 Roseview, WPEI, WPE6 and WPE7 water systems is reasonable, and should be adopted. 8 Staff acknowledged that the Applicants have installed a power transfer switch for the Buckeye 9 Ranch water system.24 Staff's recommendation that the Global Water Utilities install a power transfer 10 switch to facilitate rapid hookup of emergency power generators at the booster pump stations of 11 GTWC's Dixie, Roseview, WPEI, WPE6, and WPE7 water systems is reasonable and should be 12 adopted. 13 As to water loss rates, Staff's analysis indicates that water loss rates within GTWC and Eagletail 14 exceed 10%. Applicants' response does not contradict this conclusion. As demonstrated by the 15 evidence provided in this matter concerning dwindling water supplies available for water utilities, 16 Staffs concern about water loss, particularly the high water loss detected in Eagletail, is well founded. 17 We find that Staff's recommendation to require Eagletail and GTWC to monitor water loss over a 12- 18 month period and submit water loss reports, as applicable to the individual utility if water loss rates 19 remain above 10% is reasonable and should be adopted as proposed by Staff. 20 III. SUMMARY OF RATE APPLICATION 21 In the rate application, the Applicants propose (1) a region-based rate consolidation, merging 22 the Red Rock water and Picacho Water systems with Santa Cruz ("Pinal County Water"), merging the 23 Red Rock wastewater and Picacho Utilities systems with Palo Verde ("Pinal County Wastewater"), 24 merging Eagletail and NSWC with GTWC ("Maricopa County Water"), and merging Balterra with 25 Hassayampa; (2) a phase-in of the proposed rate increase so that the average ratepayer in the City of 26 Maricopa does not receive an increase more than five percent per year; (3) a delayed effective date for 27 28 24 Ex. S-7 at 4. 32 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. new rates until January 1, 2022; (4) a gross revenue increase of 14.4 percent or $2,167,945 for Pinal 2 County Water, a 9.7 percent or $1,962,429 revenue increase for Pinal County Wastewater, a 20.3 3 percent or $139,600 revenue increase for Maricopa County Water; (5) an exclusion from rate base of 4 the approximate $33 million investment in the Southwest Treatment Plant; (6) an Allowance for Funds 5 Used During Construction ("AFUDC") treatment for the Southwest Treatment Plant until it is in 6 service; (7) approval of various acquisition incentives related to GWRI's acquisition and rehabilitation 7 of troubled utilities; (8) inclusion of 12 months of Post Test Year Plant in rate base; (9) approval of 8 various adjustors including for income taxes and property taxes, replacing GTWC's existing Central 9 Arizona Groundwater Replenishment District adjustor mechanism with a Sustainable Water Adjustor, 10 a rate case expense surcharge, and adoption of a new Water Availability Fee; and (IO) a Cost of Equity 11 of 10.45 percent. 25 12 Notably, the Maricopa County Water consolidation was proposed in conjunction with a 13 proposal to reduce the revenue requirement for those affected utilities by establishing their rates using 14 an operating margin rather than a rate of return methodology. As proposed, NSWC's rates would 15 remain unchanged and GTWC and Eagletail would have their revenue requirements established based 16 on a 4% operating margin. The result is that GTWC and Eagletail would have uniform rates. The 17 Global Water Utilities advanced this proposal to mitigate the rate increases to GTWC and Eagletail 18 which, if based on a rate ofretum methodology, and without the support ofNSWC's revenue, would 19 increase rates for residential customers on the most common meter sizes by approximately 192% and 20 252% respectively. RATE BASE 21 IV. 22 The Global Water Utilities propose to use the Original Cost Rate Base ("OCRB") as the fair 23 value rate base ("FVRB").26 24 25 26 27 25 Ex. A-10 at 3-9. 28 26 Ex. A-26 at 6. 33 DECISION NO. 78644 ----- 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Applicants', RUCO's27 and Staffs recommended rate bases as provided in their final schedules are summarized as follows: Utility Global Water RUCQ-'IS Staff Consolidated Group Utilities Santa Cruz $41,537,504 $40,154,796 Red Rock (Water) $833,698 $861,238 Pinal County Water $42,371,201 $39,659,717 $40.924.882 Palo Verde $66,811,877 $66,472,767 Red Rock (Wastewater) $3,414,035 $3,419.261 Pinal County Wastewater $70,225,912 $68,225,775 $69.682,980 GTWC $2,602,768 $547,489 Eagletail $564,057 $470,276 NSWC $54,139 $61,434 Maricopa County Water $3,220.957 $4.875,325 $1.036.33029 Turner Ranches $3,096,745 $1 694 717 $1,671.457 The disputed rate base issues relate to Post-Test Year Plant ("PTYP"), regulatory treatment of the Southwest Treatment Plant, Accumulated Deferred Income Taxes ("ADIT") related to proceeds generated through the condemnation of the Valencia water system by the City of Buckeye, Acquisition Premiums for Red Rock and Turner Ranches, and adjustments to working capital and accumulated depreciation. A. Post Test Year Plant The Applicants propose to include 12 months of PTYP in rate base. The total amount of contemplated PTYP would add a total of$7, 148,112 to the aggregate rate bases. Broken out by system, the Applicants' PTYP request and RUCO's and Staffs PTYP recommendations are as follows: I Utility Consolidated Group I PTYP - Global I PTYP - RUCO Water Utilities I PTYP-Staff-'u 27 In addition to filing its final schedules, which were attached to RUCO's Closing Brief, RUCO also provided an electronic copy of its schedules in EXCEL spreadsheet format. The EXCEL spreadsheets reflect RUCO's surrebuttal position, however. The EXCEL spreadsheets were relied upon for the preparation of the Recommended Opinion and Order and, consequently, the numerical values expressing RUCO's position throughout this Decision reference RUCO's surrebuttal position. 28 See FN 27 supra. RUCO's surrebuttal schedules do not include standalone schedules. 29 Staff's final schedule for the Maricopa County Water consolidation shows$ I ,036,330 as the combined rate base. Ex. S- 21 , Final Schedule MCC-3 "Global Water - Tonopah and Eagle Tail". This amount is equal to the sum of Eagletail and GTWC only and omits the NSWC rate base amount of $61,434. (Ex. S-21 , Final Schedule MCC-3 "Global Water - Northern Scottsdale Water Company, Inc.") Including NSWC provides a total for Maricopa County Water consolidation rate base of$1 ,097,764. 30 Ex. S-6, attachment 14. 34 DECISION NO. 78644 1 2 3 4 5 6 7 8 DOCKET NOS. SW-20445A-20-0214, et al. Santa Cruz $3,927,307 $2 468 242 $3,336.299_; 1 Red Rock (Water) $4,332 $320 $3,3685 L Pinal County Water $3,931.640 $3,312_ _512 $3,363.463 Palo Verde $1,411,783 $1 020 353 $1,411.783 Red Rock (Wastewater) $333,064 $204,202 $333,064 Pinal County Wastewater $1,744,847 $1,416,267 $1.744.847 GTWC $1,016,674 $808 385 $1,016.675 Eagletail $283,311 $278,885 $283,311 NSWC $16 245 $14,007 $16.245 Maricopa County Water $1,316,230 $1,101,277 $1.316.23133 Turner Ranches $160,170 $38,848 $160,170 Total $7,148,112 $5,868,904 $6,584.611 Among the larger PTYP expenditures are the rehabilitation of a 1.5-million gallon storage tank 9 serving Santa Cruz totaling $539,478, and the rehabilitation of a well to serve Santa Cruz for $483,811; 10 $581,313 to construct a distribution loop to serve the State Route 238 tie-in to the Loma Road 11 commercial/industrial property in Santa Cruz's service territory; $601,404 to convert a sequential batch 12 reactor to an activated sludge digestor at Palo Verde's Campus 1 facility to complete a plant expansion; 13 $463,059 to build a new well for GTWC; $271,666 to correct deficient electrical systems at a water 14 distribution center in the GTWC service area; $269,041 to remedy deficient electrical systems in 15 Eagletail 's water distribution center; and $816,037 to upgrade the Global Water Center which is the 16 Global Water Utilities' regional operational center in Maricopa.34 17 In conjunction with the proposed PTYP, the Global Water Utilities also make corresponding 18 adjustments to annual depreciation expense using the half-year convention to reflect accumulated 19 depreciation on the PTYP. 20 We note that the Commission is currently in the process of reviewing its PTYP policy in Docket 21 No. AU-00000A-19-0080. As such, the consideration of the PTYP request and recommendations here 22 31 The Staff figure of $3,336,299 provided in Staffs final schedules (Ex. S-2 1, Final Schedule AII-5 "Santa Cruz Water 23 Company") is inconsistent with Staffs

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direct testimony recommendation of $3, l 01,509 (Ex. S-6, attachment 14) plus the $257,522 (Ex. S-7 at 9) added in surrebuttal which should sum to $3,359,031. 24 32 Staffs final schedule for Red Rock (water) provides a $3,368 value for PTYP (Ex. S-21 Final Schedule AII-5 "Santa Cruz Consolidated"). Based on Staffs pre-filed testimony (Ex. S-6, attachment 14; Ex. S-7) as well as the arithmetic total 25 for all combined PTYP in the Pinal County Water consolidation, less the correct PTYP figure of $3,359,031 for Santa Cruz, the correct PTYP figure for Red Rock (Water) appears to be $4,332. 26 33 Staffs final schedule for the Maricopa County Water consolidation shows $1,299,986 as the combined PTYP based on the combined PTYP of Eagletail and GTWC only. Including the stand-alone NSWC PTYP amount of$ l 6,245 provides a 27 total for Maricopa County Water consolidation PTYP of$ l ,3 l 6,23 l . Because it is inconsistent with the stated Staff position provided in pre-filed testimony, the number provided reflects the sum of Staffs individual PTYP recommendations within 28 the entire Maricopa County Water consolidation, as provided in Ex. S-6, attachment 14. 34 Ex. S-6 at 139-149. 35 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. is limited to the confines of the facts and circumstances of this case and should therefore not be viewed 2 as directing a new general policy directive by the Commission. 1. The Global Water Utilities 3 4 Applicants assert that while the Commission commonly accepts 12 months of PTYP, the 5 request to include 12 months of PTYP in this case is particularly warranted because the test year was 6 established by the Commission in Decision No. 77 168 rather than by the Global Water Utilities.35 7 Testifying for the Applicants, Mr. Rowell explained, PTYP is a traditional "partial offset to the 8 regulatory lag inherent in the test year process."36 To that end, PTYP is plant that could have been 9 used and useful had it been in service during the test year and is treated as if it had been in service 10 during the test year for ratemaking purposes as a measure to address regulatory lag caused by using a 11 historical test year. 37 12 Additionally, the Global Water Utilities observe that most of the proposed PTYP was in service 13 at the time the present rate case applications were filed and the remainder was anticipated to be in 14 service before the conclusion of proceedings in this matter. Consequently, Applicants maintain that 15 inclusion of 12 months of PTYP for an overall $7,148,112 increase to rate base is reasonable to address 16 concerns of regulatory lag. 17 18 2. RUCO RUCO argues that PTYP should be confined to six months to be consistent with other 19 Commission cases where less than 12 months of PTYP was approved. 38 Adopting RUCO's 20 recommendation would reduce the plant in service for the Pinal County Water consolidated group by 21 $427,636; Pinal County Wastewater consolidated group by $393,612; Maricopa County Water 22 consolidated group by $160,962; and Turner Ranches by $283,001. 23 Additionally, RUCO proposes companion post-test year adjustments, including adjusting 24 accumulated depreciation to reflect six-months of PTYP, further adjusting accumulated depreciation 25 26 35 Ex. A-26 at 6. 36 Tr. at 239. 31 Id. 27 38 See Ex. RUCO-6 at 8-9, citing Decision No. 77850 (December 17, 2020) approving six months PTYP for Southwest Gas 28 Corp., Decision No. 77856 (December 3 l , 2020) approving six months PTYP for Tucson Electric Power Company, and Decision No. 77956 (April 15, 202 1) approving nine months PTYP for Arizona Water Company. 36 DECISION NO. _7_8_64_4__

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DOCKET NOS. SW-20445A-20-0214, et al. to roll forward six months of post-test year depreciation on test year plant, and rolling forward post- 2 test year retirements. 3 RUCO recommends reducing accumulated depreciation for Pinal County Water by $150,490, 4 for Pinal County Wastewater by $351,122, for Maricopa County Water by $93,342, and for Turner 5 Ranches by $28,123. According to RUCO witness Ms. Brown, the adjustment is appropriate to address 6 an inconsistency noted by the Applicants to the effect that RUCO removed six months of PTYP but 7 did not remove the accumulated depreciation associated with that plant, thus overstating the rate base 8 impact of RUCO's PTYP adjustment.39 9 RUCO also argues that the Global Water Utilities' ratepayers have been paying depreciation IO expense on all test year plant to the same date as the proposed inclusion of PTYP.40 To that end, RUCO 11 recommends a further adjustment to accumulated depreciation by rolling forward six months of post- 12 test year accumulated depreciation on test year plant. RUCO asserts that the amount of depreciation is 13 known and measurable, is significant and the Applicants have been recording it in their balance sheets 14 as accumulated depreciation. However, RUCO asserts no corresponding acknowledgement of post- 15 test year depreciation expense recovered on test year plant has been recognized in the Applicants' 16 proposal. To address this, RUCO, proposes adjusting accumulated depreciation to increase it for Pinal 17 County Water by $1,725,594, for Pinal County Wastewater by $2,229,550, for Maricopa County Water 18 by $83,497, and for Turner Ranches by $75,588.41 19 RUCO also recommends rolling forward post-test year retirements that are not related to PTYP 20 replacements. RUCO asserts that although plant retirements do not affect rate base since the plant 21 removed equals the accumulated depreciation on the retired plant, the associated depreciation expense 22 corresponding to the retired plant must be removed or the utility will be unjustly enriched by continuing 23 to collect depreciation expense on plant that has already been retired but not reported for regulatory 24 purposes.42 25 26 39 Ex. RUC0-7 at 4. 27 40 Ex. RUC0-6 at 12. 28 41 Ex. RUC0-6 at 11-15, attached Schedule CSB-7. 42 Ex. RUC0-6 at 9. 37 DECISION NO. 78644 1 2 DOCKET NOS. SW-20445A-20-0214, et al. 3. Staff Staff generally supports the Applicants' request to include 12 months of PTYP to the amount 3 of$6,584,612 in PTYP.43 The single largest dispute between Staff and the Applicants on the issue of 4 PTYP concerns the upgrade to the Global Water Utilities' headquarters building. 5 Staff's recommendation stems from the contention that certain items among the upgrades to the 6 Global Water Center are not necessary for providing water or wastewater utility service as well as 7 Staff's concern that the Applicants' use of internal labor to perform much of the upgrade work leads to 8 a double counting of labor expense already recovered through the Applicants' ordinary operating 9 expenses. Staff's analysis utilized four criteria for whether PTYP should be included in rate base: (l) 10 the PTYP must be revenue neutral and not constructed to support anticipated customer growth; (2) the 11 investments are not recoverable under alternative ratemaking methods such as a System Improvement 12 Benefits mechanism or a cost deferral; (3) the capital expenditures must not represent routine asset 13 replacements made to address technological advancements such as computers or software; and (4) 14 office equipment and vehicle replacements are excluded due to the discretionary nature of such 1 5 purchases. 44 16 Based on its analysis, Staff recommends including PTYP upgrades to the Global Water Center 17 related to the Customer Service Payment Desk and Lobby, Compliance and Calibration Room, IT 18 Room, and SCAD A Operations Area. However, Staff recommends against the inclusion of restrooms, 19 conference rooms, employee cubicles and offices, the fitness room, file room and breakroom in PTYP 20 on the basis that these facilities existed prior to the upgrade and the improvements do not significantly 21 improve the provision of service, nor would failure to improve these facilities cause an emergency or 22 compromise Applicants' ability to continue providing safe, reliable service.45 On that basis, Staff 23 recommends disallowing $558,514 of the $816,037 PTYP associated with the Global Water Center. 24 For those portions of the Global Water Center that Staff recommends be included in PTYP, 25 Staff recommended against inclusion of expenses related to labor used in construction on the basis that 26 27 43 Staff originally recommended $6,327,089 be included in PTYP and added a further $257,522 in Surrebuttal. Ex. S-7 at 9. 44 Ex. S-6 at 137. 28 45 Ex. S-7at9. 38 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 because internal labor was used, these costs were already recovered through Salaries and Wages 2 expense.46 Consequently, Staff asserts that recognizing labor expense in PTYP as a capitalized cost 3 would create a double recovery. Further, Staff argues that Applicants failed to provide any support 4 evidencing that the labor cost had been capitalized.47 5 In addition, Staff adopts Applicants' proposed post-test year retirements of plant replaced by 6 PTYP.48 Staff also adopts the Applicants' adjustment to accumulated depreciation on PTYP using the 7 half-year convention. Staff opposes RUCO's49 request to include a post-test year depreciation roll 8 forward on test year plant, and a roll-forward on post-test year retirements. 9 4. Global Water Utilities Response 10 In response to RUCO, the Applicants contend that RUCO 's adjustments worsen regulatory lag, 11 undermining the obj ective of allowing PTYP which, in tum, increases undereaming. Pointing to 12 RUCO's post-test year accumulated depreciation adjustment, Mr. Rowell explained that the RUCO 13 adjustment effectively "removes more than $4 million of rate base", 50 an amount which exceeds the 14 six-months of PTYP RUCO recommends allowing.51 Exacerbating the problem, the Applicants argue 15 that RUCO fails to consistently apply this adjustment by making a con-esponding adjustment to 16 depreciation expense thus creating a "mismatch in depreciation treatment [that] forecloses the 17 opportunity for a return on invested capital."52 18 Applicants dismiss RUCO's arguments that PTYP depreciation should be adjusted because 19 depreciation expense has been incun-ed on PTYP, noting that the depreciation expense it is presently 20 recovering is based on plant balances established in the last rate case which precludes the possibility 21 of customers paying depreciation on plant placed in service during the test year. 53 22 The Global Water Utilities also argue that RUCO's reliance on Decis ion No. 77856 is 23 46 Tr. vol. X at 1485-1486. 24 47 /d.at1504-1505. 48 Ex. S-1 3 at 5. 25 49 In its Closing Brief, Staff indicates that it opposes the Global Water Utilities' proposal to include a PTYP roll-forward, a PTYP ADIT ro ll-forward, and PTY retirements roll-forward. Staff C losing Br. at 9. However, per the Joint Issues Matrix 26 provided at hearing, Applicants also reject these proposals and it is RUCO that recommends making these adjustments. Issues Matrix at 4. 50 Ex. A-29 at 4. 27 51 Applicants Cl. Br. at 87. 52 Ex. A-29 at 4. 28 53 Ex. A-28 at 4-5. 39 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. misplaced because, although the Commission approved six months of PTYP for Tucson Electric Power 2 it also authorized exceptions to the six-month PTYP cutoff totaling more than $300 million. Therefore, 3 Applicants assert the case supports the inclusion of more PTYP than Applicants are requesting. 4 5 5. Resolution We find that the 12-month PTYP adjustment period proposed by the Global Water Uti lities, 6 and as recommended by Staff, is reasonable and appropriate under the circumstances. We find that the 7 proposed 12-month PTYP period better reflects the costs of serving test year customers than RUCO's 8 recommendation to limit PTYP to six months. 9 We are unpersuaded that RUCO's proposed adjustment to roll forward post-test year 10 accumulated depreciation is reasonable. The purpose of including PTYP in rate base is to address 11 regulatory lag. Given that the Applicants' PTYP will be placed into service prior to the time rates that 12 reflect the inclusion of PTYP will be implemented, regulatory lag has already occurred. Further, we 13 note that typical regulatory lag has been exacerbated in this case due to delays caused by the COYID- 14 19 pandemic. Under the specific circumstances of this case, we find that including PTYP in rate base 15 without an adjustment for accumulated depreciation roll forward will better achieve the aim of allowing 16 the Global Water Utilities to recover their costs by mitigating regulatory lag, thereby producing just 17 and reasonable rates. 18 Likewise, we are unpersuaded to adopt RUCO's recommended roll forward of post-test year 19 retirements. We find that the Applicants' proposed, and Staffs accepted, retirements of only the plant 20 replaced by PTYP is a balanced approach that prevents unjust double recovery on retired plant while 21 not exacerbating the regulatory lag issues that prompt the adoption of PTYP. 22 Regarding the Global Water Center, we note it was originally constructed in 2007 and, 23 according to the Global Water Utilities, no meaningful upgrades have been made to it since initial 24 construction.54 Among the specific disallowances from PTYP for the Global Water Center, Staffs 25 argument against the inclusion of restrooms, breakrooms, file rooms, conference rooms, etc. because 26 they provide no clear benefit over the preexisting facilities is essentially an argument that the work 27 28 54 Ex. S-6 at 152. 40 DECISION NO. 78644 ------

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DOCKET NOS. SW-20445A-20-0214, et al. perfonned was excessive. In response to Staffs position, the Global Water Utilities have provided no 2 evidence to the effect that these facilities were deteriorated to the point that they were no longer 3 perfonning satisfactorily. The only evidence on this point in the record is pre-filed testimony from 4 Mr. Corwin on behalf of the Global Water Utilities to the effect that the facility not only serves 5 Applicants' needs but is also used to provide non-utility services to the local community, such as 6 providing conference rooms for the Salvation Army one day a week to help individuals in need of 7 financial assistance. 55 While it is laudable that the Applicants offer their facilities for the community, 8 this usage is more consistent with the shareholder interest of generating public goodwill than the 9 ratepayer interest in delivery of utility service and tends to support Staffs argument that these upgrades 10 exceeded what was strictly necessary to provide utility service. Restrooms, break.rooms, file rooms, 11 offices, cubicles, and conference rooms are necessary for the provision of utility service, although we 12 view the fitness room upgrade as more in the nature of an office amenity than a component of providing 13 utility service. However, absent evidence demonstrating that the preexisting facilities were in such a 14 state that they could no longer function, we find that the fairest and most reasonable resolution is to 15 treat half of the Staff reconunended disallowance as amenities funded by shareholders and allow the 16 inclusion of the remaining half in rate base as PTYP. 17 As to Staff's recommended disallowance of labor expense incurred in performing the Global 18 Water Center upgrades, there is no evidence demonstrating that a double recovery of labor expense has 19 occurred and thus, we decline to adopt Staffs position. 20 21 B. Southwest Treatment Plant The Southwest Treatment Plant is part of Palo Verde's Campus 2 wastewater system. The 22 facility was constructed in 2007 at a cost of approximately $32.82 million56 in anticipation of serving 23 master planned communities in development during the early 2000s and has a 9 MGD design capacity. 24 However, because of the 2008 economic downturn and related slowdown in residential construction, 25 customers failed to materialize. 26 27 During the processing of the current rate case, the Global Water Utilities have provided 55 Ex. A-40 at 2. 28 56 Ex. A-32, Attachment Liebman Direct-2. 41 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. evidence that the first customer, the Amarillo Creek Unit 1 project, a 600-unit residential community 2 being developed by Ashton Woods has entered the initial stages of taking service.57 At the time of 3 hearing, the first homes requiring water and wastewater service are anticipated to begin in July of 4 2022.58 5 The Southwest Treatment Plant was considered by the Commission in Palo Verde's prior rate 6 case which culminated in the issuance of Decision No. 74364. As part of a party settlement adopted 7 by Decision No. 74364, the Southwest Treatment Plant was treated as Plant Held For Future Use and 8 various related regulatory determinations were adopted. 9 The Global Water Utilities 10 Applicants propose to continue removing the approximate $32.8 million cost of the Southwest 11 Treatment Plant from rate base in recognition that it is not yet used and useful. However, the Global 12 Water Utilities assert that the combination of accumulated interest on debt that financed the Southwest 13 Treatment Plant's construction nearing $29 million by end of 2021, and potentially $27 million in 14 earned return on rate base were the facility included in rate base, as well as unrecovered depreciation 15 expense, have culminated in Applicants losing "nearly $73 million in cash flow as a result of the 16 Southwest Plant not being included in rate base. "59 17 To address their concerns, the Applicants propose the approval of an Allowance for Funds Used 18 During Construction ("AFUDC") to begin accruing as of the end of the test year used in this case until 19 the Southwest Treatment Plant is activated. In addition to approval to accrue AFUDC, Applicants 20 request either (1) a Phase 2 proceeding to consider depreciation and return on rate base but excluding 21 operating expenses and treatment costs; or (2) creation of a regulatory asset that would preserve 22 depreciation expense as an asset for future recovery. 23 The Global Water Utilities assert that the combination of AFUDC as well as either a Phase 2 24 proceeding or creation of a regulatory asset is necessary to avoid another rate case immediately 25 following a determination in the present matter. According to the Applicants, real costs are being 26 27 57 Ex. A-36 at 3; A-58 ; Tr. at 397-398. 58 Tr. at 398. 28 59 Ex. A-32 at 15-16. 42 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. incurred in the fonn of interest on the debt capital that financed construction of the Southwest 2 Treatment Plant.60 3 4 2. RUCO RUCO opposes Applicants' request for AFUDC treatment and maintains that ratemaking 5 consideration of the Southwest Treatment Plant should come in a future rate case after the plant 6 becomes used and useful. RUCO stresses that the Commission has detennined that "the Southwest 7 Plant will not be included in rate base until it is found used and useful by the Commission in a future 8 rate case" which has not come to pass.61 RUCO also asserts that regulatory accounting does not 9 acknowledge recovery of losses for plant that is not included in rate base and that it would be injurious 10 to ratepayers to require them to pay for not only the cost of the facility once it does qualify for inclusion 11 in rate base, but also the added costs related to recovering Post-In-Service AFUDC. 12 Additionally, RUCO observes that Applicants may derive some benefit from continuing to 13 regard the Southwest Treatment Plant as plant held for future use. RUCO argues that the Global Water 14 Utilities could utilize the ongoing interest expense on the debt that funded the facility for tax purposes. 15 RUCO also contends that positions taken by parties to exclude that debt from ratemaking consideration 16 prompted the recommended use of hypothetical capital structures that elevated the proportion of equity 17 in the Applicants' overall capital structure. 18 19 3. Staff Staff also opposes Applicants' request for AFUDC treatment, as well as the establishment of a 20 regulatory asset, or a Phase 2 proceeding. Staff recommends that any raternaking treatment for the 21 Southwest Treatment Plant be considered in a future rate case after the facility has become used and 22 useful. Staff notes that this is consistent with the Commission's prior determination in Decision No. 23 74364 that the facility be treated as plant held for future use and not included in rate base until it is 24 found used and useful. 25 Staff disputes the Global Water Utilities' contention that the Commission essentially ordered 26 the construction of the Southwest Treatment Plant when it conditioned the grant of various extensions 27 60 Ex. A-32 at 17. 28 61 RUCO Cl. Br. at 20 citing Decision No. 74364 at 31. 43 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 of Palo Verde's service territory upon obtaining an ADEQ Approval of Construction ("AOC") for 2 facilities including the Southwest Treatment Plant. According to Staff, ADEQ requires facilities to 3 satisfy AOC scrutiny before being placed into service as a matter of course. Additionally, Staff states 4 that the absence of any discussion or approval of Applicants' engineering plans by the Commission 5 evidences the absence of a mandate to build the facilities proposed to serve those CC&N extensions. 6 Staff contends that Applicants could have filed requests to extend their compliance 7 requirements established in the decisions granting their CC&N extensions instead of bui lding a plant 8 that is not yet needed. Thus, Staff asserts the consequences of constructing of the Southwest Treatment 9 Plant well in advance of customer demand for its facilities represents "the result of Global 's 10 management decisions, not any Commission order." 11 Further, Staff argues that it is premature to approve regulatory treatment in anticipation of 12 Southwest Treatment Plant entering service in the near future. Noting that Applicants have previously 13 announced anticipated in-service dates that have lapsed without the anticipated demand arriving, Staff 14 questions whether the initial demand of the first customers taking service from the Southwest 15 Treatment Plant will be sufficient to dispel concerns of excess capacity if the facility is considered to 16 be used and useful in advance of significant demand arriving. 17 18 4. Global Water Utilities' Response The Global Water Utilities assert that Staffs and RUCO's contention that construction of the 19 Southwest Treatment Plant was not required is a side issue that does not change the fact that interest 20 expense is being incurred on debt that financed the facility. Nonetheless, the Applicants maintain the 21 view that the Commission has all but required the construction of the Southwest Treatment Plant when 22 it considered the Southwest Treatment Plant as part of the analysis of the technical feasibility of Palo 23 Verde providing wastewater service to CC&N extension areas.62 24 According to the Applicants, if their proposed regulatory measures are not adopted, a new rate 25 case is all but certain because the Southwest Treatment Plant will soon be in operation and the Global 26 27 62 Ex. A-49 at 3-9 citing Decision Nos 68448 (February 2, 2006) (approving CC&N extensions for Santa Cruz and Palo Verde subject to conditions including securing ADEQ AOCs for various plant) and 70381 (June 13, 2008) (approving 28 CC&N extensions for Santa Cruz and Palo Verde subject to conditions including securing ADEQ AOCs for various plant). 44 DECISION NO. 78644 ------

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DOCKET NOS. SW-20445A-20-0214, et al. Water Utilities cannot support a $32.8 million plant entering service without recognition of that asset 2 in rates. 3 Similarly, the Global Water Utilities dismiss RUCO's position that there is a benefit to the 4 Applicants from absorbing $73 million in lost cash flow and a $56 million impact to equity. They 5 argue that, given the magnitude of the carrying costs on the debt financing the Southwest Treatment 6 Plant, some regulatory consideration of the carrying costs is fair and appropriate. 7 The Global Water Utilities disagree with the argument that the Settlement Agreement adopted 8 in Decision No. 74364 prohibits engaging in a Phase 2 proceeding or creating a regulatory asset 9 associated with the Southwest Treatment Plant. According to the Applicants, a Phase 2 proceeding 10 complies with Decision No. 74364 because it would be a rate case and the necessary detem1inations 11 about used and useful would be made therein. Likewise, creation of a regulatory asset complies with 12 Decision No. 74364 because neither the regulatory asset, nor the Southwest Treatment Plant would 13 enter rate base until a subsequent rate case. 14 Responding to Staffs doubts about the imminence of the Southwest Treatment Plant 15 commencing the provision of service, Applicants point to testimony that construction water is being 16 provided to the Amarillo Creek development and, therefore, service is already being provided and other 17 developments are progressing as well. As to Staff concerns that the facility may have deteriorated 18 while awaiting an opportunity to be placed

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into service and it will likely not be fully used and useful . 19 the Global Water Utilities assert that the Commission can approve AFUDC, a Phase 2 proceeding, or 20 a regulatory asset without knowing the answers to what useful life remains in the facility. Moreover, 21 the Global Water Utilities contend that if there are doubts that the Southwest Treatment Plant will not 22 be fully used and useful, that is all the more reason to approve measures to cover carrying costs on not- 23 used or useful plant because the carrying costs on the debt financing the Southwest Treatment Plant 24 "will not go away even if part of it is deemed not-used and useful." 25 5. Resolution 26 Pursuant to the NARUC Uniform System of Accounts, the recording of AFUDC is authorized 27 for water and wastewater utilities during periods of active construction. The Southwest Treatment 28 45 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Plant does not meet the NARUC USOA criteria for recording AFUDC, and accordingly, continued 2 accrual of AFUDC as requested by the Global Water Utilities requires specific authorization. 3 There is no dispute that the Global Water Utilities have expended approximately $32 million to 4 construct the Southwest Treatment Plant. However, the Global Water Utilities' arguments that the 5 magnitude of the costs involved requires regulatory recognition ignores a basic tenet of rate regulation 6 that the investments generating those costs were incurred to provide service to ratepayers. The record 7 is clear that there are no ratepayers taking service from the Southwest Treatment Plant and it remains 8 unknown when sufficient customers will arrive so that the facility can commence operation. That the 9 facility generates mounting costs does not mean that the ratepayers who are not benefiting from the 10 plant should insulate the utility from the consequences of premature investments. For the same reason, 11 we find that the Applicants' arguments that AFUDC treatment and the companion Phase-2 or 12 regulatory asset proposals will moderate a future enormous rate increase when the facility is 13 incorporated into rate base also rests on the faulty assumption that ratepayers are responsible for an 14 investment that is not presently serving them solely because it is a large investment. 15 We are equally unpersuaded by the Global Water Utilities' contention that prior Commission 16 CC&N Decisions that conditioned expansions of Palo Verde's service territory upon receipt of ADEQ 17 AOCs pennitting various components of the Southwest Treatment Plant constitute a mandate to 18 construct the plant. Staff is correct that requiring a utility to provided ADEQ permits demonstrating 19 that the facilities necessary to serve its CC&N are fit to be placed into the public service is a standard 20 requirement63 and one that the Commission regularly provides extensions of time to complete.64 21 We find that it is reasonable is to continue treating the Southwest Treatment Plant as Plant Held 22 for Future Use. This treatment will permit the Global Water Utilities an opportunity to propose the 23 Southwest Treatment Plant's inclusion in rate base in an appropriate rate case when it is actively serving 24 ratepayers. 25 26 27 63 See e.g. Tr. Vol IX at 1352-1353. 28 64 See e.g. Tr. Vol. X at 1503 (testimony of Staff witness Mr. lgwe indicating that in his experience he was unaware of any circumstance where the Commission has denied a request to extend a compliance deadline.) 46 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. C. Valencia Condemnation Proceeds 2 In 2015, the City of Buckeye condemned the assets of Valencia Water Company ("Valencia")65 3 for $55 million. GWRI utilized the condemnation proceeds to pay off approximately $22 million in 4 debt, acquire additional new utilities, and pay approximately $22.8 million in special dividends to 5 GWRI's shareholders.66 The condemnation proceeds also generated significant book and tax gains for 6 GWRI. GWRI realized an approximate $43 million pre-tax and a $22.435 million after tax gain on the 7 condemnation. The gains realized on the condemnation of Valencia gave GWRI an opportunity to 8 employ a provision of 26 U.S. Code § 1033 of the Internal Revenue Code ("Section I 033") whereby 9 GWRI treated the acquisition of new utilities as replacement assets and thereby deferred the gain. IO Under this procedure, the deferred gain is applied as a reduction to the cost basis of the acquired 11 property. Thus, GWRI deployed the condemnation proceeds as investments in the various Global 12 Water Utilities in the form of new plant, or acquisitions of new utilities. 13 However, the Section I 033 procedure creates an issue of whether utility level Accumulated 14 Deferred Income Taxes ("ADIT") were eliminated by using the Section 1033 procedure or if the ADIT I 5 was carried forward by the utilities acquired or reinvested in using the condemnation proceeds. ADIT 16 is a regulatory acknowledgement of a timing difference between the accelerated depreciation method 17 which is used for taxation purposes and the straight-line method which is used to depreciate assets on 18 the basis of estimated useful life and to set tax expense as part of the ratemaking process. Because 19 accelerated depreciation pennits deferral of taxes while the utility incrementally receives depreciation 20 expense, a mismatch occurs - the utility is collecting cash from ratepayers to pay depreciation expense 21 and taxes that have not yet become due. This timing mismatch creates a circumstance where, while 22 the tax bill has not yet come due, the tax liability can be applied against other income as a tax deduction. 23 The offset of taxable income while the tax bill is not yet due essentially represents an interest-free loan 24 from the federal government and is normally deducted from rate base as ADIT for ratemaking purposes 25 until it is repaid. 67 26 27 65 Valencia was originally acquired by GWRI as part of its acquisition of the West Maricopa Combine. Ex. A-29 at 30. 28 66 Ex. A-33, attachment Liebman Rebuttal-I. 67 id. at 5, 12. 47 DECISION NO. __7_86_44__ DOCKET NOS. SW-20445A-20-0214, et al. As proposed in the Applications, the Global Water Utilities originally applied Section 1033 2 deferred tax asset adjustments to the ADIT balances. The proposed adjustments reduced the ADIT 3 balances, increasing the proposed rate bases. The following presents the originally proposed Section 4 1033 adjustments by utility: 5 6 7 8 9 Santa Cruz $4 331,497 Palo Verde $4 908 241 Red Rock (Water) $724,826 Red Rock (Wastewater) $724 768 NSWC $25 320 Eagletail $78,394 GTWC $138 678 Turner Ranches $686,522 Total $11.636.246 According to the Global Water Utilities' witness, Mr. Seltzer, the proposed procedure was 11 necessary to comply with IRS normalization rules. Normalization, as Mr. Seltzer explained, prevents 12 utilities from using flow-through methods of accounting to inunediately subsidize current customers 13 by way of accelerated tax depreciation to the detriment of future customers who will be served by the 14 same asset and continuing to pay depreciation expense on that asset.68 Under the nonnalization 15 procedure, deferred taxes are credited to a reserve, essentially a virtual ADIT credit balance, which can 16 be used to reduce rate base. This ADIT credit balance would be accounted for as a deferred tax 17 liability69 and would be gradually depleted as the deferred taxes are repaid. However, if a utility does 18 not generate adequate income to use the ADIT balance to create the interest-free loan, it generates a 19 Net Operating Loss (tax deductions exceed income). The unused tax liability component of the Net 20 Operating Loss is a Net Operating Loss Carryforward ("NOLC") which, for ratemaking purposes is 21 22 23 24 25 26 treated as a deferred tax asset and can be used in future years to offset future taxable income. 1. The Global Water Utilities According to the Global Water Utilities, it is appropriate and required by the IRS to apply the NOLC deferred tax asset as a direct offset to unused ADIT to be consist with normalization requirements. 70 The consequences of not complying with normalization requirements would be denial 27 68 Ex. A-51 at 8-9. 69 Ex. A-51 at 12. 28 70 Ex. A-51 at 4, 15. 48 DECISION NO. 78&44

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DOCKET NOS. SW-20445A-20-0214, et al. of the ability to benefit from accelerated depreciation as well as elimination of all of the deferred taxes 2 that created the ADIT balances, thus increasing the utility's tax liabilities which would flow through to 3 ratepayers, to their detriment.71 Based on Mr. Seltzer's analysis of IRS requirements, the Global Water 4 Utilities contended that, 5 6 7 8 9 10 11 12 13 14 15 16 17 nonnalization requires that when the utility experiences a net operating loss, and that loss is attributable to accelerated depreciation for tax purposes, determined on a with and without basis, the deferred tax reserve (ADIT) used to reduce rate base must be reduced by the NOLC deferred tax asset.72 In other words, under normalization rules, when assets are retired for tax purposes (as occurred with the replacement of property when GWRI reinvested the Valencia condemnation proceeds using the Section I 033 procedure), the ADIT associated with those retired assets must also be eliminated and cannot be carried over to apply to the replacement asset.73 In response to Staff inquiries and criticism of the proposed nonnalization procedure, however, the Global Water Utilities conceded that, owing to the acquisition of numerous utilities with deficient records, and considering the age of many of their assets, it was not possible to perform the "with and without analysis" to support the proposed adjustment.74 Consequently, the Applicants made corresponding adjustments to eliminate the difference between book basis and tax basis in the Section 1033 deferred tax assets applied to each utility.75 The cumulative impact of the adjustments reduces the impact to ADIT liability (i.e. increases to rate bases) from $11.6 million to approximately $10.2 18 million across all of the utilities. 19 20 21 22 23 24 25 Utility Santa Cruz Palo Verde Red Rock (Water) Red Rock (Wastewater) NSWC 71 Ex. A-51 at 7. 26 72 Ex. A-51 at 16. 73 Ex. A-5 I at I 9-20. Original Section 1033 Adjustment to Reduce ADIT Liability (i.e. increase rate base) $4,331,497 $4,908,241 $724,826 $724,768 $25,320 27 74 Tr. at483-84; Ex. A-53 at 12-13. 28 75 Ex. A-31 at 5, 7. 76 Global Water Utilities Final Schedules, Schedules B-2, page 2. 49 Adjustment to Revised Section Original Request76 1033 Adjustment $ 173,289) $4,158,208 $ 463,237) $4 445,004 $ 206,270) $518 556 $ 152,438) $572 330 $ 15,635) $9,685 DECISION NO. 78644…___ 2 3 Eagletail GTWC Turner Ranches Total $78,394 $138,678 $686,522 $11,636,246 DOCKET NOS. SW-20445A-20-0214, et al. $(36,466) $41,931 $(9,381) $129,297 $(335 297) $351 ,225 $(1,392,013) $10,226,236 According to the Global Water Utilities, the result of the adjustments to the Section 1033 4 deferred tax assets holds both the Applicants and ratepayers harmless, neither benefiting nor penalizing 5 them by the condemnation and tax deferral.77 As explained by Mr. Seltzer for the Global Water 6 Utilities, 7 8 9 10 11 12 13 Yes, I believe that the ratepayers are in the same position as if the 1033 had never -- had never occurred. They get the full benefit of the rate base -- of the cost basis in the cost of service so that they get depreciation for both book purposes and tax purposes on that full basis. They get the benefit as that depreciation is claimed by the company. They get the benefit of the deferred taxes, which will reduce rate base on a going forward basis and benefit ratepayers. And rate base simply represents the same amount it would have represented had the company just took its own cash and invested that rate base without regard to I 033. So I believe that, in the end, ratepayers are neither benefited nor banned by the 1033 adjustment. 78 2. RUCO RUCO did not take a position regarding the Applicants ' accounting or the adjustments made to 14 ensure that ratepayers experience no impacts from the Valencia condemnation. 15 16 17 18 3. Staff In pre-filed testimony, Staff took issue with the portion of the Applicants' proposed Section 1033 procedure to recognize a NOLC regulatory asset on the grounds that IRS normalization rules apply when NOLC is the result of a utility claiming deductions for accelerated depreciation but not 19 when the NOLC is the result of other temporary differences in book basis and tax basis. 79 While Staff 20 acknowledged that the IRS places responsibility on the utility to detennine the extent to which its ADIT 21 22 23 24 25 26 is the result of NOLCs due to using accelerated depreciation, Staff argued that the determination requires performing a with and without80 analysis. Staff also generally agreed that if GWRI performed a with and without analysis demonstrating that an ADIT asset created from NOLC was the product of claiming tax deductions from accelerated depreciation by an affected utility, it would be appropriate to 77 Ex. A-31 at 11 ; Tr. Vol IV at 473. 27 78 Tr. Vol. IV at 473. 79 Ex S-1 at 28. 80 A with and without analysis is a calculation of the utility' s taxable income / tax loss with (claimed deductions for 28 accelerated depreciation) and without (claimed deductions for accelerated depreciation). Ex. S-1 at 29. 50 DECISION NO. 7_B_64_4__ DOCKET NOS. SW-20445A-20-0214, et al. include the related ADIT asset in the utility's rate base.81 Finding no representations to the effect that 2 a with and without analysis had been perfonned, however, Staff rejected the Section 1033 adjustment.82 3 Upon reviewing the Global Water Utilities' concession that it had not met the with and without 4 criteria, and proposed companion adjustments to the Section 1033 adjustments, reducing the net ADIT 5 reduction from approximately $11.6 million to $10.2 million, Staff confirmed that the adjustments did 6 hold the ratepayers harmless as if the Valencia condemnation had never occurred.83 7 However, Staff continues to disagree that its originally recommended removal of all Section 8 1033 adjustments to ADIT was a nonnalization violation.84 Testifying for Staff, Mr. Smith stated that 9 an inability to use a utility's recorded ADIT liability in the context of a historical test year is not a 10 circumstance he has ever seen, despite seeing the issue raised in numerous cases over a professional 11 career spanning 40 years.85 Staff maintains that there is lack of clarity regarding the treatment of the 12 remaining $10.2 million in Valencia condemnation proceeds that continue to be applied as a 13 reinvestment in the Global Water Utilities. According to Staff, "there's potentially a large reduction 14 to rate base that would be continuing for as long as that gain deferral remains, which could be 15 decades."86 As Staff frames it, the issue is whether nonnalization rules preclude any possibility that 16 ratepayers can benefit from a uti lity's gain on condemnation proceeds.87 17 Staff opines that one way to obtain clarity on the issue is to require the Global Water Utilities 18 to pursue a Private Letter Ruling ("PLR") with the IRS. Staff acknowledges that the process of 19 pursuing a PLR comes at a cost that was estimated in the range of $100,000 - $125,000 and could take 20 as long as a year in the post-COVID 19 work environment. Notably, Staff is not specifically 21 recommending that the Commission require a PLR. However, Staff maintains

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that there are benefits 22 to a neutral PLR request developed with input from all parties, principally from applying the PLR 23 advice to address ADIT liabilities in a future rate case.88 24 25 81 Ex. S-1 at 32. 82 Id. 26 83 Tr. at 503-506. 84 Tr. at 506. 27 85 Tr. at 506-507. 86 Tr. at 516. 28 87 Staff Closing Br. at 18-19 citing Tr. at 609. 88 Tr. at 529. 51 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 4. The Global Water Utilities' Response 2 The Applicants assert that pursuing a PLR would serve no purpose, is costly, is unwarranted 3 and would be an unfair treatment of GWRI's decision to reinvest the Valencia condemnation proceeds 4 in Arizona. The Applicants explain that the unrealized net benefits to ratepayers Staff implies exist, 5 are inconsistent with ratemaking principles because the Valencia condemnation did not impact the cost 6 of service to existing ratepayers who are an entirely separate customer base than Valencia's, 89 and there 7 is no dispute that the condemnation proceeds belong to GWRI which is free to use the proceeds as it 8 wishes.90 Moreover, seeking benefits for ratepayers without matching liabilities to the ratepayers would 9 be contrary to the hold hannless approach offered to resolve the issue in this case. As Staff conceded, 10 giving ratepayers the benefit of the tax deferral may also expose them to the burden of taxation when 11 the deferral ends.91 Additionally, seeking the IRS' blessing to further reduce rate base punishes GWRI 12 for reinvesting in Arizona when it could have invested the condemnation proceeds elsewhere. 13 The Global Water Utilities continue to argue that the additional benefits Staff alludes to would 14 require violating IRS normalization rules to obtain because it remains a violation of the rules to 15 accomplish indirectly (through the application of a deferred tax liability to reduce rate base with the 16 replacement assets) what would be prohibited if done directly.92 To that point, it is unclear how severe 17 a penalty for a violation would be but, as Mr. Smith admitted on behalf of Staff, it can be expected that 18 at the least any penalty will entail the loss of tax depreciation for Santa Cruz and Palo Verde which 19 would significantly raise rates for ratepayers.93 20 Finally, Applicants note that the PLR is a costly process and that it has been rejected by the 21 Commission previously because it injected needless cost and delay. 94 5. Resolution 22 23 Based on Mr. Seltzer's and Ms. Kruppa's testimonies explaining the adjustments made to 24 restate the difference between book basis and tax basis in the Section 1033 deferred tax assets, and 25 26 89 Ex. A-29 at 25-26. 90 Ex. A-29 at 28-29. 27 91 Tr. at 559-560. 92 Ex. A-53 at 7-8. 93 Tr.at 6 13. 28 94 Applicants' Closing Br. at IO I , citing Decision No. 75484 at 17. 52 DECISION NO. 78644 ------

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DOCKET NOS. SW-20445A-20-0214, et al. 1 Staffs agreement that these adjustments effectively treat the ratepayer as if the Valencia condemnation 2 had not occurred, we believe that the Applicants' proposed Section 1033 adjustments are reasonably 3 supported in this case. 4 As for Staffs suggestion that a PLR could be ordered in this case, there are two prior cases of 5 which we are aware that considered requiring a utility to pursue a PLR at the IRS. One involved 6 Adaman Mutual Water Company's application to convert from a not-for-profit into a for-profit entity 7 to facilitate a bulk water sales agreement with the City ofGoodyear.95 The concern was that the volume 8 of sales to the municipality contemplated under the agreement would elevate the utility 's revenue to 9 the point that it would exceed thresholds to maintain not-for-profit status. Anticipating the problem 10 and to facilitate the transaction moving forward, Adaman Mutual applied to the Commission for the 11 necessary approvals to reorganize as a for-profit utility. An intervenor opposed to the reorganization 12 requested that the Commission deny the application pending the issuance of an IRS PLR confirming 13 that the sales would violate Adaman Mutual 's not-for-profit status. The Commission denied the request 14 because pursuit of the PLR would delay or potentially frustrate a transaction that was in the public 1 5 interest. 96 16 The other case addressing a request for a PLR, and relied upon by Applicants to refute Staffs 17 recommendation, was in the acquisition of Willow Valley Water Company, a former GWRI-owned 18 utility, by EPCOR. In that case, RUCO advocated requiring Willow Valley to obtain a PLR for a 19 similar concern as present in this case - to determine whether a regulatory liability in the ADIT balance 20 might violate IRS normalization rules. In the Willow Valley case, the recommendation by RUCO that 21 the utility obtain a PLR was also prior to the occurrence of the transaction that the PLR process was 22 expected to validate. Because the transaction was structured as a transfer of assets, the ADIT balance 23 generated by the transaction would be removed from GWRI's books because the tax liability would be 24 payable to the IRS. To preserve the ratepayer benefit from ADIT reducing the utility's rate base RUCO 25 argued for various measures to preserve the ADIT balance, including creating a regulatory liability in 26 the amount of the ADIT balance. Staff and both utilities asserted that creating a regulatory liability as 2 7 95 Notably, as part of the bulk water sales agreement, the utility would also receive an arsenic treatment facility paid for by 28 the municipality. Decision No. 72506 (August 3, 2011) at 18. 96 Decision No. 72506 at 24. 78644 53 DECISION NO. ------ DOCKET NOS. SW-20445A-20-0214, et al. RUCO proposed might cause a violation ofIRS nonnalization rules, thus prompting RUCO to respond 2 with a recommendation that the utilities pursue a PLR from the IRS. 3 As in the present case, arguments in the Willow Valley case against requiring pursuit of a PLR 4 described it as "problematic because it is a complex, time consuming, and expensive process."97 5 Significantly, the alterations to the underlying transaction at issue to address the ADIT normalization 6 issue also threatened "a host of constitutional and practical concerns that [would] render [the sale] 7 unworkable."98 In rejecting the PLR recommendation, the Commission noted that the ADIT balance 8 to be preserved through the proposed regulatory liability would be for a utility that would no longer 9 exist once the transaction was consummated and therefore the ADIT balance would likewise no longer 10 exist. Additionally, the Commission determined that the proposed regulatory liability to recognize the 11 ADIT balance would likely violate the IRS normalization rules.99 12 Neither the Adaman Mutual nor Willow Valley case is entirely applicable to the present case. 13 In both Adaman Mutual and Willow Valley, the transaction to be validated through the PLR lens had 14 not yet occurred. Thus, the PLR process added a layer of delay that would prevent the desired 15 transactions from moving forward. In the present case, Staff's recommended PLR is to address 16 concerns directed at the accounting procedure GWRI has already employed. Further, based on the 17 resolution proposed by the Global Water Utilities and accepted by Staff, the Applicants will have the 18 benefit of their requested treatment until and unless the IRS issues a PLR ruling that indicates a different 19 treatment is appropriate. Thus, there is no risk that seeking a PLR will serve as a delay or impediment 20 to frustrate a transaction that has yet to occur. 21 To the Global Water Utilities' argument that the effort would be without a point, we disagree. 22 Whether the IRS rules prevent recognizing some ratepayer benefit amidst the infusion of reinvested 23 Section l 033 proceeds as Staff has suggested is distinct from the question of whether the Applicants 24 properly followed normalization requirements. To the Applicants' arguments that the process is costly, 25 contrasting the potentially $ l 0.2 million benefits against a potentially $ l 25,000 cost argues in favor of 26 seeking clarity from the IRS whether additional ratepayer benefits are open for consideration. We also 27 97 Decision No. 75484 (March JO, 2016) at 14. 98 Id. 28 99 /d. at 17. 54 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 note that Applicants have already sought a PLR, albeit one that was tailored to confirming whether 2 wastewater facilities are sufficiently like the condemned water facilities of Valencia to qualify for 3 Section 1033 reinvestment treatment, and it was included in the pre-filed direct testimony of Mr. 4 Seltzer. 100 5 The record also reflects that the IRS may decline to move forward on the PLR request, thus 6 mitigating the cost of the effort. Compared against potentially $10.2 million in benefits for ratepayers, 7 we believe that it would be appropriate to require Applicants to seek a PLR from the IRS. We find that 8 it is reasonable to require the Global Water Utilities to work with Staff and RUCO to develop a 9 neutrally worded PLR request for the IRS to clarify whether it is possible to use recorded ADIT liability 10 amounts related to the Valencia condemnation tax gain deferral as an offset to rate base in the utilities 11 receiving the reinvested proceeds. 12 D. Acquisition Premiums 13 The Global Water Utilities ' applications also note that their- parent, GWRI, has undertaken 14 multiple acquisitions of water and wastewater utilities. Since 2006, GWRI has acquired twelve utilities 15 including the West Maricopa Combine, 101 the 387 Districts, 102 Eagletail, 103 Turner Ranches, 104 Red 16 Rock (Water), 105 Red Rock (Wastewater), 106 Global Water - Lyn Lee, 107 Global Water - Mirabell, '°8 17 18 19 100 Ex. A-51 , attachment 3. 101 West Maricopa Combine was acquired through stock acquisition before Santa Cruz became a Class A public service 20 corporation requiring Commission approval to acquire utilities. 102 See e.g. , Decision No. 68498 (February 23, 2006) approving the extension of Santa Cruz and Palo Verde's CC&Ns to 21 serve the 387 Domestic Water Improvement District and the 387 Wastewater Improvement District. 103 See e.g., Decision No. 76133 (June 9, 2017) noting that GWRI ' s request for waiver of the Affiliate Interest rules (A.A.C. 22 R 14-2-80 l et seq) to permit merger of Eagletail under common parent of Class A utility had gone into effect by operation of law pursuant to A.AC. R14-2-806(C). 23 104 See e.g. , Decision No. 76783 (June 17, 2018) noting that GWRJ 's request for waiver of the Affiliate Interest rules (A.A.C. R14-2-801 et seq) to permit merger of Turner Ranches under common parent of Class A utility had gone into effect by 24 operation of law pursuant to A.A.C. Rl4-2-806(C). 105 See e.g., Motion for Administrative Closure filed October 19, 2018, in Docket No. SW-20445A-l 8-0303 et al, noting 25 that GWRl's request for waiver of the Affiliate Interest rules (A.AC. R14-2-801 et seq) to permit merger of Red Rock (Water) under common parent of Class A utility had gone into effect by operation of law pursuant to A.A.C. R l 4-2-806(C). 26 106 See e.g., Motion for Administrative Closure filed October 19, 2018, in Docket No. SW-20445A-18-0302 et al, noting that GWRI's request for waiver of the Affiliate Interest rules (A.AC. R14-2-801 et seq) to permit merger of Red Rock 27 (Wastewater) under common parent of Class A utility had gone into effect by operation of law pursuant to A.AC. R 14-2- 806(C). 107 Ex. A-42 at 5. 28 10s Id. 55 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Global Water - Tortolita, 109 Global Water - Francesca,1 10 Twin Hawks Utility, Inc., 111 and Rincon 2 Water Company.112 3 In Decision No. 75626, Policy Statement No. 5 (Policy Regarding Acquisition of Non-Viable 4 Systems) we stated: 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 109 Id. 27 110 id. To encourage the consolidation of small water utilities, it is the policy of the Commission that acquisition premiums should be allowed for acquisitions of private water systems subject to the following conditions: (a) The acquisition serves the general public interest; (b) The acquiring utility meets the criteria of viability that will not be impaired by the acquisition, that it maintains the managerial, technical , and financial capabilities to safely and adequately operate the acquired system, and is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders, and will be able to meet other requisite regulatory requirements on a short and long-tenn basis; (c) Tl1e acquired system is classified as a Class Dor E water utility, the acquired system is not viable, it is in violation of statutory or regulatory standards concerning the safety, adequacy, efficiency or reasonableness of service and facilities, or that it has failed to comply, within a reasonable period of time, with any order of the Arizona Department of Environmental Quality or the Commission; (d) Neither the acquiring nor the selling system is an affiliated interest of the other; (e) The rates charged by the acquiring system to the acquired customers will not increase unreasonably because of the acquisition; (f) The purchase price is fair and reasonable and conducted through arn1s' length negotiations; (g) If appropriate, the acquirer's rates may be applied to the acquired system. Under certain circumstances of extreme differences in rates, or of affordability concerns, consideration should be given to a phase-in of the rate difference over a reasonable period of time; (h) The acquisition premium must be associated with improvements, that are completed within a reasonable period of time, which can be qualitative, quantitative or both (this provision ensures that only companies in need of improvements will be eligible for acquisition premiums); and (i) The premium must be reviewed and approved in a rate case. It is the policy of the Commission that the acquisition premium be detennined in accordance with the following principles (in addition to those above): (a) One or more of the following may be used to provide recovery of the acquisition premium: 28 11 1 Decision No. 78307 (November 9, 2021). 112 Decision No. 78319 (December 3, 2021). 56 DECISION NO. 78644 ------

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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 DOCKET NOS. SW-20445A-20-0214, et al. I. A premium on the return on equity. 2. 3. 4. An acquisition adjustment (creditor debit adjustments to rate base for purchase price discounts or premiums, respectively, may be used). A deferral of the cost of improvements the acquirer undertakes. A surcharge for the recovery of the cost of improvements the acqmrer undertakes. (b) If the improvements that are required to improve service quality would result in rates that are deemed too high to be absorbed by ratepayers at one time, rate recovery of the improvement costs may be recovered in phases. There may be a one-time treatment of the improvement costs in the initial rate case but a phasing in of the acquisition improvements and associated carrying costs may be allowed over a finite period. Additionally, Policy Statement No. 6 (Policy Regarding the Acquisition of Viable Systems) allows acquisition premiums for purchases of viable private water systems by an acquirer that has demonstrated a record of acquiring and improving the service provided to ratepayers served by non viable systems. Under this provision, allowance of an adder to the return on equity component of rate or return may be approved if the acquirer has provided sufficient supporting data with its rate application. With the exception of subparagraph (c), all of the same standards applicable for non-viable systems also apply to the detennination of whether an acquisition premium is appropriate for a viable utility. A summary of the Applicants' proposed and Staff's recommended acquisition premiums, expressed as adjustments increasing rate base and, and their impact on revenue requirements excluding the proposed ROE adder, is as follows: Utility Acquisition Premium Annual Revenue Requirement Increase Ad_justment to Rate Base GWU RUCO11 -' Staff GWU RUCQI14 Staff Turner $1,584,654 $188,112 Ranches $188,112 $141,240 NIA $24,812 Red Rock $114,950 $114,950 $114,950 $10,478 NIA $9,943 (Water) Red Rock $495,030 $495,030 $495,030 $45,290 NIA $42,823 (Wastewater) 113 On brief, RUCO recommends a 20% acquisition premium for the Red Rock (Water and Wastewater) and Turner Ranches 26 systems. RUCO Cl. Br. at 17. However, RUCO's final schedules reflect complete removal of the full acquisition premiums for Red Rock (Water), Red Rock (Wastewater), and Turner Ranches. RUCO's final schedules, Surrebuttal Schedule CSB- 27 4 ("Global Water - Turner Ranches Irrigation, Inc.", "Global Water - Pinal County Wastewater (Palo Verde, Red Rock, and Picacho)", and "Global Water - Pinal County Water (Santa Cruz, Red Rock, Picacho Cove)". 28 114 RUCO's final schedules provide no calculation of the revenue increase related to adoption of the recommended acquisition premiums. 57 DECISION NO. 78644 2 3 DOCKET NOS. SW-20445A-20-0214, et al. 1. The Global Water Utilities a. Red Rock (Water) and Red Rock (Wastewater) The Global Water Utilities request a $1 14,950 acquisition premium adjustment be made to the 4 rate base of Red Rock (Water) and a $495,030 acquisition premium adjustment be made to the rate 5 base of Red Rock (Wastewater). The acquisition premiums were calculated as 20% of the rate base 6 for the utilities at the time of acquisition. 11 5 7 According to Mr. Corwin, at the time of their acquisition, the Red Rock (Water and Wastewater) 8 utilities had issues with elevated Hydrogen Sulfide in the office area, inoperable UV disinfection 9 chambers for the wastewater treatment system, improper reporting of wastewater turbidity levels, 10 generally poor housekeeping/cleanliness to the extent of creating safety hazards, poor wastewater I 1 filtration maintenance, failed wastewater decanters, aged and nonfunctional SCADA equipment, a 12 broken flow meter at the water distribution center, failed effluent pumping station filters, nitrate 13 contamination of the backup potable well, no redundancy for the biosolids dewatering system, unbilled 14 customer accounts, and one of the two lift stations serving the wastewater system was inoperable. 11 6 15 Although they argue that the Red Rock (Water and Wastewater) utilities could easily qualify as 16 non-viable at the time of acquisition, the Applicants propose to classify them as viable nonetheless. 17 Noting that Staff's recommendation to recover the acquisition premium solely from Red Rock 18 customers will produce a cumulative impact on Red Rock customers (water and wastewater) of $8. 19 I 9 per month, the Applicants argue that applying the acquisition premium on a consolidated basis would 20 be more reasonable. For example, the Applicants point out that the cumulative $8.1 9 acquisition 21 premium surcharges applied solely to Red Rock customers spare the rest of the customers within the 22 proposed Santa Cruz and Palo Verde consolidation only $0.24 a month if the acquisition premium is 23 distributed across the consolidated rate groups. 117 Moreover, Applicants point out that Staff's 24 calculation of the acquisition premiums is low because Staff omitted corrections to their calculation of 25 the tax gross up for the acquisition premiums and thus the impacts to the Red Rock customers are 26 higher than Staff estimated. Consequently, the Global Water Utilities argue that the surcharge should 27 115 Ex. A-26 at 11. 116 Ex. A-39 at 27-28. 28 117 Ex. A-93 at 7 ("Impact of Allocating all AP Related Costs only to Red Rock Customers". 58 DECISION NO. 78644 2 3 DOCKET NOS. SW-20445A-20-0214, et al. be applied on a consolidated basis instead. b. Turner Ranches In contrast to the Red Rock (Water and Wastewater) utilities, the Global Water Utilities are 4 requesting I 00% of the acquisition premium for Turner Ranches based on their contention that Turner 5 Ranches was non-viable at the time of acquisition. Per Mr. Corwin, Turner Ranches required 6 significant well rehabilitation, hydrant upgrades, valve replacements, distribution system redundancy, 7 distribution pump upgrades, and system controls and automation. Notably, the prior ownership for 8 Turner Ranches was actively seeking a means to retire from operating the utility.118 9 Since acquiring the system, the Applicants have overhauled one of the wells, and added a new IO water distribution line providing redundancy to serve the Superstition Springs golf course. The Global 11 Water Utilities have also implemented a valve and hydrant replacement program to ensure functionality 12 when such facilities are needed. 119 A redundant distribution pump and variable-frequency drive also 13 were installed at Turner Ranches' Water Distribution Center, ensuring adequate pressure in the event 14 of equipment failure. Various other plant replacements have been performed to the Water Distribution 15 Center as well to address facilities that were in a state of disrepair. Installation of SCAD A equipment 16 has increased system efficiency. 120 17 Although the prior ownership had begun the process of addressing the system's infrastructure 18 needs through financing and loan surcharge approvals, upon acquisition, the Global Water Utilities 19 paid off the outstanding debt, thereby eliminating the need to continue the loan surcharge. Eliminating 20 the loan repayment surcharge instantly reduced residential customers' monthly bills by $5.32 and 21 metered customers' bills by $26.68.121 For residential customers this effectively produced a 17% rate 22 decrease. 122 23 The Global Water Utilities dispute Staffs position that Turner Ranches was viable at the time 24 GWRI acquired it. Although the prior owners of Turner Ranches were able to pursue a rate and 25 financing application, the Applicants note that Turner Ranches required a financing surcharge, the 26 118 Ex. A-39 at 21. 119 Id. at 22. 27 120 Id. at 23-25. 121 Id. at 21. 28 122 /d. 59 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. approved financing was insufficient to address the system's deficiencies, many of which were not even 2 identified in the financing, and the system's prior owners lacked a succession plan. Noting the 3 distinction between a non-viable utility and a failed utility, Global Water Utilities asserts that although 4 Turner Ranches had not quite failed at the time it was acquired, it fell short under the Water Policy's 5 viability analysis and thus qualifies as a nonviable utility. 123 6 Pointing to the requested and unopposed acquisition premium for Red Rock of 20% despite 7 their view that Red Rock could be viewed as nonviable, and the fact that no acquisition premium is 8 being requested for Eagletail, the Applicants also maintain that a I 00% acquisition premium is 9 appropriate for Turner Ranches based on GWRI's track record of acquiring and rehabilitating 10 nonviable utilities, a record which Staff does not dispute. 124 11 In contrast, the Applicants argue that RUCO's recommendation of a 20% acquisition premium 12 for Turner Ranches is based on criteria not established within the Water Policy - that an acquisition 13 premium should bear a relation to clear, quantifiable, and substantial benefits to ratepayers. Noting 14 RUCO's witness' inability to quantify the benefits ofreduced turbidity in wastewater or fire hydrants 15 that work or well rehabilitation, the Global Water Utilities attribute this inability to the priceless nature 16 of access to clean drinking water and functioning fire protection. c. Eagletail 17 18 The Applicants are not seeking an acquisition premium for the purchase of Eagletail but they 19 do request a finding that Eagletail was non-viable at the time of acquisition. Mr. Corwin notes that 20 prior to its acquisition by the GWRI, Eagletail was a rural cooperative operated by its customers and 21 had 24 miles of water mains serving approximately 60 metered connections and only a single 100,000- 22 gallon storage tank. 125 The system had only one utility operator who was preparing for retirement and 23 its sole storage tank was dilapidated and leaking. Although prior ownership had applied for Water 24 Infrastructure Financing Authority of Arizona ("WIF A") financing to replace the tank, the tank was 25 still in the design stage at the time of the system's acquisition. The system also had a water loss rate 26 of approximately 46% in the last year it was managed by its previous ownership, in large part due to 27 123 Applicants' Rep. Br. at 14 Citing Decision No. 75743 (September 19, 2016) at 15. 124 Tr. Vol. X at 1542. 28 125 Ex. A-39 at 8-9. 60 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. its generally antiquated facilities and leaking water distribution mains. l 26 The system's electrical 2 equipment was also deficient and posed safety hazards. l27 3 Upon its acquisition by GWRJ, a replacement storage tank, right-sized for the system's needs, 4 has been installed that provides sufficient capacity for day to day conditions and some contingency 5 situations. Additionally, new pumps and yard piping have been

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acquired and installed. I28 Antiquated 6 water meters have been replaced with meters having automated meter reading capabilities to better 7 inform sources of ongoing water loss.129 8 9 d. Return on Equity ("ROE") Adder In parallel with the requested rate base acquisition premiums for Red Rock (Water and 10 Wastewater) and Turner Ranches, the Applicants also request that the Commission authorize a 30-basis 11 point ROE adder. According to Mr. Fleming testifying for the Global Water Utilities, whereas the 12 acquisition premium adjusts the rate base of the acquired utility to make its acquisition a more attractive 13 prospect, the return on equity adder serves a different purpose. 130 As he explained, 14 15 16 17 18 19 It was, hey, if you will go help consolidate these smaller, troubled utilities, we will give you an ROE premium across the board. And the reason is, if 1 go buy 50 customers closer to California than Phoenix, which I've done, it's Eagletail in this case, the ROE adder on those 50 customers, who can hardly - who can' t really pay the rates today anyway with the investments that we're trying to make, so we're having them on an operating margin, it doesn' t move the needle on the analysis of if that deal is viable or not. It's not until that ROE adder is spread across the larger customer base that you triangulate on the specifics of the deal, the net company benefit, and go to investors and say, it's absolutely worth it from a business perspective as well. 131 Arguing that the Water Policy contemplates a single return on equity rather than multiple 20 returns on equity, the Applicants disagree with RUCO's recommendation that the adder be limited to 21 apply only to the capital employed to acquire the distressed utility because it would result in multiple 22 distinct returns. Further, the Applicants observe that many non-viable utilities have limited rate bases 23 and consequently low purchase prices. They argue that an ROE adder applied only to the capital to 24 acquire such utilities would generate only a de minimis revenue impact and thus a negligible incentive 25 26 126 Id. at I 0. 127 Id. at I 2. 27 i2s Id. at 13. 129 id. 130 Tr. Vol. 1 at 154. 28 131 Id. 61 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. to acquire such utilities and would therefore frustrate the purpose of providing an acquisition incentive. 2 The Global Water Utilities also dispute RUCO's characterization of the 20% cap on acquisition 3 premiums as a comprehensive ceiling on incentives for viable utilities, thus precluding additional 4 incentive recovery that would exceed that 20% limit. In response, the Applicants contend that the 20% 5 limitation is applicable to the original cost of the rate base and is distinct from and inapplicable to an 6 incentive premised on the return on equity. Further, they point out that the 20% cap applies only to the 7 acquisition of viable utilities and RUCO concedes that all of the acquisitions at issue are for non-viable 8 utilities. 9 10 11 2. RUCO Based on its review, RUCO contends that at the time of acquisition, both Turner Ranches and Red Rock (water and wastewater) were non-viable. Noting that the viability status of the acquired 12 utility establishes limitations on the allowable acquisition premium that may be authorized, RUCO 13 expresses concern that Staff and the Global Water Utilities have arrived at conflicting viability 14 conclusions for the Red Rock system. RUCO criticizes the Applicants' approach to determining 15 viability which, according to RUCO "appears ... may be tied to the amount of the [acquisition premium] it is requesting."132 As further explained by RUCO, the viability detennination is an 16 17 engineering detennination with defined criteria, and it should not be influenced by policy 18 considerations. 19 To obtain clarity, RUCO recommends that the following considerations should determine the 20 size of the acquisition premium for non-viable utilities: (l) the customer count of the acquired utility; 21 (2) portion of the acquisition premium to be used for utility capital improvement; (3) projected bill 22 impacts; (4) length of the acquisition premium amortization period; (5) quantification of annual 23 benefits accruing to customers from the acquisition; (6) a market price study or net value study; (7) 24 benefits accruing to shareholders; (8) number of years since the acquired utility's last rate case; (9) a 25 reasonableness check based on comparison of per/customer acquisition premium to average rate 26 base/customer of the acquired utility; and (10) other factors. Alternatively, for a viable utility, RUCO 27 recommends consideration of the following factors when setting the acquisition premium: (1) prior 28 132 RUCO Cl. Br. at 13. 62 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. acquisitions of non-viable utilities; (2) the customer count of the acquired utility; (3) a market price 2 study or net value study; and (4) other factors. 133 3 Despite the conflicting positions of Staff and the Applicants as to viability, RUCO does believe 4 that acquisition premiums are appropriate for both Turner Ranches and Red Rock and has reached its 5 own conclusion that Turner Ranches was not viable at the time of acquisition. RUCO recommends 6 that each be assigned a 20% acquisition premium on their respective rate bases, to be amortized over 7 25 years. RUCO also recommends that approval of the acquisition premiums should be conditioned 8 upon a refund to ratepayers of any portion of the acquisition premiums that have been collected if either 9 Red Rock or Turner Ranches is sold. 134 RUCO believes that such a condition protects ratepayers 10 against strategic acquisitions that benefit shareholders through approval of acquisition premiums and 11 enhanced resale values for the acquired utilities.135 Additionally, RUCO recommends that in the next 12 general rate case, a review be conducted to detennine if the acquisitions provided clear, quantifiable, 13 and substantial benefits to ratepayers. 14 RUCO opposes the Applicants' separate request to implement a 30-basis point return on equity 15 adder to further incent acquisitions. RUCO argues that the ROE adder is a blanket adjustment and if 16 one is adopted, it should be restricted to apply solely to the capital employed to acquire the utilities in 17 question, 136 i.e. restricted to apply only to the Red Rock and Turner Ranches systems. According to 18 RUCO, the proposed ROE adder would substantially overstate the cost of equity. Likewise, RUCO 19 asserts that because the Water Policy articulates caps on the acquisition premium, permitting the 20 application of an ROE adder in addition to acquisition premiums boosting the rate bases defeats the 21 purpose of establishing caps on acquisition premiums. To that end, RUCO recommends that all of the 22 potential incentives articulated in Section 6, 2(b) of the Water Policy be considered cumulatively 23 subject to the cap. 24 RUCO did not take a position concerning Staff's recommendation to apply the acquisition 25 premiums exclusively on the ratepayers of the acquired utilities as opposed to across all ratepayers 26 27 133 RUCO Cl. Br. at 16-17. 134 Ex. RUCO-6 at 29-30. 135 Ex. RUCO-7 at 15- l 6. 28 136 Ex. RUCO-10 at 69. 63 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. within the corresponding consolidated rate group proposed by the Applicants. However, testifying for 2 RUCO, Mr. Erdwunn explained that if rate consolidation is adopted as proposed by the Applicants and 3 generally agreed to by Staff and RUCO, isolating the acquisition premium to apply only to ratepayers 4 of the acquired utility would be inconsistent with consolidation and it would be simpler and make 5 greater administrative sense to share the cost across the entirety of the affected consolidated group. 137 3. Staff a. Red Rock (Water and Wastewater) 6 7 8 Based on its analysis of the Red Rock systems, Staff believes that Red Rock (Water and 9 Wastewater) were nonviable at the time of acquisition. Staff's nonviability conclusion rests on 10 Decision No. 75743 's nonviability criteria related to current noncompliance or inability to attain 11 compliance with ADEQ. As pointed out by Staff, Red Rock has been and remains out of compliance 12 with ADEQ due to E. Coli and turbidity issues. 138 Staffs detennination of Red Rock 's nonviability 13 rests entirely on the noncompliant status with ADEQ. 139 14 Regarding the acquisition premium analysis, Staffs position is that only those ratepayers who 15 benefit from the acquisition should pay the acquisition premium which functionally limits the 16 collection of acquisition premiums to only customers of the acquired utility. Staff recommends a 20% 17 acquisition premium based on the rate base at the time of acquisition for Red Rock, to be amortized 18 over 25 years. To effectuate its recommendation, Staff calculated an acquisition premium surcharge 19 applicable to Red Rock (Water) and Red Rock (Wastewater) to apply the surcharge only to Red Rock 20 ratepayers. 21 22 b. Turner Ranches In contrast to the Global Water Utilities, Staff viewed Turner Ranches as viable at the time of 23 acquisition because, using the Water Policy's viability criteria, Turner Ranches ' prior management 24 demonstrated the necessary managerial, technical, and financial capabilities to process rate and 25 financing filings to secure the means to address needed upgrades and Turner Ranches was compliant 26 27 137 Tr.Vol.IXat1342-1343. 138 Id. at 1359 and 1363-1364; Ex. S-20. 28 139 Tr. Vol. IX at 1368. 64 DECISION NO. 78644 -----

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DOCKET NOS. SW-20445A-20-0214, et al. with all relevant governmental agencies. 140 Because it views Turner Ranches as viable at the time of 2 acquisition, Staff notes that the Global Water Utilities must also demonstrate a clear track record of 3 acquiring and improving service to nonviable utilities to qualify for an acquisition adjustment and Staff 4 asserts there is ample evidence in the record to establish that GWRI possesses the requisite track record 5 support such a finding.14 1 6 Based on its conclusion that Turner Ranches was viable at the time of acquisition, Staff 7 recommends a 20% acquisition premium be applied to the rate base of Turner Ranches, to be amortized 8 over 25 years. 9 c. Eagletail 10 Staff determined that Eagletail was nonviable under the Water Policy viability criteria of a lack 11 and inability to acquire the managerial , technical, and/or financial capabilities to safely and adequately 12 operate because the prior owners of Eagletail lacked the managerial capability to operate the system. Staff did not recommend an acquisition premium for Eagletail. d. Return on Equity Adder 13 14 15 Pointing to the lack of Commission Decisions, Staff opposes the Applicants' proposed ROE 16 adder on the basis that there is no clearly established guidance for when to recommend an ROE adder 17 and thus, such a determination should be left to the discretion of the Commission. While Staff 18 acknowledges that adoption of any ROE adder would be a policy determination for the Commission, 19 Staff also expresses concern that, contrary to Staff's recommendation to apply acquisition costs solely 20 to the benefited ratepayers of the acquired utility, an ROE adder will spread the cost of incenting 21 acquisitions to all ratepayers among the Global Water Utilities. 142 4. Resolution 22 23 In Decision No. 75743, we noted that the definition of viability used in the Water Policy, Policy 24 Statement No. 5 was adapted from the US Environmental Protection Agency's definition of water 25 system viability. This definition provides that a viable system has "the technical, financial, and 26 27 140 Staff Closing Br. at 23, citing Decision No. 75746 (September 19, 2016); Tr. Vol. IX at 1363. 141 Tr. Vol. X at 1532. 28 142 Tr. Vol. X at 1512. 65 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. managerial capability to consistently comply with current and prospective perfonnance 2 requirements."143 Decision No. 75743 further distinguished viable from nonviable as: 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 A viable water and/or wastewater utility is defined as one that: (l) Maintains the managerial, technical and financial capabilities to safely and adequately operate; and (2) Is currently in compliance with all Arizona Department of Environmental Quality, Arizona Department of Water Resources, and Arizona Corporation Commission rules and orders; and (3) Will be able to meet other requisite regulatory requirements on a short and long-term basis. A non-viable water or wastewater utility is defined as one that: (1) Lacks and is unable to acquire the managerial, technical and/or financial capabilities to safely and adequately operate; or (2) Is currently not in compliance or is unable to achieve compliance with Arizona Department of Environmental Quality, Arizona Department of Water Resources, and/or Arizona Corporation Commission rules or orders or is unable to achieve such compliance without managerial, technical, or financial assistance; or (3) Will not be able to meet other requisite regulatory requirements on a short- or long-tem1 basis.144 Decision No. 75743 also explained, "[w]hen making the determination of viability or non- viability, the Conunission will consider all of the relevant circumstances of the case and will detem1ine the question of viability o r non-viability based on all of the circumstances at the time of the CC&N transfer."145 a. Red Rock (Water and Wastewater) We are not persuaded that Red Rock was nonviable at the time of its acquisition. Staff's nonviability analysis essentially rests on the view that Red Rock (Wastewater) was out of compliance with ADEQ at the time of acquisition because it would have been found noncompliant had the third party contractor correctly reported testing results. While Decision No. 75743 refers to noncompliance at the time of acquisition, as Decision No. 75743 further explained, the viability inquiry requires consideration of all the facts and circumstances at the time the acquisition occurred. In our view, the non-reporting of failed tests by the third-party contractor hired to perform water testing146 prevents a 27 143 Decision No. 75743 at 14. 144 Id. at 14-15. 145 Id. at 15. 28 146 Tr. Vol. I at 36. 66 DECISION NO. 78644 -------'-- DOCKET NOS. SW-20445A-20-02 l 4, et al. conclusion that Red Rock was out of compliance with ADEQ. There is no evidence on which to 2 conclude that the prior Red Rock management would not have addressed thee. coli and turbidity issues 3 had they received proper testing results. Consequently, we believe that the nonreporting of failed tests 4 by a third-party is a supervening fact that prevents reaching the conclusion that Red Rock was 5 nonviable at the time of acquisition for failure to comply with ADEQ requirements. That being Staffs 6 sole reason for claiming Red Rock (Wastewater) was not viable, we find that Red Rock (Water and 7 Wastewater) were viable at the time of acquisition. 8 Based on the evidence of the extensive efforts the Applicants have undertaken to identify and 9 resolve thee. coli and turbidity issues causing Red Rock (Wastewater)'s current noncompliance with 10 ADEQ, as well as the significant rate reduction imparted on Red Rock (Wastewater) customers owing 11 to the proposed rate consolidation with Palo Verde, we find that the record demonstrates that the 12 Applicants have provided substantial net benefits to ratepayers by acquiring Red Rock (Water and 13 Wastewater). 14 Consistent with the determination that the Red Rock utilities were viable, we find that in line 15 with the Commission's Water Policy, the parties' recommended 20% acquisition premium to be 16 applied to the rate base of Red Rock (Water) and Red Rock (Wastewater) is

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reasonable and should be 17 adopted. Likewise, the proposal to amortize the acquisition premium over a 25-year period is 18 reasonable and should be adopted. 19 Regarding whether to recover the acquisition premium from all ratepayers within the Pinal 20 County Water and Wastewater consolidated rate groups or to limit recovery of the acquisition premium 21 to only ratepayers within the acquired utilities, we believe under the facts of this case that the 22 Applicants' proposal to recover consolidation-wide has merit and should be adopted. Staff's 23 recommendation may be warranted in different circumstances. In this instance, we find the arguments 24 that isolating the recovery of the acquisition premium to be inconsistent with the proposed rate 25 consolidations to be more compelling. 26 b. Turner Ranches 27 We are not convinced that Turner Ranches' condition at the time of acquisition was non-viable. 28 Staff is correct that the prior owners of Turner Ranches were making rate case and financing 67 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. applications 147 thus demonstrating that they had the means to operate the system safely and adequately. 2 That the scope of their filings fell short of correcting all deficiencies that the Global Water Utilities 3 have identified upon acquiring the system does not demonstrate a lack of managerial, financial , or 4 technical ability by Turner Ranches' prior owners. Pointedly, Mr. Corwin testifying on behalf of the 5 Applicants acknowledged that Turner Ranches' "prior owners managed a diligent operation."148 There 6 being no evidence that T urner Ranches was noncompliant with relevant regulators, nor evidence that 7 it did not have the means or will to pursue the necessary approvals to address short or long-tenn 8 problems, we believe that Turner Ranches, under the circumstances and facts as presented, was viable 9 at the time of acquisition. As evidenced by the steady replacement of deteriorated plant to improve reliability and quality 11 of service throughout the Turner Ranches system, as well as the immediate relief from onerous debt 12 financings to support infrastructure improvements under prior management, we find that the evidence 13 shows that the Global Water Utilities have provided substantial net benefits to ratepayers by acquiring 14 the system. 15 Based upon our finding of viability, and consistent with the acquisition premium thresholds 16 provided in the Water Policy, we also make the companion finding that Staffs and RUCO's 17 recommended 20% acquisition premium, to be amortized over a 25-year period is reasonable and 18 appropriate and should be adopted. c. Eagletail 19 20 As to Eagletail, we agree with Staff and the Applicants that Eagletail was nonviable at the time 21 of acquisition. Eagletail was still making rate case applications and pursing financing authority to 22 improve its financial means and address its many operational issues as a widely dispersed, rural water 23 cooperative. However, its reliance on customer-provided personnel, including its sole system operator, 24 speaks to a lack of technical ability to operate continuously in a safe and reliable manner. Similarly, 25 the interest in procuring an interim manager to operate Eagletail noted in its rate case Decision 149 26 illustrates the lack of confidence in the prior management to operate the system in a safe and adequate 27 147 See e.g. , Decision No. 75746. 148 Ex. A-38 at 20. 28 149 Decision No. 75829 (December 5, 2016) at 4. 68 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. manner. 2 For these reasons, we find the facts surrounding Eagletail at the time of its acquisition 3 demonstrate that it was non-viable at the time of acquisition. 4 d. Return on Equity Adder 5 Decision No. 75626 recognized that an ROE adder is a potential incentive to encourage utility 6 industry consolidation. In the present case, we are not persuaded an ROE adder is necessary or 7 appropriate. To the Global Water Utilities' point that providing adequate incentives for acquisitions 8 will induce further investment, we believe that authorizing the acquisition premiums discussed above 9 for Turner Ranches and Red Rock (Water and Wastewater) suitably confim1s our support for the 10 ongoing consolidation of the water industry. Additionally, although we decline in this instance to adopt 11 Staffs recommendation to isolate the recovery of the acquisition premium to only the Red Rock 12 customers within the Pinal County Water and Wastewater consolidations, we find merit in Staffs point 13 that the beneficiaries of acquisition, the ratepayers of the acquired utility, should pay for the costs of 14 incenting the acquisition. Because it is inconsistent with the proposed rate consolidation, we are not 15 adopting Staffs recommendation in this instance. 16 We believe that an ROE adder in this circumstance would give rise to the opposite circumstance 17 where the beneficiaries of acquisition would not contribute anything to the cost of acquiring their 18 utility. Although the Applicants requested a nonviability determination for Eagletail, they did not 19 request an acquisition premium. Due to the particulars of the Global Water Utilities' rate consolidation 20 proposal, which includes utilization of an operating margin to establish the revenue requirement for 21 Eagletail, if an ROE adder were adopted in this instance, no customer of Eagletail would be 22 contributing to the acquisition of Eagletail, whereas customers of Turner Ranches and Red Rock would 23 not only be paying the costs of being acquired by GWRI, but would also be bearing a share of the 24 incentive to acquire utilities like Eagletail as well. This is not just and reasonable. 25 Accordingly, for these reasons, we find that the request to apply a 30-basis point ROE adder is 26 not reasonable. 27 28 69 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. E. Other Rate Base Adjustments in Dispute 1. Tax Cut and Jobs Act 2 3 When the Tax Cut and Jobs Act of 2017 ("TCJA") went into effect, it lowered corporate income 4 tax rates as well as making CIAC and AIAC taxable revenue. 150 In Decision Nos. 76595 (February 26, 5 2018), 76619 (March 29, 2018), 76974 (November 27, 2018), 77084 (February 20, 2019), 77104 6 (February 28, 2019), and 77540 (January 23, 2020), issued in Docket No. AU-00000A-17-0379, the 7 Commission's generic docket addressing the TCJA, all public service corporations were ordered to 8 issue bill credits to ratepayers to reflect that existing utility rates were set using higher income tax rates. 9 On September 20, 2018, the Commission issued Decision No. 76901 requiring Santa Cruz, Palo Verde, 10 GTWC, and NSWC to address the impacts of the TCJA including both the determination of appropriate 11 bill credits to ratepayers as well as propose a way to account for TCJA impacts on the utilities' ADJT 12 balances. As explained by Mr. Rowell on behalf of the Global Water Utilities, a tax rate approved by 13 the TCJA lower than that used to set base rates for the utilities resulted in revaluing ADJT balances. 151 14 To account for the changes, an Excess Accumulated Deferred Income Tax ("EADIT") balance was 15 created and on December 19, 2018, the Global Water Utilities fi led a proposal for how to handle the 16 TCJA impacts on ADIT in a filing made in Docket No. W-20446A- 18-0202 et al. 152 In response to 17 recommendations from Staff, a revised proposal was later filed on July 18, 2019, that deferred both the 18 immediate revenue requirement impact of EAD IT amortization as well as the variance between 19 approved and actual refunds as regulatory assets/liabilities in the ADIT balances for consideration in 20 the next general rate case. However, bill credits approved in Decision No. 76901 would continue until 21 the adoption of new permanent rates using the current income tax rates and under-refunded amounts 22 accumulated in 2018 and 2019153 would be returned in a lump sum in 2020.154 However, Applicants 23 propose to forego recovery of over-refunded amounts. 155 Additionally, and in conjunction with its 24 25 1 so Ex. A-26 at I 6. 26 151 Ex. A-26 at 15. 1s2 1d. 27 153 The only utility the incurred an under refund was GTWC which was under refunded by $2,609 in 2018 and $3,005 in 2019 for a total proposed lump sum refund in 2020 of$5,614. Ex. A-26 at 18. 154 Jd. at 17-18. 28 155 Between 20 I 8 and 20 I 9, Palo Verde, Santa Cruz and NSWC were over-refunded by a cumulative $51 ,426. 70 DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. Section 1033 proposal, companion adjustments to EADIT balances.156 2 RUCO did not take a position regarding the Applicants' proposal to refund over-collected 3 income tax expense. 4 Staff initially opposed the Global Water Utilities' proposed EADIT adjustments as part of 5 Staff's general opposition to the proposed Section 1033 adjustments and because the Section 1033 6 adjustments obscured whether the handling of the EADIT balances complied with TCJA requirements, 7 particularly the methodology of EADIT amortization.157 Also, Staff was concerned with how EADIT 8 amortization is reflected in the determination of income tax expense. 9 Based on responses provided by the Applicants, Staff ultimately accepted the proposed EADIT 10 amortization rates. 158 Further, Staff opted not to further pursue the recognition of EADIT amortization 11 in the calculation of income taxes out of concern that raising the concern so late in the process would 12 create due process issues for the Applicants and obtaining a better understanding of the EADIT 13 balances would be a lengthy process due to the complexity of the Global Water Utilities' income tax 14 detail. 159 Staff also noted a concern that revising the calculation of income tax to recognize EADIT 15 amortization would likely result in an increase in income tax expense. 160 16 Staff concurs with the Global Water Utilities' proposed method to amortize utility EADIT 17 created by the TCJA. 161 18 We find that the Global Water Utilities' proposed method to amortize EADIT created by the 19 TCJA is reasonable. 2. Cash Working Capital 20 21 Cash working capital quantifies the amount of cash that a utility requires to meet daily operating 22 expenses. It is calculated based on the timing difference between when revenues are collected and 23 when an expense must be paid. When the utility receives revenue before an expense comes due, it has 24 25 156 See e.g. Ex. A-52 at 6-8 (testimony of Mr. Seltzer describing corresponding adjustments to EADIT as ADIT was 26 eliminated to comply with normalization requirements. 157 See prior discussion relating to application of normalization rules to ADIT. 158 Ex. S-1 at 27 159 Tr. Vol IV at 511-512. 160 Jdat513. 28 161 Ex. S-1 at 7-8. 71 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. the benefit of cash working capital, whereas having expenses come due before revenues arrive to pay 2 the expenses generates negative working capital. 3 To determine its proposed allowance for cash working capital, the Applicants developed a 4 single lead-lag study and allocated a portion of the total to Turner Ranches and each of the three 5 separate consolidated rate groups. 6 7 a. RUCO RUCO calculated its cash working capital recommendation using four separate lead-lag studies, 8 one each for Turner Ranches and the three proposed consolidated rate groups to eliminate the 9 possibility of cross-subsidization and more precisely detennine the working capital needs of each 10 system.162 Notably, the RUCO methodology for developing the lead-lag study uses shorter billing lag 11 days (3.5 days as opposed to Applicants' 7 days) producing a shorter revenue lag than proposed by 12 Applicants 163 while using a longer lag period of 14 days to Applicants' 8. 74 lag days to establish 13 expense lead, the number of days before an expense is due. 164 RUCO's methodology also used a longer 14 period (212 lag days) than the Applicants' (180 lag days) to establish property tax expense lag days. 165 15 and for the establishment of income tax expense lag (using 108 lag days to 37 lag days used by the 16 Applicants). 166 17 Like Staff, RUCO also included an interest expense lag component in its lead-lag study and 18 determined that 91.25 lag days would be appropriate. 167 According to RUCO, although the Applicants 19 did not include an interest expense component, 20 21 22 23 24 [i]nterest expense is a real expense that must be paid according to a signed contract and is reported on the income statement. Interest expense requires a cash payment. The Company collects cash used to make interest payments prior to the interest due date. While the Company has possession of these funds, they are a source of cost-free cash that the Company can use until making payments. 168 25 162 Ex. RUC0-6 at 17. 26 163 Ex. RUC0-6 at 19-20. 164 Ex. RUC0-6 at 21. 165 Ex. RUC0-6 at 24. 27 166 Ex. RUC0-6 at 25. 167 Ex. RUC0-6 at 26. 28 168 Ex. RUC0-6 at 26. 72 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Additionally, RUCO included a component for employee pensions and benefits in its lead-lag 2 study which the Applicants did not. Using retirement annuity data provided by the Applicants, RUCO 3 detennined that employee pensions and benefits should be afforded 7.97 lag days.169 4 The cumulative impact of RUCO's proposed adjustments to cash working capital effectively 5 reduces the Applicants' aggregate rate base by approximately $1.4 million. 170 b. Staff 6 7 Staff recommends adjustments to the Applicants' proposed allowance for cash working capital 8 that primarily are aimed to be consistent with Staffs recommended adjustments to operating 9 expenses. 171 Staff asserts that inclusion of interest expense is customary and typically approved by the 1 0 Commission. 172 c. Global Water Utilities' Response 11 12 The Applicants dispute Staff's and RUCO's inclusion of interest expense. According to Mr. 13 Rowell 's testimony on behalf of the Applicants, interest expense is a "below the line" expense that 14 should be recoverable, if at all , through the cost of debt as part of the return on rate base. 173 Because 15 reductions to rate base for working capital are intended to recognize customer-provided working 16 capital, interest expense should not be included as it is not a customer-provided expense. 174 17 In response to RUCO, the Applicants argue that RUCO's approach using a separate lead-lag 18 study for each of the consolidated rate groups to be consistent with cost causation principles is 19 undem1ined because RUCO's study employed data from a wholly different uti lity, Arizona Water 20 Company, to establish its revenue lag recommendation. 175 To RUCO's argument that cross- 21 subsidization may occur using a single lead-lag study for all the utilities involved in the present matter, 22 the Applicants observe that not only has Staff also used a single lead-lag study, but there is no evidence 23 that cross-subsidization is occurring. 176 24 25 169 Ex. RUCO-6 at 24. 170 Ex. A-29 at 8. 171 Ex. S-8 at 12. 26 172 Staff Rep. Br. at 20. 173 Ex. A-28 at 11. 27 174 Applicants' Cl. Br. at 90. 28 175 Applicants Rep. Br. at 40, citing Ex. A-28 at 9-10. 176 Ex. A-28 at 11. 73 78644 DECISION NO. _____ DOCKET NOS. SW-20445A-20-0214, et al. The Applicants also note that other large utilities have longer revenue lag than the Global Water 2 Utilities. 177 Based on testimony that the actual lag is due to the Applicants' attention to customer 3 service in the performance of its billings, 178 the Applicants argue that the lengthier billing cycle avoids 4 billing errors and provides additional time for customers to pay. 5 The Global Water Utilities also argues that RUCO's methodology to perform its lead-lag 6 studies suffers from numerous flaws, including that the numbers in RUCO's calculations do not 7 reconcile with other numbers in RUCO's schedules, RUCO's study is not reflective of all of RUCO's 8 expense adjustments, it includes depreciation expense although depreciation expense is a non-cash 9 expense that should not be reflected in cash working capital, it does not use actual lag-days, 179 and did 10 not make corrective adjustments shortening income tax lag-days after RUCO's witness conceded that 11 the Applicants' 37 lag-days is correct. 180 12 13 d. Resolution We agree with Staff and RUCO that interest expense is ordinarily included in cash working 14 capital. However, we are not persuaded to adopt RUCO's cash working capital because we are 15 concerned that it suffers from multiple issues, including that it fails to correct lag-days for income tax 16 after RUCO acknowledged that the Applicants' lag-day period for income tax is correct and that the 17 numbers within RUCO's analysis do not reconcile with other numbers in RUCO's schedules. 18 We find that Staffs methodology is consistent with ordinary Commission methodology to set 19 the working capital needs and is the most reasonable approach based on the evidence presented and we 20 will adopt it. 3. Accumulated Depreciation 21 22 The Applicants request that the Commission disregard the Staff calculation of accumulated 23 depreciation. In support of its position, the Applicants observe that Staff's calculation of accumulated 24 depreciation inexplicably differs from the Applicants' but Staff cannot identify or reconcile the 25 177 Id. citing EPCOR Water Arizona's 40. 15 revenue lag-days included in its application in Docket No. WS-01303A-20- 26 0177. 178 See e.g. Ex. A-40 at l 6-17; Ex. A-41 at 5-7 (testimony of Mr. Corwin explaining the Applicants' use of quality control 2 7 steps, including bill validations and review of abnormal consumption data which lengthen the time between meter readings and bill mailings). 28 179 Applicants' Cl. Br. at 90-91 , citing Ex. A-28 at 9-11. 180 Applicants' Cl. Br. at 91 , citing Tr. Vol. IX at 1290. 74 DECISION NO. 78644 DOCK.ET NOS. SW-20445A-20-0214, et al. 1 differences. 181 Additionally, Staffs calculation omits relevant plant retirement information in its 2 calculation and relied solely on utility annual reports for data on plant retirements.182 As conceded by 3 Staff witness Mr. Baxter, it cannot be detennined based on what is related in a utility annual report 4 whether, at the time an asset was retired, it was fully depreciated. 183 5 The Applicants raise valid points, and we agree that their calculation of accumulated 6 depreciation is the more reliable one and should be used. F. Long Term Storage Credits 7 8 In addition to the Sustainable Water Surcharge, addressed further in the discussion of rate 9 design below, the Global Water Utilities also request confirmation of the appropriate regulatory 10 treatment for the acquisition and use oflong term storage credits ("L TSC"). L TSCs are created through 11 the purposeful storage of Central Arizona Project ("CAP") surface water, other renewable water 12 resources, or recycled water from wastewater treatment facilities 184 underground for longer than the 13 calendar year in which the credit was created 185 and permit pumping of water from an aquifer. 186 Water 14 withdrawn from underground pursuant to the expenditure of an L TSC is treated as the same type of 15 water that was stored to create the LTSC (i.e. if CAP water was stored to create the LTSC, the 16 withdrawn water is treated as CAP water as well).187 In addition to creating a stored water supply for 17 later withdrawal, LTSCs can also be pledged toward a utility's ADWR Designation of Assured Water 18 Supply for purposes of demonstrating a 100-year water supply. 188 19 RUCO's concerns relating to LTSCs pertained to the potential that they could be recovered 20 through the proposed Sustainable Water Surcharge outside of a rate case.189 That possibility was 21 dispelled at hearing by Mr. Lenderking who explained that the Applicants accept Staffs recommended 22 accounting treatment as a form of Miscellaneous Intangible Plant and will consequently not attempt 23 24 181 Ex. A-29 at 9. 25 182 Tr. Vol. X at 1456. 183 Tr. Vol. X at 1547. 26 184 Ex. A-55 at 14-15. 185 Ex. A.54 at 47. 186 Ex. A-55 at 14. 27 187 Ex. A-54 at 47-48. 188 Id. at 48. 28 189 Ex. RUC0-4 at 31. 75 DECISION NO. 78644 ----- 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 2 1 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. recovery through the proposed surcharge. 190 Staff recommends that LTSCs be accounted for as Miscellaneous Intangible Plant rather than affording them special accounting treatment. Under Staffs recommendation, the LTSC is treated like land, a form of nondepreciating asset, on which the utility can place the asset in rate base and earn a return on it. As LTSCs are created and costs incurred, the utility would track these expenditures on a balance sheet as it would invoices on new plant placed into service. The LTSC account would then be subject to audit in a rate case when proposed for recovery as a part of rate base.191 When the L TSC is used, however, it is instantly fully depreciated. 192 We find Staffs recommendation to be a reasonable approach to addressing the recognition in rates for the creation and expenditure of L TSCs. G. Summary of Rate Base Adjustments Based upon the foregoing discussion, we find that the fair value rate base of each of the utilities and of the consolidated groupings is as summarized in the fo llowing table: Santa Cruz Red Rock (Water) Pinal Water Consolidated Plant $ 11 3,809, 1 08 $6,977,322 $ 120,786,430 Accum. Deprec. $(37 31 1,642) $(2,214,953) $(39,526,595) Net Plant $76 497,466 $4,762,369 $81,259,835 Deductions: CIAC $(1 920 591) $(3,017,257) $(4,937,848) AIAC $(35,828,222) $(1,005, 185) $(36,833,407) Meter Deposits $(686 475) $(55,830) $(742,305) ADIT $3, 172,636 $31,327 $3,203,964 Additions: Deferred Tax Assets $67 328 $5,337 $72,665 Working Capital $(206,651) $(8,670) $(215,321) Acquisition Adjustment NIA $114,563 $114,563 Total Rate Base: $41,095,492 $826,654 $41,922,146 Palo Verde Red Rock Pinal Wastewater (Wastewater) Consolidated Plant $146,767 945 $14,300,428 $157,068,373 Accum . Deprec. $(41,553,782) $(4,582,723) $(46,136,506) Net Plant $101,214 163 $9,717,704 $110,931,867 Deductions: 190 Tr. Vol V. at 641. 191 Tr. Vol.Vat 706-707. 192 Tr. Vol.Vat 706. 76 D ECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. CIAC $(1,523,4 l 9) $(6,170,776) $(7,694,194) AIAC $(29,259 099) $(394 890) $(29 ,653 ,990) Meter Deposits $(677,530) NIA $(677,530) ADIT $(1,356,051) $(193,303) $(1,549,354) Additions: Deferred Tax Assets $(1,547,880) $(38, 128) $(1,586 008) Working Capital $(204,251) $(8,544) $(212, 795) Acquisition Adjustment NIA $495,030 $495 030 Total Rate Base: $66,645,933 $3,407,093 $70,053,026 GTWC Eagletail NSWC Plant $7,515,837 $848,233 $2,102,398 Accum. Deprec. $(3,619,817) $(102,394) $(781,328) Net Plant $3,896,021 $745,838 $1,321 071 Deductions: CIAC $(349,092) $(150,748) $(1,388,217) AIAC $(1 123,690) $(1 ,785) $(8,567) Meter Deposits $() 3,880) $(3,049) $(8,380) ADIT $120,853 $18,701 $(l l 9,530) Additions: Deferred Tax Assets $73 306 $(44,797) $257,929 Working Capital $(3,996) $(552) $(890) Acquisition Adjustment NIA NIA NIA Total Rate Base: $2,599,521 $563,609 $53,416 Maricopa Water Turner Ranches Consolidated Plant $10 466,468 $5 104 246 Accum. Deprec. $(4,503 548) $(3,593 910) Net Plant $5,962 920 $1,510,336 Deductions: CIAC $(1,888,057) NIA AIAC $(1,134 042) NIA Meter Deoosits $(25,309) NIA ADIT $20,027 $82,516 Additions: Deferred Tax Assets $286,438 $(43,014) Working Capital $(5,438) $(9 318) Acauisition Adjustment NIA $309,731 Total Rate Base: $3,216,539 $1,850,251 V. OPERATING INCOME The Applicants propose the following adjusted test year operating incomes by utility: Utility Test Year Revenue Test Year Test Year Adjusted Operating Expense Operating Income (Loss) Santa Cruz $14,636,521 $12 532 684 $2,103 837 Red Rock (Water) $428,926 $493 895 $(64 968) Pinal County Water* $15,067,619 $13,027,964 $2,039,655 77 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Palo Verde $19 370,486 $15,057,022 $4,313, 464 Red Rock (Wastewater) $952,465 $851,888 $100,578 Pinal County $20,322,951 $15,908,254 $4,414,697 Wastewater* GTWC $397,713 $562 522 $(164,809) Ea2:letail $52,667 $96,424 $(43,757) NSWC $237 243 $134 293 $102,950 Maricopa County $687,623 $793,108 $(105,484) Water* Turner Ranches $853,397 $846,278 $7 119 * Pinal County Water, Pinal County Wastewater, and Maricopa County Water are not distinct utilities but represent the aggregated values of the revenue and operating incomes of the component utilities within the proposed consolidations for comparison to the utilities when viewed on a standalone basis. No party disputed the test year revenues. The general areas of dispute concerning operating expenses relate to

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incentive compensation, board and executive compensation, costs of listing stock on exchanges, discontinued contractual expenses, and purchased power/chemicals expense. A. Incentive Compensation The summary of the values of the parties' proposed adjustments to Salaries and Wages Expense corresponding to their respective positions on employee incentives is as follows: Utility Applicants - Final RU CO-Final Staff-Final Santa Cruz $(1 19,908) $(46,462) $(189,520) Red Rock (Water) $(5,662) $(1 ,990) $(8,703) Pinal County Water $(125,570) $(48,452) $(198,223) Palo Verde $(119,676) $(45 865) $(180,587) Red Rock (Wastewater) $(5,453) $(1 ,890) $(8,427) Pinal County Wastewater $(125,129) $(47,775) $(189,014) 1 Y.) GTWC $(3,556) $(895) $(5,931) Eagletail $(509) $(99) $(903) NSWC $(799) $(1 99) $(1 ,319) Maricopa County Water $(4,864) $(1,193) $(6,384) 1 Y 4 Turner Ranches $(6 240) $(2 089) $(8 986) The Global Water Utilities propose to include a portion of their employee incentive compensation program in operating expenses. The incentive compensation program establishes employee performance goals within the categories of safe operations, efficient service, prudent capital 193 Staff s final schedules report that the adjustment for the Pinal County Wastewater consolidated group is $189,290 which does not equate to the sum of the indicated individual adjustments. Ex. S-21, Final Schedule AIi- i i ("Palo Verde Consolidated"). 194 Staffs recommended adjustment to the Maricopa County Water consolidated group omits the adjustment to NSWC in its calculation. Ex. S-21, Final Schedule MCC-12 ("Global Water - Tonopah and Eagle Tail Consolidated"). 78 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-02 I 4, et al. investments, and customer service. Each category is equally weighted at 25% and the Applicants then 2 assigned each category to either a ratepayer or shareholder interest being the primary beneficiary. By 3 their reckoning, only the efficient service category favors shareholder interests more than ratepayers 4 and thus the Applicants propose a 75/25 allocation of incentive program costs between ratepayers and 5 shareholders, respectively. 6 7 RUCO RUCO recommends a 50/50 split of incentive compensation between ratepayers and 8 shareholders. RUCO's position rests on the view that as salaried employees, utility workers should not 9 need extra incentive to perform tasks that are ordinary expectations of a utility worker. 195 However, 10 RUCO acknowledges that performance incentives can produce benefits to ratepayers and that prior 11 Commission Decisions196 have consistently accepted a 50/50 sharing of incentive compensation costs, 12 and so RUCO recommends a 50/50 sharing in the present case. By contrast, RUCO opposes the 13 Applicants' proposed 75/25 split as "lopsided" and warns that it could give rise to a new precedent. 14 15 2. Staff Like RUCO, Staff recommends a 50/50 sharing of non-executive incentive compensation 16 because shareholders and ratepayers benefit from performance-based compensation. According to 17 Staff, the Applicants failed to demonstrate that ratepayers directly benefit more from each of the four 18 performance categories than the utility shareholders. 19 Staff also recommends 100% removal of phantom stock units ("PSU"), a fonn of deferred 20 compensation plan that provides an employee an award based on the value of the employer's stock 21 although no actual stock is awarded to the employee, from employee compensation. According to Staff 22 witness Mr. Ullinger, PSU values are exclusively linked to GWRI's financial results and thus benefit 23 shareholders exclusively. 197 Consequently, Staff believes that it is inappropriate for ratepayers to bear 24 the costs of providing a PSU benefit to employees.198 25 195 Ex. RUCO-4 at 23. 26 196 RUCO Cl. Br. at 30-33, citing Decision Nos. 68487 (February 23, 2006), 7001 I (November 27, 2007), 70360 (May 27, 27 2008), 70665 (December 24, 2008), 71914 (September 30, 2010), 71865 (August 31 , 2010), 74568 (June 20, 2014), and 77147 (April 16, 2019). 197 Ex. S-11 at 28. 28 198 /d. 79 DECISION NO. _7_8_64_4 __ DOCKET NOS. SW-20445A-20-0214, et al. In response to the Applicants' criticism that unreconcilable errors penneated Staffs calculation 2 of the adjustments to remove PS Us from the Employee Wages and Salaries expense, 199 Staff worked 3 with the Global Water Utilities to correct the adjustments. Staff's final schedules reflect the necessary 4 corrections to achieve a I 00% removal of PSU benefit costs.200 5 6 7 3. Global Water Utilities' Response As a compromise with Staff, the Applicants agree to exclude 100% of PS Us. Responding to RUCO's arguments that it has been the consistent Commission practice to use a 8 50/50 sharing of incentive expense, the Applicants point out that some more recent Commission 9 Decisions do not use a 50/50 sharing either. Pointedly, recent rate decisions for Tucson Electric Power 10 and Southwest Gas authorized a 40% disallowance rather than RUCO's recommended 50% 11 disallowance to reflect financial components from those utilities' compensation plans.20 1 12 The Global Water Utilities argue that their proposed allocation of incentive compensation 13 program costs also excludes financial components which are not as directly in the ratepayers ' 14 interest.202 That the remaining categories align with customer centered benefits makes sense because, 15 as Ms. Ellsworth testified, "it's really incentive compensation for our customer service folks, 16 operators."203 Moreover, the deferred portion of the incentive compensation program "can be a great 17 way to retain good employees" particularly in a tight labor market where " [w]e are very much in 18 competition for virtually any position that we try to hire."204 4. Resolution 19 20 We agree with the Global Water Utilities that incentive compensation based solely on financial 21 performance benefits shareholders and not ratepayers. To that end, we find that Staff's 22 recommendation, which the Global Water Utilities accepted, to remove 100% of PSU compensation 23 as it inures solely to the benefit of shareholders, is reasonable and should be adopted. 24 25 We are not persuaded that the categorical metrics employed by the Applicants' incentive 199 Ex. A-29 at 11. 26 200 Tr. Vol. X at 1446. 27 201 Applicants' Rep. Br. at 45 citing Decision Nos. 77850 (December 17, 2020) and 77856 (December 31 , 2020). 202 Tr. Vol. V at 777. 203 Tr. Vol.Vat 773. 28 204 Tr. Vol.Vat 775. 80 DECISION NO. 78644 ---- --

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DOCKET NOS. SW-20445A-20-0214, et al. 1 compensation plan achieves such a clearly delineated allocation of benefits between ratepayers and 2 shareholders, however. The Global Water Utilities only recognize efficient service as a category that 3 primarily benefits shareholders while they deem ratepayers to be the primary beneficiaries of strong 4 customer service, safe operations, and prudent capital investments. We disagree. Shareholders also 5 benefit from high performance in these categories. Excellent customer service avoids disputes and 6 improves public good will toward the utility, while safe operations reduce the risk of work injuries and 7 concomitant insurance costs. Further, prudent capital investments benefit the shareholder by ushering 8 more plant into rate base on which returns can be earned. Just so, ratepayers also benefit from efficient 9 service because greater efficiency translates into lower operating costs that must be recovered in utility IO rates. 11 Testifying for the Global Water Utilities, Ms. Ellsworth explained the Applicants' view that for 12 purposes of allocating perfonnance incentive compensation costs, ratepayers are the primary 13 beneficiary when the benefit obtained from the incentive "is good specifically for customers."205 When 14 asked to clarify the allocation of benefit between shareholders and ratepayers for each program 15 category, however, Ms. Ellsworth admitted that shareholders benefit from good worker performance 16 in each of the program categories. 206 17 For these reasons, we agree with RUCO's and Staffs position that a 50/50 sharing of 18 nonexecutive incentive compensation is reasonable. Accordingly, we adopt Staff's recommended 19 adjustments to Salary and Wages expense. B. Board of Director Compensation 20 21 According to the Applicants, as a publicly traded company, GWRI is required to have a board 22 of directors. 207 As such, the costs of compensating its board of directors are a necessary cost of doing 23 business that should be recoverable from ratepayers. The compensation of GWRI 's board includes 24 direct cash compensation as well as deferred compensation in the form of Deferred Stock Units 25 26 27 205 Tr. Vol.Vat 733. 206 Id. at 741. 28 207 Tr. Vol. VI at 824. 81 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. ("DSU"),208 a combination of deferred compensation and full value phantom shares whereby a director 2 may elect to defer a portion of their cash compensation to a later date and the deferral dollars are 3 credited with PSUs.209 4 The Global Water Utilities propose to exclude 50% of director compensation related to 5 DSUs,210 which includes 50% of the gain or loss on DSUs. 6 1. Staff 7 Staff recommends a 50% disallowance of board compensation (both cash211 and DSU). 8 Additionally, because DSU future values are related to stock values, and are thus linked to GWRI's 9 financial results, Staff believes that it is inappropriate to have ratepayers support the costs of the DSU 10 liability and thus recommends a 100% disallowance of the unrealized change in DSU liability as 11 well.212 12 2. RUCO 13 Consistent with its position on employee incentive compensation, RUCO recommends a 50/50 14 sharing of the expense between ratepayers and shareholders.213 As an example of the reasonableness 15 of its recommendation, RUCO notes that York Water Company, which RUCO selected as the most 16 similar to GWRI among multiple utilities GWRI cited in its SEC Form 14A filings as comparable in 17 setting base salaries,214 spends less than half what the Applicants originally requested for the 18 compensation of its board of directors.215 Although it acknowledges that the Applicants have made 19 concessions reducing the requested amount of director compensation, RUCO also points out that the 20 208 In the joint issues matrix and in their Closing Brief, the Applicants, refer to their position as a removal of 50% of the 21 cost of Deferred Phantom Units ("DPU") rather than DSU. Applicants Cl. Br. at I 12-113. In pre-filed testin10ny, Applicants' witnesses describe the associated adjustment to director compensation using DSU and DPU interchangeably. 22 See e.g. Ex. A-28 at 14-15; Ex. A-33 at 14; Applicants' Final Schedules, Schedule C-2.7. DPU are a variation on a DSU with additional characteristics specific to directors, such as a requirement to bold a set amount of DPUs which cannot be 23 redeemed until the person ceases to be a director. Ex. RUCO-1 8, attached Data Response to RUCO 4.06(a); Tr. Vol. VI at 822-823. 24 209 Ex. S-11 at 30. 210 Ex. A-28 at 14-15. 25 211 Although Staff recommends a 50% deduction of cash compensation for board members, Staff applies the entirety of its recommended adjustment to Miscellaneous Expense rather than dividing it between Salaries and Wages and Miscellaneous 26 Expense. See e.g., Ex. S- 10, attached Surrebuttal Schedule MCC-14b ("Global Water-Red Rock Utilities - Water Division") detailing Operating Adjustment No. 4 - Miscellaneous Expense to remove "(I) board compensation - Cash and DFUs (sic)" 212 Ex. S-11 at 30. 27 213 Ex. RUCO-4 at 13-14. 214 Ex. RUCO-4 at 3. 28 21s Id. 82 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. final requested expense for board compensation remains more than 25% higher than York Water Company's.216 3. Global Water Utilities' Response The Global Water Utilities response criticizes RUCO's reliance on the single data point of York Water Company, a 200-year-old utility, for comparison purposes. Noting that RUCO's witness Mr. Michlik did not refute that there could be differences in the difficulty of operating a utility with an older, static service territory compared to a newer utility with a high growth service territory, the Applicants assert that evidence in the record demonstrates their board compensation level is reasonable. 4. Resolution The summary of the values for the competing director compensation adjustments to Salaries and Wages Expense (Applicants) and Miscellaneous Expense (RUCO and Staff) proposed by the parties is as follows: Utility Applicants - Final RU CO-Final Staff-Final Santa Cruz $(83,138) $(190.534) $(275,638) Red Rock (Water) $(3,560) $(8,160) $(13,756) Pinal County Water $(86.698) $(198,694) $(289.394)217 Palo Verde $(82,069) $(188,086) $(272,236) Red Rock (Wastewater) $(3,382) $(7,752) $(11, 790) Pinal County Wastewater $(85,452) $(195,838) $(284,026)2 IIS GTWC $(1 602) $(3 672) $(5 562) Eagletail $(178) $(408) $(722) NSWC $(356) $(816) $(852) Maricopa County $(2,136) $(4,896) $(7,136)219 Water Turner Ranches $(3,739) $(8,568) $(13,081) As with employee incentive compensation, we agree with Staff that the cost of incenting conduct that benefits shareholders should fall on shareholders. DSU future values are based on stock 216 Id at 13. 2 17 The consolidated adjustment to Misc. Expense for Staffs director compensation adjustments provided in Staffs Final Schedules, Ali- i i ("Santa Cruz Consolidated") was $315,657 which does not arithmetically equal the sum of the individual adjustments between the systems composing the Pinal County Water consolidated group. 2 18 The consolidated adjustment to Misc. Expense for Staffs director compensation adjustments provided in Staffs Final Schedules, Ali- ii ("Palo Verde Consolidated") was $308,604 which does not arithmetically equal the sum of the individual adjustments between the systems composing the Pinal County Wastewater consolidated group. 2 19 The consolidated adjustment to Misc. Expense for Staffs director compensation adjustments provided in Staffs Final Schedules, MCC-11 ("Global Water - Tonopah and Eagle Tail Consolidated") was $6,284 based only on GTWC and Eagletail. 83 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. values and are thus linked to GWRI's future financial performance.22° For that reason, we agree with 2 Staff that 100% of DSUs' unrealized gains should be removed. 3 Neither RUCO nor Staff argues that compensating a board of directors is an inappropriate 4 expense to be recovered from ratepayers. We agree that having a board of directors is a cost of doing 5 business as a publicly traded company. The benefits noted by the Applicants from being listed on a 6 major stock exchange, such as refinancing debt, reducing interest rates by 200 basis points, raising $37 7 million in new equity, and establ ishing a platform to raise add itional capital at favorable rates when 8 needed,221 require GWRI to have a board of directors. Because it is a cost of doing business for which 9 there is insufficient evidence demonstrating it primarily benefits ratepayers or shareholders, we find 10 that Staff and RUCO's recommendation of a 50/50 sharing is reasonable. For that reason, we adopt 11 Staff's recommended adjustment removing 50% of board cash and DSU compensation and disallowing 12 100% of unrealized gain on DSUs from

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Miscellaneous expense. C. Named Executive Officer Compensation 13 14 RUCO recommends various adjustments to the salaries of Named Executive Officers ("NEO") 15 based on its contention that the compensation for NEOs, specifically Mr. Fleming and Mr. Liebman, 16 is excessive in comparison to other water utilities across the industry.222 RUCO undertook its own 17 analysis of NEO compensation using four utilities cited by GWRI in its Securities Exchange 18 Conunission Schedule 14A filings, York Water Company, Artesian Resources Corp., SJW Group, and I 9 Middlesex Water Co., as representative in size and of the types of utilities the Applicants compete with 20 for talent.223 RUCO contends that the several of the referenced comparable utilities are not 21 representative because they are have larger market cap sizes and some are multi-state utilities with 22 consequently more complex operational considerations than the Applicants. 23 RUCO acknowledges that the Applicants have already made adjustments m the original 24 application to reduce the compensation levels for Mr. Fleming and Mr. Liebman. Based on its analysis 25 finding York Water Company to be most comparable to the Applicants, RUCO recommends reducing 26 220 Ex. S-11 at 31. 27 221 Applicants Cl. Br. at 113. 222 Ex. RUC0-2 at 15-16. 28 223 Ex. RUC0-4 at 2. 84 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Salaries and Wages expense by $203,406 as a further adjustment to NEO compensation from the 2 reductions the Applicants have already made. RUCO has reviewed Staff's recommendations relating 3 to incentive compensation and is not opposed to removal of all executive compensation related to PSU s, 4 DSUs, and unrealized gains on PSUs as Staff recommends. 5 Distributed among the Applicants, RUCO's recommendation would make the following 6 adjustments to the Salaries and Wages expense as follows: 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 Utility RUCO-Final Santa Cruz $(95,005) Red Rock (Water) $(4,069) Pinal County $(99,074) Water Palo Verde $(93,784) Red Rock (Wastewater) $(3 865) Pinal County $(97,649) Wastewater GTWC $(1,831) Eagletail $(203) NSWC $(407) Maricopa County $(2,441) Water Turner Ranches $(4 272) In response to RUCO, the Applicants note that they have already made extensive adjustments that directly reduce NEO compensation expense. These include 100% removal of Chief Strategy Officer compensation, removal of 100% of the employee stock option program expense, removing 50% of NEO cash bonuses, excluding 100% of PS Us, and the removal of 50% of stock appreciation rights expense. 224 Combined, these adjustments place 40% of NEO compensation on shareholders with ratepayers bearing 60%.225 The Applicants criticize the analysis RUCO perfonned as overly reliant on limited data points, including websites with computer-generated analyses. As alluded to in RUCO's acknowledgement of the acceptability of Staffs recommendations related to executive incentive compensation,226 RUCO's adjustment to NEO compensation achieves by separate means what is largely already addressed by Staffs recommended adjustments. As we have already found Staff's adjustments reasonable and have adopted them, RUCO's additional adjustments 27 224 Ex. A-48 at 17; Ex. RUCO-20. 28 225 Applicants' Cl. Br. at 108, citing RUCO-20. 226 RUCO Cl. Br. at 28. 85 DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. to NEO compensation are unnecessary and have already been addressed through other adjustments and 2 we decline to adopt them. 3 4 D. Listing Costs As a publicly traded company, GWRI is listed on the NASDAQ stock exchange as well as the 5 Toronto Stock Exchange. Pointing to benefits such as interest savings that were realized through the 6 NASDAQ initial public offering, which allowed refinancing of outstanding debt,227 as well as paying 7 off debt and raising equity to fund capital improvements, the Global Water Utilities argue that the fees 8 to remain listed on these exchanges are a valid business expenses that are reasonably recovered from 9 ratepayers. 10 11 1. RUCO RUCO recommends adjusting Miscellaneous Expense to reduce NASDAQ listing costs by half 12 and eliminating expenses related to listing on the Toronto Stock Exchange. According to RUCO, 13 Arizona ratepayers derive no benefit from their utility being listed on a foreign country's stock 14 exchange. By contrast, RUCO observes that the Applicants have benefited from GWRI being a 15 publicly traded company as evidenced by its increased dividends and ability to pay special dividends.228 16 In the same vein as prior Commission detenninations229 , RUCO contends that these costs amount to 17 investor relations and should thus be shared between ratepayers and shareholders rather than being 18 entirely the responsibility of ratepayers. 19 20 21 22 23 24 25 26 2. Staff Staff expressed no position on the issue but did not make any adjustment to remove the Applicants' proposed listing costs from operating expense, effectively agreeing with the Applicants. 3. Global Water Utilities' Response The Global Water Utilities argue that ratepayers have benefited extensively from listing GWRI on NASDAQ. As testified to by Mr. Liebman, the benefits include access to capital to fund infrastructure investments and the acquisition of nonviable utilities, and listing on NASDAQ has 27 227 Ex. A-32 at IO; Tr. Vol. VI at 824. 228 Tr. Vol. VIII at 1160. 229 See e.g. Id. Testimony of Mr. Michlik citing Decision No. 72026 (December I 0, 2010) (Litchfield Park Service Company 28 rate case) pages 40-50. 78644 86 DECISION NO. ----- DOCKET NOS. SW-20445A-20-0214, et al. produced $2.3 million in annual interest savings because the Applicants' prior debt had a 'no call' 2 provision subject only to the exception if GWRI went public on a US stock exchange. 230 Moreover, it 3 can be reasonably anticipated that debt costs will continue to be lower than for private companies.23 1 4 Speaking directly to RUCO's criticism of the Toronto Stock Exchange as a foreign stock 5 exchange, the Global Water Utilities assert that support from existing Canadian investors was necessary 6 to authorize listing on NASDAQ and the listing provides access to an additional pool of investors. 7 8 4. Resolution We agree with the Applicants that listing GWRI on NASDAQ and the Toronto Stock 9 Exchanges are a reasonable cost of doing utility business and has provided benefits to ratepayers. IO Examining the portion of Decision No. 72026 excerpted as Ex. RUCO-31, it is apparent that the parsing 11 and allocation of costs ordered by the Conunission in that case was due to the intermingled nature of 12 multiple regulated and unregulated entities employing common assets and incurring conunon expenses. 13 14 15 16 17 18 19 20 21 Although we agree, as a general proposition, that a shared services model may provide economies of scale that result in more efficient operations, the common expenses that are incurred and allocated to regulated utility companies must provide a clearly defined ben~fit to customers to be considered reasonably necessary for the provision of service . . . . As Mr. Michlik points out, the central office costs are related primarily to [Litchfield Park Service Company's ultimate parent]'s function as a holding company that controls both regulated and unregulated businesses. Given the corporate structure that exists, with a series of subsidiaries and affiliated companies, we believe that the central office expenses are intermingled between the regulated and unregulated companies to such an extent that it is not appropriate to allow an across-the-board recognition of all such expenses for purposes of setting rates.232 The intermingling between regulated and unregulated entities observed in Decision No. 72026 is not present in the circumstances of this case. Although at one time, unregulated affiliates were 22 among the common subsidiaries of the Applicants ' parent, presently all GWRI's subsidiaries are 23 regulated public utilities.233 Consequently, we decline to adopt RUCO's recommended sharing of 24 listing costs. 25 26 27 230 Ex. A-32 at 8. 231 id at 11. 232 Decision No. 72026 at 47-48. 28 233 Tr. Vol. VI at 842. 87 DECISION NO. 78644 ------ 1 2 DOCKET NOS. SW-20445A-20-0214, et al. E. Discontinued Contractual Expenses Staff recommended adjusting the Contractual Services expense for Red Rock (Wastewater) to 3 reflect that a contracted operations and maintenance services provider, Inframark, which had been 4 under contract to Red Rock's prior ownership was tem1inated in 2019. As the services are now being 5 provided by in-house personnel, Staff removed the contract expense as a non-recurring expense.234 6 Staff's recommended adjustment removes $ I 3,134 from Contractual Services-Other for Red Rock 7 (Wastewater). 8 9 10 11]. RUCO RUCO did not take a position on the Staff recommended adjustment. 2. Global Water Utilities' Response The Global Water Utilities oppose Staffs adjustment on the basis that even though Inframark's 12 contract has been terminated, the work is still being done using Red Rock personnel and that 13 corresponding adjustments to salary and wage expense have not been made. 235 Although the 14 Applicants concede that the expense is small , it runs counter to efforts toward rehabilitating an acquired 15 utility.236 16 17 18 19 20 21 22 23 24 25 26 3. Resolution We agree with the Global Water Utilities that there is a cost to provide these services using in house personnel now that the Inframark contract has been tenninated. However, an appropriate adjustment to Salaries and Wage expense was not proposed on a pro-forma basis to provide a reasonable basis to recognize it. Applicants were aware of the Staff recommendation at the rebuttal stage and could have proposed a pro-forma adjustment to Salaries and Wage expense for any new employees hired to assume the duties previously filled by the Inframark contractors. The Applicants have failed to meet their burden to demonstrate that the contract rate is a reasonable proxy for an appropriate Salaries and Wages expense adjustment. Absent a properly supported pro-forma adjustment, Staffs adjustment is proper and appropriate and should be adopted. 27 234 Ex. S-8 at 26-27. m Ex. A-40 at 12. 28 236 Id. 88 DECISION NO. 78644

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1 2 DOCKET NOS. SW-20445A-20-0214, et al. F. Purchased Power / Purchased Chemicals Expense Staff recommends adjusting the Purchased Power expenses for GTWC and Eagletail and 3 Chemicals expense for GTWC to reflect the high water loss rates experienced in those systems. 4 According to Staff, the cost of purchased power to pump and chemicals to treat water that is lost is not 5 a benefit to ratepayers.237 Staff recommends decreasing GTWC's Purchased Power expense by $684, 6 from $22,938 to $22,254 and reducing GTWC's Chemicals cost $594, from $19,910 to $19,316.238 7 Staff recommends reducing Eagletail 's Purchased Power expense by $2,569, from $11,997 to 8 $9,428.239 Viewing Eagletail and GTWC as part of the consolidated Maricopa County Water utilities, 9 Staff adjusted the operating expenses of the Maricopa County Water consolidation reducing Purchased 10 Power by $3,253, from $34,935 to $31,682 and reducing Chemicals by $594, from $19,910 to 11 $19,316.240 12 RUCO did not take a position regarding Staffs adjustments. 13 The Global Water Utilities did not address Staffs adjustments in briefing nor in pre-filed 14 testimony but Staffs adjustments do not appear in Applicants' final schedules, and a dispute is noted 15 in the pre-hearing issues matrix describing Staffs proposed adjustments as inappropriate for troubled 16 systems that have been acquired. Because GTWC is not a recently acquired utility, we infer that 17 Applicants' comments refer solely to the adjustment made to Eagletail's Purchased Power expenses. 18 Staff is correct that expenses incurred to treat and pump water that is ultimately wasted are a 19 disservice to ratepayers and should be discouraged. However, the present matter is the first rate case 20 for Eagletail after its acquisition by GWRI. While the expectation is that water loss should remain 21 below 10 percent, in cases of utilities experiencing water losses greater than 10 percent, we have 22 generally required the formulation of a plan as to how the affected utility intends to address the issue 23 before adopting more stringent measures. 24 1 In consideration of the short time that Eagletail has had 24 to address its water loss issues, we believe that the more appropriate course at this time is to require 25 26 237 Ex. S-8 at 37, 40-41. 238 Ex. S-21 Final Schedule MCC-14d ("Global Water - Greater Tonopah Water, Inc.") 239 Ex. S-21 , Final Schedule MCC-14d ("Global Water - Eagletail Water Company") 27 240 Ex. S-21 , Final Schedule MCC- 14d ("Global Water - Tonopah and Eagle Tail Consolidated") 28 241 See e.g., Decision No. 77179 (May 15, 2019) requiring Payson Water Company to develop plans to remedy water loss for two water systems experiencing water loss rates of27 and 40 percent. 89 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al monitoring of water loss and development of a plan to address it if the condition persists. G. Summary of Adjusted Test Year Operating Revenues and Expenses The following adjustments to the Applicants' operating expenses for the stated operatin g incomes based on test year revenues, by utility are summarized as follows: Utility Salaries and Contractual TY Adjusted TY Adjusted TY Wages Services Revenues Operating Operating Adjustment* Ad_justment Expense Income/(Loss) Santa Cruz $(139,166) $14,636,521 $12,415,998 $2 220 523 Red Rock $(6,486) $428,926 $488,588 $(59,661) (Water) Pinal County $(145,652) $15,065,448 $12,904,586 $2,160,862 Water Palo Verde $(124,215) $ 19,370,486 $14,964,591 $4,405,540 Red Rock $(5,640) $(13,134) $952,465 $837,820 $114,645 (Wastewater) Pinal County $(129,855) $(13,134) $20,322,951 $15,802,411 $4,520,540 Wastewater GTWC $(3 644) $397,713 $559,802 $(162,089) Eagletail $(519) $52,667 $96 037 $(43,370) NSWC $(811) $237,243 $133,688 $103,555 Maricopa $(4,974) $687,623 $788,527 $(101 ,903) Countv Water Turner Ranches $(6 447) $853,397 $810,905 $42.492 • The adjustments presented as Salaries and Wages adjustments combine the recommended adjustments for incentive compensation and board member compensation made to Salaries and Wages as well as Miscellaneous expense that have been adopted. VI. COST OF CAPITAL A. Capital Structure and Cost of Debt 1. The Global Water Utilities Applicants originally proposed to use individual capital structures for each of the utilitie s involved in the proceeding. To reduce issues in contention, they accepted as their final position, th e hypothetical capital structure composed of 45% debt to 55% equity, as recommended by Staff.242 Th e Global Water Utilities' proposed cost of debt is 4.80%. 2. RUCO RUCO recommends a hypothetical capital structure of 60% debt to 40% equity.243 RUCO' s recommended cost of debt is 4.80%. 242 Ex. A-28 at 24-25. 243 Ex. RUC0-11 at 2. 90 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. RUCO argues that the over-representation of equity in the Applicants' proposed capital 2 structure rewards the continued lack of progress toward improving the actual equity ratio. RUCO cites 3 prior Commission Decisions for the Global Water Utilities244 for the proposition that the Commission 4 has previously ordered Applicants to improve the lack of equity in their capital structures to at least 5 30%. Additionally, RUCO asserts that Applicants ' dividend policy and high concentration of 6 ownership245 , matters RUCO acknowledges are entirely subject to Applicants' prerogative, have 7 contributed to perpetuating Applicants' low actual equity balance.246 8 In support of its hypothetical capital structure recommendation, RUCO explains that a 60% 9 debt to 40% equity ratio reduces the impact of higher cost equity on ratepayers and that a 60/40 to 10 40/60 debt to equity ratio has historically been favored by the Commission as a "balanced capital 11 structure".247 3. Staff 12 13 Staff also recommends the use of a hypothetical capital structure of 45% debt to 55% equity248 14 and a cost of debt of 4.80%. Staff noted numerous deficiencies in the methodology the Global Water 15 Utilities used to derive individual capital structures for the separate utilities. Although Staff noted that I 6 the Global Water Utilities have improved their actual equity since their last rate case, the combined 17 total equity the Applicants proposed in the applications for all of the utilities equaled more than $14 7 18 million, more than six times the actual total equity of GWRI. 249 The overstated equity in the I 9 Applicants' original proposal concerned Staff because GWRI is comprised almost entirely of the 20 Global Water Utilities and as such, the earned return on equity for GWRI would greatly exceed that of 21 the Global Water Utilities despite being essentially the same entities.250 Staff also took issue with the 22 retention of all utility debt at the parent-GWRI level. Due to the separate dispute relating to the debt- 23 financed Southwest Treatment Plant, Staff viewed the originally proposed individual capital structures 24 25 244 Decision Nos. 72730 (January 6, 2012) and 77121 (March 13, 2019) 245 RUCO notes that 49 .3% of all common stock is owned by the eight directors and executive officers. Ex, RUCO- IO at 26 39. 246 Ex. RUCO-11 at I 0. 27 247 Ex. RUCO-10 at 25. 248 Ex. S-4 at 3. 249 Ex. S-3 at 23. 28 250 Id. at 24. 91 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. as problematic. 251 2 Instead, Staff recommends the adoption of a hypothetical capital structure of 55% equity and 3 45% debt for all the Global Water Utilities. Staff based its recommendation on an average of the capital 4 structure ratios of the proxy group utilities used in Staffs analysis ofretum on equity.252 5 6 4. The Global Water Utilities' Response Applicants argue that a 55% equity, 45% debt hypothetical capital structure is consistent with 7 the capital structure of the comparison companies Staff witness Mr. Parcell used to develop the capital 8 structure recommendation and is also consistent with recent Commission orders and methods used to 9 establish the capital structures for the Global Water Utilities in prior rate cases.253 Responding to I O RUCO's argument of inconsistency with prior Commission orders on the issue, Applicants point out 11 that in the past two Global Water Utilities' rate cases, the Commission imputed parent debt from GWRI 12 into the capital structure. Applicants further assert that RUCO mistakes the aim of Decision No. 77121 , 13 elevating the equity reporting requirement into a target for use in a future rate case. As for improving 14 the equity balance, Applicants cite Staffs testimony to confirm that GWRJ has improved its equity as 15 required by the Commission.254 16 Applicants also dispute RUCO's arguments concerning the connection of ownership 17 concentration and dividend payments to capital structures. Pointing out that RUCO's witness Mr. 18 Cassidy acknowledged that there is no suggestion of misconduct by officers and directors, Applicants 19 contend that there is no conflict presented because the Commission ordered the Global Water Utilities 20 to improve their equity ratio and they have done so. Further, the Global Water Utilities assert that there 21 is no evidence to the effect that the dividend payments are excessive or out of line with the sample 22 companies in the comparison group on which the hypothetical capital structure was based. 23 The Global Water Utilities also dismiss the applicability of various cases cited by RUCO 24 witness Mr. Cassidy at hearing255 in support of a 40/60 equity to debt capital structure as antiquated 25 251 Id. 26 252 Id. at 26. 253 Applicants' Op. Br. 74-82. 254 Applicants' Rep Br. at 29, citing Ex. S-3 at 20. 27 255 Ex. RUCO-21 (excerpt from Decision No. 64172 (October 30, 2001) Southwest Gas Corp. rate case), RUCO-22 (excerpt 28 from Decision No. 68487 (February 23, 2006) Southwest Gas Corp. rate case), and RUCO-23 (excerpt from Decision No. 59594 (March 29, 1996) Tucson Electric Power rate case). 92 78644 DECISION NO.

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2 3 DOCKET NOS. SW-20445A-20-0214, et al. and for gas and electric utilities that are inherently different from water and wastewater utilities. 5. Resolution In contrast to more typical cases that center on the cost of equity determination, the capital 4 structure is the most contested cost of capital dispute here. No party is recommending using the Global 5 Water Utilities' actual capital structure, which RUCO calculated to be 35.32% debt to 64.68% 6 equity.256 7 The 55% equity to 45% debt capital structure was originally recommended by Staff and was 8 adopted as the Global Water Utilities' final position. As observed by Staff witness Mr. Parcell, the 9 Applicants' actual combined equity of $147,882,000 exceeds the $24,672,000 equity balance of the IO parent, GWRI.257 This discrepancy would produce the incongruous outcome that a cost of equity 11 earned on utility level equity would produce returns higher than on the equity of the utilities' parent, 12 which should logically be virtually the same.258 Further, Applicants' original proposal to allocate 13 parent-level debt to the individual utilities was complicated by the treatment of the $33 million debt 14 associated with the Southwest Treatment Plant. 259 15 RUCO is correct that a 40 to 60 ratio has often been used as a gauge to establish a balanced 16 capital structure that provides ratepayers with the benefit of lower cost debt capital while retaining the 17 flexibility of higher cost equity capital. However, that ratio applies in both directions, which is to say 18 that a 60% debt to 40% equity ratio meets the criteria as well as a 40% debt to 60% equity capital 19 structure, which RUCO concedes. 260 Staffs recommended hypothetical capital structure, adopted by 20 the Applicants, also meets this criterion to be considered a balanced capital structure. 21 We appreciate the concerns voiced by RUCO that increased equity in a capital structure will, 22 when equity costs more than debt, result in higher overall rates. However, increasing the Applicants' 23 equity balance has been a goal of the Commission over the course of multiple cases. It is also a fact in 24 this case that one of the causes for the increased proportion of equity is that debt associated with the 25 26 256 Ex. RUCO-10 at 20. 257 Ex. S-3 at 22-23. 25s Id. 27 259 id. at 24. 28 260 See e.g., Tr. Vol. VI at 949 (testimony of Mr. Cassidy on behalf of RUCO explaining that a debt component from 40% to 60% and corresponding equity component of 60% to 40% would is a balanced capital structure.) 93 DECISION NO. _ 78_6_4_4 __ DOCKET NOS. SW-20445A-20-0214, et al. Southwest Treatment Plant has been wholly removed from consideration, thereby removing a cost that 2 ratepayers would have been bearing. That the Southwest Treatment Plant is not immediately used and 3 useful does not alter that conclusion - if the plant cannot be considered for rate base purposes, 4 consistency demands that associated debt capital must also be removed from consideration, even if it 5 inflates the proportion of equity. 6 We are also not persuaded by RUCO's invitation to consider the Applicants' dividend policy 7 nor the degree of ownership concentration in deten11ining an appropriate capital structure to be 8 employed here. As noted by Applicants, RUCO provides no citation to a specific analysis, authority, 9 or learned study demonstrating either condition influences equity balance in a capital structure. Staffs recommended capital structure, while based on a comparison to a group of other 11 companies, not only satisfies the criterion for a balanced capital structure, but it is also more closely 12 aligned with the Global Water Utilities' actual capital structure of 35.32% debt to 64.68% equity. By 13 contrast, RUCO's debt heavy capital structure is almost the precise inverse to the Applicants' actual 14 capital structure. Against these facts, we believe the Staff recommended hypothetical capital structure 15 of 55% equity to 45% debt, which still generates savings to ratepayers by increasing the debt proportion 16 beyond the actual debt ratio, is reasonable, appropriate, and should be adopted. 17 18 19 B. Cost of Equity 1. Global Water Utilities In the application, Applicants proposed a Return on Equity ("ROE") of 9.94% to which the 20 Global Water Utilities also added a 50-basis point adjustment to reflect their proposed utility 21 acquisition incentive for a final Cost of Equity of 10.44%. The Applicants' witness, Mr. Rowell, 22 calculated his ROE using a Comparable Earnings analysis as well as three iterations of the Discounted 23 Cash Flow model ("DCF"), the Capital Asset Pricing Model ("CAPM") and a Risk Premium model. 24 Mr. Rowell performed CAPM and Risk Premium analyses using a market risk premium 25 calculated based on the difference between the average performance of large and small stock from 26 1989-2019 against long-term, intermediate

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term, and short-term (treasuries) US Government bonds 27 28 94 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. over the same time period.26 1 Using the DCF, Mr. Rowell ran a multi-stage variant, as well as 2 continuous growth models using the Annual Compounding and Semi-Annual Compounding 3 variants.262 The various models produced a range of estimated ROEs from 7.85% to 12.95%. The 4 average of all models came to 9.94%.263 5 However, the Global Water Utilities, " in an effort to reduce the issues in dispute" proposed in 6 their Rebuttal Testimony to adopt the Staff recommended ROE of9.2%, excluding their requested 30- 7 basis point ROE adder to incent utility acquisitions.264 8 9 1. RUCO RUCO recommends an ROE of 9.28% based on RUCO's use of the continuous growth DCF, IO CAPM, and Comparable Earnings methodologies that produced a range of results from 6.4% to 11. 7%. 11 RUCO notes that because the Staff recommended ROE that the Applicants have adopted is lower and 12 would produce lower rates for ratepayers, RUCO supports the adoption of a 9.2% ROE.265 2. Staff 13 14 Staff recommends an ROE of9.2% that is also based on an average of the results derived from 15 DCF, CAPM, and Comparable Earnings methodologies that produced a range of results from 6.6% to 16 10.0%. 266 17 3. Resolution 18 Staff's recommended ROE of 9.2% is a reasonable approximation of the Applicants' cost of 19 20 21 equity, is appropriate and should be adopted. C. Weighted Average Cost of Capital Based upon our conclusions above, we find that the Global Water Utilities' capital structure, 22 cost of debt, and weighted average cost of capital ("W ACC") which is the rate of return to be applied 23 24 25 to the fair value rate base are as follows: 26 261 Ex. A-27 at 48-50. 262 Ex. A-27 at 39. 27 263 Ex. A-27 at 60. 264 Ex. A-28 at 24. 265 RUCO Cl. Br. at 9. 28 266 Ex. S-3 at 4. 95 DECISION NO. 78644 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Description Percent Cost Rate Weighted Cost Common Equity 55% 9.20% 5.06% Long-Term Debt 45% 4.80% 2.16% WACC 100% 7.22% D. Operating Margin 1. Global Water Utilities In contrast to the proposed return on rate base methodology to establish the revenue requirement for most of the utilities involved in the Joint Applications, Applicants propose to establish the revenue requirement for NSWC using an operating margin of 43.39%. Due to the highly depreciated rate base within the NSWC, the test year revenues arithmetically produce the equivalent to a 190.16% return on rate base. a. Consolidated Scenario If the Maricopa County Water utilities are revenue-only consolidated, the Global Water Utilities propose to continue NSWC's current rates and revenues, with the consequence that NSWC's revenues will generate the equivalent to a 43.39% operating margin, or a 190.16% return on rate base. However, for Eagletail and GTWC, the Applicants propose to establish their revenue requirements on the basis of a 4% operating margin, and as discussed in the rate design discussion, place the Eagletail and GTWC systems on a common rate structure. The revenue-only consolidation using the Applicants' proposed method for deriving the Maricopa County Water consolidation's revenue requirement, would result in a combined revenue increase of$ l 91,882, or approximately 27.91 %, for Eagletail and GTWC, while NSWC's rates would remain unchanged. b. Standalone Scenario If the consolidation proposal is not adopted, the Global Water Utilities propose revenue requirements for Eagletail and GTWC using conventional return on rate base methodology instead, while NSWC alone would have continue to maintain its current rates. For Eagletail, using a 9.2% ROE and the Applicants' proposed 30-basis point ROE adder, the resulting 7.4% weighted average cost of capital would produce an increase of $122,543, or 232.68% over test year revenues of $52,667. For GTWC, using the same 7.4% weighted average cost of capital would produce an increase of $494,556, or 124.35% over test year revenues of $397,713. 96 DECISION NO. 78644 -----

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DOCKET NOS. SW-20445A-20-0214, et al. 2. RUCO 2 RUCO supports both the consolidation of GTWC, NSWC, and Eagletail267 as well as 3 employing the Applicants' proposed operating margin approach (i.e., revenue-only consolidation) to 4 set the return for the entirety of the Maricopa County Water consolidation. 5 6 7 3. Staff a. Consolidation Scenario 1 (GTWC and Eagletail Only) Staff does not support the Applicants' proposed revenue-only consolidation of NSWC with 8 Eagletail and GTWC. Staff recommends consolidation of only Eagletail and GTWC whi le NSWC 9 would remain separate.268 Under Staffs consolidation recommendation, Eagletail and GTWC would 10 have a combined revenue requirement established based on a 4% operating margin for an increase of 11 $381,197, or 84.64% over test year revenue of $450,380.269 12 Under Staffs recommendation, NSWC's revenue requirement would be set based on a l 0% 13 operating margin for a decrease of $109,249, or 46.05% from test year revenue of $237,243.270 b. Consolidation Scenario 2 (Full Consolidation) 14 15 Staff does not oppose a full consolidation of the Maricopa County Water utilities where NSWC, 16 Eagletail, and GTWC are placed on a common rate structure rather than retaining NSWC's existing 17 rates as the Global Water Utilities propose.271 Staff did not prepare schedules illustrating the impacts 18 of this scenario. c. Standalone Scenario 19 20 21 If the rates are set on a standalone basis for Eagletail, GTWC, and NSWC, then Staff 22 recommends using an operating margin (of 10.0%)272 only for NSWC. 23 For GTWC, Staff recommends setting rates on the basis of a 9.2% ROE for a resulting in a 24 7 .22% weighted average cost of capital to produce an increase of $328,801 or 82.67% over test year 25 26 267 Ex. RUCO-8 at 3; Tr. Vol. IX at 1325-1326. 268 Tr. Vol. X at 1443. 27 269 Ex. S-21, Final Schedule MCC-1 "Global Water - Tonopah and Eagle Tail Consolidated" 270 Ex. S-21, Final Schedule MCC- 1 "Global Water - Northern Scottsdale Water Company, Inc." 271 Tr. Vol. X at 1460. 28 272 Ex. S-21, Final Schedule MCC- 1 "Global Water - Northern Scottsdale Water Company, Inc." 78644 97 DECISION NO. ____ DOCKET NOS. SW-20445A-20-0214, et al. revenue of$397,713.273 2 For Eagletail, Staff also recommends setting rates using return on rate base methodology, and 3 based on a 7.22% rate of return, Staff's recommendation would increase Eagletail's revenue by 4 $105,333 or 200.00% over test year revenue of $52,667.274 5 6 4. Resolution Considered as separate, standalone utilities, it is apparent that the recent influx of substantial 7 plant investments to serve Eagletail and GTWC will produce required revenue increases that will cause 8 substantial rate shock for customers. We are not persuaded that it would be appropriate to retain the 9 current rates for NSWC because, on a standalone basis, it is overeaming. However, the Applicants' 10 proposal to retain NSWC's current rates and instead use the excess income to moderate the necessary 11 rate increases for Eagletail and GTWC, if all three utilities are revenue consolidated, would 12 significantly mitigate the anticipated rate shocks for Eagletail and GTWC. As proposed, the Global 13 Water Utilities' Consolidation Scenario would forego revenues to which they may otherwise be entitled 14 under a strict return on rate base methodology as to Eagletail and GTWC and produce the lowest overall 15 rate increase for the entirety of the Maricopa County Water consolidation. 16 As will be discussed further when addressing the consolidation proposal, we find that the 17 proposed revenue consolidation of the NSWC, GTWC, and Eagletail utilities is in the public interest. 18 It is also apparent on the facts presented that setting the rates for Eagletail and GTWC on a cost of l 9 capital approach will result in substantial rate shock for ratepayers in those systems. Although the 20 current high return earned by NSWC on a standalone basis would warrant a rate reduction for that 21 system, the substantial offsetting mitigation of the necessary rate increases for the Eagletail and GTWC 22 systems, as well as the lack of consumer opposition to the rate proposal by customers of NSWC, 23 persuades us that it is reasonable to retain the current rates, and consequent revenues from NSWC as 24 part of a consolidated whole with GTWC and Eagletai l as described in the Applicants' Consolidation 25 Scenario. 26 27 We find that establishing the revenue requirement for Eagletail and GTWC on the basis of a 273 Ex. S-21 , Final Schedule MCC-1 "Global Water - Greater Tonopah Water Company, Inc" 28 274 Ex. S-21 , Final Schedule MCC-1 "Global Water - Eagletail Water Company" 98 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 4% operating margin, and retaining the existing rates for NSWC, which produces the equivalent to a 2 43.39% operating margin for NSWC, is a reasonable means to mitigate the substantial rate shock that 3 can be anticipated for customers within Eagletail and GTWC if strict return on rate base methodology 4 were employed, and the concomitant loss of offsetting revenues from NSWC to assist with moderating 5 the revenue increase. We therefore adopt the Applicants' Consolidation Scenario proposal. 6 VII. SUMMARY OF REVENUE REQUIREMENT 7 The Applicants, RUCO's, and Staffs proposed revenue requirements and estimated bill 8 impacts are as follows: 9 10 11 12 13 14 A. Pinal County Water 1. Global Water Utilities For Pinal County Water, Applicants propose to increase revenue by $1,491,789 over adjusted test year revenues, or 9.9%, from $15,067,619 to $16,559,408. On a standalone basis, Santa Cruz's revenues would increase $1,318,667, or 9.0%, from $14,636,521 to $15,955,188, and Red Rock (water)'s revenues would increase $173,220, or 40.4%, 15 from $428,926 to $602,147. 16 For the typical Santa Cruz customer on a 5/8 x 3/4-inch meter with median monthly usage of 17 5,000 gallons, Applicants' proposed revenue increase and consolidated rate design, excluding proposed 18 surcharges, would, during the third year of a proposed phase-in, result in a $1.54 or 4.51 % increase 19 from their current monthly bill of $34.18275 to $35. 72. 20 For the typical Red Rock (water) customer on a 5/8 x 3/4-inch meter with median monthly 21 usage of 3,500 gallons, Applicants' proposed revenue increase and consolidated rate design, excluding 22 proposed surcharges, would, in the third year of a proposed phase-in, result in a $0. 78 or 2.34% increase 23 from their current monthly bill of $33.40 to $34.18. 24 2. RUCO 25 For the Pinal County Water consolidation, RUCO recommends increasing revenue by 26 $1,075,656 over adjusted test year revenues, or 7.14%, from $15,067,619 to $16,143,276. 27 28 275 Current bill does not include Tax Credit and Jobs Act ("TCJA") monthly bill credit of $1.12 ratepayers are currently receiving. 99 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. For the typical Santa Cruz customer on a 5/8 x 3/4-inch meter with median monthly usage of 2 5,000 gallons, RUCO's recommended revenue increase and consolidated rate design, excluding 3 proposed surcharges, would result, in the third year of a recommended phase-in, in a $2.08 or 6.09% 4 increase from their current monthly bill of $34.18 to $36.26. 5 For the typical Red Rock (water) customer on a 5/8 x 3/4-inch meter with median monthly 6 usage of 3,500 gallons, RUCO's recommended revenue increase, excluding proposed surcharges, 7 would result in a $0.13 or 0.39% decrease from their current monthly bill of $33.40 to $33.27. 8 3. Staff 9 For Pinal County Water, Staff's recommendation increases revenue by $1,249,027 over 10 adjusted test year revenues, or 8.29%, from $15,067,620 to $16,316,647. 11 On a standalone basis, Staff's recommendation would increase Santa Cruz's revenues 12 $1 ,087,950, or 7.43%, from $14,636,521 to $15,724,472, and Red Rock (Water)'s revenues would 13 increase $142,062, or 33 .12%, from $428,926 to $570,988. 14 For the typical Santa Cruz customer on a 5/8 x 3/4-inch meter with median monthly usage of 15 5,000 gallons, Staff's recommended revenue increase and consolidated rate design, excluding proposed 16 surcharges, would, during the third year of a recommended phase-in, result in a $1.68 or 4.91 % increase 17 from their current monthly bill of $34.18 to $35.86. 18 For the typical Red Rock (water) customer on a 5/8 x 3/4-inch meter with median monthly 19 usage of 3,500 gallons, Staffs recommended revenue increase and consolidated rate design, excluding 20 proposed surcharges, would, during the third year of a recommended phase-in, result in a $3.07 or 21 9.19% increase from their current monthly bill of$33.40 to $36.47. 22 8. Pinal County Wastewater 23 1. Global Water Utilities 24 For Pinal County Wastewater, Applicants propose to increase revenue by $1 ,057,708 over 25 adjusted test year revenues, or 5.2%, from $20,322,951 to $21,380,659. 26 Individually, Palo Verde' s revenues would increase $851 ,010, or 4.39%, from $19,370,486 to 27 $20,221 ,496, and Red Rock (wastewater)'s revenues would increase $207,902, or 21.83%, from 28 100 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. $952,465 to $1,160,367. 2 For the typical Palo Verde customer taking service from a 3/4-inch meter, Applicants' proposed 3 revenue increase and consolidated rate design, excluding proposed surcharges, would, during the third 4 year of a proposed phase-in, result in a $1.73 or 2.49% increase from their current monthly bill of 5 $69.53276 to $71 .26. 6 For the typical Red Rock (wastewater) customer taking service from a 5/8 x 3/4-inch meter, 7 Applicants ' proposed revenue increase and consolidated rate design, excluding proposed surcharges, 8 would, during the third year of a proposed phase-in, result in a $19.13 or 21.16% decrease from their 9 current monthly bill of $90.39 to $71.26. 10 11 2. RUCO For the Pinal County Wastewater consolidation, RUCO recommends decreasing revenue by 12 $454,458 below adjusted test year revenues, or 2.24%, from $20,322,951 to $19,868,493. 13 For the typical Palo Verde customer taking service from a 3/4-inch meter, RUCO's 14 recommended revenue decrease and consolidated rate design, excluding proposed surcharges, would 15 result in a $0.85 or 1.22% increase from their current monthly bill of $69.53 to $70.38. 16 For the typical Red Rock (Wastewater) customer taking service from a 5/8 x 3/4-inch meter, 17 RUCO's proposed revenue decrease and consolidated rate design, excluding proposed surcharges, 18 would result in a $20.01 or 22.14% decrease from their current monthly bill of $90.39 to $70.38. 19 3. Staff 20 For Pinal County Wastewater, Staff's recommendation increases revenue by $399,986 over 21 adjusted test year revenues, or 1.97%, from $20,322,951 to $20,722,937. 22 Individually, Palo Verde's revenues would increase $257,259, or 1.33%, from $19,370,486 to 23 $19,627,745, and Red Rock (Wastewater)'s revenues would increase $165,928, or 17.42%, from 24 $952,465 to $1,118,393. 25 For the typical Palo Verde customer taking service from a 3/4-inch meter, Staff's recommended 26 revenue increase and consolidated rate design, excluding proposed surcharges, would result in a $0.39 27 28 276 Does not include $2.80 TCJA bill credit Palo Verde ratepayers are currently receiving. I 01 DECISION NO. _78_6_44 __ DOCKET NOS. SW-20445A-20-0214, et al. or 0.06% decrease from their current monthly bill of$69.53 to $69.14. 2 For the typical Red Rock (Wastewater) customer taking service from a 5/8 x 3/4-inch meter, 3 Staffs proposed revenue increase and consolidated rate design, excluding proposed surcharges, would 4 result in a $21.25 or 23.51 % decrease from their current monthly bill of $90.39 to $69.14. 5 6 7 C. Maricopa County Water 1. Global Water Utilities For Maricopa County Water, Applicants propose to increase revenue by $191,882 over adjusted 8 test year revenues, or 27.9%, from $687,623 to $879,505 pursuant to their Consolidation Scenario 9 discussed further in the rate design section below. 10 If the Commission does not adopt the Applicants' proposed consolidation, they propose a return 11 on rate base methodology to derive the operating incomes of Eagletail and GTWC. If setting revenue 12 requirements individually, using a fair value rate of return of 9.2% plus a 30-basis point ROE adder, 13 Applicants' proposal would increase GTWC's revenues by $494,556, or 124%, from $397,713 to 14 $892,269, Eagletail 's revenues would increase $122,543, or 232%, from $52,667 to $175,210, and 15 NSWC's revenues would remain unchanged from test year revenues of $237,243. 16 With the Applicants' proposed revenue increase and rate consolidation, the typical GTWC 17 customer on a 3/4-inch meter with median monthly usage of 4,500 gallons, excluding proposed 18 surcharges, would see, during the third year of a proposed phase-in, result in a $25.33 or 51.73% 19 increase from their current monthly bill of $48.96277 to $74.29. 20 For the typical Eagletail customer on a 3/4-inch meter with median monthly usage of 3,500 21 gallons, Applicants' proposed revenue increase and consolidated rate design, excluding proposed 22 surcharges, would, during the third year of a proposed phase-in, result in a $2.41 or 3.49% increase 23 from their current monthly bill of $69.08 to $71.49. 24 For the typical NSWC customer on a 1-inch meter with median monthly usage of 12,500 25 gallons, Applicants' proposed retention of current rate design and revenue, excluding proposed 26 surcharges, would result in a $0 or 0% increase from their current monthly bill of $123.76.278 27 277 GTWC customers are also receiving a $3.40 TCJA bill credit that is not shown. 28 278 NSWC customers are also receiving a $4.46 TCJA bill credit that is not shown. 102 DECISION NO. 78644 1 2 DOCKET NOS. SW-20445A-20-0214, et al. 2. RUCO For the Maricopa County Water consolidation, RUCO recommends increasing revenue by 3 $167,144 or 24.31 % over test year revenue from $687,623 to $854,767. 4 For the typical GTWC customer on a 3/4-inch meter with median monthly usage of 4,500 5 gallons, RUCO's recommended revenue increase and consolidated rate design, excluding proposed 6 surcharges, would result in the third year of a recommended phase-in, in a $22.55 or 46.06% increase 7 from their current monthly bill of $48.96 to $71.51. 8 For the typical Eagletail customer on a 3/4-inch meter with median monthly usage of 3,500 9 gallons, RUCO's recommended revenue increase and consolidated rate design, excluding proposed 10 surcharges, would result in the third year of a recommended phase-in, in a $0.29 or 0.04% decrease 11 from their current monthly bill of $69.08 to $68.79. 12 For the typical NSWC customer on a 1-inch meter with median monthly usage of 12,500 13 gallons, RUCO's recommended retention of existing rate design and revenue, excluding proposed 14 surcharges, would result in a $0 or 0% increase from their current monthly bill of $123.76. 15 3. Staff 16 Based on Staffs recommended Consolidation Scenario 1 described in the rate design discussion 17 below, Staff recommends a $109,249 or 46.05% revenue decrease from test year revenues for a 18 reduction from $237,243 to $127,994 for NSWC. For the consolidated GTWC and Eagletail, Staff 19 recommends a $381,197 increase, or 84.64% over test year revenues, from $450,380 to $831,577. 20 If the utilities are not consolidated, on standalone basis, Staff recommends a $109,249 or 21 46.05% revenue decrease from test year revenues for a reduction from $237,243 to $127,994 for 22 NSWC. For GTWC, Staff recommends a $328,801 increase, or 82.67% over test year revenues, from 23 $397,713 to $726,514. For Eagletail , Staff recommends a $105,333 increase, or 200.0% over test year 24 revenues, from $52,667 to $158,000. 25 For the typical GTWC customer on a 3/4-inch meter with median monthly usage of 4,500 26 gallons, Staff's recommended revenue increase and rate consolidation scenario 1 rate design, excluding 27 proposed surcharges, would, during the third year of a recommended phase-in, result in an increase of 28 103 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. $56.45 or 115.3% from their current monthly bill of $48.96 to $105.41. 2 For the typical Eagletail customer on a 3/4-inch meter with median monthly usage of 3,500 3 gallons, Staffs recommended revenue increase and rate consolidation scenario I rate design, excluding 4 proposed surcharges, would, during the third year of a recommended phase-in, result in an increase of 5 $33.11 or 47.9% from their current monthly bill of $69.08 to $102.19. 6 For the typical NSWC customer on a I-inch meter with median monthly usage of 12,500 7 gallons, Staffs recommended revenue decrease and rate design, excluding proposed surcharges, would 8 result in a decrease of $60.96 or 49.26% from their current monthly bill of $123. 76 to $62.80. 9 10 D. Turner Ranches Global Water Utilities 11 For Turner Ranches, Applicants propose a revenue requirement of $1 ,155,802 based on fair 12 value rate of return using a 9 .2% ROE and 30-basis point adder, for an increase of $302,405 over test 13 year revenues of $853,397, or 35.4%. 14 For the typical Turner Ranches irrigation customer on an 8-inch meter with median monthly 15 usage of 1,148,000 gallons, Applicants' proposed revenue increase and rate design, excluding proposed 16 surcharges, would, during the third year of a proposed phase-in, result in an increase of $446. 10 or 17 35.46% from their current monthly bill of $1,258.21 to $1,704.31. 18 For a flat rate residential irrigation customer within Turner Ranches, the Applicants' proposed 19 revenue increase and rate design, excluding proposed surcharges would, during the third year of a 20 proposed phase-in, result in an increase of $9.41 or 35.46% from their current monthly bill of $26.54 21 to $35.95. 22 23 24 25 26 27 28 2. RUCO For Turner Ranches, RUCO recommends a revenue requirement of $930,854, an increase of $77,457, or 9.08% over test year revenues of $853,397. For the typical Turner Ranches irrigation customer on an 8-inch meter with median monthly usage of 1,148,000 gallons, RUCO's recommended revenue increase and rate design, excluding proposed surcharges, would result in the third year of a recommended phase-in, in an increase of 104 DECISION NO. __78_6_44__

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DOCKET NOS. SW-20445A-20-0214, et a l. $402.49 or 31.99% from their current monthly bill of $1,258.21 to $ 1,660.70. d For a flat rate residential irrigation customer within Turner Ranches, RUCO's recomrnende revenue increase and rate design, excluding proposed surcharges, would result in an increase of $2.4 or 9.08% from their current monthly bill of $26.54 to $28.95. 3. Staff For Turner Ranches, Staff recommends a revenue requirement of $965,341, an increase of $111,944, or 13.12% over test year revenues of $853,397. For the typical Turner Ranches irrigation customer on an 8-inch meter with median monthly d usage of 1,148,000 gallons, Staff's recommended revenue increase and rate design, excluding propose surcharges, would result in the third year of a recommended phase-in, in an increase of$ l 59.59 or 12.68% from their current monthly bill of $1 ,258.21 to $1 ,417.80. d For a flat rate residential irrigation customer within Turner Ranches, RUCO's recomrnende revenue increase and rate design, excluding proposed surcharges, would result in the third year of a recommended phase-in, in an increase of$3.84 or 14.47% from their current monthly bill of$26.54 t 0 $30.38. E. Summary Using Adopted Adjustments Based on our findings above relating to Rate Base, Operating Income, and Cost of Capital, w e determine that the final revenue requirements, by utility and by proposed consolidated rate group, fi or the Applicants are as follows: Utilitv Revenue Requirement Santa Cruz (Standalone) $15,658,075 Red Rock (Water) (Standalone) $592 302 Pinal County Water $16,252,443 Palo Verde (Standalone) $19,927 708 Red Rock (Wastewater) (Standalone) $1 132 664 Pinal County Wastewater $21 059 194 GTWC (Standalone) $882,228 Eagletail (Standalone) $173 272 NSWC (Standalone) $101,215 Maricopa Countv Water $874 076 Turner Ranches $977,738 . . . . . . 105 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0 214, et al. The revenue requirement calculations, by utility on a standalone basis, are as follow s: Santa Cruz Red Rock (Water) FVRB $41,095,492 $826,654 Operating Revenue $14,636,521 $428,926 Operating

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Income $2,220,523 $(59,661) Current RoR on FVRB 5.40% -7.22% Required RoR on 7.22% 7.22% FVRB Required Operating $2,967,094 $59,684 Income Operating Income $746,572 $119,345 Deficiency Gross Revenue 1.3683 1.3689 Conversion Factor Revenue Requirement $1,021 ,554 $163,376 Increase % Increase in Revenue 6.98% 38.09% Palo Verde Red Rock (Wastewater) FVRB $66,645,933 $3,407,093 Operating Revenue $19,370,486 $952,465 Operating Income $4,405,895 $114,645 Current RoR on FVRB 6.61 % 3.36% Required RoR on 7.22% 7.22% FVRB Required Operating $4,813,025 $246,053 Income Operating Income $407,131 $131 ,408 Deficiency Gross Revenue 1.3687 1.3713 Conversion Factor Revenue Requirement $557,222 $180,199 Increase % Increase in Revenue 2.88% 18.92% GTWC NSWC Eagletail FVRB $2,599,521 $53,416 $563,609 Operating Revenue $397,713 $237,243 $52,667 Operating Income $(162,089) $ 103,555 $(43,370) Current RoR on FVRB -6.24% 193.86% -7.70% 106 DECISION NO. 7 8644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Required RoR on 7.22% 7.22% 7.22% FVRB Required Operating $187,685 $3,858 $40,692 Income Operating Deficiency Income $349,774 $(99,698) $84,062 Gross Revenue 1.3852 1.3644 1.4347 Conversion Factor Revenue Requirement $484,515 $(136,028) $120,605 Increase % Increase in Revenue 121.83% -57.34% 229.00% Turner Ranches FVRB $1,850,25 1 Operating Revenue $853,397 Operating Income $42,492 Current RoR on FVRB 2.30% Required RoR on 7.22% FVRB Required Operating $133,621 Income Operating Income $91,129 Deficiency Gross Revenue 1.3645 Conversion Factor Revenue Requirement $124,341 Increase % Increase in Revenue 14.57% The revenue requirement calculations, by utility on a consolidated basis, are as folio ws: Pinal County Maricopa County Pinal County Water - Water - Wastewater - Consolidated Consolidated Consolidated FVRB $41,922,146 $3,216,539 $70,053,026 Operating Revenue $15,067,619 $687,623 $20,322,951 Operating Income $2,161,646 $(101,772) $4,521,194 Current RoR on FVRB 5.16% -3.17% 6.45% Required RoR on 7.22% NIA 7.22% FVRB Required Operating NIA 4.0% NIA Margin Required Operating $3,027,527 $34,963 $5,059,078 Income Operating Deficiency Income $865,881 $136,735 $537,884 Gross Revenue 1.3683 1.3636 1.3688 107 DECISION NO. 78 644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Conversion Factor Revenue Requirement $1 ,184,824 $ 186,452 $736,243 Increase % Increase in Revenue 7.86% 27.12% 3.62% The bill impacts from the recommended revenue requirement for customers of the individuals served by the most typical meter size within the respective utility, under a standalone scenario or the consolidation scenario discussed in the rate design discussion below are summarized as follows: Avg/Med Current Bill ROO - Dollar Percent Utility Usage (gal) Consol. Increase Increase (Decrease) (Decrease) Santa Cruz 6,354 $45.14 $46.80* $1.66 3.67% 5/8" X 3/4" 5,000 $34.1 8 $35.03* $0.85 2 .49% Red Rock 4 ,692 $36.26 $34.72* $(1.54) (4.26)% (Water) 3,500 $33.40 $33.51 * $0.11 0.33% 5/8" X 3/4" GTWC 6,440 $54.70 $99.60* $44.90 82.08% 5/8" X 3/4" 4 500 $48.96 $73.90* $24.94 50.94% Eagletail 3,618 $52.85 $71.44* $18.60 35.19% 5/8" X 314" 2,500 $46.50 $68.33* $21.83 46.95% NSWC 17,346 $156.71 $156.71 $0 0% l " 12,500 $123.76 $ 123.76 $0 0% Turner 4,837,210 $4,873.64 $5,584.13* $710.50 14.58% Ranches 1,148,000 $1 ,258.21 $1,441.64* $183.43 14.58% 8" Turner NIA $26.54 $30.41 * $3.87 14.58% Ranches Res. Flat Palo Verde NIA $69.53 $70.07 $0.54 0.78% 5/8" Red Rock NIA $90.39 $70.07 $(20.32) (22.48)% (Wastewater) 5/8" * Typical bill is based on the last year of a phased-in rate. Avg/Med Current Bill ROO- Dollar Percent Utility Usage (gal) Standalone Increase Increase (Decrease) (Decrease) Santa Cruz 6,354 $45.14 $46.59 $1.46 3.23% 518" X 3/4" 5,000 $34.36 $35.12 $0.76 2 .2 1% Red Rock 4,692 $36.26 $50.58 $14.32 39.48% (Water) 3,500 $33.40 $45.42 $ 12.02 35.97% 5/8" X 3/4" 108 DECISION NO. 78644

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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. GTWC 6,440 $54.70 $159.33 $104.64 191.30% 5/8" X 314" 4,500 $48.96 $121.68 $72.72 148.52% Eagletail 3,618 $52.85 $172.29 $119.45 226.02% 518" X 314" 2,500 $46.50 $161.89 $115.39 248.15% NSWC 17,346 $156.71 $64.23 $(92.49) (59.02)% 1" 12,500 $123.76 $50.71 $(73.06) (41.97)% Turner 4,837,210 $4,873.64 $5,584.13* $710.50 14.58% Ranches 1,148,000 $1,258.21 $ 1 ,441.64* $183.43 14.58% 8" Turner NIA $26.54 $30.41 * $3.87 14.58% Ranches Res. Flat Palo Verde NIA $69.53 $68.68 $(0.85) (1.22)% 518" Red Rock NIA $90.39 $104.55 $14.16 15.66% (Wastewater) 518" * Typical bill is based on the last year of a phased-in rate. VIII. RATE DESIGN A. Rate Structure The Applicants propose to retain the existing six-tier inverted block rate structure that it currently has for the Santa Cruz Water Company, and apply it to each water utility involved in the current matter except for Turner Ranches which is primarily an irrigation water service provider. While Santa Cruz, GTWC and NSWC already employ a six-tier rate structure, the Conservation Rate Thresholds ("CRT") and CRT Rebate Percentages differ.279 Eagletail and Red Rock (Water) both have three-tier inverted block rate structures. As part of the proposed rate design changes, Eagletail and Red Rock (Water) will both be converted to six-tier rates to conform with the other utilities composing their respective consolidated rate groups.280 Staff and RUCO accept the proposed six-tier rate structure proposed by the Applicants. Differences between the parties' proposed rate designs reflect the varying positions on revenue requirements and how to implement the proposed rate consolidations. 279 The respective CRT and CRT Rebate Percentages by district: Santa Cruz: 6,001 gallons/60%; GTWC: 7,401 gallons/50%; and NSWC 7 ,00 I gallons/20% 280 The proposed CRT and CRT Rebate Percentages are 6,001 gallons/60% for Eagletail and 4,001 gallons/60% for Red Rock. 109 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. B. Consolidation 2 The Global Water Utilities propose several system consolidations. As proposed, Santa Cruz 3 would be consolidated with Red Rock (water) and Picacho Cove; Palo Verde would be consolidated 4 with Red Rock (wastewater) and Picacho Utilities; GTWC, NSWC, and Eagletail would be 5 consolidated; and Hassayampa would be consolidated with Balterra. 6 Notably, each of the consolidations is a full rate consolidation except for the Maricopa County 7 Water group. For the Maricopa County Water consolidation, the Applicants propose a revenue-only 8 consolidation under which the revenue requirement uses an operating margin for the three entities 9 comprising the Maricopa County Water consolidation. The proposal retains the existing rates for IO NSWC while Eagletail and GTWC would be placed on a common rate schedule. 11 If the Maricopa County Water group is not consolidated, the Global Water Utilities propose 12 basing the revenue requirements for Eagletail and GTWC on the authorized return on their respective 13 rate bases which, due to the extensive investments made to rehabilitate the systems, will produce 14 substantially greater rate increases for both systems if consolidation is not adopted. 15 The Applicants also note that Red Rock (Water)'s CC&N includes a service territory in Pima 16 County in addition to the service territory in Pinal County.281 Although the Pima County service 17 territory has no customers, to be consistent with the intention ofregional consolidations, the Applicants 18 request that Red Rock (Water)'s Pima County CC&N be approved a separate tariff identical to what is 19 adopted for the Pinal County Water consolidation.282 Neither Staff nor RUCO took issue with the 20 Applicants' proposed partition of Red Rock (Water)'s Pima County CC&N from the Pinal County 21 Water consolidation. We find the request is reasonable and should be approved. 1. RUCO 22 23 RUCO recommends adoption of the proposed regional consolidations.283 RUCO recommends 24 consolidation in this case because the systems proposed for consolidation with the larger Palo Verde 25 and Santa Cruz utilities are small. According to Mr. Erdwurm testifying for RUCO, "[m]aintaining 26 27 281 Ex. A-49 at 23. 282 Id. at 24. 28 283 Ex. RUC0-9 at 9. 110 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. separate rate structures for very small systems typically is not cost-effective. Now is the best time to 2 consolidate."284 RUCO typically prefers standalone rates as they are more consistent with having cost- 3 causers pay the costs they incur. RUCO views the present case as different owing to the large size 4 differential between Palo Verde and Santa Cruz to the much smaller Red Rock (Water and Wastewater) 5 systems. Due to the larger size of Palo Verde and Santa Cruz, rate increases to Red Rock ratepayers 6 can be mitigated without significantly affecting the bills of customers.285 7 For the same reason, RUCO supports the Maricopa County Water consolidation in the manner 8 proposed by the Applicants. Due to the small size of GTWC, Eagletail, and NSWC, maintaining 9 separate rate structures is onerous. 286 2. Staff 10 11 Although Staff prepared recommended standalone rates, Staff supports the proposed regional 12 consolidation for the Pinal County Water and Pinal County Wastewater systems. Within the Maricopa 13 County Water group of utilities, Staff instead recommends a consolidation, for Eagletail and GTWC 14 only, while maintaining NSWC as a separate, standalone utility. 15 Staff does not support the Maricopa County Water consolidation as proposed because it is "not 16 a true consolidation" as it is a revenue-only consolidation287 and the contemplated utilities are not 17 proximate to one another.288 Rather than accepting the proposed consolidation, which Staff views as 18 using revenue from NSWC to subsidize GTWC and Eagletail, Staffs recommendation would decrease 19 rates for NSWC,289 albeit with the consequence of foregoing the Applicants' proposal to establish 20 Eagletail and GTWC's rates on an operating margin basis and the resulting reduction ofrevenues would 21 lead to higher rates for Eagletail and GTWC. 290 Staff clarified at hearing that it would not oppose a 22 full consolidation of the Maricopa County Water group, notwithstanding that the individual utilities 23 are not all within the same region.291 but Staff did not provide schedules demonstrating how that would 24 284 Ex. RUCO-8 at 3. 25 28s Id. at 4-5. 286 Id. at 5. 26 287 Tr. Vol. X at 1444. 288 Id. at 1458. 289 Id. 27 290 See e.g. Tr. Vol. X at 1447 testimony of Mr. Chavez acknowledging that under Staffs recommendation, a rate ofretum 28 methodology will be employed to set the revenue requirement for Eagletail and GTWC. 291 Tr. Vol. X at 1460. 111 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. be effectuated. 2 Staff asserts that consolidation is a policy decision that is up to the Commissioners, and it is 3 within the discretion of the Commission to determine what factors are relevant to the decision whether 4 or how to consolidate. 292 Staff notes that the Commission has balanced competing factors when making 5 consolidation detenninations in prior cases and referenced Decision No. 76162 in which the 6 Commission found that, 7 8 9 10 11 12 13 14 15 16 (i) consolidating geographically distant districts did not violate cost causation principles, (ii) consolidation lessens the burden of projected capital expenditures, (iii) consolidation addresses rate disparities between districts that are otherwise receiving the same service from the same company, (iv) physical interconnection is not necessary for consolidation, and (v) based on the record, consolidation would result in cost savings to customers.293 Staff also observes that other factors may also be reasonable for purposes of detennining the appropriateness of a proposed consolidation, including: "similar sources of water, consistency of annual cost to serve a residential customer, the effect of fragmentation of water systems on affordability, and the burden of federal and state regulations on small water systems. "294 3. Global Water Utilities In response to Staff, the Applicants argue that addressing "the effect of fragmentation of water systems on affordability" factor Staff references can only be accomplished in this case through the 17 subsidization of the Eagletail and GTWC systems by NSWC.295 Additionally, the Applicants point out 18 the disconnect between Staff's contention that the proposed Maricopa County Water consolidation is 19 not a "true, full consolidation" when, because NSWC's rates would likely increase if fully consolidated 20 21 with Eagletail and GTWC, the revenue-only consolidation lessens the subsidization of Eagletail and GTWC by NSWC.296 22 23 Notwithstanding their criticism of Staff's rate design recommendation, the Global Water Utilities are not opposed to either a full consolidation or a revenue-only consolidation of GTWC, 24 25 292 Staff Cl. Br. at 7. 26 293 Staff Cl. Br. at 8, citing Decision No. 76162 (June 28, 20 17). 294 id. citing Missouri-American Water Company's Request for Authority to implement a General Rate increase for Water 27 and Sewer Service Provided in Missouri Service Areas v. Office of Public Counsel, 526 S.W.3d 253, 266-77 (Mo. Ct. App. 2017) 295 Applicants Rep. Br. at 5 1-52. 28 296 Id. at 52. 112 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Eagletail, and NSWC because either configuration will help Eagletail and GTWC.297 2 3 4. Discussion and Resolution No party opposes the proposed Pinal County Water and Pinal County Wastewater 4 consolidations. Although Staff opposes the proposed Maricopa County Water consolidation on the 5 dual grounds of including out-of-region utilities within the consolidation and the revenue-only nature 6 of the proposal, we note that the authority Staff cites in briefing acknowledges that geographic 7 separation within a consolidation does not violate cost-causation principles.298 8 The more challenging issue presented by Staffs recommendation is that it compels an analysis 9 of competing scenarios in pursuit of the outcome that best serves the interest of producing just and 10 reasonable rates. Because the Applicants have proposed to base the revenue requirements for Eagletai l 11 and GTWC on operating margin only if a consolidation of those systems with NSWC is approved, 12 there is a significant revenue difference incurred if only partial consolidation is approved, as Staff 13 recommends with NSWC as a standalone. Because GTWC and Eagletail have benefited from 14 extensive investment in new plant to address ongoing system deficiencies, a return on rate base 15 approach will necessitate a significantly higher revenue requirement using rate of return methodology 16 than under an operating margin approach. Additionally, NSWC's rates, which are currently generating 17 an approximate 190% return on rate base, if adjusted on a return on rate base methodology would 18 necessitate a substantial decrease in rates within that system. 19 However, because of how low NSWC's rates cunently are, if the second option - full 20 consolidation which Staff would not oppose were adopted, NSWC's rates would almost certainly have 21 to rise to produce a common rate applicable within all utilities in the Maricopa County Water group.299 22 Notably, all proposals and typical bill analyses noticed to the public indicated that no rate increase was 23 anticipated for NSWC. 24 25 In the third alternative, if the revenues alone are consolidated and Eagletail and GTWC 26 297 Id. 298 Staff Cl. Br. at 8 citing Sun City v. Ariz . Corp. Comm 'n, 248 Ariz. 291 (Ct. App. 2020), review granted (Mar. 2, 2021), 27 affd in part, vacated in part, 252 Ariz. 1, 496 P.3d 421 (202 I) which approved of the Commission's application of the factors considered to detennine consolidation in Decision No. 76162. 28 299 See e.g., Tr. Vol. X at 1459, testimony of Mr. Chavez observing that full rate consolidation could lead to NSWC ratepayers experiencing a rate increase. 113 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. transition to a common rate established on an operating margin approach while NSWC retains its 2 currently approved rate structure, the Applicants will be foregoing significant revenue to which they 3 would reasonably expect to be entitled under ordinary return on rate base ratemaking methodology. 4 This approach is attractive because it helps moderate necessary rate increases for Eagletail and GTWC 5 and it involves a revenue reducing concession that, were it compelled over the Applicants' objection, 6 would likely give rise to issues of regulatory confiscation. However, adoption of this proposal 7 necessarily means countenancing higher than necessary rates for NSWC as well as a significant shifting 8 of revenues between systems. 9 While the consolidation proposal put forward by the Global Water Utilities is not ideal, it IO presents significant merits that we find better promote the public interest and meet the needs of 11 producing just and reasonable rates. Foremost, is that it provides an opportunity for substantial rate 12 relief for two systems that, were their rates established on a standalone basis, give rise to severe rate 13 shock concerns. Even with the moderating influence of NSWC's added revenues and reducing the 14 revenue requirement by employing an operating margin approach throughout the proposed 15 consolidation, there will be some degree of rate shock for customers within Eagletail and GTWC. 16 Additionally, were NSWC's rates established on a standalone basis as Staff proposes, it can be 17 expected that rates will decrease substantially within NSWC. Testimony from Mr. Rowell on behalf 18 of the Applicants confinned that, given the affluence of the customers within NSWC, who already 19 exhibit high water usage patterns, it can reasonably be expected that a decrease in rates will encourage 20 profligate water usage. 300 Staff witness Mr. Chavez acknowledged that there is a concern that a rate 21 decrease for NSWC will have the effect of stimulating greater water consumption. 301 This runs counter 22 to the Commission's long-established policy of setting rates to encourage the prudent use of scarce 23 water resources. 24 Staff is correct that only consolidating revenues without consolidating rate schedules as well is 25 less than a full consolidation, but it is an acceptable intermediate step before full rate consolidation. In 26 this instance we are not persuaded to adopt a full consolidation because the rate design to recover the 27 300 Tr. Vol. VII at 1036. 28 301 Tr. Vol. X at 1462-1464. 114 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 revenue requirement that we have determined for the Maricopa County Water consolidation could 2 cause the incongruous circumstance ofNSWC's rates increasing302 because they are already far below 3 those of Eagletail and GTWC. As the notice provided for the applications indicated that NSWC would 4 receive no rate increase, and because the revenues collected within NSWC during the test year indicate 5 that NSWC is earning a 190% return on its rate base under current rates, we are not persuaded that it 6 would be just and reasonable, nor appropriate under the circumstances to increase NSWC's rates at this 7 time. 8 Likewise, we are not persuaded to forego the benefits of consolidating the Maricopa County 9 Water group m favor of setting rates on a standalone basis. Adopting Staff's standalone 10 recommendation would require setting the rates for Eagletail and GTWC to recover higher revenues 11 set on return on rate base methods. Additionally, setting NSWC's to properly reflect a current return 12 on its highly depreciated rate base would decrease its rates substantially which gives rise to concerns 13 that it will undennine efforts to promote water conservation within that system. For these reasons, we 14 find that it is reasonable to adopt the Pinal County Water, Pinal County Wastewater, and Maricopa 15 County Water consolidations as proposed by the Applicants. 16 The following tables reflect the application of the revenue requirement adopted in the earlier 17 discussion within this Decision to the proposed consolidated rate design and proposed standalone rate 18 design compared to current rates by system. The indicated rates are for residential 5/8 x 3/4-inch and 19 3/4-inch meter sizes only, unless otherwise noted. 20 Pinal County Water Consolidation and Red Rock (Water (Pima Countv) 21 Utilitv Breakover Points Basic Service Charge Volumetric Char2e Current ROO ROO Current ROO ROO Current ROO ROO Stand- Consol. Stand- Cons. ** Stand- Cons. 22 alone alone alone ** 23 Red 5,000 $25 $2.40 Rock 10,000 3.1 5 24 (Water) 10,000+ 4.07 5/8 X 25 3/4- 1,000 1,000 $31.30 $30.36 $3.29 $1.55 inch 5,000 5,000 4.33 2.53 26 10,000 l 0,000 5.61 3.52 18,000 18,000 7.13 4.50 27 25,000 25 000 8.13 5.50 28 302 Tr. Vol. X at 1459. 115 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. 25 000+ 25.000+ 9.41 6.58 Red 10,000 $37.50 $3.15 Rock 10,000+ 4.07 (Water) 3/4- 1,000 1,000 $31 .30 $30.36 $3.29 $1.55 inch 5,000 5,000 4.33 2.53 10,000 10,000 5.61 3.52 18,000 18,000 7.1 3 4.50 25,000 25,000 8.1 3 5.50 25,000+ 25.000+ 9.41 6.58 Santa 1,000 1,000 1,000 $29.82 $30.57 $30.36 $1.45 $1.50 $1.55 Cruz 5,000 5,000 5,000 2.36 2.47 2.53 5/8 X 10,000 10,000 10,000 3.27 3.43 3.52 3/4- 18,000 18,000 18,000 4.18 4.39 4.50 inch 25,000 25,000 25,000 5.10 5.37 5.50 25,000+ 25 000+ 25 000+ 6.1 0 6.43 6.58 Santa 1,000 1,000 1,000 $29.82 $30.57 $30.36 $1.45 $1.50 $1.55 Cruz 5,000 5,000 5,000 2.36 2.47 2.53 3/4- 10,000 10,000 10,000 3.27 3.43 3.52 inch 18,000 18,000 18,000 4. 18 4.39 4.50 25,000 25,000 25,000 5.10 5.37 5.50 25 000+ 25 000+ 25.000+ 6.10 6.43 6.58 Picacho 3,000 1,000 1.000 $27.00 $30.36 $2.80 $1.55 Water * 8,000 5.000 5,000 $3.80 2.53 8,000+ 10,000 10,000 $4.72 3.52 18,000 18,000 4.50 25,000 25,000 5.50 25,000+ 25.000+ 6.58 Picacho 3,000 1,000 1,000 $27.00 $30.36 $2.80 $1.55 Water 8,000 5.000 5,000 $3.80 2.53 3/4- 8,000+ 10,000 10,000 $4.72 3.52 inch* 18,000 18,000 4.50 25,000 25,000 5.50 25,000+ 25.000+ 6.58 * Picacho Water has no customers. Proposed changes are only to place it on common rate structure. ** The adopted rates for Santa Cruz and Red Rock (Water), as consolidated, will be phased-in over two years. The rates presented in this table are the rates in the second year of the phase-in. Maricopa County Water Consolidation Utility Breakover Points Basic Service Charge Volumetric Chan?:e Current ROO ROO Current ROO ROO Current ROO ROO Stand- Consol. Stand- Cons. * Stand- Coos. alone alone alone * Eagle- 3,000 $35 $4.60 tail 9,000 6.55 5/8 X 9,000+ 7.80 3/4- 1.000 1,000 $141.94 $62.66 $11.98 $3.00 inch 5,000 5,000 18.61 5.56 10,000 10,000 25.21 8.11 18,000 18,000 31.87 10.69 25,000 25,000 38.34 13.18 25.000+ 25,000+ 43.67 15.63 Eagle- 3,000 $52 $4.60 tail 3/4- 9,000 6.55 116 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. inch 9,000+ 7.80 1,000 1,000 $141.94 $62.66 $11.98 $3.00 5,000 5,000 18.61 5.56 10,000 10,000 25.21 8.1 1 18,000
18,000 31.87 10.69 25,000 25,000 38.34 13.18 25,000+ 25,000+ 43.67 15.63 GTWC 1,000 1,000 1,000 $40 $ 105.17 $62.66 $2.42 $4.46 $3.00 5/8 X 5,000 5,000 5,000 4.43 8.16 5.56 3/4- 10,000 10,000 10,000 6.43 11 .85 8. 11 inch
18,000 18,000 18,000 8.45 15.57 10.69 25,000 25,000 25,000 10.41 19.1 9 13.18 25,000+ 25,000+ 25,000+ 12.33 22.72 15.63 GTWC 1,000 1,000 1,000 $40 $105.17 $62.66 $2.42 $4.46 $3.00 3/4- 5,000 5,000 5,000 4.43 8. 16 5.56 inch
10,000 10,000 10,000 6.43 11.85 8.11 I 8,000 18,000 18,000 8.45 15.57 10.69 25,000 25,000 25,000 10.41 19.19 13.1 8 25,000+ 25,000+ 25,000+ 12.33 22.72 15.63 NSWC I ,000 1,000 1,000 $27 $11.06 $27 $3.45 $1.41 $3.45 3/4-
5,000 5,000 5,000 4.59 1.88 4.59 inch 10,000 10,000 10,000 5.59 2.29 5.59 18,000 18,000 18,000 6.80 2.79 6.80 25,000 25,000 25,000 7.80 3.19 7.80 25,000+ 25 000+ 25 000+ 8.80 3.60 8.80 NSWC 1,000 1,000 1,000 $57 $23.35 $57
$3.45 $1.41 $3.45 I-inch 5,000 5,000 5,000 4.59 1.88 4.59 10,000 10,000 10,000 5.59 2.29 5.59 I 8,000 I 8,000 18,000 6.80 2.79 6.80 25,000 25,000 25,000 7.80 3.19 7.80 25,000+ 25 000+ 25,000+ 8.80 3.60 8.80 * The adopted rates for
Eagletail and GTWC, as consolidated, will be phased in over three years. The rates presented in this table are the rates in the third year of the phase-in. Pinal County Wastewater Consolidation Utility Meter Size Monthly Service Charge

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ROO ROO Current Standalone Consolidated Red Rock 5/8 x 3/4-inch $90.39 $104.55 $70.07 (Wastewater) 3/4-inch $135.59 $104.55 $70.07 Palo Verde 5/8 x 3/4-inch $69.53 $68.68 $70.07 3/4-inch $69.53 $68.68 $70.07 Picacho Utilitiesx 5/8 x 3/4-inch $80.00 $70.07 3/4-inch $80.00 $70.07 * Picacho Utilities has no customers. Proposed changes are only to place it on common rate structure. Turner Ranches Utility Breakover Points Basic Service Charge Volumetric Char2e Current ROO Current ROOK Current ROOK Turner Per 1,000 Per 1,000 $133.17 $152.58xx $0.98 $1.1 2** Ranches All Meters 11 7 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Turner NIA NIA $26.54 $30.41 ,.. NIA NIA Ranches Res. Flat w ROO rates for Turner Ranches are same under either consolidation or standalone. ** The adopted rates for Turner Ranches will be phased in over three years. The rates presented in this table are the rates in the third vear of the phase-in. Balterra I Hassayampa Wastewater Consolidationw Utility Meter Size Monthlv Service Chan?.e ROO ROO Current Standalone Consolidated Balterra 518 x 3/4-inch $70.00 $54.25 $54.25 3/4-inch $105.00 $54.25 $54.25 Hassayampa 518 x 3/4-inch $54.25 $54.25 $54.25 3/4-inch $54.25 $54.25 $54.25 * Balterra and Hassayampa have no customers. Proposed changes are only to place them on common rate structure. Based on the standalone and consolidated rates noted above, the following tables reflect the rate impacts on a typical residential customer using the average and median consumption levels on the most common meter size within each utility using the revenue requirement adopted herein. Avg/Med Current Bill ROO - Dollar Percent Utility Usage (gal) Consol. Increase Increase <Decrease> <Decrease> Santa Cruz 6,354 $45.14 $46.80* $1.66 3.67% 518" X 314" 5,000 $34.18 $35.03* $0.85 2.49% Red Rock 4,692 $36.26 $34.72* $(1.54) (4.26)% (Water) 3,500 $33.40 $33.51 * $0.11 0.33% 518" X 314" GTWC 6,440 $54.70 $99.60* $44.90 82.08% 518" X 314" 4,500 $48.96 $73.90* $24.94 50.94% Eagletail 3,618 $52.85 $71.44* $18.60 35.19% 518" X 314" 2,500 $46.50 $68.33* $21.83 46.95% NSWC 17,346 $156.71 $156.71 $0 0% I " 12,500 $123.76 $123.76 $0 0% Turner 4,837,210 $4,873.64 $5 584.13* $710.50 14.58% Ranches 1,148,000 $1,258.21 $1,441.64* $183.43 14.58% 8" Turner NIA $26.54 $30.41 * $3.87 14.58% Ranches Res. Flat Palo Verde NIA $69.53 $70.07 $0.54 0.78% 518" Red Rock NIA $90.39 $70.07 $(20.32) (22.48)% (Wastewater) 518" * Typical bill is based on the last year of a phased-in rate. 118 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Avg/Med Current Bill ROO- Dollar Percent Utility Usage (gal) Standalone Increase Increase <Decrease> <Decrease> Santa Cruz 6,354 $45.14 $46.59 $1.46 3.23% 518" X 314" 5,000 $34.36 $35.12 $0.76 2.2 1% Red Rock 4 ,692 $36.26 $50.58 $14.32 39.48% (Water) 3,500 $33.40 $45.42 $ 12.02 35.97% 518" X 314" GTWC 6,440 $54.70 $ 159.33 $104.64 191.30% 518" X 314" 4,500 $48.96 $ 121 68 $72.72 148.52% Eagletail 3,618 $52.85 $172.29 $ 119.45 226.02% 518" X 314" 2,500 $46.50 $161.89 $ 115.39 248.15% NSWC 17,346 $156.71 $64.23 $(92.49) (59.02)% 1" 12,500 $123.76 $50.71 $(73.06) (41.97)% Turner 4,837,210 $4,873.64 $5,584.13* $7 10.50 14.58% Ranches 1,148,000 $1,258.21 $1,441.64* $183.43 14.58% 8" Turner NIA $26.54 $30.41 * $3.87 14.58% Ranches Res. Flat Palo Verde NIA $69.53 $68.68 $(0.85) (1.22)% 518" Red Rock NIA $90.39 $104.55 $ 14.1 6 15.66% (Wastewater) 518" * Typical bill is based on the last vear of a ohased-in rate. C. Standalone Rates To provide an alternative to consolidation for the Commission's consideration, the Global Water Utilities and Staff provided standalone rate design proposals for their respective revenue requirement recommendations. The following table reflects the standalone rate designs o f the Applicants and Staff compared to the current rate designs at the residential 518 x 3/4-inch and 314-inch meter sizes only, unless otherwise noted. Utility Breakover Points Basic Service Charge Volumetric Char2.e Current GWU& Current Proposed Current Prooosed Staff GWU Staff GWU Staff Proposed Eagletail 3,000 $35 $4.60 518 X 9,000 6.55 3/4-inch 9,000+ 7.80 1,000 $143.77* $128.35 $12.11* $10.96 119 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. 5,000 18.84 16.97 10,000 25.55 22.84 18,000 32.31 28.99 25,000 38.88 34.91 25,000+ 44.32 39.90 Eagletail 3,000 $52 $4.60 3/4-inch 9,000 6.55 9 000+ 7.80 1,000 $143.77" $128.35 $12.11 • $10.96 5,000 18.84 16.97 10,000 25.55 22.84 18,000 32.31 28.99 25,000 38.88 34.91 25,000+ 44.32 39.90 •Reflects third-year of a proposed three vear rate ohase-in. Utility Breakover Points Basic Service Char2e Volumetric Chan?.e Current GWU& Current Proposed Current Pro 1osed Staff GWU Staff GWU Staff Proposed GTWC 1,000 1,000 $40 $105.46 $68.74 $2.42 $4.47 $4.62 5/8 X 5,000 5,000 4.43 8.19 8.38 3/4-inch 10,000 10,000 6.43 11 .88 12.04 18,000 18,000 8.45 15.62 15.68 25,000 25,000 10.41 19.24 20.09 25 000+ 25,000+ 12.33 22.79 23.69 GTWC 1,000 1,000 $40 $105.46 $68.74 $2.42 $4.47 $4.62 3/4-inch 5,000 5,000 4.43 8.19 8.38 10,000 10,000 6.43 11.88 12.04 18,000 18,000 8.45 15.62 15.68 25,000 25,000 10.41 19.24 20.09 25 000+ 25,000+ 12.33 22.79 23.69 Utility Breakover Points Basic Service Char2e Volumetric Char2e Current GWU& Current Proposed Current Prouosed Staff GWU Staff GWU Staff Proposed NSWC 1,000 1,000 $27 $27 $12 $3.45 $3.45 $1.80 3/4-inch 5,000 5,000 4.59 4.59 2.25 10,000 l 0,000 5.59 5.59 2.75 18,000 18,000 6.80 6.80 3.30 25,000 25,000 7.80 7.80 4.00 25,000+ 25 000+ 8.80 8.80 4.90 NSWC 1,000 1,000 $27 $27 $12 $3.45 $3.45 $1.80 l-inch 5,000 5,000 4.59 4.59 2.25 10,000 10,000 5.59 5.59 2.75 18,000 18,000 6.80 6.80 3.30 25,000 25,000 7.80 7.80 4.00 25,000+ 25,000+ 8.80 8.80 4.90 Utility Breakover Points Basic Service Char2:e Volumetric Char2:e Current GWU& Current Proposed Current Pro1osed Staff GWU Staff GWU Staff Proposed Santa 1,000 1,000 $29.82 $31.17 $30.50 $1 .45 $1.53 $1.30 Cruz 5 000 5,000 2.36 2.52 2.40 120 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. 518 X 10,000 10,000 3.27 3.50 3.60 3/4-inch 18,000 18,000 4.18 4.48 4.71 25,000 25,000 5.10 5.47 5.64 25,000+ 25,000+ 6.10 6.55 6.74 Santa 1,000 1,000 $29.82 $31.17 $30.50 $1.45 $1.53 $1.30 Cruz 5,000 5,000 2.36 2.52 2.40 314-inch I 0,000 10,000 3.27 3.50 3.60 18,000 18,000 4. 18 4.48 4.71 25,000 25,000 5.10 5.47 5.64 25,000+ 25,000+ 6.10 6.55 6.74 Utility Breakover Points Basic Service Chan?e Volumetric Chan?e Current Proposed Current Proposed Current Prooosed GWU Staff GWU Staff GWU Staff Red 5,000 $25 $2.40 Rock 10,000 3.15 (Water) 10,000+ 4.07 518 X 1,000 1,000 $31.79 $29.75 $3.34 $3.31 314- 5,000 5,000 4.40 4.29 inch 10,000 10,000 5.70 5.50 18,000 18,000 7.24 6.90 25,000 25,000 8.27 7.90 25,000+ 25 000+ 9.58 9.70 Red 10,000 $37.50 $3. 15 Rock 10,000+ 4.07 (Water) 1,000 1,000 $31.79 $29.75 $3.34 $3.31 314- 5,000 5,000 4.40 4.29 inch 10,000 10,000 5.70 5.50 18,000 18,000 7.24 6.90 25,000 25,000 8.27 7.90 25,000+ 25,000+ 9.58 9.70 Utility Breakover Points Basic Service Charge Volumetric Char2e Current Proposed Current Proposed Current Proposed GWU Staff GWU Staff GWU Staff Turner Per Per Per $133.17 $180.39" $155** $0.98 $1.33* $1.10 Ranches 1,000 1,000 1,000 All Meter Sizes Turner NIA NIA NIA $26.54 $35.95" $30.38* NIA NIA NIA Ranches . Res. Flat "Third year of a 3-year Applicant proposed phased-in of rates ** Third vear of a 3-year Staff-proposed ohase-in of rates Utility Meter Size Monthly Service Chan!e Current GW Staff Proposed Prooosed Red Rock 518 x 3/4-inch $90.39 $107.19 $101.88 (Wastewater) 3/4-inch $ 135.59 $107.19 $101.88 121 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Utility Meter Size Monthly Service Char2e Current GW Staff Proposed* Proposed Palo Verde 518 x 314-inch $69.53 $69.85 $67.98 314-inch $69.53 $69.85 $67.98 w Second year of a 2-year proposed phase-in of rates. Note, in first year of proposed phase-in, rates increase to $70.07 but decrease in second year to $69.85. D. Conservation Rebate Threshold In conjunction with basic monthly service charge and commodity rates, the Global Water Utilities also employ a Conservation Rebate Threshold ("CRT") that provides a discount on the commodity rate when monthly consumption is below a set level, typically established at the average monthly consumption within the system. The level of discount varies by system but is typically approximately 50%.303 Currently, the Eagletail and Red Rock (Water) utilities do not have CRTs. The Applicants propose to adopt CRTs for both Eagletail and Red Rock (Water). The Applicants propose to retain the approved CRTs for Santa Cruz, GTWC, and NSWC. The summary of the proposed CRT proposals are as follows: Conservation Rebate Thresholds Utility Current Proposed Threshold Discount % Threshold Discount % Santa Cruz Below 6,001 60% Below 6,001 60% Red Rock (Water) NIA NIA Below 4,001 60% GTWC Below 6,000 50% Below 6,000 50% NSWC Below 7,001 20% Below 7,001 20% Eagletail NIA NIA Below 6,001 50% 1. RUCO RUCO expresses concerns about the CRT to the effect that it creates an outsized increase in the commodity rate at the point where the threshold is crossed and the rebate lost. According to Mr. Erdwurm, testifying for RUCO, "[t]ypically, the price of a good should reflect the incremental cost of providing that good."304 Rather than a smooth increase in the commodity rate, this gives rise to a precipitous spike in the commodity rate when consumption crosses the threshold. RUCO is concerned 303 Ex. A-26 at 39. 304 Ex. RUC0-8 at 8. 122 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. "that the abnormally high incremental cost at the conservation threshold could elicit changes in water 2 usage that increase revenue volatility and adversely affect Global 's ability to achieve revenue 3 targets."305 4 RUCO does not oppose the CRT proposal. However, RUCO indicates that it seeks the 5 opportunity for further discussions with the Global Water Utilities concerning the CRT aspect of the 6 rate structure before the filing of a future rate case. 306 7 8 9 10 1 1 2. Staff Staff reviewed the proposed CRTs and recommends approval. 3. Resolution Sending accurate price signals to ratepayers is an integral part of making conservation-based rates function properly. There being no evidence that the CRT is presently harming the Applicants' 12 ability to meet revenue targets and considering the Applicants' working experience with the CRT and 13 continued desire to use it and expand it to new water systems, we find that it is reasonable to adopt the 14 proposed expansion of the CRT to the Eagletail and Red Rock (Water) systems as proposed and that it 15 should be retained for the Santa Cruz, GTWC, and NSWC systems. E. Service Charges 16 17 Currently, the Global Water Utilities' approved Service Charges vary from utility to utility. 18 The Applicants propose changes to standardize the Service Charges within each proposed group of 19 consolidated utilities. Within the Pinal County Water consolidation, the Service Charges would be 20 standardized using the approved Service Charges for Santa Cruz.307 For the Maricopa County Water 21 consolidation, the approved Service Charges for GTWC would become standard throughout the 22 consolidation.308 Within the Pinal County Wastewater consolidation, the Applicants are proposing a 23 new standardized tariff to be applied throughout the consolidation.309 There are no changes proposed 24 25 305 Jd. 306 Ex. RUCO-8 at 9; Ex. RUCO-9 at 8-9; Tr. Vol. IX at 1340-1341. 26 307 Ex. A-48 at 26. 308 Id. at 27; In contrast to the pre-filed testimony of Ms. Ellsworth, the Applicants' final schedules show NSWC and GTWC 27 utilizing common miscellaneous Service Charges but Eagletail would largely retain its existing Service Charges which are different from GTWC and NSWC. See Final Schedule, Maricopa County Water - Consolidated, Schedule H-3, page l of 28 6, page 3 of 6, and page 5 of 6. 309 Id. at 30. 123 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-02 14, et al. for the Turner Ranches Service Charges. The current, proposed, and Staff recommended Service Charges, by utility are as follows: Red Rock <Wastewater) Current A1rnlicants' Staff SERVICE CHARGES: Proposed Recommended Establishment of Service $ 15.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) Reconnection of Service (Delinquent) $30.00 $35.00 $35.00 After Hours Service Charge NIA $50.00 50.00 Deposit (b) (b) (b) Deposit Interest (b) (b) (b) NSF Check $25.00 $30.00 $30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (c) Deferred Payment (Per Month) 1.5% 1.5% 1.5% Service Calls - after hours (flat rate) $50.00 NIA NIA (a) Number of months off system times the monthly minimum per A.A.C. RI4-2-603(D) (b) Per A.A.C. RI4-2-603(B) (c) Per month o n unpaid balance In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2- 608(D)(5). Palo Verde Current A1mlicants' Staff SERVICE CHARGES: Prooosed Recommended Establishment of Service $35.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) Reconnection of Service (Delinquent) $35.00 $35.00 $35.00 After Hours Service Charge 50.00 50.00 50.00 Deposit (b) (b) (b) Deposit Interest (b) (b) (b) NSF Check $30.00 $30.00 $30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (c) Deferred Payment (Per Month) 1.5% 1.5% 1.5% (a) Number of months off system times the monthly minimum per A.A.C. R 14-2-603(D) (b) Per A.A.C. R14-2-603(B) (c) Per month of unpaid balance. 124 DECISION NO. 78644

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2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. R 14-2- 608(D)(5). Santa Cruz Current A1mlicants' Staff SERVICE CHARGES: Prooosed Recommended Establishment $35.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) Reconnection of Service (Delinquent) $35.00 $35.00 $35.00 Moving Customer Meter (customer request At Cost (b) (b) After Hours Service Charge (at $50.00 $35.00 $50.00 Customer's Request) Deposit (c) (c) (c) Deposit Interest (c) (c) (c) Meter Re-Read (If Correct) $30.00 $30.00 $30.00 Meter Test Fee (If Correct) 30.00 30.00 30.00 NSF Check 30.00 30.00 30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (d) Deferred Payment (Per Month) 1.5% 1.5% (e) (a) Number of months off system times the monthly minimum per A.AC. RI4-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.AC. R 14-2-405(B)(5) (c) Per A.AC. R14-2-403(B) (d) Per month on unpaid balance (e) Per Commission Rule A.AC. R14-2-409(G)(6) In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. RI4-2- 409(D)(5). Red Rock (Water) Current Am2licants' Staff SERVICE CHARGES: Prooosed Recommended Establishment of Service $25.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) Reconnection of Service (Delinquent) $30.00 $35.00 $35.00 Meter Move at Customer Request At Cost (b) (b) After Hours Service Charge, per Hour * $50.00 $50.00 NIA After Hours Service Charge, At Customer NIA NIA $50.00 Request Deposit (c) (c) (c) Deposit Interest (c) (c) (c) Meter Re-Read (If Correct) $15.00 $30.00 $30.00 125 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Meter T est Fee (If Correct) 30.00 30.00 30.00 NSF Check 25.00 30.00 30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (d) Deferred Payment (Per Month) 1.5% 1.5% (e) (a) Number of months off system times the monthly minimum per A.A.C. R 14-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.AC. R 14-2-405(B)(5) (c) Per A.AC. R14-2-403(B) (d) Per month on unpaid balance (e) Per Commission Rule A.AC. R14-2-409(G)(6) *For After Hours Service Calls for work performed on the customer's property; not to be charged in addition to an establishment or a reconnection after hours charge. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. R 14-2- 409(D)(5). NSWC Current A1mlicants' Staff SERVICE CHARGES: Proposed Recommended Establishment of Service $30.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) Reconnection of Service (Delinquent) $30.00 $35.00 $35.00 Meter Move at Customer Request At Cost (b) (b) After Hours Service Charge, Per Hour * NIA $35.00 NIA After Hours Service Charge, Flat Rate $35.00 NIA NIA After Hours Service Charge (at NIA NIA ** Customer's Request) Deposit (c) (c) (c) Deposit Interest (c) (c) (c) Meter Re-Read Of Correct) $25.00 $30.00 $30.00 Meter Test Fee (If Correct) 30.00 30.00 30.00 NSF Check 30.00 30.00 30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (d) Deferred Payment (Per Month) 1.5% 1.5% 1.5% & (e) (a) Number of months off system times the monthly minimum per A.AC. R14-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.AC. RI4-2-405(B)(5) (c) Per A.AC. R14-2-403(B) (d) Per month of unpaid balance (e) Per Commission Rule A.AC. R14-2-409(G)(6) *For After Hours Service Calls for work perfonned on the customer's property; not to be charged in addition to an establishment or a reconnection after hours charge. ** New Tariff (at customer's request) $50 to align with all other utilities. 126 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R 14-2- 409(0)(5). Ea!!letail Current Am~ticants' Staff SERVICE CHARGES: Proposed Recommended Establishment of Service $40.00 $40.00 $40.00 Reconnection of Service (Delinquent) 40.00 40.00 40.00 After Hours Service Charge, Per Hour * NIA 30.00 NIA After Hours Service Charge, Flat Rate $30.00 NIA NIA After Hours Service Charge (at NIA NIA $50.00 Customer's Request) Meter Test Fee (If Correct) $35.00 $35.00 35.00 Deposit * * * Deposit Interest 4% 4% *4% Re-establishment of Service (Within 12 ** ** ** Months) NSF Check $30.00 $30.00 $30.00 Deferred Payment (Per Month) 1.5% 2% *** 1.5% Meter Re-Read (If Correct) $20.00 $20.00 $20.00 Late Fee (Per Month on Unpaid Balance) 1.5% 2% 1.5% Charge for Moving Meter **** **** **** Monthlv Service Chan?.e for Fire Sorinkler ***** ***** ***** All Meter Sizes (All Classes) * Per Conunission Rule A.A.C. RI4-2-403(B) ** Number of months off system times the monthly minimum per A.A.C. RI4-2-403(D) *** Per Conunission Rule A.A.C. RI4-2-409(G)(6) **** Cost to include parts, labor, overhead and all applicable taxes per A.A.C. RI4-2-405(B)(5) ***** 2% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $ 10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary service line. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R 14-2- 409(0)(5). GTWC Current A1mlicants' Staff SERVICE CHARGES: Proposed Recommended Establishment of Service $35.00 $35.00 $35.00 Re-establishment of Service (Within 12 (a) (a) (a) Months) 127 DECISION NO. 78644 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-02 14, et al. Reconnection of Service (Delinquent) $35.00 $35.00 $35.00 Meter Move at Customer Request At Cost (b) (b) After Hours Service Charge, Per Hour* $35.00 $35.00 NIA After Hours Service Charge (at NIA NIA ** Customer's Request) Deposit (c) (c) (c) Deposit Interest (c) (c) (c) Meter Re-Read (If Correct) $30.00 $30.00 $30.00 Meter Test Fee (If Correct) 30.00 30.00 30.00 NSF Check 30.00 30.00 30.00 Late Payment Penalty 1.5% 1.5% 1.5% & (d) Deferred Payment (Per Month) 1.5% 1.5% 1.5% & (e) (a) Number of months off system times the monthly minimum per A.A.C. R14-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.A.C. R 14-2-405(B)(5) (c) Per A.A.C. R14-2-403(B) (d) Per month of unpaid balance (e) Per Commission Rule A.A.C. R14-2-409(G)(6) *For After Hours Service Calls for work performed on the customer's property; not to be charged in addition to an establishment or a reconnection after hours charge. ** New Tariff (at customer's request) $50 to align with all other utilities. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R 14-2- 409(0)(5). Turner Ranches Current A1rnlicants' Staff SERVICE CHARGES: Prooosed Recommended Establishment $20.00 $20.00 $20.00 Reconnection (Delinquent) $20.00 $20.00 $20.00 Meter Test (If Correct) $25.00 $25.00 $25.00 Deoosit (a) (a) (a) Deposit Interest (a) (a) (a) Re-Establishment (Within 12 Months) (b) (b) (b) NSF Check $15.00 $15.00 $ 15.00 Meter Re-Read (If Correct) (c) (c) 1.5% & (d) Late Payment Penalty 1.5% 1.5% 1.5% & (e) After Hours Service Charge (customer $50.00 $50.00 $50.00 request) Moving Customer Meter (customer At Cost At Cost At Cost request) (a) Per A.A.C. R14-2-403(D) (b) Number of months off system times the monthly minimum per A.A.C. R14-2-403(D) 128 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. (c) 2.00% of monthly minimwn for the comparable sized meter connection, but not less than $10.00 per month. 2 (d) Per Commission Rule A.AC. Rl4-2-409(G)(6) 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 (e) 1.5% per month on unpaid balance In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. R14-2- 409 D 5. 1. RUCO RUCO offered no position on the proposed changes to Service Charges. 2. Staff Staffs recommended Service Charges reflect the adoption of standalone rates. However, Staff has no objection to using Santa Cruz's Service Charges as the standard Service Charge for the Pinal County Water consolidation, or the Palo Verde Service Charges as the standard for the Pinal County Wastewater consolidation. a. Turner Ranches Service Charges Staff agrees with the Applicants' proposal not to change the Turner Ranches Service Charges except for two recommended clarifications. For Deferred Payment, Staff recommends removing the reference to the incorrect sprinkler rule and adding "Per Rule A.A.C. Rl4-2-409(G)(6)". For the Late Payment Penalty, Staff recommends adding "Per month on unpaid balance." b. Eagletail Service Charges Staff agrees with the Applicants' proposed revisions to Eagletail 's standalone Service Charges with the following exceptions. For After Hours Service Charge, Per Hour, Staff recommends eliminating the current $30 charge and replacing it with a new After Hours Service (at customer's request) of $50 to be consistent with other utilities involved in this matter. For Deposit Interest, Staff recommends adding "Per Commission Rule A.AC. R14-2-403(B)". For Deferred Payment, Staff reconunends denial of the Applicants' proposal to increase the fee to 2.0% owing to a lack of support for the proposed increase. Staff recommends instead retaining the current 1.5% charge and adding "Per Commission Rule A.AC. R14-2-409(G)(6)." For Late Fee (Per Month on Unpaid Balance), Staff also recommends denial of the Applicants' proposed increase from 1.5% to 2.0%. Staff bases its recommendation on a lack of support provided 129 DECISION NO. 78644 2 3 DOCKET NOS. SW-20445A-20-0214, et al. by the Applicants for the proposed change. c. NSWC Service Charges Staff reviewed and agrees with the Applicants' proposed changes to NSWC's Service Charges 4 with the following

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exceptions. For After Hours Service Charge, Per Hour, Staff recommends 5 eliminating the current $30 charge and replacing it with a new After Hours Service (at customer's 6 request) of $50 to be consistent with other utilities involved in this matter. For the Late Payment 7 Penalty, Staff recommends adding "Per month on unpaid balance." For Deferred Payment, Staff 8 recommends removing the reference to the incorrect sprinkler rule and adding "Per Rule A.AC. Rl4- 9 2-409(G)(6)". d. GTWC Service Charges 10 11 Staff agrees with the Applicants' proposed changes to GTWC's Service Charges with the 12 following exceptions. For After Hours Service Charge, Per Hour, Staff recommends eliminating the 13 current $30 charge and replacing it with a new After Hours Service (at customer's request) of $50 to 14 be consistent with other utilities involved in this matter. For the Late Payment Penalty, Staff 15 recommends adding "Per month on unpaid balance." For Deferred Payment, Staff recommends 16 removing the reference to the incorrect sprinkler rule and adding "Per Rule A.AC. Rl4-2-409(G)(6)". 17 e. Red Rock (Water) 18 Staff agrees with the Applicants' proposed changes to Red Rock (Water)'s Service Charges 19 with the following exceptions. Staff recommends denial of the Applicants' proposal to eliminate the 20 After Hours Service Charge (at customer request), Flat Rate, and instead to revise it to "After Hours 21 Service Charge (per customer's request)" and set the fee at $50. Staff also recommends denial of the 22 proposal to add a new After Hours Service Charge, Per Hour of $50. 23 For the Late Payment Penalty, Staff recommends adding "Per month on unpaid balance." For 24 Deferred Payment, Staff recommends removing the reference to the incorrect sprinkler rule and adding 25 " Per Rule A.AC. R14-2-409(G)(6)". 26 f. Red Rock (Wastewater) 27 Staff agrees with Applicants' proposed revisions to Red Rock (Wastewater)'s Service Charges 28 with the following exceptions. Staff recommends denial of the Global Water Utilities' proposal to 130 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. increase the Establishment of Service Charge from $25 to $35. Staff indicates in testimony that it 2 disputes the Applicants' proposal to increase the Reconnection of Service (Delinquent) charge from 3 $30 to $35.310 However, Staff's final schedules indicate that Staff has adopted a $35 charge for this 4 service. Staff also indicates that it recommends denial of the proposed increase to NSF Check from 5 $25 to $30.311 However, in Staffs final schedules, the Staff recommended NSF Check charge is $30. 6 Staff recommends denial of the Applicants' proposal to eliminate the After Hours Service 7 Charge (at customer request), Flat Rate, and instead to revise it to "After Hours Service Charge (per 8 customer's request)" and set the fee at $50. Staff also recommends denial of the proposal to add a new 9 After Hours Service Charge, Per Hour of $50. For the Late Payment Charge (per Month), Staff recommends adding "1.5 percent per month 11 on unpaid balance." g. Palo Verde Service Charges 12 13 Staff reviewed the Applicants' proposed changes and agrees with the following exceptions. 14 Staff recommends denial of the proposed elimination of the After Hours Service Charge of $35 and 15 instead recommends retaining the charge and instead revising it to be an After Hours Service Charge 16 (per customer's request) of $50 to be consistent with other utilities involved in this consolidated matter. 17 Staff recommends denial of the proposed new After Hours Service Charge, Per Hour of $50. 18 For the Late Payment Charge (per Month), Staff recommends adding "1.5 percent per month 19 on unpaid balance." h. Santa Cruz Service Charges 20 21 Staff agrees with the proposed changes to Santa Cruz's Service Charges except for the 22 following. For the After Hours Service Charge, Staff agrees with the increase from $35 to $50 and 23 also recommends adding "(per customer's request)" to be consistent with other utilities involved in the 24 present matter. 25 For the Late Payment Charge (per Month), Staff recommends adding "1.5 percent per month 26 on unpaid balance." For Deferred Payment, Staff recommends removing the reference to the incorrect 27 310 Ex. S-12 at 20. 28 311 Jd. 131 DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. sprinkler rule and adding "Per Rule A.A.C. R 14-2-409(G)(6)" . 3. Global Water Utilities Response The Applicants offered no testimony in response to Staff's recommendations for the miscellaneous service charges and noted no disputes with Staff's recommendations in the pre-trial issues matrix. 4. Resolution The Applicants' proposed revisions to miscellaneous Service Charges, as recommended by Staff, are reasonable and should be adopted. Because we also adopt the proposed consolidation, the companion proposal to apply Santa Cruz's Service Charges as the standard charges within the Pinal County Water consolidation, Palo Verde's Service Charges as the standard charges within the Pinal County Wastewater consolidation, and GTWC's Service Charges as the standard charges for GTWC and NSWC is also reasonable and should be adopted. F. Service Line and Meter Installation Charges The Global Water Utilities are also proposing changes to the Service Line and Meter Installation charges for all water systems except Turner Ranches. Turner Ranches currently charges at cost for new service connections. The Applicants' current, proposed and Staff recommended Service Line and Meter Installation charges are as follows: Meter Size Applicants ' Current Charges Applicants' Proposed and Staff (Inches) Recommended Chan?:es Service Line Meter Total Service Meter Total . Line 5/8" X 3/4" $355-$455 $45-$175 $400-$600 $445 $155 $600 3/4" $355-$455 $85-$275 $440-$700 $445 $255 $700 1" $405-$495 $95-$340 $500-$810 $495 $3 15 $810 1-1/2" $440-$550 $275-$525 $7 15-$1,075 $550 $525 $ 1,075 2" Turbine $600-$950 $570-$ 1,250 $ 1, 170-$2,200 $830 $ 1,045 $1 ,875 2" Compound $600-$950 $ 1, I 00-$ 1,890 $ 1, 700-$2, 720 $830 $1,890 $2,720 3" Turbine $775-$ 1,300 $810-$ 1,900 $ 1,585-$3,200 $ 1,045 $1,670 $2,715 3" Compound $815-$ 1,300 $ 1,375-$2,545 $2, 190-$3,710 $ 1,165 $2,545 $3,7 10 4" Turbine $1 , 100-$ I ,800 $ 1,430-$2,900 $2,540-$4, 700 $ 1,490 $2,670 $4,160 4" Compound $ 1, 170-$1,800 $2,045-$3,645 $3,215-$5,3 15 $1,670 $3,645 $5,3 15 6" Turbine $1 ,670-$2,800 $3, 145-$5,440 $4,8 l 5-$8,240 $2,210 $5,025 $7,235 6" Compound $1 , 710-$2,800 $4,560-$6,920 $6,270-$9 ,250 $2,330 $6,920 $9,250 132 DECISION NO. 18644

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2 3 4 DOCKET NOS. SW-20445A-20-0214, et al. 8" and Larger I At Cost I At Cost I At Cost I Actual Cost I Actual Cost I Actual Cost • Amount adjusted to include the actual cost incurred when boring under or cutting a road, highway, or sidewalk is required. 1. RUCO RUCO offered no position on the proposed changes to the Service Line and Meter Installation 5 charges. 6 7 8 9 10 11 12 13 14 15 16 17 18 2. Staff Staff reviewed the proposed changes to the Service Line and Meter Installation charges. According to Staff, the proposed changes are near the average of Staffs typical recommended range for these charges. Staff recommends that the Applicants' proposed and Staff recommended Service Line and Meter Installation charges be adopted for all water systems except Turner Ranches. Staff also recommends the inclusion oflanguage noting that the customer is required to pay the actual cost of the service connection when boring under or cutting a road , h ighway, or sidewalk is required.31 2 3. Resolution Staffs recommendations are reasonable and will be adopted. G. Miscellaneous Tariff Changes 1. Best Management Practices Tariff The Global Water Utilities propose revisions to approved Best Management Practice ("BMP") 19 tariffs. In conjunction with their position on rate consolidations, the Applicants propose to merge the 20 BMP tariffs applicable within the consolidated service territories with the result that Santa Cruz's 21 BMPs would be merged with those applicable within the Red Rock water territory, and the GTWC 22 would be merged with Eagletail's BMPs. The Global Water Utilities also request various revisions to 23 their approved BMPs to better reflect circumstances within the applicable service territories.313 24 25 26 27 A summary of the BMP proposals is provided as follows: Utilitv Currently Annroved BMPs Santa Cruz 1 . 1 - Local and/or Regional Messaging Program 1.2 - Special Events/Proirrams and 3 12 Ex. S-6 at 98; Attachment-8. 28 3 13 Ex. A-54 at 63-66. 133 Proposed BMPs 1.1 - Local and/or Regional Messaging Program 1.2 - Special Events/Proirrams and DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DOCKET NOS. SW-20445A-20-0214, et al. Red Rock (Water) GTWC EagletaiJ NSWC Community Presentations 2.2 - Youth Conservation Education Program 3.6 - Customer High Water Use Inquiry Resolution 3.7 - High Water Use Notification 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 4.3 - Comprehensive Water System Audit 5.2 - Water System Tampering 7.6 - Development of Industry Partnerships 7. 7 - Providing Financial Support or In-Kind Services for Development of New Conservation Technologies and Products 1.1 - Local and/or Regional Messaging Program 2.3 - New Homeowner Landscape Infonnation 3.8 - Water Waste Investigations and Infonnation 4.1 - Leak Detection Program 5.2 - Water System Tampering 5.13 - Water Use Plan for New Non Residential User 1.1 - Local and/or Regional Messaging Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 1.1 - Local and/or Regional Messaging Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering a. RUCO RUCO did not offer a position regarding BMP tariffs. 134 Community Presentations 2.2 - Youth Conservation Education Program 2.3 - New Homeowner Landscape Infonnation 3.6 - Customer High Water Use Inquiry Resolution 3.7 - High Water Use Notification 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 6.12 - Large Landscape Conservation Program 1.1 - Local and/or Regional Messaging Program 1.2 - Special Events/Programs and Community Presentations 2.2 - Youth Conservation Education Program 2.3 - New Homeowner Landscape Information 3.6 - Customer High Water Use Inquiry Resolution 3.7 - High Water Use Notification 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 6.12- Large Landscape Conservation Prol?Tam 1.1 - Local and/or Regional Messaging Program 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 1.1 - Local and/or Regional Messaging Program 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering 4.1 - Leak Detection Program 4.2 - Meter Repair and/or Replacement 5.2 - Water System Tampering DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. b. Staff 2 Staff recommends elimination of the BMP tariffs on the basis that Staff does not believe that 3 the cost of implementing BMPs provides offsetting substantial benefits to the water system or to 4 ratepayers. 314 5 6 c. Global Water Utilities In response to Staffs recommendation to eliminate the BMP tariffs, the Global Water Utilities 7 do not oppose the recommendation and they note that they have an obligation under ADWR regulations 8 to perform some BMPs. The Applicants state that they intend to continue using BMPs in conjunction 9 with their Total Water Management philosophy to conserve water resources. d. Resolution 11 Regarding Staffs recommendation to discontinue the BMP tariffs, we agree that the interest of 12 promoting conservation is not carte blanche to continue incurring the cost of implementing programs 13 that are producing limited results. As has been amply demonstrated in support of the Applicants' 14 proposed Sustainable Water Surcharge, which is discussed further below, scarcity of water resources 15 is an issue that cannot be deferred indefinitely and proactive measures to make responsible use of 16 increasingly limited water resources is vital to preserving water utilities' ability to continue providing 17 safe, reliable, and economical water service. Consequently, we find the Applicants' proposal to instead 18 substitute the approved BMPs for ones better suited to attaining the desired results is the more 19 reasonable approach to obtaining the "bang for the buck" that Staff believes is missing from the current 20 pallet of approved BMPs. 2. Miscellaneous Terms of Service Tariffs 21 22 The Applicants proposed to standardize, for their water utilities, the cross cotmection/backflow 23 prevention,3l5 curtailment,316 customer meter downsizing, hydrant meter deposit, and water utility 24 terms and conditions tariffs. The Global Water Utilities also requested to standardize for their 25 26 314 Ex. S-6 at 95; Tr. Vol. X at 1399 - 1402. 27 315 The cross connection/backflow prevention tariff is to protect the utility' s water supply from the possibility of contamination caused by backflow from contaminants on the customer' s premises. Ex. S-6 at 87. 28 316 The curtailment tariff authorizes the utility to curtail water available for consumption when specified thresholds of limited water supply are in effect. Ex. S-6 at 88. 135 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. wastewater utilities the source control, 317 source control violation foe, unauthorized discharge,318 and 2 wastewater utility terms and conditions tariffs. 3 The Global Water Utilities also propose to extend the Point of Use ("POU") Treatment tariff 4 319authorized for GTWC's WPE No. 1, WPE No. 7, and Roseview systems for use in additional utilities. a. RUCO 5 6 RUCO offered no position on the proposed standardization of the various water and wastewater 7 terms of service tariff modifications proposed by the Applicants. 8 9 b. Staff The Applicants did not provide a standardized cross connection/backflrow prevention tariff 10 using the Commission's standard fonn. Staff recommends that the Applicants pursue approval of a 11 standardized cross connection/backflow prevention tariff in a separate docket after producing an 12 appropriate tariff using the Commission's form. 13 Staff notes that the Commission updated the standard form of curtailment tariff on October 1, 14 2009. Staff recommends that the Applicants file, in a new docket using the current standard form of 15 curtailment tariff, a proposed standardized curtailment tariff for all of the Global Water Utilities. 16 Staff recommends that the proposed standardization of the wastewater source control violation 17 fee tariff not be approved until the Global Water Utilities propose and the Commission approves a 18 standardized joint source control tariff. 320 19 Noting that the Applicants did not provide a form of POU Treatment tariff for review, Staff 20 recommends that the Applicants file a proposed form of POU Treatment tariff in a new docket for Staff 21 review. 22 Staff recommends approval of the proposed Unauthorized Discharge Tariff. 321 23 24 317 A Source Control

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tariff is to protect a utility's wastewater collection system against blockages and damage. Ex. S-6 at 123-1 24. 25 318 The Unauthorized Discharge Tariff is to discourage unauthorized discharges of waste into the wastewater collection system from improper collection points. Ex. S-6 at 126. 26 319 The POU Treatment tariff authorizes the utility to install, maintain, and inspect a water treatment system installed directly on the point of water consumption (i.e. under a kitchen sink or drinking fountain). Ex. S-6 at 90. 320 Ex. S-6 at 126; Notably, the Executive Summary for Ex .. S-6, Recommendation I 6 recommends approval of the Source 27 Control Tariff but also recommends suspension of the fee provision until a joint source control tariff has been approved. 28 Ex. S-6, Executive Summary. 321 Ex. S-6 at 127. 136 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. c. Global Water Utilities 2 The Applicants accept Staff's recommended procedure to pursue changes to the standardized 3 wastewater source control violation fee tariff in future filings in conjunction with the proposal of a 4 standardized joint source control tariff. 5 In response to Staff's recommendation, the Global Water Utilities will pursue standardization 6 of the cross connection, backflow prevention, and curtailment tariffs in separate proceedings. 322 No 7 party objected to the proposal that the customer meter downsizing, hydrant meter deposit, and water 8 utility terms and conditions tariffs be standardized.323 Additionally, the Global Water Utilities accepted 9 Staffs recommendation to address the revisions to GTWC's POU tariff in a separate proceeding.324 10 In response to Staff's recommendation, the Applicants will seek to standardize their wastewater 11 source control tariff in separate proceedings. 325 No party objected to the proposal that the wastewater 12 utility terms and conditions tariffs be standardized.326 d. Resolution 13 14 Staffs recommendations for the Applicants' proposed water and wastewater terms of service 15 tariffs are reasonable. 3. Customer Assistance Program Tariffs 16 17 Also, the Global Water Utilities request to maintain the various tariffs composing the Customer 18 Assistance Program at their currently approved eligibility levels. Additionally, the Global Water 19 Utilities reconunend minor revisions to update the Customer Assistance Program tariff to reflect the 20 requested rate consolidation effort. 327 a. RUCO 21 22 RUCO recommends elimination of the Furloughed Worker Program from the Customer 23 Assistance Program, and that the threshold income level to qualify for the Income Assistance Program 24 be returned to 200 percent of the Federal Poverty Level from its current threshold of 300 percent.328 25 322 Ex. A-49 at 20. 26 323 Id. at 21. 324 Id. at 20. 325 Id. at 22. 27 326 Id. at 23. 327 Ex. A-48 at 33-34. 28 328 Ex. RUC0-9 at 1-2. 137 78644 DECISION NO. - - - --- DOCKET NOS. SW-20445A-20-0214, et al. According to RUCO, a 300% income threshold provides a low-income benefit to households that are 2 not low-income, whereas the more typical 200% income threshold results in targeting benefits toward 3 the most disadvantaged customers.329 4 As to elimination of the Furloughed Worker Program, RUCO contends that half of the program 5 costs are paid by ratepayers and customers should not be required to financially support "a benefit for 6 a relatively small subset of customers still claiming to be 'furloughed. '"330 Because unemployment 7 rates have declined since their peak during the COVID-19 pandemic, RUCO argues, "the term 8 'furloughed employee' becomes increasingly irrelevant as the state transitions to a post pandemic 9 economy."331 b. Staff 10 11 Staff offered no position in response to RUCO's recommended changes to the Customer 12 Assistance Program tariffs. c. Global Water Utilities 13 14 The Applicants disagree with RUCO's proposed reduction to the applicability of the Income 15 Assistance Program to 200 percent of the Federal Poverty Level and also disagree with RUCO's 16 proposed elimination of the Furloughed Worker Program. According to the Global Water Utilities, the 17 various offerings under the Customer Assistance Programs have not attained full subscription even 18 with the increased income threshold and are thus there is no evidence that the program is being abused. d. Resolution 19 20 RUCO's concern that programs responding to pandemic concerns become increasingly difficult 21 to justify as the economy reopens is a fair point. However, as illustrated by RUCO's concern that these 22 programs can "provide unwarranted benefits to customers who are not economically disadvantaged" 23 the specific concern is the potential for abuse. As noted by the Applicants, there is no evidence that 24 the approved program ever attained full subscription or that it has produced abuses. In the absence of 25 evidence of abuse, we are not persuaded to terminate the Furloughed Worker Program at this time. 26 Regarding the recommendation to lower the income threshold to qualify for low-income 27 329 Id. at2. 330 Id. at 2-3. 28 331 Id. at 3. 138 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. assistance back to 200%, we find RUCO's arguments more persuasive. As RUCO demonstrated, a 2 household of four with an annual income (in 2021) of up to $79,500 would qualify for low-income 3 assistance using a 300% eligibility threshold. By contrast, a 200% threshold limits eligibility for a 4 household of four to $53,000.332 We agree that restoring a 200% of federal poverty levels eligibility 5 threshold for the Low-Income Assistance Program better targets benefits to the most disadvantaged 6 ratepayers. 4. Red Rock (Water) Pima County 7 8 Red Rock (Water)'s CC&N includes a service territory within Pima County. In keeping with 9 the proposed consolidation of utilities by county, the Global Water Utilities request approval of a 10 separate rate tariff and approval of an Off-Site Facilities Fee tariff applicable specifically to Red Rock (Water) - Pima County.333 Neither Staff nor RUCO disagreed with the Applicants' request. The 11 12 request is reasonable and should be adopted. G. Adjustor Mechanisms 1. Tax Adjustors 13 14 15 The Global Water Utilities propose to implement a Property Tax Adjustor Mechanism 16 ("PT AM"). A PT AM allows a utility to flow through changes in property tax rates and/or assessment 17 ratios caused by the enactment of new property tax laws without the necessity of a rate case proceeding. 18 Staff recommends approval of a PT AM. 334 RUCO does not oppose the implementation of a PT AM. 335 19 The Applicants also request authorization to implement a tax adjustor mechanism similar to the 20 Tax Expense Adjustor Mechanism ("TEAM") adopted for other utilities to address changes in federal 21 taxation. The TEAM would permit the Applicants to flow through potential changes to state and federal 22 income tax rates as well as refund or collect funds related to the Tax Cuts and Jobs Act of 2017. 23 Notably, a TEAM also pennits a utility to reconcile differences between EADIT amortization post-rate 24 case and the amount of EADIT reflected in base rates.336 25 26 332 Ex. RUCO-9 at 2. 27 333 Ex. A-49 at 24. 334 Ex. S-12 at 25. 335 Ex. RUCO-2 at 30. 28 336 Ex.S-lat37. 139 DECISION NO. 78644 ------ 2 DOCKET NOS. SW-20445A-20-0214, et al. Staff supports adoption of a TEAM337 and RUCO does not oppose approval of a TEAM338. Applicants request that they be ordered to file Plans of Administration for both the PT AM and 3 TEAM within 90 days of the effective date of this Decision. Staff recommends that the POA for the 4 TEAM be modelled after the TEAM POA described in Decision No. 77139 (March 19, 2019), and as 5 Staff recommended in Docket No. E-01933A-19-0028 and that it be submitted within 30 days of a 6 Commission Decision in this matter. 7 8 9 Staffs recommendations are reasonable and should be adopted. 2. CAGRD Surcharge / Sustainable Water Surcharge Applicants propose to discontinue GTWC's current Central Arizona Groundwater IO Replenishment District ("CAGRD") surcharge. In its place, Applicants request adoption of a new 11 Sustainable Water Surcharge ("SWS") that would be applicable for all the systems involved in the 12 present matter. 13 The proposed SWS is patterned after the SWS approved for Rio Verde Utilities Inc. in Decision 14 No. 76101 (May 22, 2017) and would permit the collection of funds to pay for CAGRD fees but would 15 not be restricted to CAGRD resources. Instead, the SWS would enable the Global Water Utilities to 16 expeditiously acquire new water supplies from such sources as may be avai lable when they are needed. 17 As proposed, the SWS will be charged to all water services provided by the Global Water 18 Utilities, including residential, commercial, construction, and potable sales. The SWS will recover the 19 costs paid to water suppliers such as Central Arizona Project for the purchase of renewable water 20 supplies. The acquired water supplies may take the form of exchange, wheeling, or storage and 21 recovery that would reduce pumped groundwater. Recoverable costs include direct contract costs, 22 delivery, legal and administrative costs for purchases of water supplies, as well as costs of maintaining 23 a Member Service Agreement, annual membership dies, and replenishment fees with the Central 24 Arizona Water Conservation District ("CAWCD") as well as pass through fee reductions when 25 sustainable water is employed. The SWS will also include fees for groundwater withdrawal to ADWR 26 which are expected to decrease when sustainable water supplies displace groundwater usage. 27 337 Tr. Vol X at 1480. 28 338 Ex. RUC0-2 at 31. 140 78644 DECISION NO. -----

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DOCKET NOS. SW-20445A-20-0214, et al. The proposed SWS would be subject to a plan of administration that would include making 2 acquisitions pursuant to the SWS subject to audit for prudence. As outlined in the plan of 3 administration,339 the SWS would be collected through a volumetric surcharge detern1ined on March 1 4 of each year. The charge would be calculated to recover or refund as appropriate, the over or under- 5 recovery of allowed costs over the prior year ending December 31 as well as projected sustainable 6 water costs for the upcoming year. Additionally, the annual SWS filing will include schedules showing 7 sustainable water use projected for the current year and the next four years, as well as projected 8 sustainable water supply costs for the current year.340 9 Applicants assert that adoption of the SWS is reasonable considering ongoing trends in water 10 supply availability as well as the most current reasonable forecasts of Arizona potable water supplies 11 indicating a steady depletion of water supplies in the long term. 1. RUCO 12 13 RUCO opposes adoption of the SWS and instead recommends that the CAGRD surcharge be 14 retained. RUCO's concern is that the Global Water Utilities could utilize the SWS to purchase long- 15 term storage credits, recharge facilities, underground storage facilities, or extra Central Arizona Project 16 ("CAP") allotments and recover the associated costs outside of a rate case. 341 Further, while GTWC 17 already has an approved CAGRD adjustor mechanism, the more expansive SWS proposal does not 18 provide for upfront cost analyses, billing analyses, or prudency detenninations to support new water 19 purchases. Consequently, RUCO argues the SWS places ratepayers in jeopardy of paying costs for 20 water supply purchases that have not be adequately justified nor demonstrated to be needed. 21 Citing Scates v. Arizona Corporation Commission, 118 Ariz. 531, 578 P .2d 612 (App. 1978), 22 RUCO observes that the focused nature of adjustor mechanisms gives rise to concerns of single-issue 23 ratemaking, a circumstance when utility rates are adjusted or costs deferred in response to changes in 24 a cost item viewed in isolation. RUCO criticizes the lack of upfront cost analyses, billing analyses, or 25 prudency determinations to support the acquisition of new water resources flowed through the SWS.342 26 27 339 See Ex. S-6, Attachment 6. 340 id. 341 Ex. RUC0-4 at 31. 28 342 RUC0-4 at 35. 141 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. In the absence of these features, RUCO is concerned that the SWS places ratepayers in jeopardy of 2 paying for costs that are not needed provide them with service. 343 To that end, RUCO argues that the 3 Commission should refrain from adopting new adjustor mechanisms unless extenuating circumstances, 4 such as volatile expenses outside of a utility's control might significantly impact the utility's financial 5 condition absent the adjustor are in evidence. 6 Instead of approving the SWS, RUCO recommends retaining the current CAGRD adjustor 7 mechanism and review any new storage, CAP allocations, or underground storage facilities as needed 8 within the confines of a rate case. 9 2. Staff 10 Staff supports adoption of the SWS. As explained in the testimony of Mr. Smaila, the 1 1 Commission has previously approved an SWS for Rio Verde in Decision No. 76101 to allow for 12 recovery of all costs related to the purchase and exchange of water supplies between Rio Verde and 13 Salt River Project and other Verde River water rights holders on the basis that it allows the utility to 14 conserve limited groundwater and implement an orderly deployment of renewable water supplies. 344 15 Staff believes that the proposed SWS will provide the Applicants with a similar ability to timely and 16 cost-effectively acquire scarce water resources.345 17 Staff recommends approval of the SWS and of the plan of administration, attached as 18 Attachment 6 to the testimony of Mr. Smaila.346 3. Global Water Utilities 19 20 21 In response to RUCO, the Global Water Utilities assert that the proposed SWS is a cost-effective method to secure sustainable water resources. Applicants note the incongruity of RUCO's 22 awareness that water supplies are increasingly scarce and that water resources may be increasing in 23 cost while opposing a mechanism that would enable acquiring water resources expeditiously and at 24 lower cost. Applicants assert that RUCO's reliance on Scates is misplaced as the portions of Scates 25 RUCO relies upon have been superseded by RUCO v. Arizona Corporation Commission. Even so, 26 343 Id. at 31. 27 344 Ex. S-6 at 96. 345 Tr. Vol.Vat 698. 28 346 Ex. S-6, at 97, Attachment 6. 142 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Applicants contend that the proposed SWS complies with both RUCO and Scates because it seeks to 2 address a volatile expense that is out of the utility's control. 3 As to the appropriate level of scrutiny for purchases made between rate cases using the SWS, 4 the Global Water Utilities argue that the plan of administration will require Applicants to provide 5 detailed information supporting any change in the amounts recovered through the adjuster. 6 Finally, the Global Water Utilities argue that RUCO is incorrect in its belief that the SWS will 7 cost ratepayers more than the alternative. Because the SWS will allow the acquisition of sustainable, 8 cost-effective water resources, the SWS will allow the Global Water Utilities to use those resources to 9 displace costs paid to CAGRD. 4. Discussion and Resolution IO 11 RUCO raises valid concerns to the effect that caution must be applied when approving new 12 adjuster mechanisms lest a utility be given a means to desensitize itself to rising expenses. Adjuster 13 mechanisms can create an unwholesome arrangement of incentives whereby the utility is no longer 14 responsive to increasing costs to the detriment of ratepayers. 15 However, a utility, first and foremost has an obl igation to provide adequate service. The record 16 in this matter is replete with uncontroverted evidence that water resources, already scarce in our desert 17 state, are growing scarcer and that trend is likely to continue into the foreseeable future. Arizona is in 18 the midst of a 20-year drought that has been characterized as the worst drought in 126 years. 347 As Mr. 19 Lenderking described on behalf of the Applicants, 57% of the state is experiencing the highest level of 20 drought. Additionally, the Colorado River Basin, which provides 40% of Arizona's water supplies is 21 also in a multi-decade drought, a circumstance that was expected to prompt the US Secretary of the 22 Interior to imminently declare a Tier 1 shortage,348 a condition that would deprive Arizona of 23 approximately 512,000 acre-feet or 18% of its Colorado River water supplies and about a third of the 24 CAP's water supplies.349 Additionally, uncontroverted testimony provided at hearing explained that 25 ADWR was also imminently going to declare an end to using groundwater for purposes of obtaining 26 347 Tr. Vol.Vat 633. 27 348 Tr. Vol.Vat 633-634. We take judicial notice of the fact that later in August 2021 , the US Secretary of Interior did 28 declare the first ever Tier I shortage for the Colorado River. 349 Tr. Vol.Vat 636. 143 DECISION NO. _7_8_6_44 __ DOCKET NOS. SW-20445A-20-0214, et al. an assured water supply, a pa1ticularly significant shift for the Global Water Utilities located in Pinal 2 County which is almost completely reliant on groundwater for assured water supply.350 3 We are not persuaded that RUCO's recommendation to maintain the CAGRD adjustor for 4 GTWC and otherwise review the acquisition of water supplies in an after-the-fact context of a rate case 5 reasonably addresses the issue. Reviewing the prudence of acquired water supplies within a rate case 6 is reasonable when the expenditures can be planned to suit a historical test year model of ratemaking. 7 The shortcoming is that this approach presupposes that a water supply constraint necessitating 8 supplemental acquisitions can await the review processes RUCO envisions. 9 As evidence demonstrating a general decline in available water supplies mounts, we can foresee 10 the day when traditional water utilities accustomed to previously unlimited well water supplies must 11 instead operate more like electric utilities which must supplement their supplies with outside purchases. 12 Viewed in that light, the SWS fulfills a role for water utilities similar to how fuel and purchased power 13 adjustors function for electric utilities. We find that the proposed SWS is a reasonable measure to 14 establish the tools for the Applicants to secure water supply resources in a timely manner and it should 15 be adopted. 16 We find that the Plan of Administration that the Global Water Utilities filed, and which is 17 attached to Staff witness Mr. Smaila's Direct Testimony as Attachment 6, should not include recovery 18 of projected costs. Additionally, to address the Applicants' cost recovery concerns in a timely fashion, 19 we find that it is appropriate for the Plan of Administration ("POA") to authorize the recovery of 20 allowed expenses upon the approval, by Staff after its review, of a filing by the Global Water Utilities 21 for recovery of an incurred cost. Such filings shall be limited to no more than semi-annually. To 22 address these concerns, it is appropriate to require the Applicants to prepare a POA, in consultation 23 with Staff and RUCO, and file this revised POA for Commission approval. Once the POA is filed, 24 Staff shall prepare and file a memorandum and proposed order for the Commission's consideration of 25 the revised POA. This adjustor shall not take effect until the POA is approved by the Commission. 26 27 28 350 Tr. Vol.Vat 635. 144 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. H. Rate Case Expense Surcharge 2 The Global Water Utilities propose to recover $755,000 in rate case expense through a rate case 3 expense surcharge. The surcharge would be calculated to recover the requested rate case expense 4 amount over two years. Although the Applicants originally requested $500,000 in rate case expense, 5 the Global Water Utilities assert that adjustments to the presentation of their case in response to 6 positions taken by Staff, particularly regarding the treatment of the Valencia condemnation proceeds, 7 necessitated unanticipated additional work to be performed by outside consultants as we11 as in-house 8 accounting personnel. The added burden of responding to Staff, the Applicants assert, increased the 9 actual amount ofrate case expense to $755,000. 1. RUCO 11 RUCO disagrees with the amount of rate case expense requested by the Applicants. RUCO is 12 concerned that rate case expense for utilities generally have been increasing unchecked and to the 13 detriment of ratepayers. RUCO points to the extensive overlap in the testimony subject matters covered 14 by multiple witnesses for the Applicants to argue that traditionally uncritical approval of rate case 15 expense has promoted inefficient and wasteful presentations of rate cases by utilities and that the l 6 current case is no exception. In particular, RUCO notes that the withdrawn testimony of Mr. Walker,351 17 which addressed cost of capital and water supply availability, entirely covered matters also addressed 18 by other witnesses for the Applicants. 19 In support of its position, RUCO benchmarked the rate case expense awarded in various past 20 Commission Decisions. In these cases, the Commission recognized rate case expense recoverable from 21 ratepayers in amounts between $300,000 and $400,000.352 22 On these bases, RUCO recommends that the Commission approve no more than $400,000 in 23 rate case expense and offers a range of amortization periods from three to five years. 24 25 351 To address concerns that an ex parte infraction had occurred wherein Mr. Walker emailed various Commissioners with documents also used as attachments to his prefiled testimony in this matter, (see e.g. Disclosure of Possible ex parte 26 communication pursuant to A.A.C. RI4-3-l 13(D) in Docket Nos. E-01345A-19-0236 and SW-03936A-20-0214 from the Office of Commissioner Tovar, filed August 27, 2021) the Global Water Utilities voluntarily withdrew his prefiled testimony and did not offer Mr. Walker as a witness in the proceeding. 27 352 Ex. RUCO-4 at 25, citing Decision Nos. 77956 (April 15, 2021) (approving $300,000 in rate case expense for Arizona 28 Water Company), 77380 (August 19, 2019) (approving $350,000 in rate case expense for Arizona Water Company), and 78017 (May 18, 2021) (approving $400,000 rate case expense for Liberty Utilities (Black Mountain Sewer) Corp.) 145 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. 2. Staff 2 Staff does not object to using a surcharge mechanism to recover the rate case expense but 3 disputes the amount of rate case expense to be recovered. Staff's disagreement focuses on the 4 Applicants' attribution to Staff of increased burden in the presentation of Applicants' case. According 5 to Staff, the $1.4 million Section l 033 adjustment the Global Water Utilities perfonned to hold 6 ratepayers harmless demonstrates the merit of Staff's scrutiny of the Section 1033 issue. To that point, 7 Staff argues that ratepayers should not be burdened with recovery of additional rate case expense 8 incurred by the Global Water Utilities to correct its Section 1033 proposal. According to Staff, the 9 Section 1033 adjustment only benefits shareholders, not ratepayers. Staff also contends that the 10 expense the Applicants assert is attributable to responding to Staff's position on the Section 1033 issue 11 is unreasonable because the added discovery expense is more than eight times the total contract expense 12 for Staff's consultant, and principal witness on the issue, Mr. Smith. 13 14 3. Global Water Utilities Response In response to arguments raised by RUCO, the Global Water Utilities disputes the validity of 15 RUCO's effort to compare the requested rate case expense in this case to rate case expense requests in 16 other cases. According to the Applicants, the preparation of 11 separate sets of rate schedules, both for 17 a consolidated approach and on a standalone approach, demonstrates that the extent of work 18 necessitated in the preparation of this case is not directly comparable to a typical rate case that usually 19 only involves a single set of rate schedules. 20 Additionally, the Applicants dispute RUCO's characterization of Mr. Walker's testimony as 21 duplicative of other witnesses when RUCO also describes Mr. Walker as a "key" witness in the case. 22 Notwithstanding that Mr. Walker's testimony was ultimately withdrawn, the Global Water Utilities 23 contend that Mr. Walker was a participant in the development of positions and arguments, as well as 24 the preparation of responses to discovery requests. Further, because the Global Water Utilities do not 25 have an internal rate department, outside assistance like that provided by Mr. Walker is a practical 26 necessity. 27 The Applicants disagree with Staff's position that the rate case expense should be limited 28 146 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. because the extra expense was incurred to correct the Section 1033 proposal. In response to Staff's 2 rate case expense recommendation, the Applicants compare the added expense incurred defending 3 against Staffs Section l 033 position to the expense Staff incurred hiring Mr. Smith. Whereas the cost

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4 of Mr. Smith's participation is described as providing a dividend to ratepayers by way of rate 5 reductions, the Global Water Util ities contend that the proper way to view rate case expense is what is 6 necessary to arrive at the right result. 7 4. Discussion and Resolution 8 Incurring expenses in presenting a rate case for the Commission's consideration is a necessary 9 cost of doing business that is appropriately recovered in rates collected from ratepayers. However, as 10 with all expenses recovered from ratepayers, the level of recoverable expense is limited to what is just 11 and reasonable. The particular concern, as alluded to in RUCO's arguments, is that the expenditure of 12 resources toward rate case presentation is largely within an applicant's control and uncritical 13 acceptance of all expenditure levels can promote a cycle of escalating rate case expenses. 14 It is not surprising that the rate case expense for an I I-utility rate case will necessarily be higher 15 than for a solitary utility. For that reason, we are not persuaded that a straightforward benchmarking 16 process to normalize the Global Water Utilities' rate case expense proposal with those approved for 17 solitary utilities in other rate cases, as proposed by RUCO, is a reasonable approach in this 18 circumstance. 19 However, the voluntary withdrawal of Mr. Walker's testimony demonstrates the validity of 20 RUCO's contentions. RUCO's arguments to the effect that Mr. Walker's testimony is merely 21 cumulative and redundant to the testimony of multiple other witnesses is evidenced by the Global 22 Water Utilities' ability to effectively present their case without his testimony as each of the subjects 23 his testimony covers are more thoroughly addressed through Mr. Lenderking speaking to water supply 24 issues and Mr. Rowell who provided an extensive cost of capital analysis. We see no inherent 25 contradiction to RUCO's characterization of Mr. Walker as both a key witness yet providing 26 duplicative testimony. Mr. Walker may be integral to the formulation of the Applicants' position in 27 several matters raised in the applications. Yet his testimony, much of it in the form of documents 28 78644 147 DECISION NO. ______ DOCKET NOS. SW-20445A-20-0214, et al. attached to pre-filed testimony, could conceivably have been accomplished by appending those same 2 documents to the testimony of other witnesses speaking to the same points. 3 However, recoverable rate case expense must also be fair to the utility. The Applicants' 4 concerns that Staff's pursuit of the Section I 033 tax issue increased the difficulty of its rate case 5 presentation is not entirely without merit. Although Staff's concerns prompted a corrective adjustment 6 of the Global Water Utilities' proposed Section 1033 adjustment, reducing the total adjustment by 7 approximately $1.4 million, Staff ultimately relented in the larger issue of whether the entire $11.6 8 million Section 1033 adjustment should be deducted from rate base. While Staff's arguments have 9 sufficiently piqued our interest that simple due diligence on behalf of the ratepayer demands that we IO order the recommended pursuit of a PLR from the IRS, the fact remains that Staff ultimately relented 11 on the issue. 12 Considered on the whole, we find that the reasonable amount of rate case expense to be adopted 13 in this case is $500,000. Further, we find that the use of a surcharge mechanism to recover the expense 14 is reasonable and that the amount recovered through the surcharge should be amortized over a two- 15 year period. 16 Reviewing the Applicants' proposed rate case expense surcharge, it is apparent that the 17 proposed forn1 of surcharge uses an allocation factor. For example, the proposed rate case expense 18 surcharge for the Maricopa County Water consolidation is $0.54 for a 5/8 x 3/4-inch meter whereas the 19 proposed surcharge for the Pinal County Water consolidation is $0.64 for a 5/8 x 3/4-inch meter. The 20 basis for the allocation employed in the Applicants' proposal was not explained or supported in any of 21 the filings of pre-filed testimony or schedules, nor was it addressed by any party witness sufficiently 22 to replicate it or demonstrate why it should be retained. 23 For purposes of establishing an expected surcharge level, we instead find that a flat surcharge 24 that increases with meter size that divides the rate case expense evenly between all customers 25 throughout all the utilities (water and wastewater) involved in this matter having customers would be 26 the most reasonable. The surcharge should be calculated to recover the approved $500,000 rate case 27 expense amount over two years beginning i1mnediately upon implementation of the surcharge so that 28 the surcharge will terminate before the final phase of the phased-in rates begins to moderate the impact 148 DECISION NO. 78644 -----

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DOCKET NOS. SW-20445A-20-0214, et al. of the last phase of the base rate increase. On that basis, the following table provides the estimated 2 monthly bill impacts for ratepayers of all utilities involved in this proceeding at the corresponding 3 meter sizes. 4 5 6 7 8 9 10 11 12 13 14 15 16 Meter Size Recommended Surchaq~e 5/8" X 3/4" $0.43 3/4" $0.43 1" $1.08 1.5" $2.15 2" $3.44 3" $6.88 4" $10.75 6" $21.50 8" $34.40 1 O" $49.45 Because the expected surcharge amounts projected above are estimates, it is appropriate to 17 authorize a surcharge for recovery of rate case expense, but that recovery should not occur until the 18 Global Water Utilities file a request to implement the surcharge, whereupon Staff can review the 19 proposed implementation of the surcharge and confinn that it will collect the approved revenue in a 20 recommendation and proposed order for the Commission's consideration. 21 22 I. Rate Phase-In The Global Water Utilities have agreed to a phase-in of the rate increase, such that the revenue 23 increase is not more than 5% for a median residential customer in any year. The Global Water Utilities' 24 phase-in proposal does not include any deferral of lost revenue or carrying cost on lost revenue. No 25 party opposed a phase-in. We find that the Applicants' proposed phase-in to mitigate rate shock is 26 reasonable and thus, we approve the proposed phase-in, as shown in Exhibit A, with phase 2 to take 27 effect on January 1, 2023, and Phase 3 on January 1, 2024." 28 * * * * * * * * * * 149 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Having considered the entire record herein and being fully advised in the premises, the 2 Commission finds, concludes, and orders that: 3 4 1. FINDINGS OF FACT The procedural history set forth in Section I of the Discussion portion of this Decision is 5 accurate and we adopt it in its entirety as though set forth fully here. 6 2. The description of the procedural history and of the Global Water Utilities' applications 7 set forth in Sections I and III of the Discussion portion of this Decision are accurate and we adopt them 8 in their entirety as though set forth fully here. 9 3. The background information, description of parties' positions, and evidence described in 10 Sections II, IV, V, VI, VII, and VIII of the Discussion portion of this Decision are accurate and we 11 adopt them in their entirety as though set forth fully here. 12 4. The resolutions reached in the various subsections within Sections II, IV, V, VI, VII, and 13 VIII of the Discussion portion of this Decision are accurate and we adopt them in their entirety as 14 though set forth fully here. 15 5. Based on the deficient state of records relating to the origins of and adjustments to the 16 deferred taxes, the Global Water Utilities were unable to perform the requisite with and without 17 analysis to support a Net Operating Loss Carryforward adjustment. 18 6. The rates, charges, and terms and conditions of service authorized herein are just and 19 reasonable and in the public interest. 20 7. The rates, charges, and terms and conditions of service resulting from the Commission's 21 resolution of the issues herein do not result in "discrimination in charges, service, or facilities ... 22 between persons or places for rendering a like and contemporaneous service" under Article I 5, § 12 of 23 the Arizona Constitution. 24 8. The rates, charges, and terms and conditions of service resulting from the Commission's 25 resolution of the issues herein do not result in, "make or grant any preference or advantage to any 26 person or subject any person to any prejudice or disadvantage" and do not "establish or maintain any 27 unreasonable difference as to rates, charges, service, facilities or in any other respect, either between 28 150 DECISION NO. 78644 ------ DOCKET NOS. SW-20445A-20-0214, et al. localities or between classes of service" under A.R.S. § 40-334. 2 3 1. CONCLUSIONS OF LAW Global Water-Palo Verde Utilities Company, Inc., Global Water - Red Rock Utilities 4 Company, Inc., Global Water - Northern Scottsdale Water Company, Inc., Global Water - Turner 5 Ranches Irrigation, Inc., Global Water - Balterra Utilities Company, Inc., Global Water - Eagletail 6 Water Company, Inc., Global Water - Hassayampa Utilities Company, Inc., Global Water - Picacho 7 Cove Utilities Company, Inc., Global Water- Greater Tonopah Water Company, Inc. , Global Water - 8 Santa Cruz Water Company, Inc. and Global Water - Picacho Cove Water Company, Inc. are public 9 service corporations within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40- 10 250, 40-251 , 40-321, 40-33 1, and 40-336. 11 2. The Commission has jurisdiction over Global Water-Palo Verde Utilities Company, Inc., 12 Global Water- Red Rock Utilities Company, Inc., Global Water- Northern Scottsdale Water Company, 13 Inc., Global Water - Turner Ranches Irrigation, Inc., Global Water - Balterra Utilities Company, Inc., 14 Global Water - Eagletail Water Company, Inc., Global Water - Hassayampa Utilities Company, Inc., 15 Global Water - Picacho Cove Utilities Company, Inc. , Global Water - Greater Tonopah Water 16 Company, Inc., Global Water - Santa Cruz Water Company, Inc. and Global Water - Picacho Cove 17 Water Company, Inc. and the subject matter of this Order. 18 3. Notice of the applications was provided in accordance with the law. 19 4. Global Water- Palo Verde Utilities Company, LLC's fair value rate base is $66,645,933. 20 5. Global Water- Red Rock Utilities Company, Inc. ' s Water Division's fair value rate base 21 is $826,654. 22 6. Global Water- Red Rock Utilities Company, Inc. 's Wastewater Division ' s fair value rate 23 base is $3,407,093. 24 7. Global Water - Northern Scottsdale Water Company, Inc.'s fair value rate base is 25 $53,416. 26 8. 27 9. 28 Global Water - Turner Ranches Irrigation, Inc. ' s fair value rate base is $1,850,251. Global Water - Eagletail Water Company, Inc. 's fair value rate base is $563,609. 151 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 10. Global Water - Greater Tonopah Water Company, Inc. 's fair value rate base is 2 $2,599,521. 3 11. Global Water - Santa Cruz Water Company, Inc.' s fair value rate base is $41,095,492. 4 12. A FVROR of 7 .22 percent results in just and reasonable rates and revenue requirement. 5 13. The rates, charges, and terms and conditions of service authorized herein are just and 6 reasonable and in the public interest. 7 14. The rates, charges, and tenns and conditions of service resulting from the Commission's 8 resolution of the issues herein do not result in "discrimination in charges, service, or facilities ... 9 between persons or places for rendering a like and contemporaneous service" under Article XV, § 12 10 of the Arizona Constitution. 11 15. The rates, charges, and tenns and conditions of service resulting from the Commission's 12 resolution of the issues herein do not result in, "make or grant any preference or advantage to any 13 person or subject any person to any prejudice or disadvantage" and do not "establish or maintain any 14 unreasonable difference as to rates, charges, service, facilities or in any other respect, either between 15 localities or between classes of service" under A.R.S. § 40-334. 16 17 ORDER IT IS THEREFORE ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 18 Water - Red Rock Utilities Company, Inc., Global Water - Northern Scottsdale Water Company, Inc., 19 Global Water-Turner Ranches Irrigation, Inc., Global Water- Balterra Utilities Company, Inc., Global 20 Water - Eagletail Water Company, Inc. , Global Water - Hassayampa Utilities Company, Inc., Global 21 Water - Picacho Cove Utilities Company, Inc. , Global Water - Greater Tonopah Water Company, Inc., 22 Global Water - Santa Cruz Water Company, Inc. and Global Water- Picacho Cove Water Company, 23 Inc. are hereby authorized and directed to file with the Commission, on or before July 29, 2022, 24 schedules of rates and charges confonning to the rates and charges approved in Exhibit A, attached 25 hereto and incorporated herein. 26 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 27 Water - Red Rock Utilities Company, Inc. , Global Water - Northern Scottsdale Water Company, Inc., 28 152 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. 1 Global Water - Turner Ranches Irrigation, Inc., Global Water - Balterra Utilities Company, Inc., Global 2 Water - Eagletail Water Company, Inc., Global Water - Hassayampa Utilities Company, Inc., Global 3 Water- Picacho Cove Utilities Company, Inc., Global Water - Greater Tonopah Water Company, Inc., 4 Global Water- Santa Cruz Water Company, Inc. and Global Water - Picacho Cove Water Company, 5 Inc. shall, on or before August 15, 2022, file Plans of Administration for the new Adjustor Mechanisms, 6 consistent with the resolutions reached in this Decision. 7 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 8 Water - Red Rock Utilities Company, Inc., Global Water - Northern Scottsdale Water Company, Inc., 9 Global Water- Turner Ranches Irrigation, Inc., Global Water - Balterra Utilities Company, Inc., Global 10 Water - Eagletail Water Company, Inc., Global Water - Hassayampa Utilities Company, Inc. , Global 11 Water - Picacho Cove Utilities Company, Inc., Global Water - Greater Tonopah Water Company, Inc., 12 Global Water- Santa Cruz Water Company, Inc. and Global Water- Picacho Cove Water Company, 13 Inc. shall, in consultation with Staff and RUCO, prepare and file a revised Plan of Administration for 14 the Sustainable Water Surcharge with the modifications discussed herein. Within 90 days after the 15 filing of the revised Plan of Administration, Staff shall prepare a memorandum and proposed order for 16 Commission consideration at Open Meeting. 17 IT IS FURTHER ORDERED that the rates and charges and terms and conditions of service 18 approved herein shall become effective for all service rendered on and after July I , 2022. 19 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 20 Water - Red Rock Utilities Company, Inc., Global Water - Northern Scottsdale Water Company, Inc., 21 Global Water - Turner Ranches Irrigation, Inc., Global Water - Eagletail Water Company, Inc., Global 22 Water - Greater Tonopah Water Company, Inc., and Global Water - Santa Cruz Water Company, Inc. 23 may file, with Docket Control, in this Docket, an application for implementation of a Rate Case 24 Expense Surcharge, as discussed herein. 25 IT IS FURTHER ORDERED that the Commission's Utilities Division Staff shall calculate the 26 appropriate amount for the Rate Case Expense Surcharge and prepare and file a proposed order for 27 Commission consideration, within 30 days of the filing requesting implementation of the surcharge. 28 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 153 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Water - Red Rock Utilities Company, Inc., Global Water - Northern Scottsdale Water Company, Inc., 2 Global Water- Turner Ranches Irrigation, Inc., Global Water- Balterra Utilities Company, Inc., Global 3 Water - Eagletail Water Company, Inc. , Global Water - Hassayampa Utilities Company, Inc., Global 4 Water - Picacho Cove Utilities Company, Inc., Global Water - Greater Tonopah Water Company, Inc., 5 Global Water- Santa Cruz Water Company, Inc. and Global Water - Picacho Cove Water Company, 6 Inc. shall notify their customers of the revised rates and charges by means of an insert in their next 7 scheduled billing (sent by mail or electronically) and by posting a notice on their website, in a form 8 acceptable to Staff. 9 IT IS FURTHER ORDERED that within 120 days of the effective date of this Decision, the 10 Global Water Utilities shall submit a private letter ruling to the Internal Revenue Service to address 11 whether "the failure to eliminate the deferred taxes attributable to assets condemned in a transaction 12 governed by Section 1033 of the Internal Revenue Code ("Code") would violate the nonnalization 13 provisions of Section 168(i)(9) of the Code. The Global Water Utilities shall prepare a draft complete 14 Statement of Facts in a neutrally worded manner, the issue presented, the relevant tax authorities and 15 an analysis of those authorities. The Global Water Utilities shall provide a copy of the draft to Staff at 16 least 30 days prior to the submission date. The Global Water Utilities and Staff shall cooperate to agree 17 upon a final Statement of Facts that is complete, accurate, and relevant to the issue presented. 18 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc. , Global 19 Water - Red Rock Utilities Company, Inc., Global Water - Balterra Utilities Company, Inc., Global 20 Water - Hassayampa Utilities Company, Inc., and Global Water - Picacho Cove Utilities Company, 21 Inc. shall file with Docket Control, as a compliance item in this Docket, within 60 days of the effective 22 date of this Decision, the Unauthorized Discharge Fee Tariff, included in the Staff engineering 23 testimony as Ex. S-6, attachment 12, for Staff's review and approval. 24 IT IS FURTHER ORDERED that Global Water - Red Rock Utilities Company, Inc., Global 25 Water - Northern Scottsdale Water Company, Inc., Global Water - Eagletail Water Company, Inc., 26 Global Water - Greater Tonopah Water Company, Inc., and Global Water - Santa Cruz Water 27 Company, Inc. shall file with Docket Control, as a compliance item in this Docket, within 60 days of 28 the effective date of this Decision, a revised Best Management Practice Tariff consistent with our 154 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1 findings herein for Staff's review and approval. 2 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 3 Water - Red Rock Utilities Company, Inc. , Global Water - Northern Scottsdale Water Company, Inc., 4 Global Water-Turner Ranches Irrigation, Inc., Global Water- Balterra Utilities Company, Inc., Global 5 Water - Eagletail Water Company, Inc. , Global Water - Hassayampa Utilities Company, Inc., Global 6 Water - Picacho Cove Utilities Company, Inc., Global Water - Greater Tonopah Water Company, Inc. , 7 Global Water - Santa Cruz Water Company, Inc. and Global Water - Picacho Cove Water Company, 8 Inc. shall file with Docket Control, as a compliance item in this Docket, within 60 days of the effective 9 date of this Decision, a revised Customer Assistance Tariff consistent with our findings herein for IO Staff's review and approval. 11 IT IS FURTHER ORDERED that Global Water - Red Rock Utilities Company, Inc. , Global 12 Water - Northern Scottsdale Water Company, Inc., Global Water - Turner Ranches Irrigation, Inc., 13 Global Water - Eagletail Water Company, Inc., Global Water - Greater Tonopah Water Company, Inc., 14 Global Water - Santa Cruz Water Company, Inc. and Global Water - Picacho Cove Water Company, 15 Inc. shall use the depreciation rates for water utilities delineated in Staff's engineering testimony, Ex. 16 S-6 Attachment 7. 17 IT IS FURTHER ORDERED that Global Water-Palo Verde Utilities Company, Inc., Global 18 Water - Red Rock Utilities Company, Inc., Global Water - Balterra Utilities Company, Inc. , Global 19 Water - Hassayampa Utilities Company, Inc., and Global Water - Picacho Cove Utilities Company, 20 Inc. shall use the depreciation rates for wastewater utilities delineated in Staff's engineering testimony, 21 Ex. S-6 Attachment 13. 22 IT IS FURTHER ORDERED that Global Water - Red Rock Utilities, Inc. shall file within one 23 year of the effective date of this Decision with Docket Control, as a compliance item in this Docket, an 24 Arizona Department of Environmental Quality Compliance Status Report demonstrating that the utility 25 is compliant with ADEQ requirements. 26 IT IS FURTHER ORDERED that Global Water - Eagletail Water Company, Inc. shall monitor 27 water loss for a 12-month period beginning August 1, 2022, and prepare an updated water loss report. 28 If, based on the updated water loss report, indicated water loss remains above IO percent at the end of 155 DECISION NO. - -#1 78 _ 6 _ 44 ____ DOCKET NOS. SW-20445A-20-0214, et al. twelve months, Global Water - Eagletail Water Company, Inc. shall file with Docket Control, as a 2 compliance item in this Docket, a water loss reduction report or detailed cost/benefit analysis within 3 18 months from the effective date of this Decision. 4 IT IS FURTHER ORDERED that Global Water - Greater Tonopah Water Company, Inc. shall 5 monitor water loss within the Buckeye Ranch, Garden City, WPE No. 1, WPE No. 6, and WPE No. 7 6 water systems for a 12-month period beginning July 1, 2022, and prepare an updated water loss report. 7 If, based on the updated water loss report, indicated water loss remains above 10 percent at the end of 8 twelve months, Global Water - Greater Tonopah Water Company, Inc. shall file with Docket Control, 9 as a compliance item in this Docket, a water loss reduction report or detailed cost/benefit analysis 10 within 18 months from the effective date of this Decision. 11 IT IS FURTHER ORDERED that Global Water - Greater Tonopah Water Company, Inc. shall, 12 within one year of the effective date of this Decision, fi le with Docket Control as a compliance item in 13 this Docket, documentation including photographs demonstrating that a transfer switch for hooking up 14 backup generation has been installed for the booster pump station at each of the Buckeye Ranch, Dixie, 15 Roseview, Garden City, WPE No. 1, WPE No. 6, and WPE No. 7 water systems. 16 IT IS FURTHER ORDERED that Global Water- Greater Tonopah Water Company, Inc. shall, 17 within one year of the effective date of this Decision, file with Docket Control as a compliance item in 18 this Docket, documentation including photographs demonstrating that a second booster pump has been 19 installed at each of the Dixie, Garden City, WPE No. 1, WPE No. 6, and WPE No. 7 water distribution 20 centers. 21 IT IS FURTHER ORDERED that Global Water-Greater Tonopah Water Company, Inc. shall, 22 within one year of the effective date of this Decision, file with Docket Control as a compl iance item in 23 this Docket, documentation demonstrating that all non-NSF certified galvanized steel piping and 24 fittings have been replaced with NSF certified materials at each of the Dixie, Roseview, Garden City, 25 WPE No. 1, WPE No. 6, and WPE No. 7 water system booster pump stations. 26 IT IS FURTHER ORDERED that Global Water - Eagletail Water Company, Inc. shall, within 27 one year of the effective date of this Decision, file with Docket Control as a compliance item in this 28 Docket, documentation demonstrating that all non-NSF certified galvanized steel piping and fittings 156 DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. have been replaced with NSF certified materials at its water system booster pump station. 2 IT IS FURTHER ORDERED that Global Water-Red Rock Utilities, Inc. shall file a Water Hook 3 Up Fee Tariff, applicable to its Pima County service territory, based on the Global Water-Santa Cruz 4 Water Company, Inc. Hook Up Fee Tariff, within 60 days of the effective date of this Decision. 5 IT IS FURTHER ORDERED that within 30 days after the issuance of a private letter ruling by 6 the Internal Revenue Service, the Global Water Utilities shall docket a copy of the private letter ruling 7 with Docket Control, as a compliance filing in this Docket. Within 90 days after the filing of the private 8 letter ruling, Staff shall prepare, for Commission consideration, a memorandum and proposed order 9 regarding guidance issued within the private letter ruling. IO IT IS FURTHER ORDERED that the mergers, transfers of assets, and other necessary 11 approvals requested by the Global Water Utilities in the "Related Approvals" section of the Application 12 are hereby approved, including (I) the merger of Global Water - Red Rock Utilities Company, Inc. 13 (Water Division) and Global Water - Picacho Cove Water Company, Inc. into Global Water - Santa 14 Cruz Water Company, Inc., (2) the merger of Global Water - Red Rock Utilities Company, Inc. 15 (Wastewater Division) and Global Water - Picacho Cove Utilities Company, Inc. into Global Water- 16 Palo Verde Utilities Company, Inc. , (3) the merger of Global Water - Eagletail Water Company, Inc. 17 and Global Water - Northern Scottsdale Water

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Company, Inc. into Global Water - Greater Tonopah 18 Water Company, Inc., and (4) the merger of Global Water - Balterra Utilities Company, Inc. into 19 Global Water - Hassayampa Utilities Company, Inc. However, if, after the effective date of this 20 Decision, Staff determines, in its sole discretion, that effectuating such approvals requires the Global 21 Water Utilities to file any additional applications or provide any additional infonnation, such as for the 22 sale and transfer of assets under A.R.S. § 40-285 or the reorganization of affiliates under A.A.C. R 14- 23 2-801 et seq., the relevant Global Water Utilities shall file all additional applications and provide all 24 additional infonnation that Staff deems necessary, and the relevant Global Water Utilities shall do so 25 within the timelines necessary for the Global Water Utilities to meet the deadlines set forth below. 26 IT IS FURTHER ORDERED that by January 1, 2023, the Applicants comprising the Pinal 27 County Water Group (including Global Water - Red Rock Utilities Company, Inc. (Water Division), 28 Global Water- Picacho Cove Water Company, Inc., and Global Water - Santa Cruz Water Company, 157 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Inc.) shall file with Docket Control as a compliance item in this Docket, evidence demonstrating the 2 relevant Applicants have reorganized into a single public service corporation encompassing the 3 customers, assets, liabilities, and certificated service territories of all the relevant public service 4 corporations that previously comprised the Pinal County Water Group. 5 IT IS FURTHER ORDERED that, by July 29, 2022, the Applicants comprising the Pinal 6 County Wastewater Group (including Global Water- Red Rock Utilities Company, Inc. (Wastewater 7 Division), Global Water - Picacho Cove Utilities Company, Inc. , and Global Water - Palo Verde 8 Utilities Company, Inc.) shall file with Docket Control as a compliance item in this Docket evidence 9 demonstrating the relevant Applicants have reorganized into a single public service corporation IO encompassing the customers, assets, liabilities, and certificated service territories of all the relevant 11 public service corporations that previously comprised the Pinal County Wastewater Group. 12 IT IS FURTHER ORDERED that, by January I , 2024, the Applicants comprising the Maricopa 13 County Water Group (including Global Water - Eagletail Water Company, Inc., Global Water - 14 Northern Scottsdale Water Company, Inc., and Global Water-GreaterTonopah Water Company, Inc.) 15 shall file with Docket Control as a compliance item in this Docket evidence demonstrating the relevant 16 Applicants have reorganized into a single public service corporation encompassing the customers, 17 assets, liabilities, and certificated service territories of all the relevant public service corporations that 18 previously comprised the Maricopa County Water Group. I 9 IT IS FURTHER ORDERED that, by July 29, 2022, the Applicants compnsmg the 20 Balterra/Hassayampa Wastewater Group (including Global Water - Balterra Utilities Company, Inc. 21 and Global Water - Hassayampa Utilities Company, Inc.) shall file with Docket Control as a 22 compliance item in this Docket evidence demonstrating the relevant Applicants have reorganized into 23 a single public service corporation encompassing the customers, assets, liabilities, and certificated 24 service territories of all the relevant public service corporations that previously comprised the 25 Balterra/Hassayampa Wastewater Group. 26 IT IS FURTHER ORDERED that, within 30 days of initiating the relevant mergers, the 27 Applicants shall notify their customers in writing of any changes in company name, brand name, 28 website, billing, contact information, and other aspects of utility operations that could impact customer 158 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. interaction and how such changes will impact customers. 2 IT IS FURTHER ORDERED that the Applicants comprising the Pinal County Water, Pinal 3 County Wastewater, Maricopa County Water, and Balterra/Hassayampa Wastewater Groups shall, 4 within 10 days of providing notice to customers as required in the immediately preceding paragraph, 5 file with Docket Control as a compliance item in this Docket a copy of the notices Applicants sent to 6 relevant customers. 7 IT IS FURTHER ORDERED that this Decision shall become effective immediately. BY ORDER OF THE ARIZONA CORPORATION COMMISSION. 11 12 --'- I .J(:_~1-:::.:~;;:::~!---{4_141~~~~~~:__..-I:~~~~~,~~~~~~~,~~~~~~::: 13 1- 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 DISSENT DISSENT CHH/ec(gb) IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and aused the official seal of the Commiss~ rooe)'affixed at the C itolJ in the City of Phoenix, this - ---t--+-"---(___ day of c.., 1 2022. 159 EUBERT !RECTOR DECISION NO. 78644 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 SERVICE LIST FOR: DOCKET NO.: Daniel Pozefsky, Chief Counsel Residential Utility Consumer 0 ffice 1110 West Washington Street, S uite 220 Phoenix, AZ 85007 cipozef sky@azruco.gov proccdural(@,a;,-ruco.gov lwoodall (a)azruco.gov rdelafucnte~,·azruco.gov Consented to Service by Email Timothy Sabo GLOBAL WATER RESOURC ES, INC. 21410 N 19th Ave., Ste. 220 Phoenix, AZ 85027-2738 Attorney for Global Water ti m.sabo@gwresourccs.com Consented to Service by Email Robin Mitchell, Director Legal Division GLOBAL WATER RESOURCES, INC. SW-20445A-20-0214, et al. ARIZONA CORPORATION C OMMISSION 1200 West Washington Street Phoenix, AZ 85007 Legal Di v@azcc.gov uti ld i vserviccbyemail@azcc.gov Consented to Service by Email 160 DECISION NO. 78644 -----

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DOCKET NOS. SW-20445A-20-0214, et al. EXHIBIT A Maricopa County Water Consolidation (Global Water - Greater Tonopah Water Company, Inc., Global Water - Eagletail Water Company, Inc., Global Water - Northern Scottsdale Water Company, Inc.) Phase 1 Monthly Basic Service Char[!es GTWC Ea1detail NSWC 518" X 314" Meter $ 47.55 $ 47.55 $ 27.00 314" Meter $ 47.55 $ 47.55 $ 27.00 1" Meter $ 112.04 $ 112.04 $ 57.00 1.5" Meter $ 221.17 $ 221.17 $ 120.00 2" Meter $ 352.1 3 $ 352. 13 $ 128.00 3" Meter $ 701.35 $ 701.35 $ 340.00 4" Meter $ 1,094.23 $ 1,094.23 $ 550.00 611 Meter $ 2,185.57 $ 2,185.57 NIA 811 Meter $ 3,495.1 7 $ 3,495.17 NIA Phase 1 Commodity Rates Gallons GTWC Ea2:letail NSWC 0-1000 $ 2.61 $ 2.61 $ 3.45 1001-5000 $ 4.8) $ 4.81 $ 4.59 5001-10000 $ 6.99 $ 6.99 $ 5.59 1000)-18000 $ 9.20 $ 9.20 $ 6.80 18001-25000 $ 11.33 $ 11.33 $ 7.80 >25,000 $ 13.43 $ 13.43 $ 8.80 CRT 6,000 6,000 7,000 CRT (discount %) 50% 50% 20% Non-Potable (per 1,000) $1.80 $1.80 NIA Standpipe (per 1,000) NIA NIA $7.00 Phase 2 Monthly Basic Service Char !!es GTWC Ea2letail NSWC 518" X 314" Meter $ 55.11 $ 55.11 $ 27.00 3/4" Meter $ 55.l J $ 55.11 $ 27.00 1" Meter $ 124.08 $ 124.08 $ 57.00 DECISION NO. 78644 - - --- DOCKET NOS. SW-20445A-20-02 14, et al. 1.5" Meter $ 242.33 $ 242.33 $ 120.00 2" Meter $ 384.25 $ 384.25 $ 128.00 3" Meter $ 762.71 $ 762.71 $ 340.00 4" Meter $ 1,188.47 $ 1,188.47 $ 550.00 6" Meter $ 2,371 .1 3 $ 2,371.13 NIA 8" Meter $ 3,790.33 $ 3,790.33 NIA Phase 2 Commodity Rates Gallons GTWC Eagletail NSWC 0-1000 $ 2.81 $ 2.81 $ 3.45 l 001-5000 $ 5.19 $ 5.19 $ 4.59 5001-10000 $ 7.55 $ 7.55 $ 5.59 10001-1 8000 $ 9.94 $ 9.94 $ 6.80 18001-25000 $ 12.26 $ 12.26 $ 7.80 >25,000 $ 14.53 $ 14.53 $ 8.80 CRT 6,000 6,000 7,000 CRT (discount %) 50% 50% 20% Non-Potable $ 1.80 $ 1.80 (per 1,000) NIA Standpipe (per 1,000) NIA NIA $7.00 Phase 3 (and thereafter Monthly Basic Service Charges GTWC Eagletail NSWC 518" X 314" Meter $ 62.66 $ 62.66 $ 27.00 314" Meter $ 62.66 $ 62.66 $ 27.00 1" Meter $ 136.11 $ 136.11 $ 57.00 1.5" Meter $ 263.50 $ 263.50 $ 120.00 2" Meter $ 416.38 $ 416.38 $ 128.00 3" Meter $ 824.06 $ 824.06 $ 340.00 4" Meter $ 1,282.70 $ 1,282.70 $ 550.00 6" Meter $ 2,556.70 $ 2,556.70 NIA 8" Meter $ 4,085.50 $ 4,085.50 NIA Phase 3 (and thereafter) Commodity Rates Gallons GTWC Eagletail NSWC 0-1000 $ 3.00 $ 3.00 $ 3.45 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 1001-5000 $ 5.56 $ 5.56 $ 4.59 5001-1 0000 $ 8. 11 $ 8.11 $ 5.59 10001 -18000 $ 10.69 $ 10.69 $ 6.80 18001 -25000 $ 13.18 $ 13.18 $ 7.80 >25,000 $ 15.63 $ 15.63 $ 8.80 CRT 6,000 6,000 7,000 CRT (discount %) 50% 50% 20% Non-Potable (per 1,000) $ 1.80 $ 1.80 NIA Standpipe (oer 1,000) NIA NIA $7.00 Service Line and Meter Installation Charges Meter Size Service Line and Meter Installation Charges (Inches) Service Line * Meter Total 518" X 314" $445 $155 $600 314" $445 $255 $700 1" $495 $315 $810 1-1/2" $550 $525 $1,075 2" Turbine $830 $1,045 $1,875 2" Compound $830 $1,890 $2,720 3" Turbine $1,045 $1,670 $2,715 3" Compound $1,165 $2,545 $3,710 4" Turbine $1,490 $2,670 $4,160 4" Compound $1,670 $3,645 $5,315 6" Turbine $2,210 $5,025 $7,235 6" Compound $2,330 $6,920 $9,250 8" and Larger Actual Cost Actual Cost Actual Cost * Amount adjusted to include the actual cost incurred when boring under or cutting a road, hi!!hwav, or sidewalk is required. Eai::letail SERVICE CHARGES: Establishment of Service $40.00 Reconnection of Service (Delinquent) $40.00 After Hours Service Charge (at $50.00 Customer's Request) Meter Test Fee (If Correct) $35.00 Deposit * DECISION NO. 78644 ----- DOCKET NOS. SW-20445A-20-0214, et al. Deposit Interest *4% Re-establishment of Service (Within 12 ** Months) NSF Check $30.00 Deferred Payment (Per Month) *** 1.5% Meter Re-Read (If Correct) $20.00 Late Fee (Per Month on Unpaid Balance) 1.5% Charge for Moving Meter **** Monthly Service Charge for Fire Sgrinkler ***** All Meter Sizes (All Classes) * Per Commission Rule A.AC. R14-2-403(B) ** Number of months off system times the monthly minimum per A.AC. R 14-2-403(D) *** Per Commission Rule A.AC. RI4-2-409(G)(6) **** Cost to include parts, labor, overhead and all applicable taxes per A.AC. R 14-2- 405(8)(5) ***** 2% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than $10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary service line. Jn addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. R14-2-409(D)(5). GTWC and NSWC SERVICE CHARGES: Establishment of Service $35.00 Re-establishment of Service (Within 12 (a) Months) DECISION NO. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Reconnection of Service (Delinquent) $35.00 Meter Move at Customer Request (b) After Hours Service Charge (at $50.00 Customer's Request) Deposit (c) Deposit Interest (c) Meter Re-Read (If Correct) $30.00 Meter Test Fee (If Correct) $30.00 NSF Check $30.00 Late Payment Penalty 1.5% & (d) Deferred Payment (Per Month) 1.5% & (e) (a) Number of months off system times the monthly minimum per A.A.C. RI4-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.A.C. RI4-2- 405(B)(5) (c) Per A.A.C. R14-2-403(B) (d) Per month of unpaid balance (e) Per Commission Rule A.A.C. R I4-2-409(G)(6) In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R 14-2-409(0)(5). DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Pinal County Water Consolidation (Global Water - Santa Cruz Water Company, Inc., Global Water - Red Rock Utilities, Inc., and Global Water- Picacho Cove Water Company, Inc.) Phase 1 Monthly Basic Service Charges Santa Cruz Red Rock (Water) Picacho Water 5/8" X 3/4" Meter $ 29.19 $ 29.19 $ 29.1 9 3/4" Meter $ 29.19 $ 29.19 $ 29.19 1" Meter $ 75.81 $ 75.81 $ 75.81 1.5" Meter $ 153.53 $ 153.53 $ 153.53 2" Meter $ 246.78 $ 246.78 $ 246.78 3" Meter $ 495.46 $ 495.46 $ 495.46 4" Meter $ 775.23 $ 775.23 $ 775.23 6" Meter $ 1,554.23 $ 1,554.23 $ 1,554.23 8" Meter $ 3,108.50 $ 3,108.50 $ 3,108.50 Phase 1 Commodity Rates Gallons Santa Cruz Red Rock (Water) Picacho Water 0-1000 $ 1.49 $ 1.49 $ 1.49 1001-5000 $ 2.44 $ 2.44 $ 2.44 5001-10000 $ 3.39 $ 3.39 $ 3.39 10001 -18000 $ 4.34 $ 4.34 $ 4.34 18001-25000 $ 5.30 $ 5.30 $ 5.30 >25,000 $ 6.34 $ 6.34 $ 6.34 CRT 6,000 6,000 6,000 CRT (discount%) 60% 60% 60% Non-Potable (per 1,000) $1.75 $1.75 $1.75 Standpipe (oer 1,000) NIA NIA NIA Phase 2 (and thereafter Monthly Basic Service Charges Santa Cruz Red Rock (Water) Picacho Water 518" X 314" Meter $ 30.36 $ 30.36 $ 30.36 314" Meter $ 30.36 $ 30.36 $ 30.36 1" Meter $ 78.74 $ 78.74 $ 78.74 1.5" Meter $ 159.38 $ 159.38 $ 159.38 2" Meter $ 256. 14 $ 256.14 $ 256.14 3" Meter $ 514.19 $ 514. l 9 $ 514.19 4" Meter $ 804.48 $ 804.48 $ 804.48 6" Meter $ 1,612.75 $ 1,612.75 $ 1,612.75 DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. I 8" Meter $ 3,225.53 $ 3,225.53 $ 3,225.53 Phase 2 (and thereafter) Commodity Rates Gallons Santa Cruz Red Rock (Water) Picacho Water 0-1000 $ 1.55 $ 1.55 $ 1.55 1001-5000 $ 2.53 $ 2.53 $ 2.53 5001-10000 $ 3.52 $ 3.52 $ 3.52 10001-18000 $ 4.50 $ 4.50 $ 4.50 18001-25000 $ 5.50 $ 5.50 $ 5.50 >25,000 $ 6.58 $ 6.58 $ 6.58 CRT 6,000 6,000 6,000 CRT (discount %) 60% 60% 60% Non-Potable (per 1,000) $ 1.75 $ 1.75 $ 1.75 Standpipe (per 1,000) NIA NIA NIA Service Line and Meter Installation Charges Meter Size Service Line and Meter Installation Charges (Inches) Service Line * Meter Total 518" X 3/4" $445 $155 $600 3/4" $445 $255 $700 1" $495 $315 $810 1-1/2" $550 $525 $1,075 2" Turbine $830 $1,045 $1,875 2" Compound $830 $1,890 $2,720 3" Turbine $1,045 $1,670 $2,715 3" Compound $1,165 $2,545 $3,710 4" Turbine $1,490 $2,670 $4,160 4" Compound $1,670 $3,645 $5,315 6" Turbine $2,210 $5,025 $7,235 6" Compound $2,330 $6,920 $9,250 8" and Lanzer Actual Cost Actual Cost Actual Cost * Amount adjusted to include the actual cost incurred when boring under or cutting a road, highway, or sidewalk is required. Decision No. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Santa Cruz, Red Rock (Water), and Picacho Water SERVICE CHARGES: Establishment $35.00 Re-establishment of Service (Withjn 12 (a) Months) Reconnection of Service (Delinquent) $35.00 Moving Customer Meter (customer (b) request) After Hours Service Charge (at $50.00 Customer's Request) Deposit (c) Deposit Interest (c) Meter Re-Read (If Correct) $30.00 Meter Test Fee (If Correct) $30.00 NSF Check $30.00 Late Payment Penalty 1.5% & (d) Deferred Payment (Per Month) (e) (a) Number of months off system times the monthly mimmum per A.A.C. R 14-2-403(0) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.A.C. RI4-2- 405(B)(5) (c) Per A.A.C. RI4-2-403(B) (d) Per month on unpaid balance (e) Per Commission Rule A.A.C. RI4-2-409(G)(6) In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2-409(D)(5). 1 Decision No. 78644

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DOCKET NOS. SW-20445A-20-0214, et al. Red Rock - Pima County (Global Water - Red Rock Utilities, Inc.) Red Rock (Water) - Pima County Monthly Basic Service Charizes Phase 2 (and Phase 1 thereafter) 5/8" X 3/4" Meter $ 29.1 9 $ 30.36 3/4" Meter $ 29.19 $ 30.36 l" Meter $ 75.81 $ 78.74 1.5" Meter $ 153.53 $ 159.38 2" Meter $ 246.78 $ 256.14 3" Meter $ 495.46 $ 514.19 4" Meter $ 775.23 $ 804.48 6" Meter $ 1,554.23 $ 1,612.75 8" Meter $ 3,108.50 $ 3,225.53 Red Rock (Water) - Pima County Commodity Charizes Phase 2 (and Phase 1 thereafter) 0-1000 $ 1.49 $ 1.55 1001-5000 $ 2.44 $ 2.53 5001-10000 $ 3.39 $ 3.52 10001-18000 $ 4.34 $ 4.50 18001-25000 $ 5.30 $ 5.50 >25,000 $ 6.34 $ 6.58 CRT 6,000 6,000 CRT (discount %) 60% 60% Non-Potable (per 1,000) $1.69 $1.69 Standpipe (oer 1,000) NIA NIA Service Line and Meter Installation Charges Meter Size Service Line and Meter Installation Charges (Inches) Service Line * Meter Total 518" X 3/4" $445 $ 155 $600 314" $445 $255 $700 1" $495 $315 $810 1-1/2" $550 $525 $1,075 2" Turbine $830 $1,045 $1 ,875 2" Compound $830 $1,890 $2,720 Decision No. 78644 DOCKET NOS. SW-20445A-20-0214, et al. 3" Turbine $ I ,045 $1 ,670 $2,715 3" Compound $1,165 $2,545 $3,710 4" Turbine $1 ,490 $2,670 $4,160 4" Compound $1 ,670 $3,645 $5,315 6" Turbine $2,210 $5,025 $7,235 6" Compound $2,330 $6,920 $9,250 8" and Lar2er Actual Cost Actual Cost Actual Cost * Amount adjusted to include the actual cost incurred when boring under or cutting a road, hicllway, or sidewalk is required. Red Rock (Water)- Pima County SERVICE CHARGES: Establishment $35.00 Re-establishment of Service (Within 12 (a) Months) Reconnection of Service (Delinquent) $35.00 Moving Customer Meter (customer (b) request) After Hours Service Charge (at $50.00 Customer's Request) Deposit (c) Deposit Interest (c) Meter Re-Read (If Correct) $30.00 Meter Test Fee (If Correct) $30.00 NSF Check $30.00 Late Payment Penalty 1.5% & (d) Deferred Payment (Per Month) (e) (a) Number of months off system times the monthly minimum per A.AC. R14-2-403(D) (b) Cost to include parts, labor, overhead, and all applicable taxes per A.AC. R14-2- 405(B)(5) (c) Per A.AC. R14-2-403(B) (d) Per month on unpaid balance (e) Per Commission Rule A.AC. R14-2-409(G)(6) Decision No. 78644 DOCKET NOS. SW-20445A-20-0214, et al. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.AC. R I 4-2-409(D)(5). Decision No. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Pinal County Wastewater Consolidation (Global Water - Palo Verde Utilities Company, Inc., Global Water - Red Rock Utilities Company, Inc., and Global Water - Picacho Cove Utilities Company, Inc.) Monthly Basic Service Char~es Red Rock Palo Verde (Wastewater) Picacho Utilities 5/8" X 3/4" Meter $ 70.07 $ 70.07 $ 70.07 3/4" Meter $ 70.07 $ 70.07 $ 70.07 1" Meter $ 175.03 $ 175.03 $ 175.03 1.5" Meter $ 350.03 $ 350.03 $ 350.03 2" Meter $ 560.06 $ 560.06 $ 560.06 3" Meter $ 1,120.10 $ 1,120.10 $ 1,120.10 4" Meter $ 1,750.16 $ 1,750.16 $ 1,750.1 6 6" Meter $ 3,503.50 $ 3,503.50 $ 3,503.50 8" Meter $ 5,605.60 $ 5,605.60 $ 5,605.60 Commodity Rates Red Rock Gallons Palo Verde (Wastewater) Picacho Utilities Non-Potable (per 1,000) $1.75 $1.75 $1.75 Palo Verde, Red Rock (Wastewater), and Picacho Utilities SERVICE CHARGES: Establishment of Service $35.00 Re-establishment of Service (Within 12 (a) Months) Reconnection of Service (Delinquent) $35.00 After Hours Service Charge* $50.00 Deposit (b) Deposit Interest (b) NSF Check $30.00 Late Payment Penalty 1.5% & (c) Deferred Payment (Per Month) 1.5% (a) Number of months off system times the monthly minimum per A.A.C. R14-2-603(D) Decision No. 78644

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(b) Per A.A.C. RI 4-2-603(B) (c) Per month of unpaid balance. DOCKET NOS. SW-20445A-20-0214, et al. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2-608(D)(5). Decision No. 78644 DOCKET NOS. SW-20445A-20-0214, et al. (Global Water - Balterra Utilities Company, Inc., Global Water- Hassayampa Utilities Company,

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Inc.) Monthly Basic Service Charge Balterra Hassayampa 518" X 314" Meter $ 54.25 $ 54.25 314" Meter $ 54.25 $ 54.25 1" Meter $ 135.00 $ 135.00 1.5" Meter $ 270.00 $ 270.00 2" Meter $ 430.00 $ 430.00 3" Meter $ 860.00 $ 860.00 4" Meter $ 1,350.00 $ 1,350.00 6" Meter $ 2,700.00 $ 2,700.00 8" Meter NIA NIA Commodity Rates Gallons Balterra Hassayampa Non-Potable <oer 1,000) $1.23 $] .23 Balterra and Hassayampa SERVICE CHARGES: Establishment of Service $35.00 Re-establishment of Service (Within 12 (a) Months) Reconnection of Service (Delinquent) $35.00 After Hours Service Charge* $50.00 Deposit (b) Deposit Interest (b) NSF Check $30.00 Late Payment Penalty 1.5% & (c) Deferred Payment (Per Month) 1.5% (a) Number of months off system times the monthly minimum per A.A.C. R14-2-603(D) (b) Per A.A.C. R 14-2-603(B) (c) Per month of unpaid balance. In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2-608(D)(5). DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. Turner Ranches (Global Water - Turner Ranches Irrigation, Inc.) Phase 3 (and Turner Ranches Irrigation Phase 1 Phase 2 thereafter) Residential Irrigation Flat Rate Per Month - Unmetered $ 27.83 $ 29.12 $ 30.41 Residential Irrigation Per Acre Per Year - Unmetered $ 982.29 $ 1,027.81 $ 1,073.34 Monthly Usage Charge - Metered Irrigation Service - All Meter Sizes $ 139.64 $ 146.11 $ 152.58 Commodity Charge per 1,000 Gallons - Irrigation Service $ 1.03 $ 1.08 $ 1.12 Monthly Usage Charge - Construction 1-inch Meter $ 41.53 $ 43.46 $ 45.38 Monthly Usage Charge - Construction 2-inch Meter $ 121.09 $ 126.70 $ 132.32 Commodity Charge per 1,000 Gallons - Construction Service $ 2.13 $ 2.23 $ 2.33 Private Fire Protection - Flat Rate Per Meter Inch of Service Connection $ 23.26 $ 24.34 $ 25.41 Service Line and Meter Installation Charges Meter Size Service Line and Meter Installation Charges (Inches) Service Line * Meter Total 5/8" X 3/4" $445 $155 $600 3/4" $445 $255 $700 1" $495 $315 $810 1-1/2" $550 $525 $1,075 2" Turbine $830 $1,045 $],875 2" Compound $830 $1,890 $2,720 3" Turbine $1,045 $1,670 $2,715 3" Compound $1,165 $2,545 $3,710 4" Turbine $1,490 $2,670 $4,160 4" Compound $1,670 $3,645 $5,315 6" Turbine $2,210 $5,025 $7,235 6" Compound $2,330 $6,920 $9,250 8" and Lar2er Actual Cost Actual Cost Actual Cost * Amount adjusted to include the actual cost incurred when boring under or cutting a road, highway, or sidewalk is required. DECISION NO. 78644 DOCKET NOS. SW-20445A-20-0214, et al. TURNER RANCHES SERVICE CHARGES: Establishment $20.00 Reconnection (Delinquent) $20.00 Meter Test (If Correct) $25.00 Deposit {a) Deposit Interest (a) Re-Establishment (Within 12 Months) (b) NSF Check $15.00 Meter Re-Read (If Correct) 1.5% & (d) Late Payment Penalty 1.5% & (e) After Hours Service Charge (customer $50.00 request) Moving Customer Meter (customer At Cost request) (a) Per A.A.C. R14-2-403(D) (b) Number of months off system times the monthly minimum per A.A.C. RI4-2-403(D) (c) 2.00% of monthly minimum for the comparable sized meter connection, but not less than $10.00 per month. (d) Per Commission Rule A.A.C. RI4-2-409(G)(6) (e) 1.5% per month on unpaid balance In addition to the collection of its regular rates and charges, the Company shall collect from customers their proportionate share of any privilege, sales or use tax in accordance with A.A.C. R14-2-409(D)(5). DECISION NO. 78644

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