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ORIGINAL

AZ CORP COMMISSION
BEFORE THE ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

8 IN THE MATTER OF THE APPLICATION
9 OF PAYSON WATER CO., INC., AN
10 ARIZONA CORPORATION, FOR A
11 DETERMINATION OF THE FAIR VALUE
12 OF ITS UTILITY PLANTS AND
13 PROPERTY AND FOR INCREASES IN ITS
14 WATER RATES AND CHARGES FOR
15 UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

Arizona Corporation Commission

DOCKETED

NOV 14 2013

DOCKETED BY

17 IN THE MATTER OF THE APPLICATION
18 OF PAYSON WATER CO., INC., AN
19 ARIZONA CORPORATION, FOR
20 AUTHORITY TO: (1) ISSUE EVIDENCE
21 OF INDEBTEDNESS IN AN AMOUNT
22 NOT TO EXCEED \$1,238,000 IN
23 CONNECTION WITH INFRASTRUCTURE
24 IMPROVEMENTS TO THE UTILITY
25 SYSTEM; AND (2) ENCUMBER REAL
26 PROPERTY AND PLANT AS SECURITY
27 FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

DIRECT TESTIMONY BY INTERVENORS
PHASE 2

29 Pursuant to the Procedural Order issued on October 29, 2013, Kathleen M. Reidhead, "KMR", is
30 granted Intervention in the above-captioned matter.

32 KMR is a long-standing residential customer served by the Public Service Utility Company,
33 Payson Water Company, "PWC", residing part-time within the physical boundaries of the CC&N in the
34 community of Deer Creek Village, "DCV", that is part of the former United Utilities system and has a
35 vested interest in the ramifications of these proceedings. The system is also known as ADEQ's Public
36 Water System number 04-030.

38 PWC has a history of complaints of poor service and allegations of unlawful practices which have
39 created a public atmosphere of distrust towards the Company by the Ratepayers. Public comment at
40 the Phase 1 Hearing attests to that. Attached as Exhibit A are six newspaper articles published by the
41 Payson Roundup between 2009 and 2013 documenting some of these allegations. Also noted, as

1 evidence of this claim, are two yet-unresolved formal complaints filed with the Arizona Corporation
2 Commission, "ACC", against PWC, Docket Nos. W-03514A-12-007 and W-03514A-12-008.

3
4 KMR received a **Public Notice of Applications by Payson Water Co., Inc., Docket Nos. W-**
5 **03514A-13-0111 and W-03514A-13-0142 (consolidated)** on September 20, 2013 in her regular monthly
6 water bill. In this notice, details of the consolidated case were disclosed. This was her first knowledge
7 of any water shortages in a community called Mesa del Caballo, "MdC", which is physically located
8 approximately 20 miles away from DCV. The 5-day notice received of the Public Hearing scheduled for
9 September 25, 2013 was in violation of the Arizona Administrative Code R14-3-109.

10
11 The public notice issued in this case incorrectly informed the ratepayers of DCV of the
12 Company's proposal to increase the base rate from \$17.00 to \$39.24/month. As a ratepayer of DCV,
13 KMR asserts that her household has been paying \$16.00/month for the base rate and \$1.93/1,000
14 gallons for the commodity charge for as long as she and her husband can remember. She believes that
15 DCV was actually part of the former United Utilities, not the former C & S System, as stated on the Public
16 Notice. She has reviewed ACC Decision No. 62401 from 03/30/2000, which shows an Intervenor from
17 the Deer Creek Village Homeowners Association in the prior United Utilities rate case, which provides
18 evidence of this assertion. It appears that the ratepayers of Gisela and the Triple T Water System were
19 actually the former C & S System and were ordered in ACC Decision No. 62320 on 02/17/2000 to pay
20 \$17.00/month for the base rate, not \$16.00/month as stated on the Public Notice for this case. These
21 inaccuracies on the Public Notice, in addition to the late notice, serve to erode public confidence in the
22 management abilities of the new President of PWC (effective as of June 1, 2013), Mr. Jason Williamson.

23
24 On September 25, 2013, KMR attended the Phase 1 Public Hearing at 10:00 am at the Arizona
25 Corporation Commission's offices, 1200 West Washington Street, Hearing Room No. 2, Phoenix, Arizona
26 85007 and gave a public comment, objecting to the late notice and expedited nature of the case. It was
27 stated by her, among other things, that 5 days had not been enough time to digest the details of the
28 case and she thought that she was being treated unfairly. She submitted a Motion to Intervene in the
29 case on September 26, 2013 and was granted Intervenor status on October 29, 2013. She requests an
30 explanation as to why the two cases were consolidated as they were? If the costs for the MdC pipeline
31 debt (case W-03514A-13-0142) was intended to be imposed solely on MdC ratepayers, as was stated
32 during the ACC's Open Meeting on October 16, 2013, why then were the two cases filed separately, then
33 later consolidated and bifurcated on August 26, 2013? This action had the effect of further increasing
34 the public's distrust of PWC and its new President, Mr. Jason Williamson, as is evidenced by the more
35 than 45 letters submitted by ratepayers of the 8 communities shortly after the Public Notice was
36 delivered. Those letters to the ACC were overwhelmingly in opposition. PWC's action of consolidating,
37 bifurcating & expediting the case is the main source of confusion and public distrust in this proceeding.

38
39 After reviewing documents posted on the docket of the consolidated case, KMR lodged
40 complaints with the ACC relating to lack of supporting evidence, discrepancies in testimony, lack of
41 alternate solutions offered and the expedited nature of the proceedings, among other things, which she
42 alleges unfairly advantages PWC and disadvantages ratepayers in this matter. These complaints are

1 documented in letters dated September 26, 2013, September 30, 2013, October 1, 2013, October 4,
2 2013, October 7, 2013 (2 separate letters), October 10, 2013, October 11, 2013 and October 14, 2013,
3 all of which are currently posted to the Docket. These letters (and letters from other ratepayers) note
4 numerous and specific details of the case that expand the atmosphere of distrust the public has for
5 PWC.
6

7 PWC asserts that it has chosen to solve water shortages in the MdC community via a connection
8 to a future supply of renewable water from the Cragin Reservoir via a pipeline project. KMR asserts that
9 only ratepayers from MdC participated in any such discussions leading to this decision. Therefore,
10 ratepayers from the other 7 communities have not been informed about the matter, afforded ample
11 time to understand the cause of the water shortages, or the other options available to solve the
12 problem, nor the viability, benefits, cost & scope of this expensive project. She asserts that ratepayers
13 from the other 7 communities should not pay for any portion of this infrastructure project or any future
14 costs associated with delivery of water from the Cragin Reservoir to MdC, as they will receive no benefit
15 from it.
16

17 KMR is firmly opposed to consolidation of the 8 communities (specifically, Mesa del Caballo,
18 Mead's Ranch, East Verde Estates, Flowing Springs, Geronimo Estates/Elusive Acres, Whispering Pines,
19 Gisela/Tonto Creek Shores and Deer Creek Village) for ratemaking purposes. As is evidenced by the
20 strong and clear opposition expressed from ratepayers of the 7 outlying communities served by PWC to
21 paying for any portion of the estimated \$1,238,000 pipeline infrastructure project for the MdC
22 community, it is not perceived to be just and reasonable to pay for something without receiving benefit.
23 These 8 communities served by PWC are in rural areas, separated by many miles distance. Each
24 community has its own water resources (some with wells, others will have wells + surface water
25 pipelines + possible water hauling), infrastructure, equipment and deficiencies that are unique to each
26 community and are not interconnected with the others. Accordingly, KMR proposes that each
27 community be treated separately for ratemaking, based on each community's separate costs of service.
28

29 KMR is requesting full cost of service studies be conducted for each of the 8 communities served
30 by PWC so that all parties may make their own reasoned proposals for rates, consistent with sound
31 ratemaking principles. Some of the following considerations may be important to evaluate for each of
32 the 8 PWC communities:

- 33 1) What is the utility's allowed rate of return on investment?
- 34 2) What are the current operating expenses, depreciation, taxes + rate of return for water
35 service provided in that community?
- 36 3) What is the asset value for the plant in that community?
- 37 4) Is the utility using ground water, surface water, or a combination? Identify all sources and
38 anticipated costs to produce.
- 39 5) At what rate are the wells producing water? Are there any known hydrology problems?
- 40 6) Has PWC ever experienced water shortages there, even during peak summer periods?
- 41 7) Has water ever been hauled into that community from any other PWC community?
42 If so, how much is typical?

- 1 8) Has water ever been hauled out from that community's supply to other PWC communities?
2 If so, how much is typical?
3 9) What is the system age? Is the infrastructure adequate at the current time for servicing that
4 community? Are there any known infrastructure deficiencies currently needing addressed?
5 If so, what are they?
6 10) What is the business plan and correlating budget allocated by PWC to maintain and
7 renovate that community's water system?
8

9 The ACC has long been aware of the inferior infrastructure of some of PWC's systems. As noted
10 in Decision No. 71902 dated September 28, 2010, Mr. Marlin Scott, a Staff Engineer for ACC, states that
11 "the MdC System's 105,000 gallons of storage capacity is sufficient to serve only 305 connections, and
12 this factor, coupled with the poor water production of the nine wells on the system, create the
13 Company's water shortages on the MdC system." It appears that the ACC desired to address those
14 concerns at the next permanent rate case, but PWC delayed filing for that rate increase as ordered,
15 which was "no later than one year from the effective date of the order". On November 11, 2011, in
16 Decision 72679, the ACC granted PWC an extension of time to file until March 12, 2012. On March 21,
17 2013, more than one year past PWC's missed deadline, the ACC ordered PWC, in Decision No. 73774, to
18 file their permanent rate case within 30 days. It is stated in that Decision that "Continued
19 noncompliance with Commission decisions could result in the Company being charged with a violation
20 of A.R.S. §40-424 for being in contempt of the Commission, as well as the termination of the surcharge."
21 PWC did then file their rate application on April 22, 2013.
22

23 The Phase 1 Order #74175 issued on October 25, 2013 in this case indicates that the Phase 2
24 permanent rate case must result in a debt service coverage, "DSC", of 1.2 or greater, as PWC needs that
25 DSC for the resulting WIFA loan approval for the MdC pipeline project. KMR asserts that it would be
26 unjust for the ratepayers of the other 7 outlying communities to pay higher rates, simply to achieve that
27 DSC, without any benefit coming to them. Accordingly, higher rates made solely to achieve that DSC
28 should be borne solely by the ratepayers in MdC, since the ratepayers of MdC will be the only ones that
29 will benefit from the pipeline project being proposed and funded via that WIFA loan. This bolsters the
30 argument for not consolidating the 8 communities for ratemaking purposes, but for separating them
31 instead. KMR firmly believes that separate rates for each community based on cost of service will be
32 perceived as just and reasonable by the ratepayers of all 8 communities. Numerous letters written by
33 ratepayers have already attested to this. Additional witnesses can be called at the Phase 2 hearing to
34 substantiate this further. The law requires this standard, per A.R.S. §40-361, in relevant part: "Charges
35 demanded or received by a public service corporation for any commodity or service shall be just and
36 reasonable. Every unjust or unreasonable charge demanded or received is prohibited and unlawful" .
37

38 Over a number of years, PWC has been viewed with suspicion, distrust and ill will amongst its
39 ratepayers over the way it has conducted itself. The filing of this rate case and the way it was
40 consolidated, bifurcated and expedited did not help improve PWC's standing with the public. While
41 there is a new face on PWC in the form of Mr. Jason Williamson, there has been little time to evaluate
42 whether the ratepayers will be treated in a more ethical manner than in the past. Mr. Williamson has

1 adopted the former owner's strategy to proceed with consolidating the two cases. In addition to that,
2 on August 15, 2013, Mr. Williamson filed a ***Motion to Consolidate and Request for Expedited***
3 ***Procedural Schedule*** to expedite the entire matter. While the expedited nature of the Phase 1 portion
4 of the case may have been advantageous to the interests of PWC, it has not yet been demonstrated that
5 the pipeline plan for MdC was just or reasonable for the ratepayers of PWC. KMR asserts that the
6 ratepayers have a reasonable expectation to fully understand the specific intention for encumbering
7 PWC with a large amount of debt and to fully understand the scope of the proposed project before any
8 funds are borrowed. That did not happen in this case. It is evident that the expedited nature of the case
9 did not allow for that level of scrutiny, which alarmed many ratepayers, who have expressed strong and
10 clear discontent with the process. As such, KMR requests that the ACC makes a thorough and complete
11 evaluation of all details of the case during the Phase 2 portion before any ratemaking decision is made
12 and that the decision be deemed just and reasonable for both the Company and the ratepayers, as
13 required by law.

14
15 As stated in her letter dated September 30, 2013, KMR believes that by creating an atmosphere
16 of working together, PWC will regain the public trust and assure a better relationship between all
17 parties, and that is a goal we should all work towards.

EXHIBIT A

Payson Roundup | Payson, AZ

No Water Irritates Residents

Arizona Corporation Commission may order investigation into Stage 5 alerts, water hauling and cutoffs at Mesa del Caballo

Friday, August 7, 2009



Andy Towle/Roundup - atowle@payson.com

Stephen Gehring, owner of the Houston Mesa General Store, demonstrates the regulating defect in a water flow meter used by Brooke Utilities in the Mesa del Caballo housing complex.

Repeated water rationing and the cutoff of customers for using too much water in Mesa del Caballo have triggered a slew of complaints to the Arizona Corporation Commission, which has promised to investigate the actions of Brooke Utilities.

Twice in three weeks, residents have lived through Stage 5 restrictions, which imposes heavy fines for any non-essential use of water — including shutdowns for people who use too much.

On Thursday, the conservation level had dropped to Stage 3, as the private water company reportedly hauled reportedly hauled water from Gisela sometime during the week.

Residents say they feel their small community has become a “police state” with “water Nazis” watching every drop of water, waiting with disconnection notices in hand.

Brooke Spokesman Myndi Brogdon said she had been instructed to make no comment on any issue to any newspaper.

Arizona Corporation Commission Chairman Kristin Mayes said the board that regulates utilities has received multiple complaints about Brooke's actions. Residents have complained wildly inaccurate meter readings have prompted water cutoffs. Residents have also complained they have been cut off without receiving the required written notice.

"We are definitely investigating it," said Mayes. "A formal investigation would take a vote of the commissioners and we haven't had a chance to do that, but we'll look into that next week."

Mayes said company officials have said the water restrictions were imposed because of increased use and dropping supply, perhaps because of an increase in full-time residents in the 400-home community this summer.

But that doesn't excuse repeatedly running out of water, said Mayes.

"Whatever the reason is, the bottom line is the company has to provide for its customers. So the first question I ask is, what additional storage or well capacity does the company need to have and what are they doing to get it."

Caballo Club formed

At least two separate movements are coalescing to gain water freedom. The community's version of a homeowner's association, the Caballo Club, has appointed three people to head a water committee for exploring possible solutions. Two members, Randy Norman and Ed Schwebel, say they want to increase communication with Brooke Utilities and work toward securing a share of Blue Ridge water. The men say they do not want an adversarial relationship with the utility company. They add that Brooke has ignored attempts at discussion.

Payson's Blue Ridge Pipeline will pass right by the community, but only water providers can negotiate with Salt River Project and Payson for a share of the 500 acre feet of water reserved by federal law for water users in Northern Gila County other than Payson. Brooke utilities has expressed interest in contracting for that water, but many residents have expressed doubts about whether the company will follow through.

Many residents this week were complaining of poor communications and arbitrary actions by the water company.

Stephen Gehring, who owns Houston Mesa General Store, is building his case against Brooke Utilities for shutting his water off for what he says is no reason. He denies watering plants outside, washing his car, or engaging in activities banned by elevated conservation levels.

"It was arbitrary and capricious on their part," he said, calling the company "water Nazis."

Gehring is preparing a roughly 13-page packet of information for the Arizona Corporation Commission, and he says he'll include damning information from former employees of Brooke Utilities that alleges leaks in the system which allow air to register on the meters. Gehring says

this means residents appear to be using excessive amounts of water due to an error by the water meters.

Gehring speculates Brooke Utility cut off his water in retribution after he talked to a local newspaper. Thirty other residents also had their water shut-off for no reason — according to Gehring.

Brooke Utilities declined to comment on any of the allegations.

In an earlier interview, Brogdon said water use had increased, triggering the shift to stage five restrictions and water hauling. However, she did not provide any water use figures to support her statement. She said the company has difficulty finding well sites in the community, since drinking water wells have to be a certain distance for any septic system and all the houses rely on septic tanks.

Brooke Utilities disconnected Gehring's water Monday during a Stage 5 conservation level. He has since bathed in the nearby East Verde River because he cannot afford the \$600 reconnection fee.

'Unfortunate responsibility'

Monday, Brooke Utilities sent an e-mail to residents, alerting them of the "unfortunate responsibility" which required the company to disconnect water service to some customers.

"This action was not taken lightly and only after careful consideration," the e-mail read.

Arizona Corporation Commission rules require written notification before cutting off a customer for violation of water restrictions during a Stage 5 alert.

Schwebel said that earlier this summer sprinklers accidentally turned on at a property he owns, but in which he does not live. A Brooke Utilities employee was driving around, looking for conservation violators, and eventually turned off his water.

"She said you're not supposed to be watering," Schwebel said. He told her, "If I was going to break the rule, I'd water at midnight."

Through the newly formed water committee, Schwebel and Norman will explore long-term options. They fear Brooke will not work to gain a portion of the 500 acre feet of Blue Ridge Pipeline water available for communities outside of Payson.

Access to Blue Ridge water

Gehring also wants the community to gain access to Blue Ridge water. However, he says the company is too cheap to build a filtration system.

"They don't care; they're going to do the minimum," Gehring said.

Residents formed the water committee after they heard at a meeting that communities wanting a part of Blue Ridge water need to get in line within the next two years.

The Normans say perhaps targeted reductions could be developed so residents have an identifiable goal.

“Conservation is a part of (the final picture),” said Norman.

Brooke pays dearly when the community runs out of water and it has to haul water in from other wells it owns, because the Corporation Commission hasn’t given it permission to impose a water hauling surcharge – as it has in Pine and Strawberry. As a result, the company must haul water, but charge the normal rate. During a recent water shortage in Pine, the company hauled water from its wells in Star Valley. But Star Valley then banned heavy hauling trucks on the roads leading to Brooke’s well. As a result, this time Brooke is reportedly hauling water from Gisela, which also has water problems.

“It’s a monopoly,” said Schwebel. “We can’t choose. We don’t have another alternative We’re nearly held hostage by all of this. It feels like a police state.”

Mayes said “It’s just not acceptable to be subject to stage five curtailment twice in one month – that is really extraordinary. It’s cause for concern.”

She said the investigation could result in fines for the company, imposition of a building moratorium like the one in effect in Pine and even cancellation of the company’s monopoly right to provide water service in the community.

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Payson Roundup | Payson, AZ

Angry Mesa Del Residents Face Off With Brooke

By Alexis Bechman

As of Tuesday, August 9, 2011

An angry group of Mesa del Caballo residents frustrated with a new water hauling fee nearly drove Brooke Utilities officials home before a planned informational meeting about the Blue Ridge pipeline could even start Thursday.

Some 200 residents were more concerned with big charges for water hauling this summer than with options for hooking up to Payson's pipeline that could put an end to years of restrictions and frustrations.

"We are all here because of the bill," one resident shouted.

Brooke's President Robert Hardcastle said he was not there to discuss bills and would only dive into the five water supply alternatives, including plans to hook up Mesa del to the C.C. Cragin pipeline that will run past the 400-home subdivision's doorstep.

However, The meeting was dominated by a gush of anger about years of strict water restrictions that at times force homeowners to ration their water usage and cut out showers, flushing and washing or face high fees.

"You have lied to the people the eight years I have been here," said one resident.

"Why can't we get answers?" said another.

One woman said the water use restrictions meant her children could not shower at times.

As the uproar grew, a man sitting in the front row said Hardcastle should leave if he wasn't going to answer the questions.

"You have asked me to leave and I will," Hardcastle said.

Randy Norman, treasurer with the Mesa del Caballo Water Committee, reminded residents that Hardcastle was there to talk about the pipeline and to hold their questions until the end.

"All of our future lifestyles are involved in this choice," he said.

Mesa del sits on granite rock. This underground layer has put 367 active water customers and Brooke Utilities literally between a rock and a hard place for years.

During peak use months, water seeps into the wells so slowly that Brooke must haul water from Payson.

In years past, Brooke ate this charge.

In the summer of 2009, then-spokesperson Myndi Brogdon told residents Brooke had paid \$59,000 to haul water, said Minnie Norman, secretary of the water committee.

Last year, the Arizona Corporation Commission approved a tariff that allows Brooke to charge residents for water hauling. Just recently, residents received their first water bill with the new fee.

Residents have known for a year that Brooke would begin charging for water hauling, but many were still shocked at the tripling of their bills, Norman said.

Hardcastle said the subdivision can put an end to water hauling forever if it hooks into Payson's Blue Ridge pipeline, pays for a temporary line each summer to connect to Payson's existing water system or drill new, deep wells.

Hardcastle provided an overview of several options and promised to have rough cost estimates for each alternative at an Aug. 25 meeting.

But by the end of Thursday's meeting, most residents had more questions than answers.

As the crowd quieted, Hardcastle explained that during June and July, residents used 1.79 million gallons of water, twice as much as during low-use winter months.

The system couldn't handle the jump, so the company bought water from Payson and hauled it to the subdivision's storage tanks at a cost of \$16,000. Brooke charged users \$13.65 per 1,000 gallons.

"It is expensive, it is very expensive," Hardcastle said.

Norman said her bill increased \$70 in the last month to cover water hauling. Norman said she heard from other residents that their bills had gone up more than \$300, but they had also used more than 25,000 gallons.

Those that use more water pay more, Hardcastle said, but with such a narrow base of customers to pass the cost of water hauling over, everyone pays something.

On its end, Brooke Utilities is not allowed by the Corporation Commission to collect a dime over what it costs to haul water, Hardcastle said. The company has the exclusive right to provide water in the subdivision, but it must then abide by ACC rules.

Some residents said they believe Hardcastle is inflating the cost so he can turn a profit on the water hauling.

Hardcastle adamantly denied charging anymore than cost.

The price tag to end water hauling forever may come as even more of a surprise.

One alternative is using an above-ground pipeline to deliver water from Payson to Mesa del. This option would cost roughly \$100,000 a year and Brooke would have to reinstall the pipeline annually. That would work out to about \$272, if divided by the 367 customers.

Although effective, that expensive solution would make the subdivision dependent on Payson, Hardcastle said.

Alternatively, Brooke could drill new wells and add additional storage tanks to hold some 200,000 gallons, which would likely cover water needs.

Experts have identified two potential sites for wells, each with water 1,200 to 1,600 feet underground.

Costs for the new wells and storage range from \$625,000 to \$880,000, with no guarantee that either well will deliver a substantial yield.

Hardcastle painted a doomsday scenario of paying a million dollars for the wells, but getting no new water.

Payson's C.C. Cragin pipeline could also guarantee water indefinitely, said Hardcastle.

For nine months out of the year, Mesa del would receive about 75 acre-feet of water. Currently, the subdivision's seven wells produce 54 acre-feet of water annually, Hardcastle said.

But like the other alternatives, the C.C. Cragin water comes at a cost. Current estimates put the project at more than a million dollars, which the 367 customers will have to cover.

The pipeline is expected to run across the street from Mesa del and come online in September 2015.

If Mesa del signs on, Brooke would have to sign an agreement with the Salt River Project not to drill any new wells within the community. However, the company could deepen any existing wells, Hardcastle said.

Residents must decide by Labor Day if they want a share of Blue Ridge.

"The window of opportunity is closing and a decision must be made," Brooke said in a letter to residents. "It is important that the majority preferences of the Mesa del Caballo community be considered."

Whatever users choose, Mesa del needs a long-term, renewable water source that will deliver users from the frequent water shortages that plague the community, Hardcastle said.

If residents go with Blue Ridge, Hardcastle hopes to finalize agreements with Payson and SRP by September.

Hardcastle said he does not care which alternative residents choose and that he is not advocating for one over the other. Residents are asked to send their questions and comments to elcaballoclub@gmail.com.

Hardcastle will discuss project costs at 5:30 p.m., Thursday, Aug. 25 at the Payson First Church of the Nazarene, 200 E. Tyler Parkway.

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Payson Roundup | Payson, AZ

Ending Mesa Del Shortage Will Be Costly

By [Alexis Bechman](#)

[As of Tuesday, August 30, 2011](#)

From pipelines to deepwater wells, several proposals may put an end to years of water shortages in Mesa del Caballo, but all come at a cost.

Brooke Utilities President Robert Hardcastle presented a list of options at the third and final community meeting Thursday, stressing residents must come to a consensus on one by Labor Day.

From an above-ground pipeline connecting Payson with Mesa del, to two new wells and water from the Blue Ridge pipeline, each has the promise of delivering badly needed water, but each will at least double the average water user's bill. Rates could go from \$23 a month to \$49 or \$54.

Any of the options would avert water hauling, which can triple bills during summer months.

Furthermore, any of the options could eliminate strict water use restrictions and potentially boost property values.

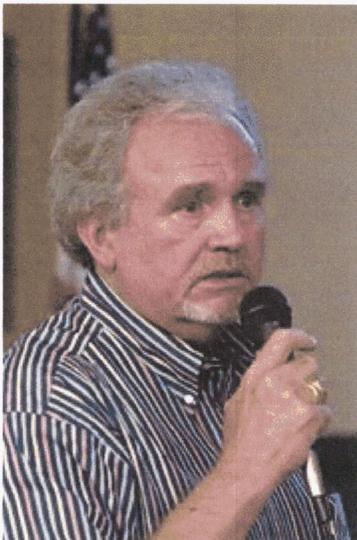


Photo by Andy Towle

Robert Hardcastle

Of all the choices, water from the C.C. Cragin (Blue Ridge) pipeline is the most viable and longstanding, Hardcastle said. It also comes with the highest price tag at just over \$1 million.

An above-ground pipeline with Payson would be the cheapest option long-term at \$147,600 for the first year and \$90,000 for subsequent years. Drilling two new wells is the second highest option at \$862,300.

Mesa del residents will shoulder the cost of any improvements.

Just before Hardcastle's presentation, Steve Westwood with SRP's water rights and contracts, gave a lengthy overview of the Blue Ridge Reservoir in northern Arizona.

SRP has already poured \$13.6 million into the project for upgrades and maintenance and has plans to deliver 3,000 acre-feet of water to Payson in the coming years. On the pipeline's journey to Payson, it will pass just east of Mesa del, making the community the perfect pick for an additional 350 acre-feet of water set aside for other northern Gila County communities.

While just one of several water options, Hardcastle said it is a "pretty good alternative."

"Is it guaranteed permanent? Steve would be the first to tell you not necessarily, but it is pretty darn close. It is enough that if you were a betting man, it is probably a pretty good bet," he said.

There is no guarantee the other two options will deliver the 68 gallons per minute of water the community needs to end water conservation and hauling fees long-term.

Each of the proposals include 200,000 gallons of water storage through several new tanks.

1,200- to 1,600-foot wells

Preliminary engineering determined two areas in Mesa del could support new 1,200- to 1,600-foot deep wells.

Currently, the subdivision's seven wells produce just 54 acre-feet of water annually. While engineers are confident two sites will deliver water, there is no guarantee either will produce.

The doomsday scenario of paying nearly a million dollars for the wells and getting no new water is possible, Hardcastle said.

Best guesses put the cost of two new wells at \$862,000, which for the average water user, doubles their monthly bill.

Forest Service pipeline

Alternative No. 2 includes installing a pipeline through Forest Service land that connects Mesa del with Payson. Payson would then pump approximately 1 million gallons of water a year to Mesa del at cost.

For the first year, that cost is expected to run \$148,000 and decrease to \$90,000 in following years. The first year would cost more due to an environmental study.

A major drawback with the project is that Brooke would have to reinstall the pipeline annually and Mesa del would be dependent on Payson delivering the water.

For the average water user in Mesa del, the project would bump water bills up 143 percent in the first year and 87 percent in year two and beyond.

“We have been talking about three projects. We have been talking about the pipeline, deep-water wells and we’ve been talking about Cragin water,” Hardcastle said.

“The pipeline is different from the other two in that it is a repetitive annual project. It is not a project we build and start taking water from and we just pay for it over time. (The contract) happens year after year.”

Revised monthly water bill for Mesa del resident based on average 2010 bill of \$23.60 with:	
C.C. Cragin pipeline	•\$54 a month
Forest Service pipeline	•\$57 a month during first year •\$44 a month in following years
Two new wells	•\$49 a month

Water bill illustration

C.C. Cragin pipeline

The final option is tapping into the Blue Ridge pipeline.

Brooke Utilities would sign agreements with SRP for 70 to 84 acre-feet of water a year and with the Town of Payson for the infrastructure to deliver the water.

Mesa del would get water from the reservoir for nine months out of the year with the connection shut off in the winter. To cover winter water needs, Brooke would use water from the new storage tanks as well as the existing wells.

No one can say how long the agreement with SRP will last, but it is as close to forever as any of the alternatives Brooke has identified, Hardcastle said.

“Is it guaranteed forever into perpetuity? Probably not. Is it as close to guaranteed as we have been able to develop? Yes it is,” he said.

Cost wise, Cragin is the most expensive option. With a total project cost of \$1,073,000, including \$2,700 in annual operations and maintenance fees, the average water user will see their bill increase 130 percent.

One resident asked Hardcastle if any of these options would actually end the need for water hauling. During the summer months, water hauling doubles and even triples users' bills.

And even when Brooke is not hauling water, residents are often on water restrictions that prevent them from watering outside and sometimes even taking showers.

"If we are not doing this to eliminate water augmentation and curtailment then this whole process is a waste of time," he said. "That is exactly what we are doing."

Hardcastle added it is up to the residents to decide which option to go with since they are the ones who will pay for the system.

"We understand there is a risk analysis here, a benefit analysis and we understand there is an economic analysis and a hydrological analysis.

"Each of you need to look at those for yourself, look at your water bill and say based upon the \$23 average water bill, where am I?" he said.

"You need to decide for yourself if this is what you want to do."

While Brooke has already been working on a preliminary contract for Cragin water, it will not be until after pipeline construction starts in September 2015 that residents get water from it.

Residents only have until Labor Day to decide which option they would like Brooke to pursue.

None of the options include help from the Water Infrastructure Finance Authority of Arizona's (WIFA).

WIFA gets federal funding for public improvement projects and if it gets involved with this project, it could drive costs down for residents, Hardcastle said.

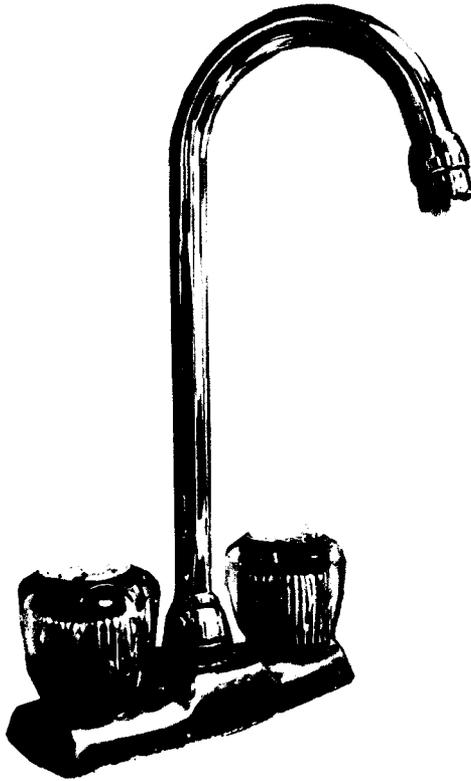
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Payson Roundup | Payson, AZ

Mesa Del Water Woes Worsening

Explosion uncovers the twisted tale of mystery well



By Michele Nelson

As of Thursday, July 18, 2013

For years, Brooke Utilities has apparently gotten the bulk of the water it has been selling to residents of Mesa del Caballo from an undocumented, unregulated well, according to documents obtained by the Roundup.

The murky sequence of events came to light after the well blew up because of a closed pressure release valve, revealing the still confusing history of a well that has not undergone state-required inspections for an unknown period, although it has provided Brooke Utilities with roughly 500,000 gallons of water monthly, according to documents obtained by the Roundup.

The new well owner, Mary Hansen, has disconnected the well from the community's water system, resulting in a sharp increase in bills as a result of increased water hauling.

Brooke Utilities did not return calls seeking comment.

However, the man who recently bought the Payson Water Company from Brooke said he hopes to settle the problem soon.

Jason Williamson, owner of JW Holdings/Pivotal Companies, wrote in an e-mail, "I do believe we have resolved the dispute and that the well will be back in service soon."

The documents provided by Hansen and records from the Arizona Department of Water Resources, the Arizona Corporation Commission and the Arizona Department of Environmental Quality (ADEQ) seem to suggest that Brooke Utilities provided half the water it sold Mesa del Caballo residents from an undocumented, unregulated well, perhaps without paying for the water for an extended period. The well number listed required reports to the ADEQ correspond to a capped, inactive well several blocks away.

Reportedly the company that owned Payson Water Company before Brooke bought it had paid an elderly couple who owned the home for the water. Apparently, Brooke stopped paying for the water after it bought out the previous water company operator. Sometime after that, the elderly couple went into bankruptcy and lost the house in foreclosure.

The new owner didn't register as owner of the well with the state. Hansen says Brooke did not pay that owner for the water, either.

As a result of the gap in the records, it's unclear whether the well underwent required tests for contamination and heavy metals during that period.

The interim owner of the property also lost it in foreclosure and Hansen bought the home at an auction, without realizing the well constituted a crucial part of the water system for the whole community. She only discovered the well's intricate history after a pump blew out the side of the garage.

Hansen provided documents suggesting Brooke had mislabeled the well in documents submitted to regulators and used it without paying the previous homeowners for the water or performing required tests.

After repairing the well, she disconnected it from Brooke's system, which effectively forced the private water company to increase the amount of water it bought from Payson and hauled to Mesa del's water storage tanks.

The Arizona Corporation Commission allows Brooke to charge Mesa del residents extra for water it hauls in, which has driven some homeowners' monthly water bills over \$500.

Some residents are now accusing Hansen of forcing them to pay exorbitant water bills.

However, Hansen said she only shut off the well after a pressure tank and an electrical panel blew up on her property. She said Brooke Utilities refused to pay for the damages, so Hansen and her partner rebuilt the tank and electrical panel. Then Brooke hooked up the well again and started pumping water. Brooke made several payments for the water and then stopped, Hansen claimed.

E-mails provided by Hansen detail year-long communications between Hansen and Brooke Utilities owner Robert Hardcastle. The e-mails show that when Hansen tried to get Brooke to pay for the water it had used and enter into a water sharing agreement, Brooke owner Hardcastle refused.

Hansen said when she called the ADEQ, it could not find any evidence of her well in its records — and therefore no record of any required water quality testing.

Adding insult to injury, Brooke Utilities not only stopped paying Hansen for the water it used from her well, but also charged her almost \$700 for the water she used from her own well.

So she pulled the plug.

“It has now been a year and still no agreement, no inducement, no reimbursement, and Brooke has gained \$687 in revenue by the residency being billed,” wrote Hansen in an e-mail to Hardcastle in March, “If all terms and conditions are not met, the home will hook back up to the well directly and Brooke will be disconnected as we will not pay any more hauling fees.”

In the process of untangling the mess, Hansen discovered what she termed a cover up by Hardcastle. He took full advantage of a mislabeled well to hide his responsibility to test the water for toxins, said Hansen.

When Hansen took her well off-line, Brooke Utilities claimed her well produced more than 13,000 gallons per day. The company listed the well as an asset on reports to the Arizona Corporation Commission, which bases the rates it allows a company to charge on its assets and investments. On the Corporation Commission report, Brooke reported the well produced 6 to 7 gallons a minute.

Yet, when Hansen went to figure out how to make Brooke responsible for the damages and insurance, she had to pay for a year, none of the Arizona Department of Water Resources (ADWR) production reports listed her well.

“When I went to ADEQ, (Arizona Department of Environmental Quality) they said they did not see my well,” said Hansen.

A quick search on the Arizona Department of Water Resources well registry site for the well number listed on Brooke’s Arizona Corporation Commission production report, lists the well as being owned by William Huddleston from Mesa.

The paperwork with the well claims its physical location is on Lot number 26 off of Vista del Norte Street in Mesa del.

Hansen's well, however, is on Lot 164 on Gunsight Ridge.

On the ACC production report, while the well registry number is listed erroneously, the lot number is listed correctly.

As a result, when Hansen went to report the damage on her property, the ADEQ said it had no record of the well.

"If you put the well number into the Arizona well registry, it brings up the information on Huddleston," said Hansen. "If you read it carefully, that well is not in use, it's a capped well. Hardcastle had to find a well not in use and put in fake numbers ... (and so) ADEQ was led to del Norte."

Hansen said when ADEQ arrived at the del Norte address, inspectors would see the capped well and therefore not require testing for arsenic or bacteria.

Yet, Hansen said Hardcastle could then report the water the well produced on the Arizona Corporation Commission well production report.

It was a classic case of the right hand not understanding what the left hand was doing.

Hansen said it was very difficult for ADEQ to admit water from her untested, undocumented well was going into a public system. She said she had to resort to calling the Environmental Protection Agency (EPA) to get the federal regulators to pressure ADEQ to go to her property and verify the well.

"I said, why would I lie to you for a year? Yes, I know what's on paper, but it's wrong," she said of her conversation with the public safety organization.

When the ADEQ finally arrived on her property, she said representatives from Brooke Utilities were in tow.

"When I asked why the Brooke guys were there, they yelled, 'None of your f*cking business,'" said Hansen. "I got on the phone with the EPA Region 9 representative and he said, 'Is that Brooke screaming at you?'"

The story of how the well fell off the official reports goes back for more than a decade.

Mesa del resident, and owner of the local store Steve Gehring said the story started in 1996 when Benny and Lisa Harmon drilled the well as an investment. Records from the Gila County Recorder's Office confirm that fact.

Gehring, along with other residents, have started a case against Brooke Utilities and Hardcastle with the ACC.

Gehring said the Harmons then entered into an agreement with United Utilities owned by Rich Williamson.

As Gehring understands the local lore, the Harmons enjoyed a fair relationship with United Utilities, until Hardcastle bought the water company.

Soon Brooke stopped paying, said Gehring.

The Harmons fell on tough times and lost the house to foreclosure. A man named John Olson bought the property. He never registered the well in his name.

Then Olson lost the property to foreclosure, said Gehring.

Hansen and her partner Svanhilbur Jafetsdotti bought the house from Olson.

Three days before they closed on the property — the tank blew up — exposing the whole mess.

The new owner of the water company hopes to straighten out the problem going forward. He responded readily to requests for information from the Roundup.

Hansen confirmed that she has a pending agreement with Williamson. She said he has also sent her a check for her physical damages and has started paying for insurance on the well.

“Jason and I — I think — have an agreement that instead of taking an inducement fee, in lieu the fire department will get access to water,” said Hansen. “I have given them permission to go back on line.”

However, Williamson did say in his e-mail, “Unfortunately, while reinstating this source will help, it will not alleviate the need for hauling.”

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Payson Roundup | Payson, AZ

Water Not Tested

‘This is a nightmare’ says water expert of Mesa del well reports



Mary Hansen bought a home only to discover Brooke Utilities had been using a well on the property for years without state-mandated water testing. Photo by [Andy Towle](#). | [Buy a print of this](#)

By [Michele Nelson](#)

[As of Friday, September 13, 2013](#)

Mesa del Caballo residents have been drinking water from an untested well — perhaps for years, according to documents obtained by the Roundup.

However, tests on water from the well sought by the Roundup last week showed no contamination.

Still, the clean recent test doesn't guarantee that the well remained free of bacteria or other contaminants during the years it apparently fed into the Brooke Utilities system in the unincorporated subdivision with about 400 homes.

The Arizona Department of Environmental Quality (ADEQ) confirmed that a well now owned by Mary Hansen, which produces about half of Mesa del's water, has not been tested as required by law since it was drilled in 1996.

When asked if well no. 55-553798 (aka Mary's well) had a record with ADEQ at all, Mark Shaffer, communications director for ADEQ wrote that the only mention of it is an April 3, 2013 inspection report.



Photo by Andy Towle

Mary Hansen explains how a mistakenly closed pressure valve caused an explosion that revealed her untested well was connected to the Mesa del Caballo water system.

That report found other violations for the Mesa del well system that was under Brooke Utilities management until this year when JW Water Holdings purchased the company. The ADEQ inspector found three unidentified wells connected to the water system. Those wells included:

- Well no. 55-553798 (aka Mary's well) registered to Savanhildur Jafetsdottir, her partner.
- The second was well 55-560-560398 registered to Patty Caldwell (Behm).
- The third was well 55-553798 registered to the U.S. Geological Service, with coordinates that show it's located in the San Pedro water basin in Southeastern Arizona.

The inspection also revealed several minor problems, like the lack of a turned-down vent on one well and a well (55-801698) without its state well number posted.

Over the years, Brooke Utilities had listed some of these wells in reports to the ACC listing sources of drinking water for Mesa del, which means state law requires regular testing of the water.

The Caldwell well did get tested regularly, said Behm, although she had no water sharing agreement with Brooke and wasn't paid for the use of her water as far as she knew.

Mary's well never did show up under that number in any of Brooke filings with either ADEQ or the Arizona Corporation Commission, according to the records reviewed by the Roundup.

The new owner of the water system, Jason Williamson, confirmed he received a certified letter from ADEQ on Aug. 12 listing several violations. Alleged violations include:

- Failing to receive approval from ADEQ before altering the existing water system
- Failure to request a permit to make changes that affected how the water is treated, its quality, the capacity of the system, distribution of the water and general performance of the system.

The Roundup has secured the services of Rim Country Water Testing Co. run by Don Ascoli, a certified water operator (OP#025325) in Rim Country. The company provides a complete array of water testing services, usually for private well owners. The state requires companies that sell water to test water monthly, but private well owners often don't test their wells at all.

Ascoli said Williamson was to have met with the ADEQ requests by Sept. 12 or face consequences.

The Aug. 12 letter from ADEQ states Williamson could face civil penalties or the suspension or revocation of the company's license.

The Roundup asked Ascoli to test the water from Mary's well.

Ascoli's tests confirmed that Hansen's well is free of bacteria, nitrates and arsenic, the three most dangerous substances in drinking water from a well.

Ascoli said ADEQ requires him to test the water systems he oversees every month.

"If it's a public water system, I and the owner of the system get a letter from ADEQ stating we are out of compliance if we don't have test results in every month," said Ascoli.

When Ascoli heard of Brooke's mislabeling of Mary's well and other wells in the Mesa del system he said, "This is a nightmare."

Williamson said he and his company, JW Water Holdings are working to fix the issues, which all date back to before he bought the company.

“We are well aware of the inspection report and the findings in the ADEQ notices and are working with ADEQ to resolve them in a timely manner,” Williamson wrote in an e-mail. “After we work through the process, we have confidence all of the outstanding issues will be addressed. We would like to stress that the water sources currently used in Mesa del Caballo are safe and Payson Water Company is currently abiding by all of the ADEQ sampling and testing protocols.”

Shaffer wrote in an e-mail that ADEQ requires operators of water systems such as Mesa del’s to test for 100 different contaminants.

The agency requires testing on various timelines depending on the quality of the system.

If a water system has brown water, as has sometimes affected the Pine-Strawberry water system, ADEQ may require continuous testing.

Other systems can only be required to test once a year for nitrates.

For a list of requirements for testing see: http://www.azdeq.gov/environ/water/dw/download/dw_rules.pdf.

Shaffer wrote that if a system needs to be on its Monitoring Assistance Program, a qualified contracted laboratory takes samples. If tests are needed for coliform, ADEQ requires a monthly test. In the case of turbidity or “mud in the water” the system must do tests once every three months.

Brooke Utilities did file reports with ADEQ. They may be viewed at: http://azsdwis.azdeq.gov/DW_W_EXT/index.jsp. Search under “Payson Water — Mesa del Caballo”

But did Brooke Utilities report findings on the correct wells? At least in the case of Mary’s well, ADEQ has no test records.

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Payson Roundup | Payson, AZ

Neighboring Communities May See Steep Rate Hike

By Michele Nelson

As of Tuesday, September 24, 2013

Jason Williamson, manager of the Payson Water Company, wants the Arizona Corporation Commission (ACC) to give him permission to more than double water rates for more than 1,100 Rim Country customers in several unincorporated communities.

A Sept. 25 meeting 10 a.m. in the Commission's Hearing Room No. 2 in Phoenix, the ACC will discuss increasing rates by about 118 percent for Mead Ranch, East Verde Estates, Flowing Springs, Geronimo Estates/Elusive Acres, Mesa del Caballo, Whispering Pines and Gisela/Tonto Creek Shores.

The Roundup will explore that rate increase request in a future article.

But first, Williamson hopes to fix the Mesa del problem where residents have faced staggering increases in their water bills every summer due to ACC-approved water hauling charges when the system runs short of water.

Williamson has asked for a hearing before the ACC tomorrow, Sept. 25 at 10 a.m. in the Commission's offices located at 1200 W. Washington St., Hearing Room No. 2. The public can view the meeting online at: www.azcc.gov then click on "Live Meeting Broadcast."

At the Wednesday hearing, Williamson will ask the ACC to let the company impose a \$7.44-monthly charge on some 400 Mesa del residents to pay for a loan from the Water Infrastructure Finance Authority (WIFA) so his company can immediately build a pipeline to the Town of Payson water system. "The Company is requesting expedited processing 'so that it will be able to pursue an opportunity to build an interconnection between the Town of Payson and the Company's Mesa del Caballo Water system,'" writes ACC staff in a report from Sept. 18. "The Company anticipates completing construction by May 2014 if it obtains financing of \$275,000 before the end of the year."

The connection would eliminate the water hauling charges that have increased water bills 100 to 400 percent the past several summers.

Williamson would apply the \$265,000 loan for the connection to the Payson water system against the full \$1.2-plus-million it will cost to hook up the unincorporated subdivision to the C.C. Cragin/Blue Ridge Pipeline, said ACC staff in its report.

ACC staff recognizes Williamson has a timing issue. Unless he can find some sort of relief for Mesa del residents before the next set of dry summer months, he will have to truck in water again to keep the taps running.

Neither Williamson nor the ACC want to see obnoxious water bills again — nor do Mesa del residents.

“Consumer Services Staff has processed several informal complaints forwarded by the Commissioners office this summer regarding the high cost of MDC’s (Mesa del Caballo) Water Augmentation Surcharge,” wrote ACC staff in their report. “Several articles were written in the Payson Roundup this summer concerning the situation.”

The idea is to hook up Mesa del with the pipeline the town is building to reach the not-yet-built C.C. Cragin/Blue Ridge water treatment plant off of Houston Mesa Road near Mesa del.

Williamson told ACC staff he estimates it will cost \$275,000 to complete the project.

The ACC staff agrees with the estimate and does not anticipate a huge increase for Mesa del residents at first.

“Approval of a WIFA Loan Surcharge mechanism that may result in a surcharge of \$7.44 per month per MDC customer,” writes ACC staff.

“A utility has an obligation to provide adequate services,” Jodi Jerich, executive director ACC, “(But) a water utility is entitled to fair and reasonable rates, (and) customers are entitled to fair and reasonable rates (too).”

Jerich confirmed that providing adequate services means keeping the water or electricity running while charging reasonable rates.

Jerich said ACC staff has done a cost benefit analysis to decide what is more reasonable, drilling a well that might or might not produce enough water to cover the needs of Mesa del, or hooking up to the C.C. Cragin pipeline — a guaranteed source of water that will permanently end the need for water hauling.

The ACC hearing schedule shows additional time on the matter scheduled at 9:30 a.m., Thursday, Sept. 26.

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