

ORIGINAL

OPEN MEETING



0000180304

MEMORANDUM

RECEIVED
AZ CORP COMMISSION
DOCKET CONTROL

2017 JUN -9 A 11: 18

TO: THE COMMISSION **Arizona Corporation Commission DOCKETED**

FROM: Utilities Division **JUN 9 2017**

DATE: June 9, 2017 **DOCKETED BY**
[Signature]

RE: IN THE MATTER OF WATER OUTAGES, WATER QUALITY AND CUSTOMER SERVICE AT BEAVER VALLEY WATER COMPANY AND THE NEED FOR POTENTIAL REMEDIAL ACTIONS (DOCKET NO. W-02015A-17-0126)

SUBJECT: APPOINTMENT OF MR. MIKE ARMSTEAD AS AN INTERIM MANAGER FOR BEAVER VALLEY.

INTRODUCTION

Enclosed are the Commission Staff's memorandum and proposed order for the engagement of an interim manager for Beaver Valley Water Company (Docket Nos. W-02015A-17-0150 AND W-20935A-17-0150). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

Any party who wishes to comment on this matter may appear before the Commission at its regular open meeting scheduled for **June 13, 2017**, at 10:00 a.m. and **June 14, 2017**, at 10:00 a.m. or may file written comments in Docket Control.

If you have any questions about this matter, please contact Briton Baxter of our Staff at (602) 542-7195, or Elijah Abinah, Director, at (602) 542-6935.

BACKGROUND

Beaver Valley Water Company ("Beaver Valley") is an Arizona public service corporation that provides water utility service in Gila County, Arizona. Beaver Valley was granted its Certificate of Convenience and Necessity ("CC&N") by Decision No. 38565 (July 5, 1966). In Decision No. 55705 (August 26, 1987), the CC&N was transferred from Beaver Valley Water Company, Inc. (a Corporation which has since been dissolved) to Beaver Valley Water Company, a partnership of Edgar Delaney and R.W. Ward. The Commission then authorized Beaver Valley Water Company to transfer its CC&N from the partnership to Mike Davoren as a sole proprietor in Decision No. 69244, dated January 19, 2007.

On May 24, 2017, the Commission held a Special Open Meeting at the Beaver Valley Fire Department to take public comment in the matter of water outages, water quality, and customer

service at Beaver Valley, and to discuss the need for remedial actions. Fourteen people provided comments having to deal with outages, leaks, curtailment communication issues, dirty water, water pressure inconsistencies, inappropriate communications and various forms of retaliation from the current owner, a lack of timely annual reports, and inaccurate notices being sent to ratepayers. The community also made it clear that they have been dealing with these issues for about 20 years. However, they are encouraged by the fact that the Commission is now listening and hopeful that they will start to see changes.

The plant facilities were field inspected on May 24, 2017, by Staff members Al Amezcua, Michael Buck and Frank Smaila in the accompaniment of Mr. Mike Armstead. ADEQ also inspected the water system on May 24, 2017.

STAFF ANALYSIS AND RECOMMENDATIONS

On June 5, 2017, Beaver Valley requested that the Commission appoint Michael Armstead of Management Systems LLC as the interim manager of Beaver Valley. As a result of meeting with representatives of both Beaver Valley and Management Systems, Staff understands that Mr. Armstead, has already begun taking action to correct the issues that the Beaver Valley system is facing, as voiced by the community. Implementation of an interim manager puts in place a manager that Staff believes possesses the requisite skills and abilities to competently operate a water system.

Staff recommends that the Commission appoint Mr. Armstead the interim manager for Beaver Valley. Staff further recommends that Mr. Armstead take immediate actions to correct the deficiency compliance items identified in Table 1 of the Staff Engineering Memo. Staff will continue to monitor this situation and make appropriate filings before the Commission in the event that further action is warranted.



Elijah O. Abimah
Director
Utilities Division

EOA:BAB:red\CHH

ORIGINATOR: Briton Baxter

THE COMMISSION


June 9, 2017

Page 3

On this 9th day of June, 2017, the foregoing document was filed with Docket Control as a **Utilities Division Memorandum & Proposed Order**, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

Mr. Michael Armstead
Management Systems, LLC
211 West Saddle Lane
Payson, Arizona 85541

Mr. Andy Kvesic
Director/Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

By: 
Renee de la Fuente
Administrative Support Specialist

MEMORANDUM

DATE June 6, 2017

TO: Briton Baxter
Public Utilities Manager

FROM: Frank M. Smaila
Utilities Engineer

RE: **Beaver Valley Water Company
Water System Inspection Report**

Introduction

Beaver Valley Water Company (“Beaver Valley” or “Company”) is located near Star Valley in the Tonto National Forest, approximately 11 miles northeast of Payson, in Gila County, Arizona. The Company’s Certificate of Convenience and Necessity (“CC&N”) granted by the Arizona Corporation Commission (“ACC” or “Commission”) in Decision No. 38565, dated July 5, 1966, is comprised of roughly 114 acres. Figure 1 shows the location of the Company within Gila County and Figure 2 shows the location of the Company in relation to other Commission regulated companies in Gila County. Beaver Valley is a Class E water utility company. The Commission in Decision No. 66388, dated October 6, 2003, granted the Company a revised rate schedule.

Due to numerous complaints received by the ACC from the Company’s customers, Utilities Division Staff (“Utilities Staff” or “Staff”) were directed to inspect the water system and provide a report as to Staff’s findings. The plant facilities were field inspected on May 24, 2017, by Staff members Al Amezcua, Michael Buck and Frank Smaila in the accompaniment of Mr. Mike Armstead.¹ Arizona Department of Environmental Quality (“ADEQ”) also inspected the water system on May 24, 2017. This Engineering memorandum constitutes Staff’s engineering evaluation of the Company’s water system.

System Analysis

According to Mr. Armstead, the water system currently consists of one 1.5 horsepower (“hp”) well pump with capacity of 40 gallons per minute (“gpm”), one chlorinator, two 8,300 gallon storage tanks, one 7.5 hp booster pump, one 5,000 gallon pressure tank and a distribution system serving approximately 202 metered service connections (220 connections at full buildout). The Company also has two sand filters for treatment of surface water from the East Verde River.² At this time the sand filters have been bypassed and only groundwater is being utilized. Staff concludes that the Company has adequate production to serve its existing customers and reasonable growth but lacks the required storage capacity. Staff recommends that the Company install an additional

¹ At the time of the site inspection Mr. Armstead had been managing the water system for only one week.

² The Company has rights to an additional water source, East Verde River, and can remove 23.4 acre feet per year.

15,000 gallons of water storage capacity to fulfill storage requirement for system at full customer buildout.³ A system schematic is shown as Figure 3.

1. Water Loss

According to the 2016 annual report the data indicates that the Company pumped 5,290,000 gallons and sold 5,264,000 gallons, resulting in a water loss of less than 1.0 percent. This percentage is within the acceptable limit of 10 percent. Staff examined other annual reports for the Company and found low water loss comparable to 2016 data.

2. Plant Deficiencies Identified During Site Inspection

Staff identified several items that needed attention during its site inspection on May 24, 2017. Staff recommends that within 180 days of the effective date of the order in this matter Beaver Valley complete the needed improvements listed in Table 1 and file, as a compliance item with the Commission’s Docket Control, documentation demonstrating that the improvements have been completed.

Table 1. List of Deficiencies and Recommended Course of Action

Location	Issue Type	Description of Issue	Possible Consequence	Recommend Company	Regulation - Guideline	Estimated Cost
Wellsite	Health and Safety	Cracks in Production Well Pad/Slab	Contamination of Well	Seal cracks or install new well pad/slab	Bulletin No. 10 Chapter 2.E.9 ⁴	\$50 - \$500
Wellsite	Health and Safety	Top of Well less than 12-inch above Well Slab	Contamination of Well	Raise Well Head	Bulletin No. 10 Chapter 2.E.8	\$200
Wellsite	Health and Safety	Well Discharge Line Missing Check Valve	Contamination of Well	Install Check Valve on Well Discharge Line	Bulletin No. 10 Chapter 3.C.4	\$200
Wellsite	Health and Safety	Well Discharge Line Missing Shut Off Valve	Contamination of Well	Install Shut Off Valve on Well Discharge Line	Bulletin No. 10 Chapter 3.C.4	\$300
Storage Tanks	Water Capacity	Does not have Minimum Storage Capacity	Drinking Water depleted before 24 hours	Increase Storage Capacity by Minimum of 5,000 gallons	AAC R18-5-503.A ⁵	\$15,000

³ Presently, the Company requires an additional 5,000 gallons of water storage to fulfill its current water storage requirements.

⁴ Arizona Department of Environmental Quality Engineering Bulletin No. 10”Guidelines for the Construction of Water Systems”, May 1978 (“Bulletin 10”).

⁵ Arizona Administrative Code (“AAC”).

Storage Tanks	Health and Safety, Security and/or Vandalism	Fencing in disrepair where one may gain access to wellsite	Contamination of drinking water and/or Vandalism	Repair security fencing	Bulletin No. 10 Chapter 6.E.3	\$4,000
Storage Tanks	Health and Safety	Immediate area is graded toward Storage Tanks	Undermining of Storage Tank Foundation	Grade to prevent surface water from ponding near Foundations	Bulletin No. 10 Chapter 6.E.14	\$1,000
Storage Tanks	Health and Safety	Ladder left at Storage Tank	Contamination of drinking water and/or Vandalism	Remove Ladder to prevent access to Storage Tank Interior	Bulletin No. 10 Chapter 6.E.3	\$0
Storage Tanks	Safety, Security and/or Vandalism	It is unknown if Top Hatch on either Storage Tank is lockable	Contamination of drinking water and/or Vandalism	Insure that Top hatch for each Storage is lockable	Bulletin No. 10 Chapter 6.E.8	\$200
Storage Tanks	Operational	Neither Storage Tank incorporates an Overflow Pipe	Overflow of Storage Tank and undermining Foundation	Install Overflow Piping on each Storage Tank	Bulletin No. 10 Chapter 6.E.6*	\$800
Storage Tanks	Health and Safety	Leaky Valve at Storage Tanks	Contamination of drinking water if loss of Pressure	Repair or Replace Valve to prevent Back-Siphonage	Bulletin No. 10 Chapter 7.B.5*	\$50 - \$3,000

Note*: Staff learned that these items were identified by Steven Schoen, ADEQ inspector, as corrective actions needed during his inspection on May 24th. ADEQ inspection report may identify more items but Staff has not seen the report.

3. Other Issues

a. Booster Pump

The system incorporates one 7.5 hp booster pump which supplies water to the pressure tank which is then distributed to customers. Bulletin 10 Chapter 3.C.1 states "...A minimum of two complete pumping units shall be provided, each capable of delivering the required flow while maintaining minimum system pressures." It is Staff's experience that ADEQ would allow the Company to operate only one booster pump on the premise that the Company would have on site a spare booster pump and motor for this application. Mr. Armstead showed Staff a disassembled pump and motor that he thought was for this application. Staff was unable to determine if the disassembled pump and motor were for the application or if the pump and motor were in the process of being repaired. Staff recommends the Company retain on site a complete and operational spare 7.5 hp booster pump to supply drinking water to the distribution system. Staff estimates the cost of one spare 7.5 hp motor and pump to be \$3,000.

b. Blowoff Valves

Currently the Company does not have the means to flush the waterlines after a water main break. Usually, fire hydrants or blowoff valves are utilized as means to flush the water lines after a repair so that sediment does not reach the consumer. Unfortunately, the Company has neither fire hydrants nor blowoff valves incorporated into the distribution system for this task. Staff recommends that the Company install a minimum of three blowoff valves in the distribution system to allow flushing of repaired water mains. Staff estimates the cost to purchase and install 3-2 inch blowoff assemblies to be \$9,000.

c. Beaver Valley Subdivision Unit 6 ("Unit 6") Water Supply

In early March of this year the six inch water line that crosses the East Verde River to supply drinking water to Unit 6 ruptured and was deemed unrepairable.⁶ The Company disconnected the six inch water line and draped a one inch polyethylene pipeline across the East Verde River to provide drinking water to Unit 6. The one inch water line could not provide the required pressure or quantity required. Mr. Armstead has since installed an additional two inch polyethylene water line across the river and this added capacity has provided stabilizing pressure and quantity to Unit 6. But these 2 small water lines draped across the river is not a permanent solution. Staff recommends that the Company hire a Professional Engineer to design a permanent water line to supply drinking water to Beaver Valley Subdivision Unit 6. Staff estimates the cost to design, permit, purchase and install a 4 inch water main across the river on an approved right of way to be \$40,000.

Arizona Department of Environmental Quality Compliance

Staff received an ADEQ Drinking Water Compliance Status Report ("CSR") dated April 25, 2017, in which ADEQ reported that the Beaver Valley Water System, Public Water System ("PWS") No. 04-004, is not in compliance with ADEQ requirements and is currently delivering water that does not meet water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. According to the CSR, the Company has not provided ADEQ with the Consumer Confidence Report for 2015 and has an outstanding Compliance Order, DW-39-15⁷, indicating that the media utilized in the sand filters is not ANSI/NSF 60 approved.⁸ Staff recommends that within 90 days the Company file with Docket Control, as a compliance item in this docket, documentation from ADEQ indicating that Beaver Valley's water system is compliant with departmental requirements.

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located within an ADWR Active Management Area. Staff received a Water Provider Compliance Status Report dated May 23, 2017, in which ADWR reported that Beaver Valley was currently in compliance with departmental requirements governing water providers and/or community water systems.

⁶ Six inch Water line is located on the bed of the East Verde River.

⁷ ADEQ Compliance Order DW-39-15 issued 11/13/15.

⁸ As indicated in the System Analysis Section, the two sand filters have been bypassed and are no longer treating water. Also, the Company submitted the Consumer Confidence Report for Calendar Year 2016.

ACC Compliance

On May 24, 2017, the Utilities Division compliance database showed that the Company had no delinquent ACC compliance items.

Recommendations

1. Staff recommends that the Company install an additional 15,000 gallons of water storage capacity to fulfill storage requirement for system at full customer buildout.
2. Staff recommends that within 180 days of the effective date of the order in this matter Beaver Valley complete the needed improvements listed in Table 1 and file, as a compliance item with the Commission's Docket Control, documentation demonstrating that the improvements have been completed.
3. Staff recommends the Company retain on site a complete and operational spare 7.5 hp booster pump to supply drinking water to the distribution system.
4. Staff recommends that the Company install a minimum of three blowoff valves in the distribution system to allow flushing of repaired water mains.
5. Staff recommends that the Company hire a Professional Engineer to design a permanent water line to supply drinking water to Beaver Valley Subdivision Unit 6.
6. Staff recommends that within 90 days the Company file with Docket Control, as a compliance item in this docket, documentation from ADEQ indicating that Beaver Valley's water system is compliant with departmental requirements.

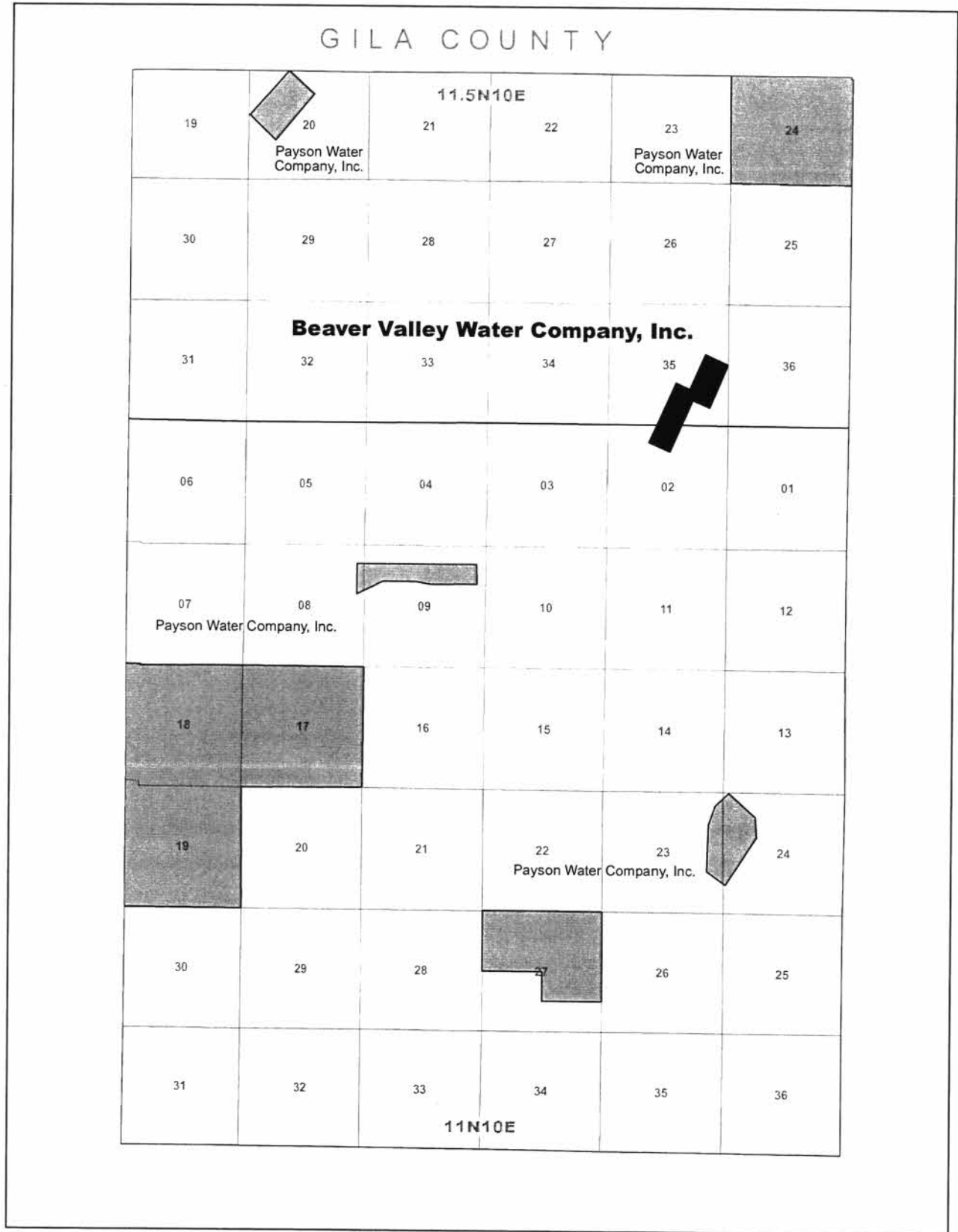


Figure 1. Certified Area

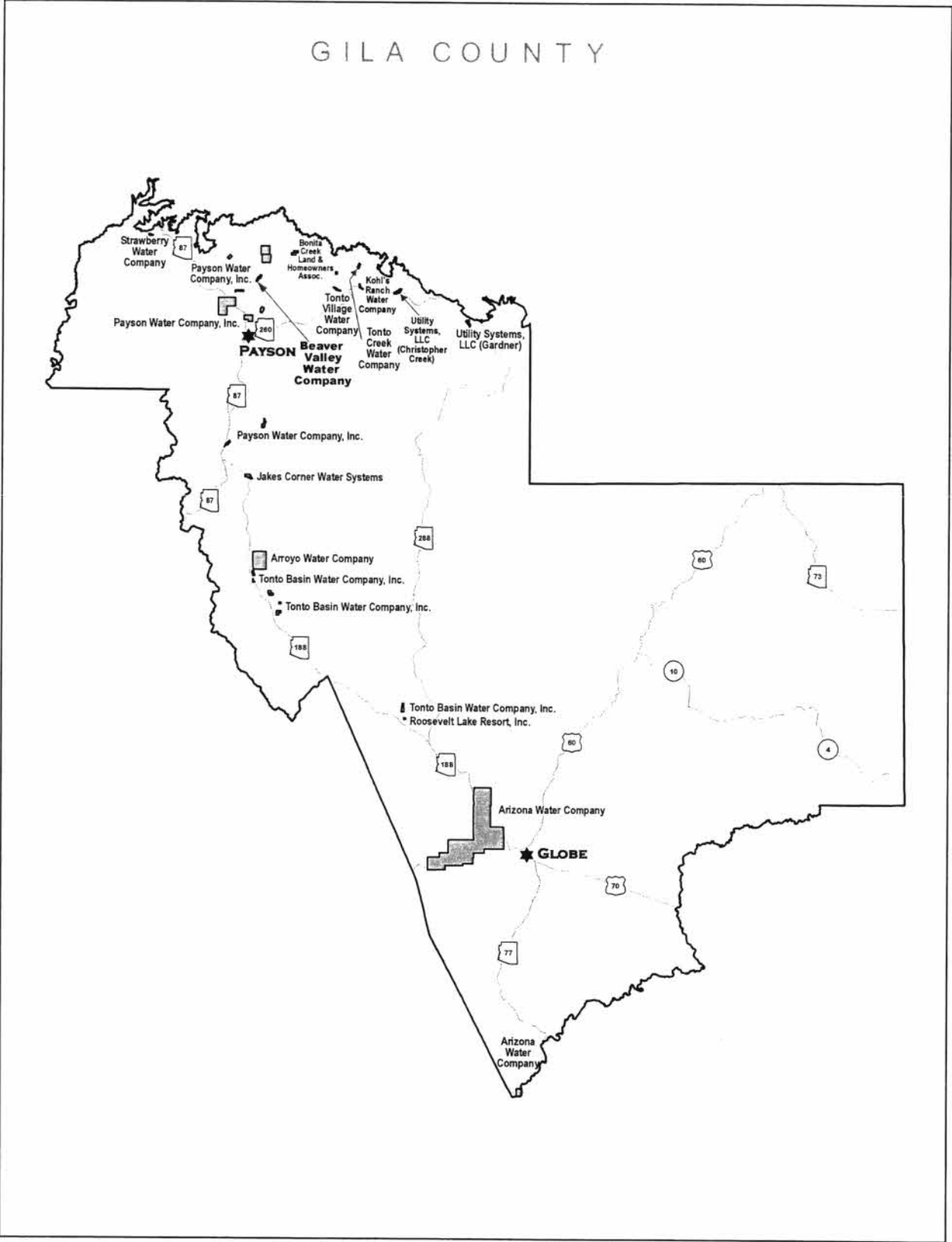


Figure 2. Water Systems in Gila County

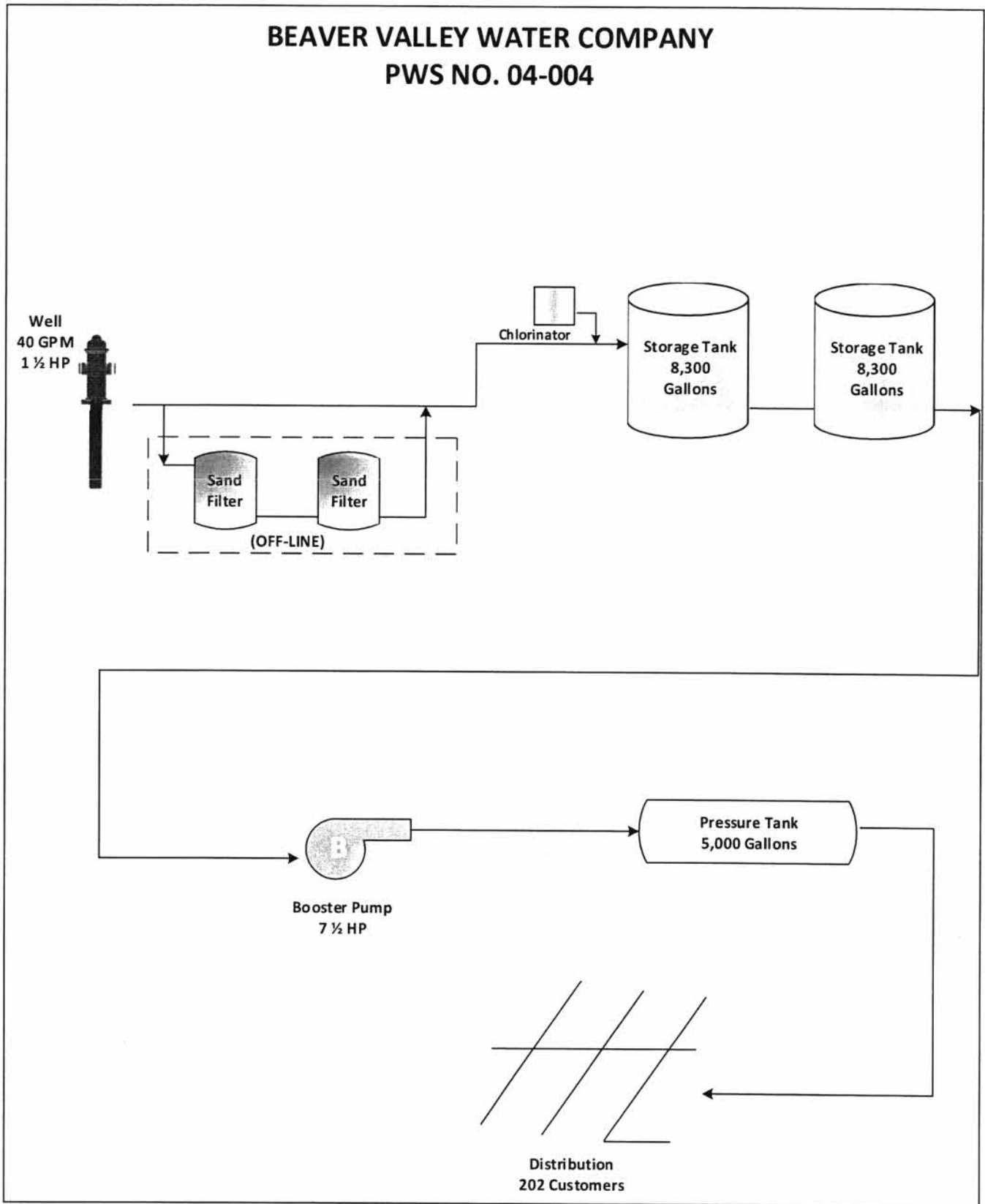


Figure 3. Water System Schematic

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

BEFORE THE ARIZONA CORPORATION COMMISSION

TOM FORESE
Chairman
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
ANDY TOBIN
Commissioner
BOYD DUNN
Commissioner

IN THE MATTER OF WATER OUTAGES,
WATER QUALITY AND CUSTOMER
SERVICE AT BEAVER VALLEY WATER
COMPANY AND THE NEED FOR
POTENTIAL REMEDIAL ACTIONS.

DOCKET NOS. W-02015A-17-0126

DECISION NO. _____
ORDER

Open Meeting
June 13 and 14, 2017
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. Beaver Valley Water Company (“Beaver Valley” or “Company”) is an Arizona public service corporation that provides water utility service in Gila County, Arizona. Beaver Valley was granted its Certificate of Convenience and Necessity (“CC&N”) by Decision No. 38565 (July 5, 1966). In Decision No. 55705 (August 26, 1987), the CC&N was transferred from Beaver Valley Water Company, Inc. (a Corporation which has since been dissolved) to Beaver Valley Water Company, a partnership of Edgar Delaney and R.E. Ward. The Commission then authorized Beaver Valley Water Company to transfer its CC&N from the partnership to Mike Davoren as a sole proprietor in Decision No. 69244, dated January 19, 2007.

2. On May 24, 2017, the Commission held a Special Open Meeting at the Beaver Valley Fire Department to take public comment in the matter of water outages, water quality, and customer service at Beaver Valley, and to discuss the need for remedial actions. Fourteen people provided

1 comments having to deal with outages, leaks, curtailment communication issues, dirty water, water
2 pressure inconsistencies, inappropriate communications and various forms of retaliation from the
3 current owner, a lack of timely annual reports, and inaccurate notices being sent to ratepayers. The
4 community also made it clear that they have been dealing with these issues for about 20 years.
5 However, they are encouraged by the fact that the Commission is now listening and hopeful that they
6 will start to see changes.

7 3. The plant facilities were field inspected on May 24, 2017, by Staff members Al
8 Amezcua, Michael Buck and Frank Smaila in the accompaniment of Mr. Mike Armstead. ADEQ also
9 inspected the water system on May 24, 2017.

10 **Staff Recommendations**

11 4. On June 5, 2017, Beaver Valley requested that the Commission appoint Michael
12 Armstead of Management Systems LLC as the interim manager of Beaver Valley. As a result of
13 meeting with representatives of both Beaver Valley and Management Systems, Staff understands that
14 Mr. Armstead, has already begun taking action to correct the issues that the Beaver Valley system is
15 facing, as voiced by the community. Implementation of an interim manager puts in place a manager
16 that Staff believes possesses the requisite skills and abilities to competently operate a water system.

17 5. Staff recommends that the Commission appoint Mr. Armstead the interim manager
18 for Beaver Valley.

19 6. Staff recommends that the Company install an additional 15,000 gallons of water
20 storage capacity to fulfill storage requirement for system at full customer buildout.

21 7. Staff recommends that within 180 days of the effective date of the order in this matter
22 Beaver Valley complete the needed improvements listed in the attached Table 1 and file, as a
23 compliance item with the Commission's Docket Control, documentation demonstrating that the
24 improvements have been completed.

25 8. Staff recommends the Company retain on site a complete and operational spare 7.5 hp
26 booster pump to supply drinking water to the distribution system.

27 9. Staff recommends that the Company install a minimum of three blowoff valves in the
28 distribution system to allow flushing of repaired water mains.

1 IT IS FURTHER ORDERED that Beaver Valley Water Company install a minimum of three
2 blowoff valves in the distribution system to allow flushing of repaired water mains.

3 IT IS FURTHER ORDERED that Beaver Valley Water Company retain a Professional
4 Engineer to design a permanent water line to supply drinking water to Beaver Valley Subdivision Unit
5 6.

6 IT IS FURTHER ORDERED that within 90 days of the effective date of this order, Beaver
7 Valley Water Company file with Docket Control, as a compliance item in this docket, documentation
8 from ADEQ indicating that Beaver Valley Water Company's water system is compliant with
9 departmental requirements.

10 ...
11 ...
12 ...
13 ...
14 ...
15 ...
16 ...
17 ...
18 ...
19 ...
20 ...
21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that Staff shall monitor the situation and make the appropriate
2 filings before the Commission in the event that further action is warranted.

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

5 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**
6

7 _____
CHAIRMAN FORESE

COMMISSIONER DUNN

8
9
10 _____
COMMISSIONER TOBIN

COMMISSIONER LITTLE

COMMISSIONER BURNS

11
12 IN WITNESS WHEREOF, I, TED VOGT, Executive
13 Director of the Arizona Corporation Commission, have
14 hereunto, set my hand and caused the official seal of this
Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2017.
15

16 _____
17 TED VOGT
18 EXECUTIVE DIRECTOR

19 DISSENT: _____

20 DISSENT: _____
21

22 EOA:BAB:red/CHH
23
24
25
26
27
28

1 Beaver Valley Water Company
2 Docket Nos. W-02015A-17-0126

3 Mr. Michael Armstead
4 Management Systems, LLC
5 211 West Saddle Lane
6 Payson, Arizona 85541

7 Mr. Andy Kvesic
8 Director/General Counsel, Legal Division
9 Arizona Corporation Commission
10 1200 West Washington Street
11 Phoenix, Arizona 85007

12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Table 1. List of Deficiencies and Recommended Course of Action

Location	Issue Type	Description of Issue	Possible Consequence	Recommend Company	Regulation - Guideline	Estimated Cost
Wellsite	Health and Safety	Cracks in Production Well Pad/Slab	Contamination of Well	Seal cracks or install new well pad/slab	Bulletin No. 10 Chapter 2.E.9 ¹	\$50 - \$500
Wellsite	Health and Safety	Top of Well less than 12-inch above Well Slab	Contamination of Well	Raise Well Head	Bulletin No. 10 Chapter 2.E.8	\$200
Wellsite	Health and Safety	Well Discharge Line Missing Check Valve	Contamination of Well	Install Check Valve on Well Discharge Line	Bulletin No. 10 Chapter 3.C.4	\$200
Wellsite	Health and Safety	Well Discharge Line Missing Shut Off Valve	Contamination of Well	Install Shut Off Valve on Well Discharge Line	Bulletin No. 10 Chapter 3.C.4	\$300
Storage Tanks	Water Capacity	Does not have Minimum Storage Capacity	Drinking Water depleted before 24 hours	Increase Storage Capacity by Minimum of 5,000 gallons	AAC R18-5-503.A ²	\$15,000
Storage Tanks	Health and Safety, Security and/or Vandalism	Fencing in disrepair where one may gain access to wellsite	Contamination of drinking water and/or Vandalism	Repair security fencing	Bulletin No. 10 Chapter 6.E.3	\$4,000
Storage Tanks	Health and Safety	Immediate area is graded toward Storage Tanks	Undermining of Storage Tank Foundation	Grade to prevent surface water from ponding near Foundations	Bulletin No. 10 Chapter 6.E.14	\$1,000
Storage Tanks	Health and Safety	Ladder left at Storage Tank	Contamination of drinking water and/or Vandalism	Remove Ladder to prevent access to Storage Tank Interior	Bulletin No. 10 Chapter 6.E.3	\$0
Storage Tanks	Safety, Security and/or Vandalism	It is unknown if Top Hatch on either Storage Tank is lockable	Contamination of drinking water and/or Vandalism	Insure that Top hatch for each Storage is lockable	Bulletin No. 10 Chapter 6.E.8	\$200
Storage Tanks	Operational	Neither Storage Tank incorporates an Overflow Pipe	Overflow of Storage Tank and undermining Foundation	Install Overflow Piping on each Storage Tank	Bulletin No. 10 Chapter 6.E.6*	\$800
Storage Tanks	Health and Safety	Leaky Valve at Storage Tanks	Contamination of drinking water if loss of Pressure	Repair or Replace Valve to prevent Back-Siphonage	Bulletin No. 10 Chapter 7.B.5*	\$50 - \$3,000

¹ Arizona Department of Environmental Quality Engineering Bulletin No. 10, "Guidelines for the Construction of Water Systems", May 1978 ("Bulletin 10").

² Arizona Administrative Code ("AAC").