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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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COMMISSIONERS

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KRISTIN K. MAYES  
GARY PIERCE

AZ CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS PARADISE VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB

DOCKET NO. W-01303A-05-0910

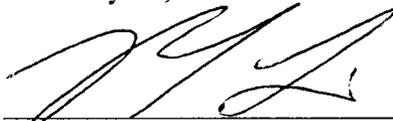
ARIZONA-AMERICAN WATER COMPANY

On February 13, 2008, the Commission commenced a Special Open Meeting ("Open Meeting") to discuss the malfunction of the Miller Road Treatment Facility that occurred on January 15, 2008 (the "Incident"). Arizona-American Water Company ("Arizona-American") participated in the Open Meeting and provided information relating to the incident through its President, Mr. Paul G. Townsley. Arizona-American appreciates the opportunity to communicate the relevant facts about the Incident to the Commission and the public in a fair and open manner.

Arizona-American hereby files the attached written comments and PowerPoint presentation by Paul G. Townsley, President of Arizona-American.

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1 RESPECTFULLY SUBMITTED on February 14, 2008.

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5 Paul M. Li  
6 Associate Counsel  
7 Arizona-American Water Company  
8 19820 N. 7<sup>th</sup> Street  
9 Suite 201  
10 Phoenix, Arizona 85024  
11 (623) 445-2442  
12 Paul.Li@amwater.com

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14  
15 Original and 15 copies filed  
16 on February 14, 2008, with:

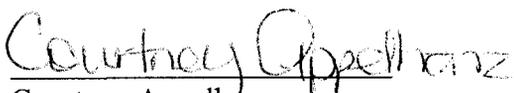
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18 Docket Control  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, Arizona 85007

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23 Copies of the foregoing  
24 mailed on February 14, 2008, to:

25  
26 Maureen Scott  
27 Legal Division  
28 Arizona Corporation Commission  
29 1200 West Washington St.  
30 Phoenix, Arizona 85007

31  
32 Daniel W. Pozefsky  
33 Residential Utility Consumer Office  
34 1110 West Washington Street  
35 Suite 220  
36 Phoenix, Arizona 85007

37  
38 Robert J. Metli, Esq.  
39 Snell & Wilmer LLP  
40 One Arizona Center  
41 400 E. Van Buren  
42 Phoenix, Arizona 85004-2202  
43 Attorneys for Paradise Valley Country Club

44  
45  
46 By:   
47 Courtney Appelhans  
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**Special Open Meeting of Arizona Corporation Commission  
February 13, 2008**

**Comments of Paul G. Townsley, President  
Arizona-American Water Company**



Special Open Meeting of the Arizona Corporation Commission  
February 13, 2008  
Comments of Paul Townsley, President  
Arizona-American Water Company

Good Afternoon Chairman Gleason and Commissioners. My name is Paul Townsley and I am the President of Arizona American Water. Thank you for holding this Special Open Meeting. I want to start by saying that we are deeply concerned about this incident and are determined that nothing like this will happen again. We sincerely regret any inconvenience it caused our customers. I assure you that this situation has garnered the highest level of attention from our executive team and we have committed ourselves to insure that the Miller Road Treatment Facility will not release TCE into our Paradise Valley District system above the MCL again.

I would like to take a few minutes to provide you with the history of this situation and our responses to it, but first let me give you an overview of our conclusions and actions:

- Arizona American Water has decided that we will not use the contaminated SRP well PCX-1 as a source of drinking water for our Paradise Valley District customers.
- We intend to terminate our agreement with Motorola to treat PCX-1 well water at the Miller Road Treatment Facility.
- The PCX-1 well will be disconnected from our system so that it will be physically impossible for this well to contaminate our water supply.
- We will continue to use the Miller Road Treatment Facility only to treat our own wells which have very low levels of TCE present in them.
- We have told Motorola and the other Participating Companies that we believe it is their responsibility to fix the Miller Road Treatment Facility and the plant control system to prevent this type of malfunction from occurring again and to consider paying to have the plant staffed 24-hours-per-day.
- We are continuing to augment and evaluate other sources of telephone numbers for our reverse 911 database, and we will work even more closely with our public health regulators to insure that the level and type of public outreach we undertake is consistent with their expectations given the particular situation at hand.

As you have heard today, there is a large area of contaminated groundwater, which extends across much of the eastern portion of the greater Phoenix metro area. The area is has been categorized by the EPA as a federal Superfund site and is subdivided into two sub-areas: the North Indian Bend Wash Superfund site and the South Indian Bend Wash Superfund site. The North Indian Bend Wash Superfund site extends from about McKellips Road in the south, to McDonald Drive in the north, and from Pima Road in the east, to past Scottsdale Road in the west. The Indian Bend Wash Superfund site covers approximately 13 square miles under Tempe, Scottsdale, Paradise Valley and Phoenix, and has penetrated three separate aquifers from which these communities obtain drinking water – the Upper Alluvium, the Middle Alluvium, and the Lower Alluvium. The cause of this contamination was the dumping of chemical solvents up until the 1970's by a number of industrial companies into dry wells here in the Valley. The solvents include volatile organic compounds (VOCs), primarily TCE or trichloroethylene.

In 1988 the EPA issued a Record of Decision which required the responsible parties to contain the spread of the TCE plume and to clean up the groundwater to drinking water standards. As a result of this Record of Decision, EPA negotiated a Consent Decree with the responsible parties including Motorola, Siemens, and GlaxoSmithKline (known in this case as the Participating Companies) for implementation of what became known as the "Remedy" – that is to contain the TCE plume and to clean up the various affected aquifers. I need to point out that Arizona American Water did not contribute to the groundwater contamination and has never been a party to the Consent Decree with EPA. Over the years since, the Consent Decree has been amended, but the Participating Companies were and are responsible for the cleanup of the TCE plume. As the TCE plume migrated northward, Arizona American Water, found that TCE was contaminating some of its wells. Arizona American Water was not alone in that discovery; other local water producers made similar discoveries. The Arizona American Water wells testing positive for TCE are Well 15 and, to a lesser extent, Well 14, both of which are located in the southern part of our Paradise Valley District system.

In 1994 Arizona American Water negotiated an agreement with the Participating Companies which obliged them to design, construct and pay for the operation of a treatment facility to remove TCE from the water from Arizona American Water's wells which were contaminated by the TCE plume. The facility that was designed and constructed by the Participating Companies under this agreement is known as the Miller Road Treatment Facility (MRTF). Subsequently, EPA and the Participating Companies determined that pumping and treating water from an existing SRP well located within the TCE plume would be particularly valuable in containing the spread of the TCE plume – that is, the operation of this well and its draw on the TCE plume reduced the potential of the plume to spread and affect other wells. This well is known as the PCX-1 well. The Participating Companies and Arizona American Water entered into a second agreement in 1997 whereby the water from the SRP PCX-1 well was to be directed to the Miller Road Treatment Facility.

The Miller Road Treatment Facility was ultimately designed, built, and financed by Motorola and the other Participating Companies to treat the water from the SRP well PCX-1, and to treat the water from Arizona American Water's wells #14 and #15. The Miller Road Treatment Facility became operational in 1998. Arizona American Water's primary motivation in assuming ownership and operation of the Miller Road Treatment Facility was and is to provide safe, clean drinking water to its customers and secondarily, to protect the Paradise Valley groundwater supply from contamination by the TCE plume.

Arizona American Water makes no profit from the Miller Road Treatment Facility. The facility is not in ratebase, and there is no fee earned from Motorola and the other Participating Companies for operating the plant and we earn no profit from the water treated at the plant.

Why do we operate the facility? The operation of the Miller Road Treatment Facility by Arizona American Water these last ten years not only provided treatment for water from wells 14 and 15, but also provided an additional water supply for our Paradise Valley and Scottsdale customers, and very importantly, mitigated the further spread of the TCE plume. Had this facility not been operating, it is very likely that we would have suffered from additional TCE contamination of our Paradise Valley wells and perhaps even the loss of sufficient water to meet our customer's needs.

The Miller Road Treatment Facility is located on Miller Road in Scottsdale, just south of McDonald Drive. The Miller Road Treatment Facility consists of three towers – Tower 3 is generally limited to treating water from the SRP's PCX-1 well, Tower 1 is generally used to treat water from Arizona American Water well 15, and Tower 2 is used for redundancy. Raw water is sent from each well to the Miller Road Treatment Facility through dedicated lines. Water from well PCX-1 is piped to the top of Tower 3 and distributed evenly across the top of plastic packing material which looks for all intents and purposes like a large pile of Wiffle® balls. As the water falls down through the tower, it is broken into droplets by bouncing through and around the Wiffle® balls. Meanwhile a blower forces air from the bottom of the tower, up through the Wiffle® balls and water droplets and out the top of the tower. As the air passes through the water droplets, the TCE is vaporized and released into the air which is carried out the top of the tower. The air containing the TCE is piped through carbon filters before the air exits the plant. Meanwhile the water which collects at the bottom of the tower is pumped from the plant to Arizona American's Paradise Valley Arsenic Treatment Facility, located a few blocks away on Cattletrack Drive, where it is treated for arsenic, mixed with other sources of water from Arizona American Water's wells, and stored in two 1.5 MG storage tanks for distribution to our customers. After this treatment, the water meets all federal and state requirements for drinking water. The Miller Road Treatment Facility's operation is monitored by a Supervisory Control and Data Acquisition (SCADA) system that was provided by Motorola and the Participating Companies to shut down the facility and/or issue alarms to the operator if it senses a problem with the plant's operation. The SCADA system is to notify the operator via dial out telephone call if an alarm is issued when the plant is not staffed.

Four weeks ago, on a Tuesday afternoon (January 15), the blower on Tower 3 shut down, but the PCX-1 well pump continued to run and to pump contaminated groundwater through the tower. The malfunction occurred at approximately 2:30pm, at about the same time that the plant operator was leaving the plant to take water samples to an analytical lab for routine testing. As a result, the water from PCX-1 well was passing through the Miller Road Treatment Facility without the necessary air flow to strip all of the TCE from the water. Because the Miller Road Treatment Facility was unmanned at the time, which is not unusual for this type of facility in the water industry, and the control system neither turned off the pump nor issued an alarm when the blower shut down, the situation was not discovered until about 6:30am the next morning (Wednesday January 16) when the operator returned to duty. While we have not concluded our investigation, preliminary results indicate that the SCADA system permitted the situation to occur and we have been reviewing the logic code of the SCADA system to determine why it would permit the PCX-1 pump to continue to run after the Tower 3 blower shut down without any pump interlocks or alarms. We are continuing our investigation, to determine why this happened, but there should be no circumstances in which the Tower 3 blower could shut down (regardless of sensing device or other failures) and the PCX-1 pump continue to operate without notifying the operator. As I stated earlier, the shut down was discovered Wednesday morning when the operator returned to duty. He restarted up the blower for Tower 3, took water samples, and then notified his supervisor. At about 0900 Arizona American Water shut down the Miller Road Treatment Facility completely and it has remained shut down since that time. Management immediately ordered a series of plant and distribution system water samples to be collected and sent out for expedited analysis. Arizona American Water immediately began analyzing the data for both Miller Road Treatment Facility and the Paradise Valley Arsenic Removal Facility (PVARF) to determine if water with TCE levels above the State drinking water standard had been introduced into the Paradise Valley distribution system. As soon as the initial assessment was complete and we determined that

water with TCE levels above the MCL was probably introduced into the Paradise Valley distribution system, we notified our regulators. Chemical analysis for TCE is only performed at certified labs and takes upwards of a day or more to obtain results from collected samples. Arizona American Water management was faced with needing to make a decision about customer notification even though we had no lab analysis results in hand to confirm levels of TCE in the distribution system water. Ultimately we decided to proactively advise our customers to refrain from drinking water or using it for cooking, until we had further information from the laboratory.

In terms of customer notification, we utilized a number of methods that were over and above the regulatory requirements. In this type of situation, Arizona American Water is required to notify customers by ADEQ in writing as soon as possible but within 30 days of an exceedance of this type. We chose to go beyond the regulatory requirements in this case and attempt to communicate with our customers on a more proactive basis. We knew that no one method of customer notification was perfect, so we undertook a variety of methods to advise our customers. These methods included (1) using our reverse 911 system, (2) issuing press releases to the print, radio, and TV media, (3) providing information which we posted on our own website and which was posted on the websites of other state and local government agencies, (4) providing talking points and other information to our 24-hour-per-day call center, (5) and communicating with Town and City officials of affected municipalities. We also subsequently established a telephone hotline and a dedicated email box for our Paradise Valley customers, and utilized both the Town of Paradise Valley and the City of Scottsdale reverse 911 systems. After the event, we sent the ADEQ required notice and a letter to each of our Paradise Valley District customers, and published full-page ads in the Paradise Valley Independent, the Scottsdale Republic, and the East Valley Tribune, and I have met personally with many local, state and federal elected officials to brief them on the situation.

In terms of the reverse 911 system, we used it to call customers on Wednesday the 16<sup>th</sup>, on Friday the 18<sup>th</sup>, and on Saturday the 19<sup>th</sup>. In addition to our own reverse 911 system, we were fortunate to have the help of the City of Scottsdale's system on the 18<sup>th</sup>, and both the City of Scottsdale's and the Town of Paradise Valley's system on the 19<sup>th</sup>. I am very proud of the fact that we sought to go the extra mile to communicate with our customers beyond regulatory requirements; although the ultimate performance of our reverse 911 system was not acceptable to us and we are looking to make improvements. The system we utilized is owned by a third-party vendor and we used the local telephone company database as the source for telephone numbers. We have since learned this was not sufficient.

Of 4,750 customers in our Paradise Valley District, we made approximately 2,700 outbound calls based on the database we had. For example of Friday's 2,688 outbound calls:

- 554 were answered by a live person (21%),
- 946 were answered by an answering machine (35%)
- 412 were answered but were hung up before the message could be relayed (15%)
- 97 were answered by fax machines (4%)
- 541 were no answer (20%)
- 7 were intercepted by an operator recording (<1%)
- and 132 failed based on an unknown error. (5%)

One of the limiting factors with a reverse 911 system as a way to contact customers is the database used. The database we used only included listed telephone numbers from the local

telephone company. It did not include unlisted numbers, phones that are based on cable, VoIP phones, or cell phones. In addition, some people have call blocking features on their phones that did not permit these calls to go through. Subsequent to this incident, we are migrating our customer telephone numbers contained in our billing system into our reverse 911 database, although this is not a complete list of telephone numbers either. I have also been in discussions with Maricopa County Emergency Services to ascertain whether we can tap into their database in situations such as this – although that is still a work in progress. I am not aware of any other regulated water company in Arizona, or even any other regulated utility, that has reverse 911 capability. As I stated earlier, while there are issues with our reverse 911 system that are being addressed, in the future we intend to review other reasonable options to get the word out to our customers.

Throughout this whole process, Arizona American Water worked with its water quality regulators to thoroughly sample and analyze water quality. On Wednesday morning we took approximately 8 water samples; one at the Miller Road Treatment Facility plant exit, one at the system Point of Entry, and a number at strategic locations throughout the distribution system. We continued to take samples through Saturday morning. Based on our analysis, water with elevated levels of TCE left the Miller Road Treatment Facility from about 2:30pm on Tuesday until about 6:30am Wednesday morning. So our challenge was to get the water with elevated TCE that was already in the distribution system, out. The obvious method for this was using our hydrants to flush out the system, but a flushing plan needed to be developed to insure that that flushing did not inadvertently raise TCE levels in any part of the distribution system and that the flushed water was disposed of in acceptable regulatory manner. The system flushing accomplished the desired outcome with the result that the water was again below MCL standards for TCE by Friday the 18<sup>th</sup>, although the results of the analysis to confirm that were not received until Saturday morning the 19<sup>th</sup>. At that time ADEQ and Maricopa County agreed to lift the restriction on water use for consumption and cooking.

Because we were aware that our customers would be concerned about the health effects of elevated TCE levels we felt it was critically important that information regarding the health effects of the TCE be made public as quickly as possible. Beginning on Wednesday the 16<sup>th</sup>, we requested that Maricopa County DHS release a statement to the public on the health effects of the TCE exceedence in this situation. We again requested this information at a meeting held on Thursday the 17<sup>th</sup> attended by staff from ADEQ, MCDES, ACC, ADHS, and EPA among others. And again we requested the information on Friday the 18<sup>th</sup> on a phone call with ADEQ. On Saturday the 19<sup>th</sup>, ADEQ and EPA each released statements that there were no health effects given the concentration of TCE in our system and the duration that it was present in the system. Had this information been released earlier during the incident we may have been able to reduce customer anxiety. I believe it would be a worthwhile exercise to look at how that communication process worked and how we can better coordinate with these groups in the future.

Arizona American Water was concerned about the inconvenience that the limitation of water for consumption and cooking would have on our customers. As a result, we decided to make bottled water available to our customers. This distribution program, voluntary on our part, ended up providing 196,994 half-liter bottle equivalents to residents of Paradise Valley and Scottsdale over 4 days. The Town of Paradise Valley was a wonderful partner in this effort and allowed us to distribute bottled water from Town Hall and they also helped pass out bottled water. We also passed out water from our local office on Cattletrack Drive, and

manned our water distribution points late into the evening, and even around the clock one night. We also took water to those who were unable to come get it from a distribution site. As we became aware of a need we dispatched an employee to the resident's home with water. Also, because of limits on the amount of bottled water we had on hand, we advised restaurants and resorts to obtain supplies on their own and that we would reimburse them for the cost of bottled water and ice used during the incident. Their requests are now being processed.

While all of this information may be interesting and perhaps informative, the most important questions revolve around how can we prevent this from ever occurring again? I want to reiterate that this has been a most difficult period in the lives of our customers, our employees and for me. I want to publicly apologize to our customers for any inconvenience this has caused. Again, we have committed ourselves to insure that the Miller Road Treatment Facility will not release TCE into our Paradise Valley District system above the MCL ever again. How are we doing that?

First of all, Arizona American Water has concluded that we will not use the SRP well PCX-1 well as a source of drinking water for our Paradise Valley District customers. We intend to terminate our agreement with Motorola to treat water from the PCX-1 well. The PCX-1 well will be disconnected from our system so that it will be physically impossible for this well to contaminate our water supply. We will continue to use the Miller Road Treatment Facility only to treat our own wells which have very low levels of TCE present in them.

Second, we believe that it is the responsibility of Motorola and the other Participating Companies to fix the Miller Road Treatment Facility and the plant control system to prevent this type of failure from occurring again and we understand they are prepared to do that. We have had a number of meetings with Motorola (who represents the Participating Companies) and have told them that the upcoming plant overhaul should include a new state-of-the-art control system that addresses the shortcomings of the existing system for our wells 14 and 15.

Third, we have advised Motorola that the Town of Paradise Valley wants the plant to be staffed 24-hours-per-day so that in the case of a malfunction there will be someone onsite to address it immediately.

In terms of our customer notification system, we are continuing to augment and evaluate other sources of telephone numbers for our reverse 911 database, including our customer billing system, and perhaps the County system. We will also be sending out messages to our customers asking that they update their telephone contact information in our billing system.

Finally we will work even more closely with our public health regulators to insure that the level and type of public outreach we undertake is consistent with their expectations given the particular situation at hand.

Our mandate has always been and will remain to deliver safe and clean water to our customers and this alone is where we will be putting our focus. I appreciate the opportunity to address the Commission today. I brought along key members of my staff to assist in answering any questions you may have.

**Special Open Meeting of Arizona Corporation Commission**

**February 13, 2008**

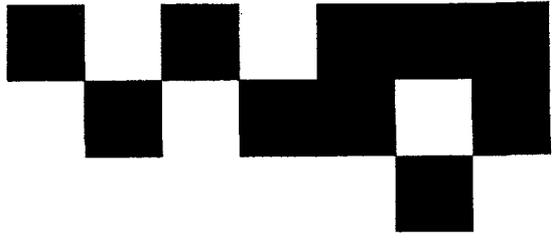
**PowerPoint Presentation by Arizona-American Water**

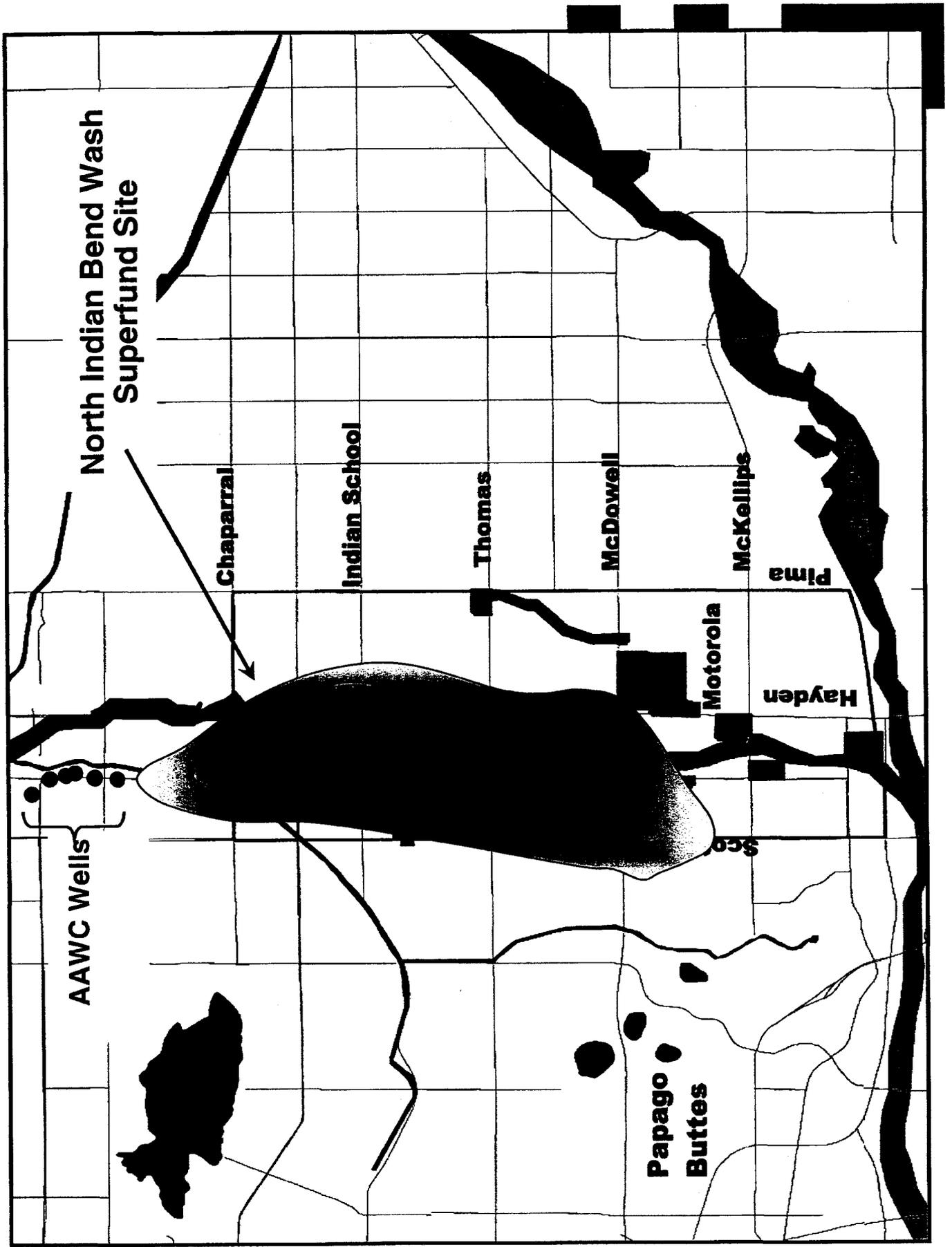


**Briefing by Arizona American Water  
Miller Road Treatment Facility Incident  
January 15, 2008**

**Arizona Corporation Commission Special Open Meeting**

**February 13, 2008**





North Indian Bend Wash  
Superfund Site

Chaparral

Indian School

Thomas

McDowell

McKellips

Pima

Motorola

Hayden

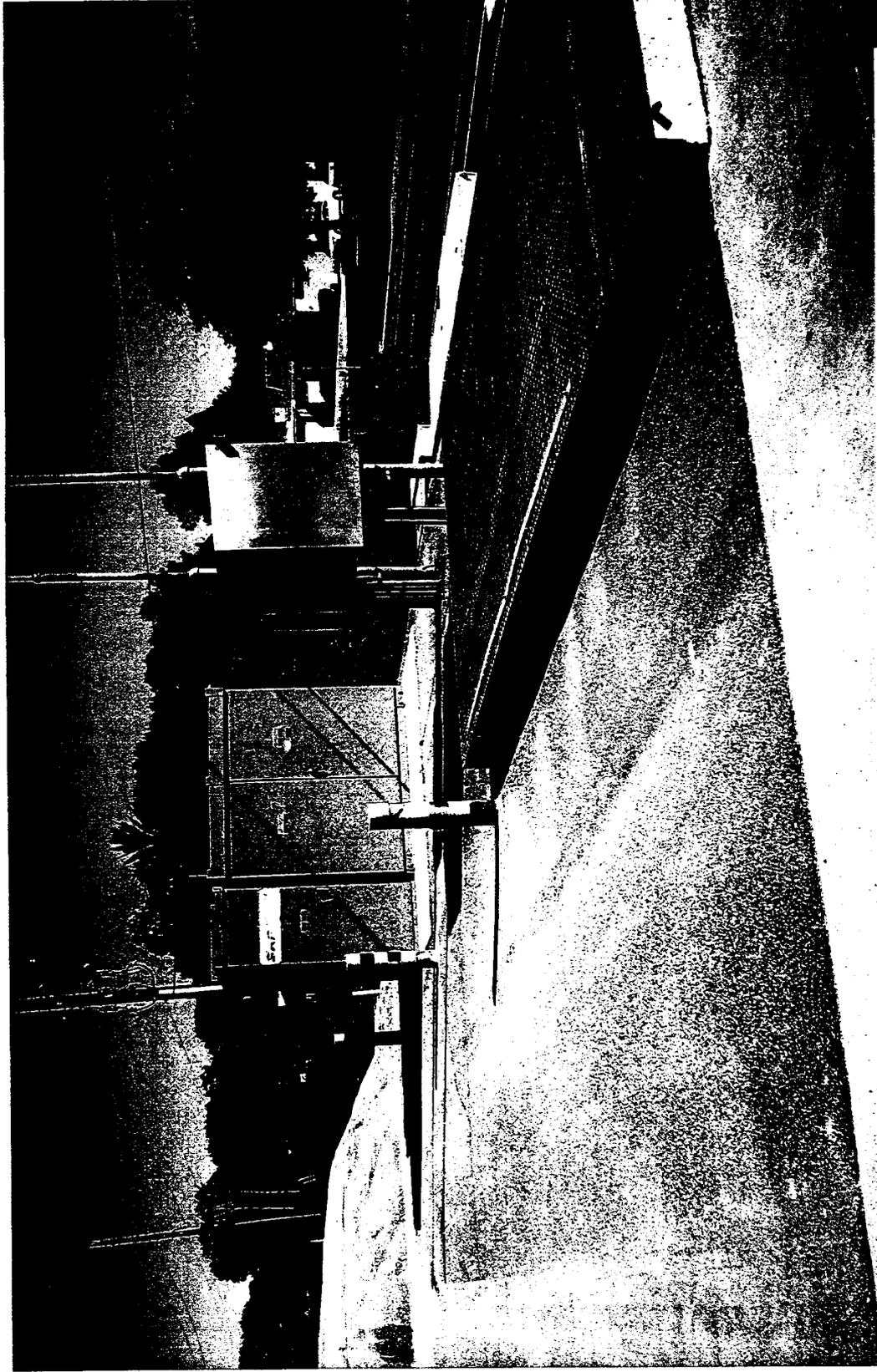
AAWC Wells

Papago  
Buttes

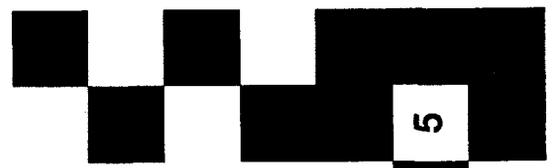
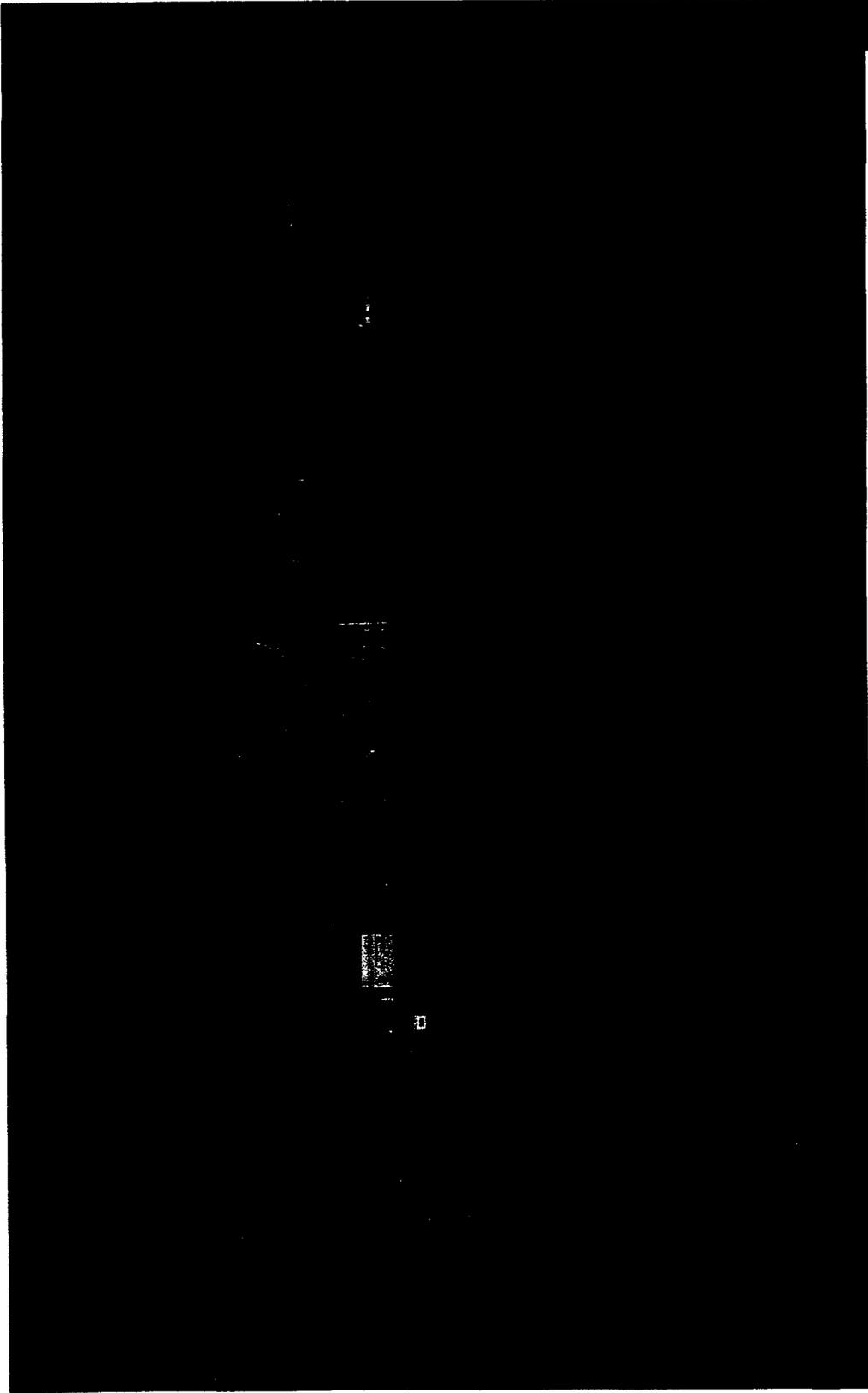
# Arizona American Water (AAWC) Paradise Valley District Well 15



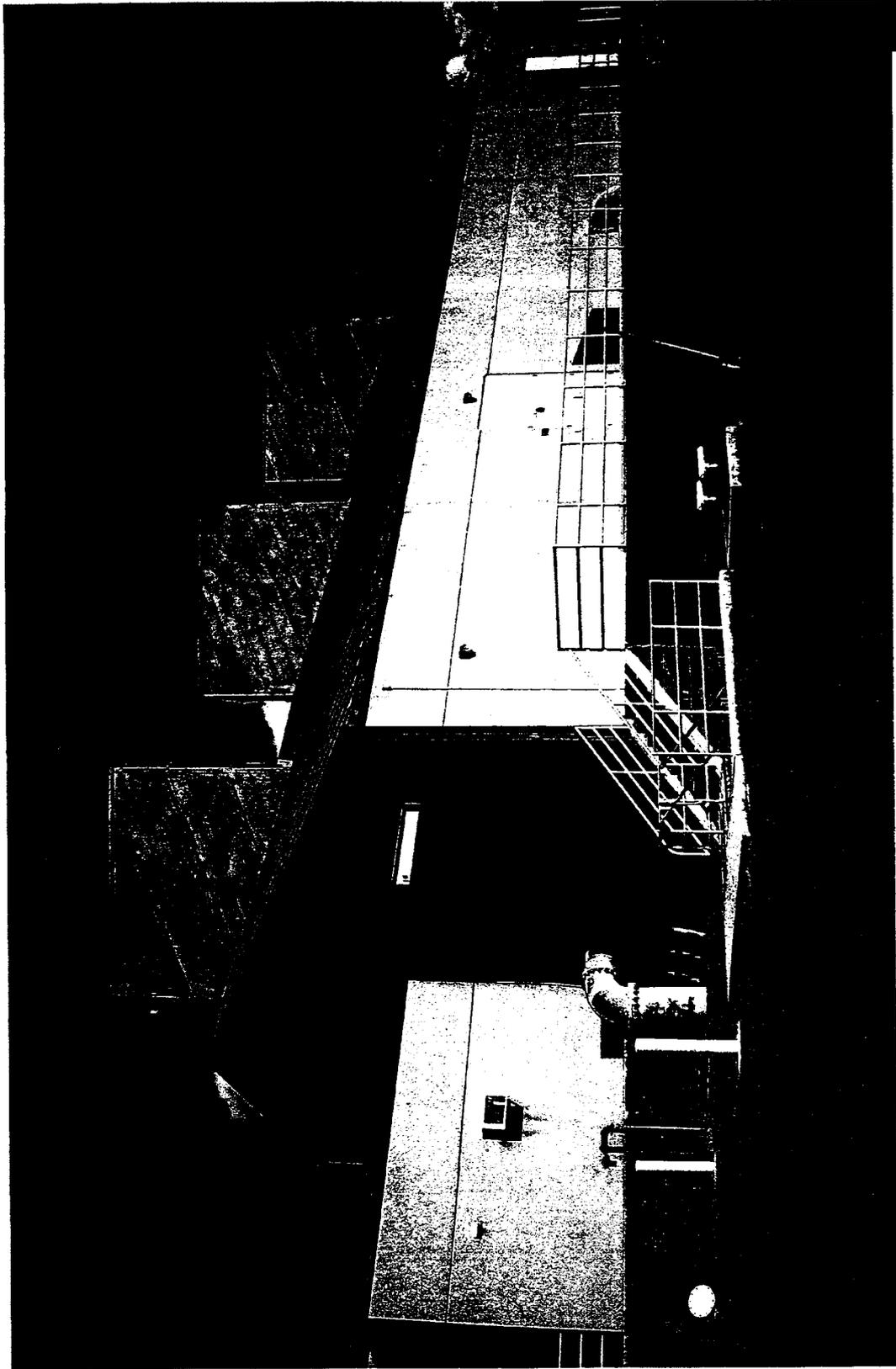
# Salt River Project Well PCX-1



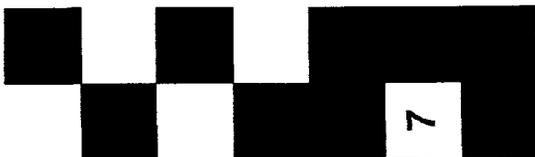
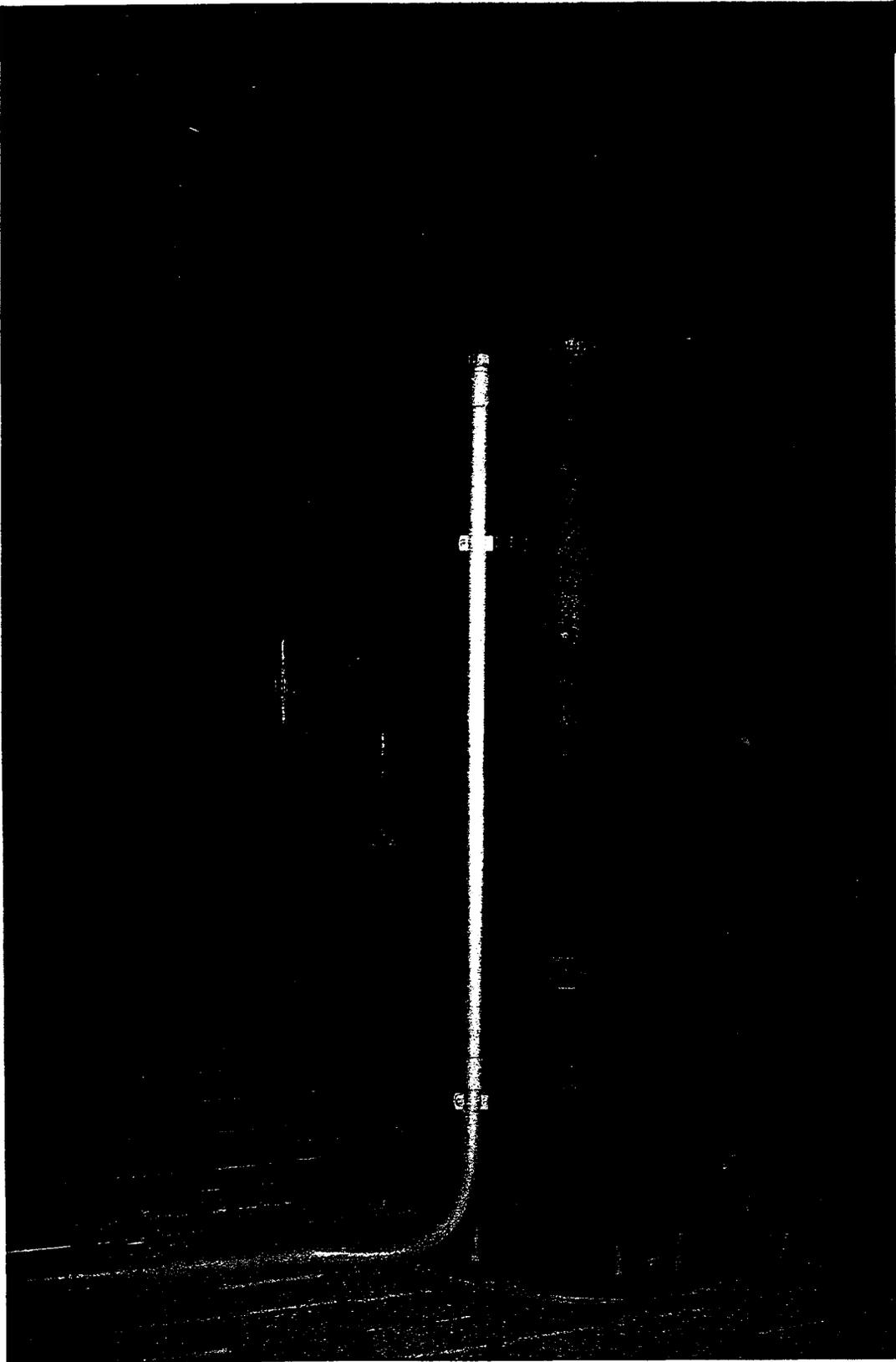
# Arizona American Water Miller Road Treatment Facility (MRTF)



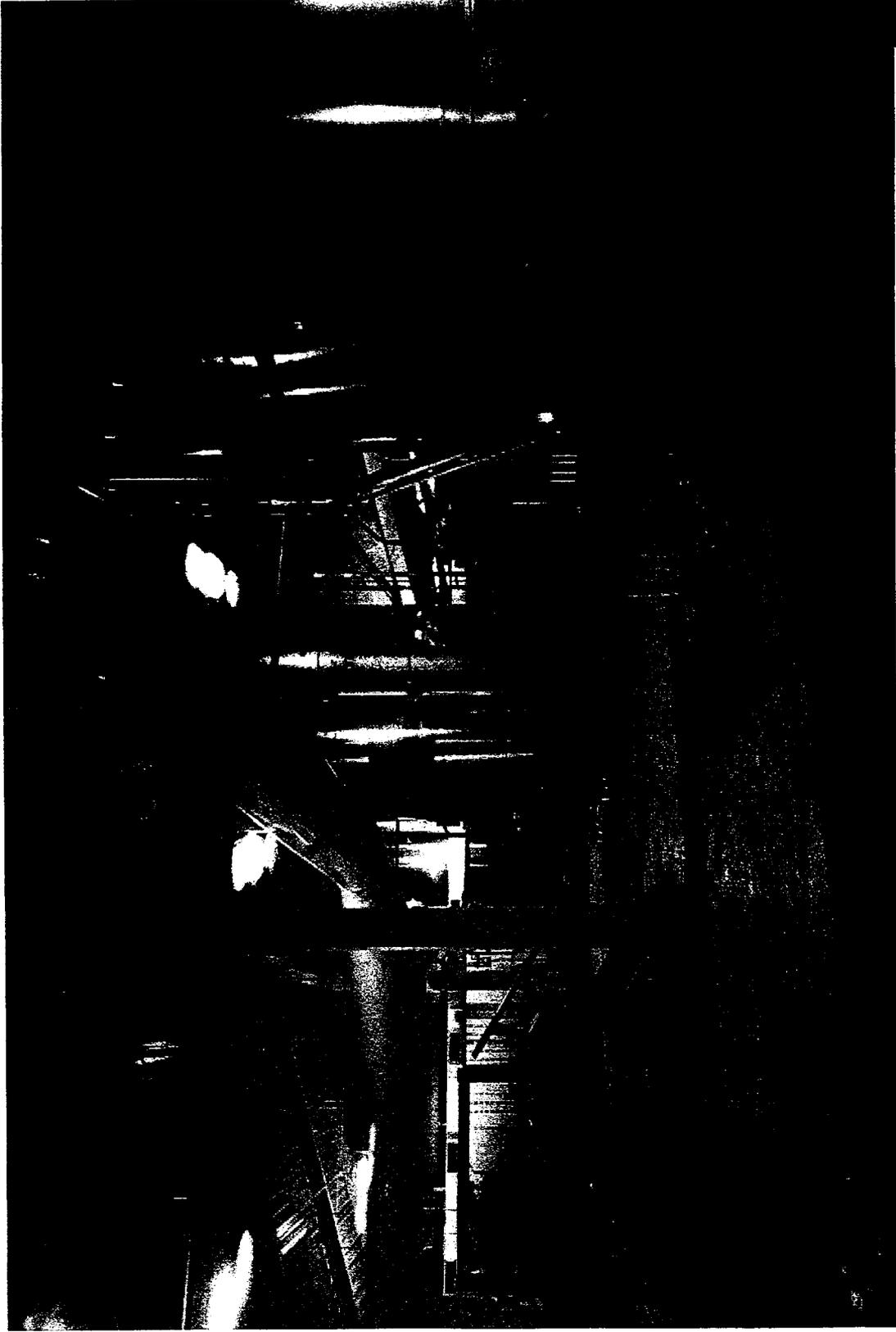
# Arizona American Water Miller Road Treatment Facility



# Water from SRP PCX-1 Well Entering MRTF



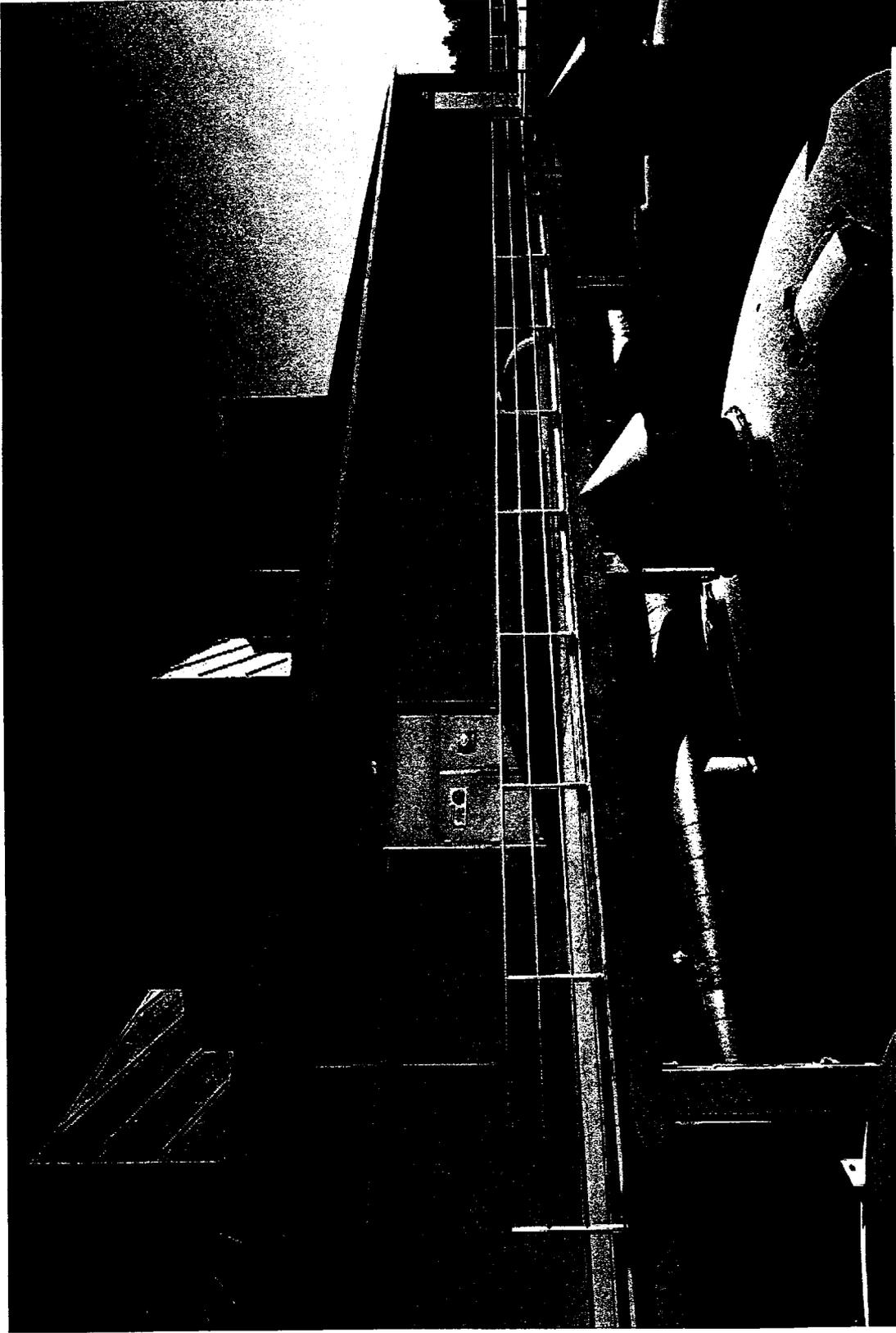
# Inside MRTF Showing Scrubbing Towers



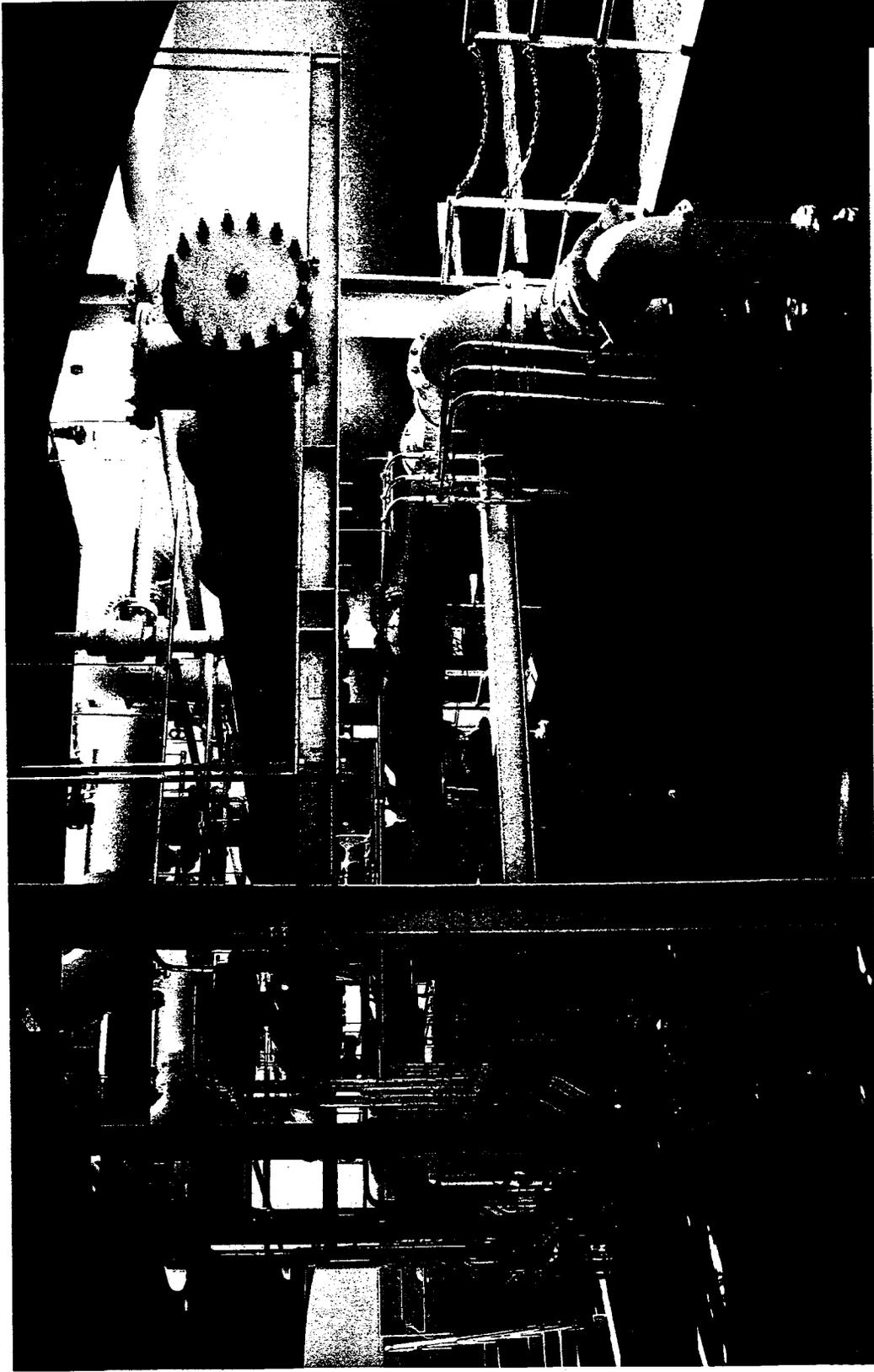
# Inside MRTF Showing Air Blowers



# Carbon Filter Vessels for Exhaust Air



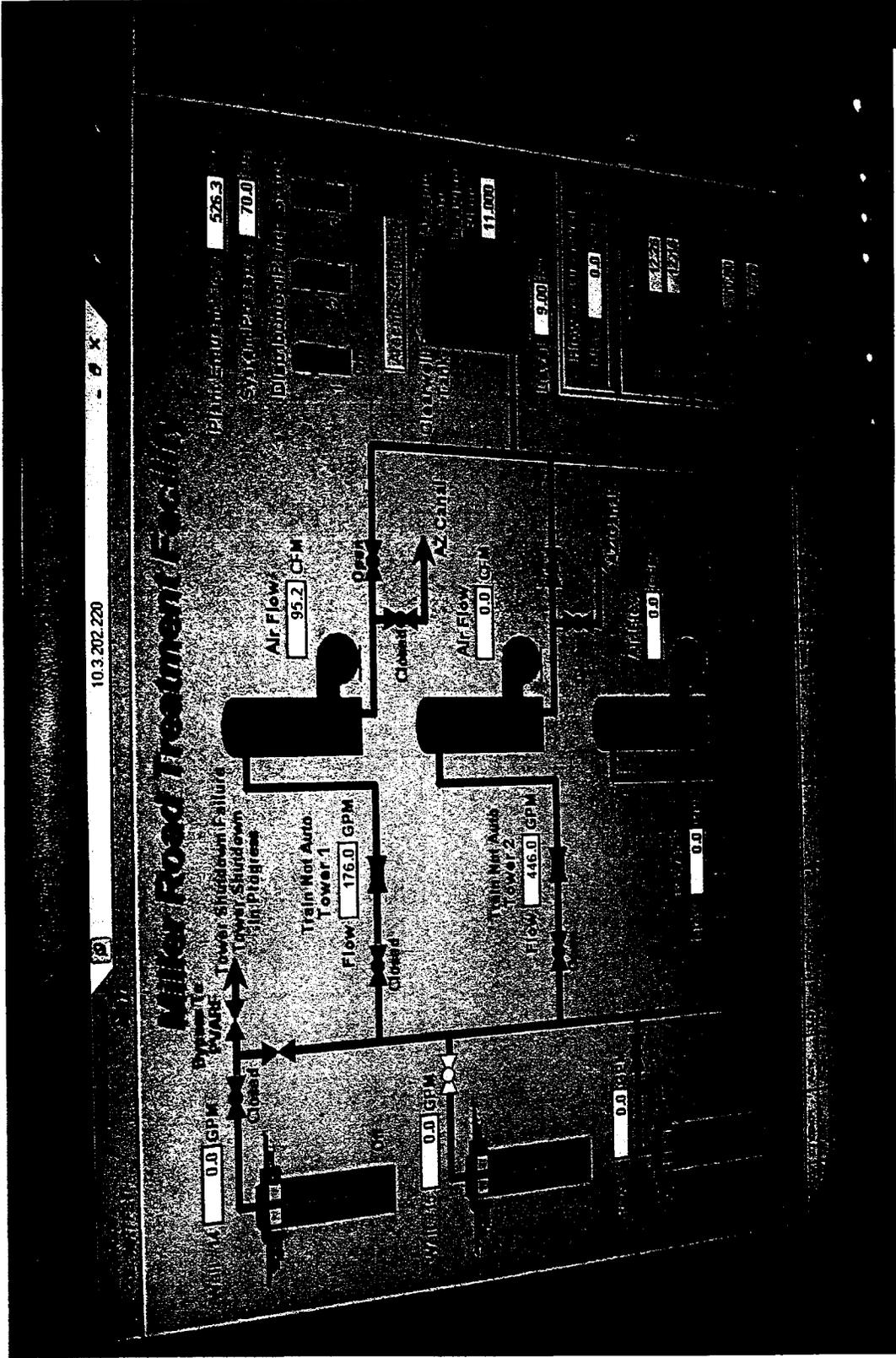
# Arizona American Water Paradise Valley Arsenic Removal Facility



# Inside MRTF Showing Air Blowers



# SCADA System used at MRTF







Todd Walker  
Arizona American Water  
T: 602-388-2841  
M: 602-388-2841  
toddwalker@amwater.com

**TAP WATER IN PARADISE VALLEY APPROVES ORIGINAL NO. 15 USES;  
RESIDENTS MAY RETURN TO NORMAL WATER USES SOON**

Paradise Valley, AZ, January 19, 2008—Arizona American Water notified customers in Paradise Valley today that their tap water now meets or surpasses all standards for drinking water. Arizona American Water conducted a series of tap water tests throughout the valley system. The test results were reviewed and approved by Arizona Department of Environmental Quality and the Maricopa County Health Department.

On Wednesday, January 16, Arizona American Water notified the community and its customers about the potential of elevated levels of TCE (Trichloroethylene) in the Paradise Valley area water system. The test results were reviewed and approved by Arizona Department of Environmental Quality and the Maricopa County Health Department. Customers with storage tanks should check their tanks for TCE.

Approximately 500 customers were affected in Paradise Valley and a small part of Scottsdale (south of Indian Bend, north of Camelback) areas of the Arizona Canal. Impacted customers may wish to run their water filter to filter their systems as well as remove water from their hot water tanks. The water tanks should be drained and refilled.

Each in the week, Arizona American Waterbook its treatment plant and the results of the system to reduce levels of TCE in the water. Robust sampling has confirmed that the water now meets or surpasses all standards for drinking water. The company is investigating what the water filter will take at the correct message.

Arizona American Water notified customers to call a 24-hour phone call that the water is now acceptable to drink. Customers with questions may call 1-800-388-2841 or call 602-388-2841.

Arizona American Water is a large provider of water in the state of Arizona providing high quality drinking water and water services to more than 2.5 million people. In addition to the regular operations, Arizona American Water provides a variety of operation and maintenance services to the water and wastewater systems for the town of Casa Grande, the city of Surprise and the city of Phoenix. Arizona American Water is a public utility company.

More information regarding the situation is available at [www.amwater.com](http://www.amwater.com) and [www.a21.com](http://www.a21.com) or by calling 800-388-2841. Customers may also email questions to [paradisevalley@amwater.com](mailto:paradisevalley@amwater.com). Arizona American Water is committed to providing current information to its customers and the public as soon as it becomes available.

toddwalker@amwater.com

Todd Walker  
Arizona American Water  
T: 602-388-2841  
M: 602-388-2841  
toddwalker@amwater.com

**ALLEY WATER QUALITY UPDATE  
FOR DRINKING OR FOOD PREPARATION UNTIL  
FURTHER NOTICE**

On Wednesday, January 16, Arizona American Water notified the potential of elevated levels of TCE (Trichloroethylene) in the Paradise Valley area water system. The test results were reviewed and approved by Arizona Department of Environmental Quality and the Maricopa County Health Department. Customers with storage tanks should check their tanks for TCE.

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Arizona American Water is committed to providing current information to its customers and the public as soon as it becomes available.

Arizona American Water

toddwalker@amwater.com  
Press Release

Todd Walker  
Arizona American Water  
T: 602-388-2841  
M: 602-388-2841  
toddwalker@amwater.com

**WE SCOTTSDALE WATER USERS  
USE CAUTION  
DRINKING BOTTLED WATER AVAILABLE TO  
NOT BE CONSUMED UNTIL 5 PM, FRIDAY**

American Water notified 4,351 businesses and homes in the Scottsdale area today not to drink tap water until 5 p.m. Friday. A charge call customer at 602 N. Camelback Road, Scottsdale at 602-388-2841.

Tap water could contain elevated levels of TCE (Trichloroethylene) in the Paradise Valley area water system. The test results were reviewed and approved by Arizona Department of Environmental Quality and the Maricopa County Health Department. Customers with storage tanks should check their tanks for TCE.

Approximately 4,351 customers were affected in Paradise Valley and a small part of Scottsdale (south of Indian Bend, north of Camelback) areas of the Arizona Canal. Impacted customers may wish to run their water filter to filter their systems as well as remove water from their hot water tanks. The water tanks should be drained and refilled.

Each in the week, Arizona American Waterbook its treatment plant and the results of the system to reduce levels of TCE in the water. Robust sampling has confirmed that the water now meets or surpasses all standards for drinking water. The company is investigating what the water filter will take at the correct message.

Arizona American Water notified customers to call a 24-hour phone call that the water is now acceptable to drink. Customers with questions may call 1-800-388-2841 or call 602-388-2841.

Arizona American Water is a large provider of water in the state of Arizona providing high quality drinking water and water services to more than 2.5 million people. In addition to the regular operations, Arizona American Water provides a variety of operation and maintenance services to the water and wastewater systems for the town of Casa Grande, the city of Surprise and the city of Phoenix. Arizona American Water is a public utility company.



# AAWC Customer Letter Printed in Newspapers

## AN OPEN LETTER TO PARADISE VALLEY AREA CUSTOMERS OF ARIZONA AMERICAN WATER

Dear Customer:  
Thank you for your patience and cooperation January 16-19 when, due to a malfunction at our water treatment plant, tap water was temporarily unavailable for drinking and food preparation. I also want to provide you with information that has been requested by many of our customers.

**Public Health**  
First - and most importantly - please rest assured that environmental regulators have confirmed that public health was never at risk as a result of the incident. According to Steve Owens, Director of the Arizona Department of Environmental Quality: "The Arizona Department of Health Services has stated that there was no public health hazard because of the low rate of exposure to the tap water." Furthermore, the United States Environmental Protection Agency stated: "U.S. EPA advises that due to the short term duration of the exposure, the public should not experience any adverse health effects from tap water that was consumed in the 24 hour period prior to notification and shutting down the system. This would apply to both children and adults consuming up to 8 liters of water per day when ICE tanks may have exceeded federal drinking water standards."

**Public Notification and Outreach**  
Although the notification expressly required of Arizona American Water by regulation is to mail a notice as soon as possible but no later than 30 days, we knew our customers would want to know what was occurring with their water supply. As a result, we conducted daily media briefings and made information available through our website and our customer service representatives. We also set up a hotline specifically to answer questions on this issue, and we opened up two locations where we gave away the equivalent of almost 200,000 bottles of water to our customers. We also delivered water to those who were homebound and in need. In addition, we utilized a new automated call function, often called "reverse-911." We understand this method did not reach everyone, and we are using the experience to determine how to improve its use in the future.

**What Happened? Will it Happen Again?**  
Perhaps the most often asked question is "how did this happen?" or "will it happen again?" The Miller Road Treatment Facility has been taken offline. It will remain off-line and out of service until we and regulators conduct a full review to determine why the plant malfunctioned, and until we, as well as the regulators, are confident the plant can and will operate safely and provide quality water to homes, schools, businesses and churches, as our customers deserve and expect.

**Moving Forward**  
Our customers understandably have many questions. We've attempted to answer them, but customers can contact us at a special hot line, call 623-780-3775, or at [info@azwater.com](mailto:info@azwater.com).

- Additional information that we believe will be helpful includes the following:
- Pools - pools, fountains, fish tanks, etc. should not need to be drained and refilled.
  - Gardens/Frunk Trees/Outside Plants/Pets - There is no need for any special care.
  - Hot Water Heaters/Water Fillers - Some customers have chosen to either drain their hot water heaters or to run water through the tank to flush it; however, this should not be necessary.

**Thank you**  
Thank you to our customers for your patience and understanding January 16-19 and beyond. Special thanks to the Town of Paradise Valley and the City of Scottsdale who helped us immensely in getting the word out, helping to distribute bottled water and caring for our customers. Please call us at 623-780-3775 if you have any questions I have not addressed here.

Residents have a right to expect clean, high-quality drinking water. Our company will work with local, federal and state regulators to make sure that expectation is met.

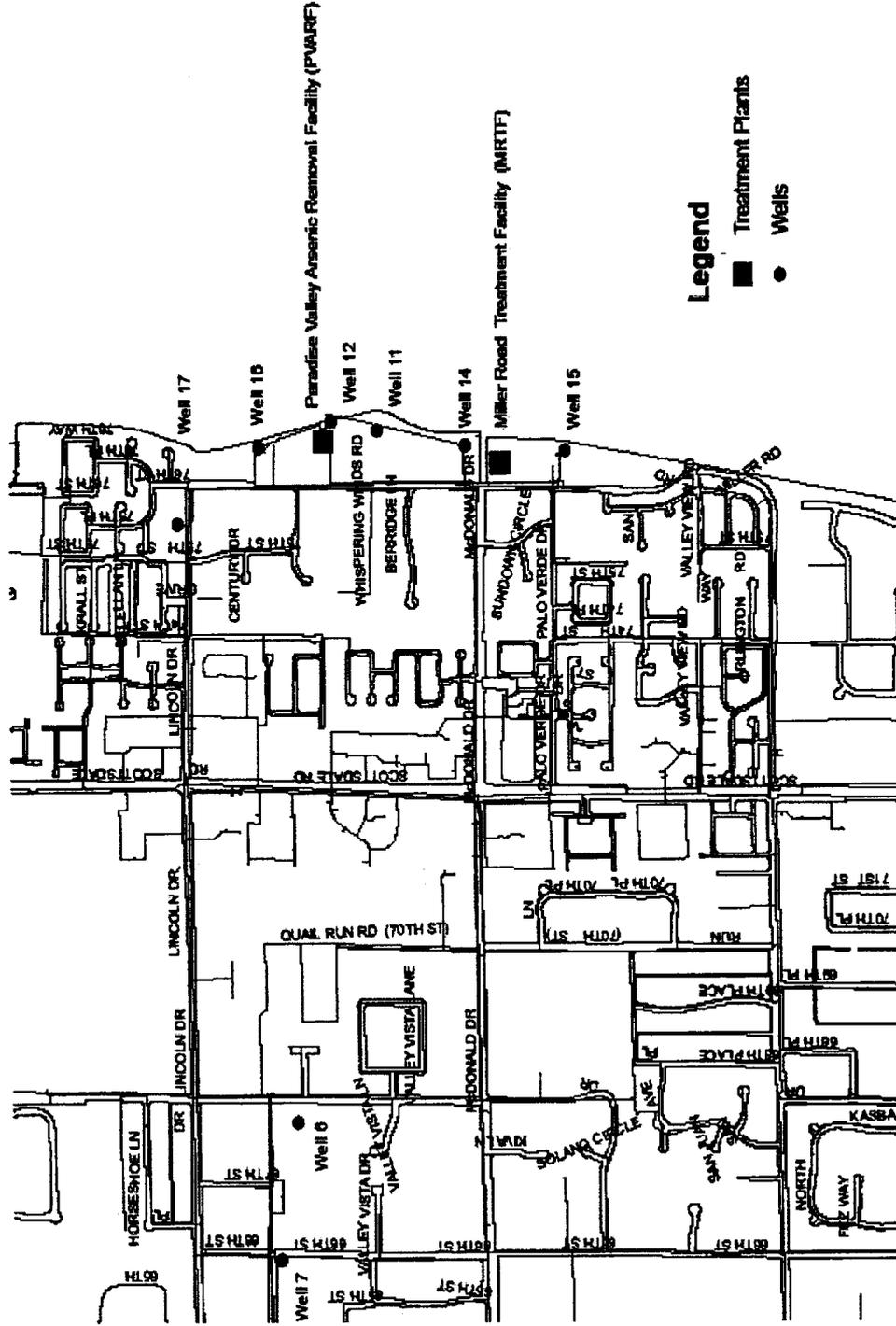
Sincerely,  
  
Paul Jowersley  
President



RWE Group



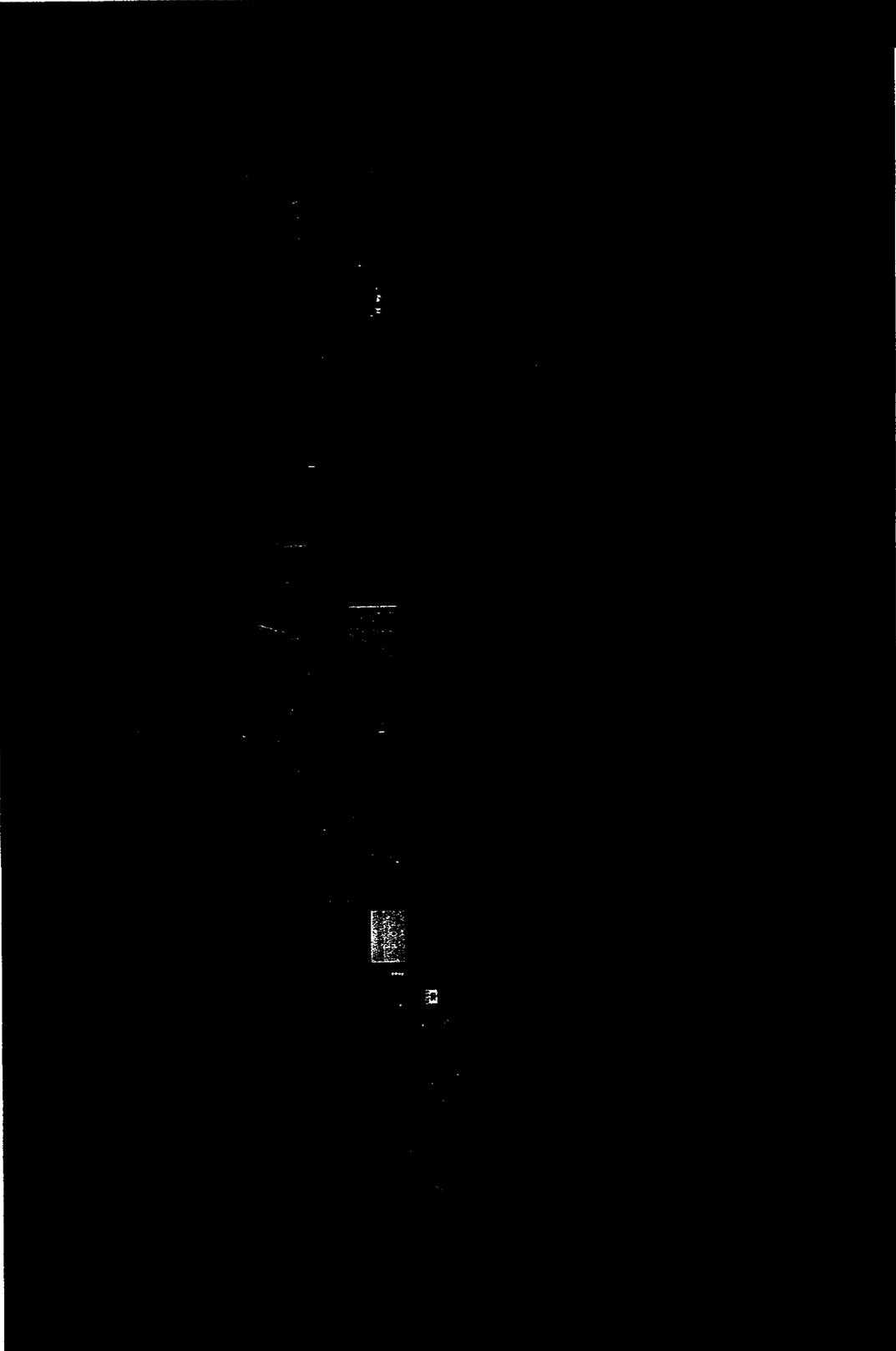
# Detail B of Paradise Valley District Water Distribution System



**Legend**  
 ■ Treatment Plants  
 ● Wells



# Arizona American Water Miller Road Treatment Facility



# AAWC Employees Distributing Bottled Water



# Map of Upper Edge of TCE Plume, TCE Levels in Wells SRP PCX-1 & AAWC #15

