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# MEMORANDUM

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Date: September 17, 2018

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Ajo Improvement Company Rate Increases**

Please see the attached September 11, 2018 update from Regional Wastewater Reclamation Director Jackson Jenkins regarding Ajo Improvement Company's proposed rate increases for sewer users in Ajo, Arizona.

If approved by the Arizona Corporation Commission, sewer charges for a typical Ajo resident will increase dramatically from approximately \$16 to \$100 per month at the end of a five-year escalation period.

I have asked staff to review these matters in detail and to become an intervener in the rate case on behalf of Pima County for our properties that will be subject to these rate increases as well as for Ajo residents.

We will continue to explore why the dramatic rate increase is necessary for sewer users as well as those using electricity and water from the Ajo Improvement Company. This update is for your information and part of our ongoing review of the validity of these proposed rate increases.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works  
Charles Wesselhoft, Deputy County Attorney  
Diana Durazo, Special Projects Manager, Pima County Administrator's Office  
Jackson Jenkins, Director, Regional Wastewater Reclamation



WASTEWATER RECLAMATION  
201 NORTH STONE AVENUE  
TUCSON, ARIZONA 85701-1207

JACKSON JENKINS  
DIRECTOR

PH: (520) 724-6500  
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September 11, 2018

**TO:** C.H. Huckelberry, County Administrator

**THRU:** Carmine DeBonis, Jr., Deputy County Administrator – Public Works 

**FROM:** Jackson Jenkins, Director – RWRD 

**SUBJECT:** Ajo Improvement Company Rate Increases for Electric, Water and Sewer

The following information is in response to questions posed in your August 6, 2018, memorandum, subject, *Ajo Improvement Company Rate Increases for Electric, Water, and Sewer*. We have experienced difficulties reaching a member of the Ajo Improvement Company (Ajo IC) as well as gathering information from the Arizona Corporation Commission (ACC). The contact at the ACC on this matter has been tied up with issued pertaining to Johnson Utilities and we are awaiting a return call. These responses are based on our internal research and a comparison against our costs for similar treatment services.

**Do the rate increases only apply to the Ajo Improvement Company service area?**

On December 5, 2017, the Ajo IC filed applications with the Arizona Corporation Commission for permanent rate increases for its water, wastewater, and electric divisions over a five-year rate phase-in period. These rate increases would only apply to the Ajo IC service area.

The applications for each of the divisions seek an increase as follows:

1. The wastewater division seeks an increase of 507.4 percent at the end of the phase-in period. The average residential wastewater customer would see a bill increase from \$16.10 to \$100.30 at the end of the five-year period.
2. The electric division seeks an increase of 132.47 percent at the end of the phase-in period. The average residential electric customer would see a bill increase from \$45.41 to \$106.11 at the end of the five-year period.
3. The water division seeks an increase of 356.97 percent at the end of the phase-in period. The average residential water customer would see a bill increase from \$18.40 to \$82.66 at the end of the five-year period.

The actual percentage rate increase for individual customers will vary depending on the type and quantity of service provided. However, these are quite astonishing figures and the Ajo IC has not increased rates since 2000.

**Are there any wastewater customers that reside outside of the Ajo Improvement Company electric and water service area?**

Customers residing outside of the Ajo IC service area are on personal septic systems. The Ajo IC is the only wastewater treatment provider in the area.

The wastewater division of the Ajo IC has approximately 1,032 connections.<sup>1</sup> This is a higher number of customers than the water and electric division which both have 980 connections.

<sup>1</sup> Application – Rates, Ajo Improvement Company Wastewater Division, Arizona Corporation Commission

C.H. Huckelberry, County Administrator

**Subject: Ajo Improvement Company Rate Increases for Electric, Water, and Sewer**

September 11, 2018

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**Provide the specific justifications associated with each of these increase to determine the cause of the significant increase and the objective related to each utility.**

Wastewater

The application for the wastewater division rate increase seeks an increase in total revenues of \$1,175,947, or 507.4 percent. The principal driver of the rate increase is \$47.8 million in capital improvements made by the Ajo IC since its last rate increase. Of this total, \$20.7 million was for wastewater infrastructure. We have a request in to the ACC on the details of these improvements.

Another justification cited is that the Ajo IC's rates are outdated and have not been updated since June 22, 2004. The test year for the last rate increase was 2002; the test year for this rate increase request is 2016.

In a brief discussion with Malena, receptionist at the Ajo IC, it was mentioned the ACC mandated these increases since the Ajo IC had not had a rate increase since 2000. When we inquired as to why the utility had not kept up with rate increases, we received contradictory information than what was listed in the application. We were told it was because there were no capital needs at the time and now there are. No further information was provided and no other staff members were available. We have a request in to the ACC for clarification.

Water

The following information has been provided by Kathy Chavez, Water Policy Manager, Office of Sustainability and Conservation.

There are two water providers serving the Ajo area:

- AZ Water Company; and
- Ajo Domestic Water Improvement District (ADWID).

Ajo IC is regulated by the Corporation Commission, while the ADWID is not. However, the Ajo IC's docket filing says it sells bulk water to both AZ Water Company and ADWID. So if the rate increase is approved, it will affect both water service areas. The Ajo Freeport District also provides water to both entities along with Freeport mining properties.

Attached is a map showing the service areas of each and below is a table with information on each.

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C.H. Huckelberry, County Administrator

Subject: Ajo Improvement Company Rate Increases for Electric, Water, and Sewer

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	# Residential Customers	# of Non-residential customers	Groundwater delivered	Residential Rate	Typical Residential Bill (based on 8,000 gal/mo)	Comments
Ajo IC	546 single family 15 multi-family	77	126.61 af	\$27.22 fixed + \$3.8116/1,000 gal tier 1 \$5.4729/1,000 gal tier 2 \$7.1343/1,000 gal tier 3	\$70	
ADWID	133	0	31.51 af	\$30 fixed + \$7/1,000 gal tier 1 \$8.50/1000 gal tier 2	\$86	
Ajo Freeport	1001	176	399.54 af			31.51 af to Ajo DWID and 123.56 af to AIC

**Determine if there is any reasonable justification as to why Freeport McMoran is being treated as a contract customer with a special utility rate.**

In the discussion with Malena, receptionist at the Ajo IC, it was reported that Freeport McMoran does not receive a special utility rate and pays the same cost for service as other customers. In other research, staff have read that Freeport McMoran receives a special rate due to their previous contributions to capital projects. This topic remains unclear and is pending clarification from the ACC.

**Comparison to Similar RWRD Treatment Services**

The Arivaca Junction Water Reclamation Facility is the most similar in operation to the Ajo IC's wastewater treatment plant, the Arivaca aerated lagoon pump station, and approximate five miles of conveyance piping have a 100,000 gallons per day capacity compared to Ajo IC which is a 250,000 gallons per day dual aerated lagoon system. Based on the Ajo IC permit details, their system is a rather simple, low tech treatment facility which discharges its effluent to the nearby tailings impoundment.

After the proposed five years of significant rate increases, the resulting average sewer user fee in Ajo, AZ, will likely be over \$100 per month for a residential customer. The average monthly cost for the approximate 300 Arivaca Junction customers would be close to \$40 per residential customer per month if these customers were not part of a larger regional system. If one were to add the additional cost of the associated debt service for the past capital investments at this location only, this cost would approach \$50 per month. As an additional comparison, the City of Bisbee has a much more advanced treatment system and associated APP and AZPDES permit and is a relatively new facility. This community of approximately 4,500 customers pays on average close to \$50 per month for their wastewater service.

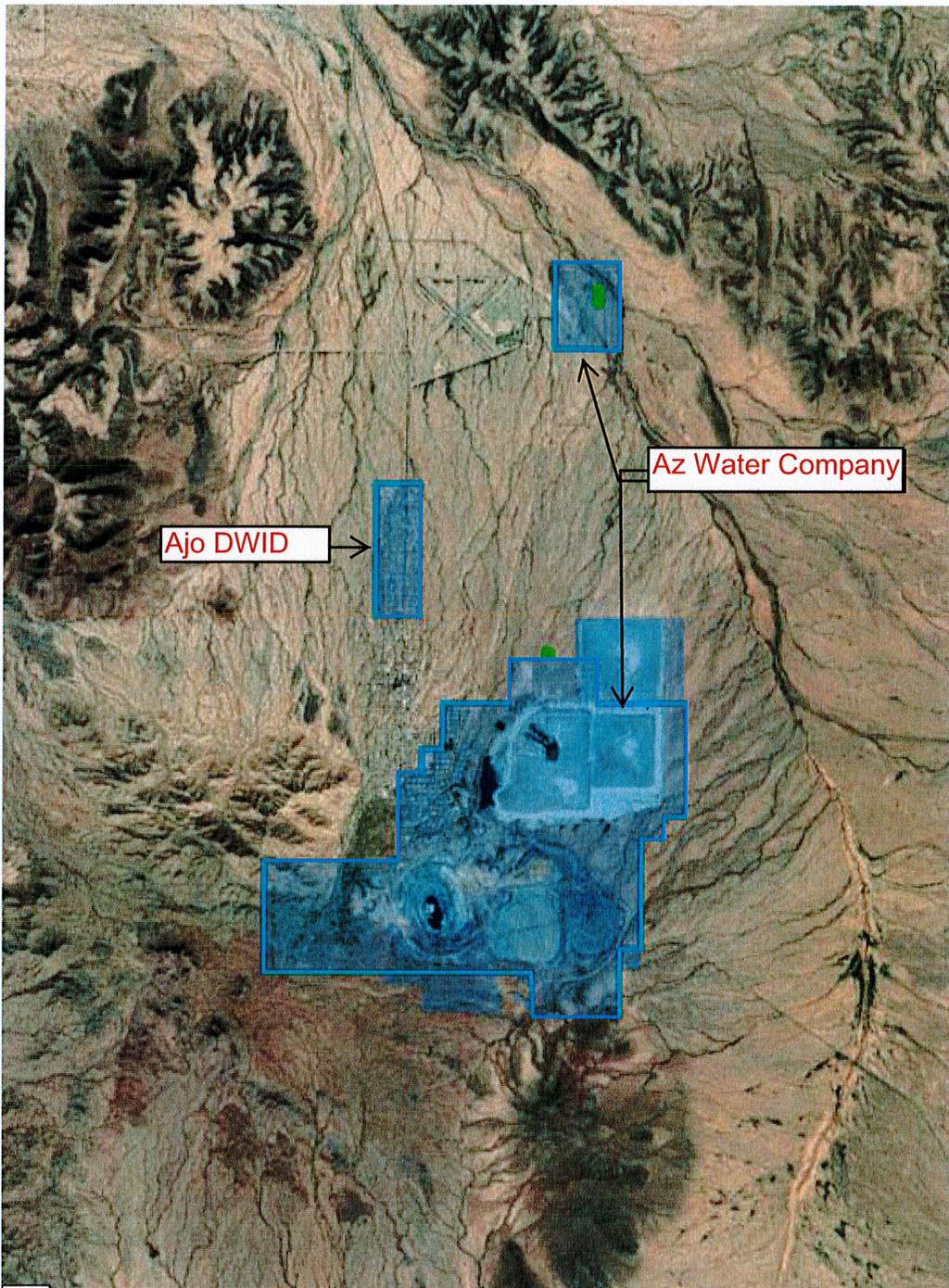
**Conclusion**

The \$100 per month estimate for Ajo IC's customers seems exorbitantly high in comparison to costs for utilities of a similar size. In order to further evaluate the proposed rate, it would be necessary to understand the debt service and capital investments for which the Ajo IC indicates is creating the need for an increase. We will provide an updated perspective as our questions are answered.

Attached

Ajo Area Water Providers

08-09-18





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# MEMORANDUM

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Date: August 6, 2018

To: The Honorable Sharon Bronson, Member  
Pima County Board of Supervisors

From: C.H. Huckelberry,  
County Administrator

A handwritten signature in black ink, appearing to read "C.H. Huckelberry", is written over the printed name of the County Administrator.

Re: **Ajo Improvement Company Rate Increases for Electric, Water and Sewer**

As per our recent discussion, please see the attached comprehensive report regarding the proposed utility rate increases in Ajo, Arizona by the Ajo Improvement Company. These increases when combined (water, sewer and electric), are substantial with the largest increase occurring in the wastewater utility bill at 523 percent. The electric utility is requesting an increase of 134 percent and the water utility a 349 percent increase.

All of these increases are substantial and excessive. I have asked the County Attorney to prepare to intervene in this rate case and request the increases be significantly moderated over time which means the increases could be phased in over a five year period.

In addition, I am unable to determine any justification for the special electric rate "contract rate" for Freeport McMoran.

I have asked staff to compare the utility rates for other Ajo residents who are not within the Ajo Improvement Company service area; specifically, do the rate increases only apply in the Ajo Improvement Company service area? Another question I have posed is whether there any wastewater customers that reside outside of the Ajo Improvement Company electric and water service area. There is a separate electric and water provider for Ajo customers outside of the Ajo Improvement Company, but am unsure regarding the wastewater connections.

I will also ask our subject matter experts, Facilities Management and Wastewater staff, to review the specific justifications associated with each of these increases to determine the cause for the significant increase and the objective related to each utility. Deputy County Administrator Carmine DeBonis will coordinate the water and sewer rate evaluation and Facilities Management Director Lisa Josker and Facilities Management Energy Manager Patrick O'Leary Jr. will evaluate the electric rate increase. The review will also determine if there is any reasonable justification as to why Freeport McMoran is being treated as a contract customer with a special utility rate.

The Honorable Sharon Bronson  
Re: **Ajo Improvement Company Rate Increases for Electric, Water and Sewer**  
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Chief Civil Deputy Attorney Andrew Flagg and Deputy County Attorney Charles Wesselhoft will prepare the necessary documents for County intervention in the Ajo Improvement Company rate cases.

Finally, since responding to this matter will require input from several different departments, Diana Durazo from my office will coordinate our responses.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works  
Jackson Jenkins, Director, Regional Water Reclamation Department  
Andrew Flagg, Chief Civil Deputy County Attorney  
Charles Wesselhoft, Deputy County Attorney  
Diana Durazo, Special Project Manager to the County Administrator  
Tom Burke, Deputy County Administrator for Administration  
Lisa Josker, Director, Facilities Management



MEMORANDUM

FACILITIES MANAGEMENT

Date: 8/1/2018

To: C.H. Huckelberry  
County Administrator

From: Lisa Josker, Director  
Facilities Management

Via: Tom Burke  
Deputy County Administrator - Administration

Re: CHH Memo dated July 10, 2018 – Ajo Improvement Company Rate Increases for Electric, Water and Sewer

The Ajo Improvement Company (Ajo IC) is requesting rate increases in all three of its utility divisions, Water, Wastewater, and Electric. The three utility rate increases were originally filed in December 2017 and are currently receiving public comments. November 15, 2018 is the current scheduled date for the close of comment period.

Water and Wastewater rates have not had an increase since June 22, 2004 (Decision No. 67092). Electrical rates have not increased since August 2, 2000 (Decision 62764). In the intervening years there have been no increases to date because the utility had not filed for rate increases and without Commission approval via a Decision, the Ajo IC does not have the authority to alter its rate structure for utility rate changes. The large gap in time between rate increases may be one of the main reasons the requested utility rate increases are so significant. The only other increase was to consumers of electricity which took place in 2001 when the Arizona Corporation Commission (ACC) added the "Environmental Portfolio Surcharge" fees to the electric service. The surcharge fees included \$0.000875/kWh for all kWh, \$0.35/monthly per residential service, \$13.00/monthly per non-residential service, and \$39.00/monthly service for non-residential customers with demand of 3,000 kWh or higher for three consecutive months.

Electrical Rates:

The Ajo IC electrical utility has three rates, Residential, Commercial and a Contract Rate used only for Freeport-McMoran, Inc. (FMI) pumps. Electrical rates of the Ajo IC and Tucson Electric Power (TEP) rate structures for residential use only during the month of June 2018 would compare as follows (excluding taxes and surcharges):

Company	Total kWh Used	Cost per kWh	Monthly Cost
Tucson Electric Power	1,157	\$0.113	\$130.74
Ajo IC	1,157	\$0.101	\$116.85

C.H. Huckelberry

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The proposed residential customer energy charge rate increase is spread over five years. The rate increase for energy charges over the current energy charge rate is 53% in year one, 81% in year two, 113% in year three, 144% in year four, and 175% in year five at the starting rate of \$0.06232/kWh and ending at \$0.17165/kWh.

1. In addition to the electrical kWh rate increase, Ajo IC is looking to increase the residential Basic Service Charge from \$5.20/month to \$17.20/month. Using the residential customer example from the table above, and including all charges, fees, and taxes, a customer would see the June cost jump from \$129.90 in total charges per month to \$291.42 per month— an increase of 124%. The calculations for the example above came from the proposed electric rate increases which were docketed on the ACC's website on December 5, 2017. Reference page 81/87 at: <http://images.edocket.azcc.gov/docketpdf/0000183459.pdf>

The table below gives an example of the Electrical increases directly from the Ajo IC filing:

**AJO IMPROVEMENT COMPANY  
ELECTRIC DIVISION  
Test Year Ended December 31, 2016  
PROPOSED CHANGES IN ELECTRIC RATES**

DESCRIPTION	PRESENT RATE (1)	PROPOSED RATES (1)				
		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
<b>GENERAL SERVICE: (2)</b>						
Basic Service Charge - Per Month	\$5.20	\$8.20	\$11.20	\$13.20	\$15.20	\$17.20
Energy Charge - Per kWh - All Usage	\$0.06232	\$0.09537	\$0.11331	\$0.13276	\$0.15221	\$0.17165
<b>CONTRACT - FMI PUMP:</b>						
Basic Service Charge - Per Month	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Energy Charge - Per kWh - All Usage (3)	\$0.05070	\$0.06378	\$0.07706	\$0.09034	\$0.10361	\$0.11689
<b>BASE COST OF PURCHASED POWER:</b>						
Cost of Purchased Power - Per kWh Sol	\$0.03470	\$0.05000	\$0.05000	\$0.05000	\$0.05000	\$0.05000

**NOTES:**

(1) Excluding Revenue Taxes and Renewable Energy Charges.

(2) Applicable to All Non-Contract Customers.

(3) Present Rate Based on Actual Purchased Power Costs for 2016. Proposed Rates are Tariffed Rates and Subject to Purchased Power Adjustors.

Special Electrical Rates for Freeport-McMoran, Inc. (FMI)

The FMI electrical rate name represents the parent name of the Freeport Minerals Company – Freeport-McMoRan Inc. The Freeport Minerals Company is the only shareholder in the Ajo Improvement Company.

The filings do not list a specific justification for the rate difference between the FMI rate and the general service rate. Some documentation in the filings indicate that FMI has underwritten all the infrastructure improvements over the years which could be the underlying justification for a preferential rate structure.

C.H. Huckelberry

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FMI electric use is the only customer in the "Contract" customer class and the FM-1 rate is only applicable to the electrical service to the FMI large water pumps. The FMI large water pump percentage of annual kWh use is 18.3%. The Table below shows the Ajo IC customer classes and usages:

**Ajo Improvement Company Annual kWh Use by Customer Class**  
Year Ended December 31, 2016

Customer Class	Annual kWh Usage	% kWh of Total	Present Revenue	% Revenue of Total
Residential	4,772,079	50.2%	\$418,270	55.7%
Commercial	1,478,957	15.6%	\$123,283	16.4%
Other	1,513,100	15.9%	\$121,628	16.2%
FMI Pump	1,739,920	18.3%	\$87,866	11.7%
Total	9,504,056		751,047	

Timeframe for Comments:

Regarding the proposed rate increases are due to ACC per the following timeframes in the Docket schedule and copied from the ACC website below:

Location	Type	Date	Time
N/A	Due - Intervention	9/10/2018	4:00 PM
N/A	Due - Direct Testimony	9/18/2018	4:00 PM
N/A	Due - Direct Testimony (Rate Design)	9/26/2018	4:00 PM
N/A	Due - Testimony-Rebuttal	10/16/2018	4:00 PM
N/A	Due - Testimony-Surrebutal	11/2/2018	4:00 PM
N/A	Due - Testimony-Rejoinder	11/9/2018	4:00 PM
See Notes	Tele Procedural Conf.	11/13/2018	10:00 AM
N/A	Due - Objections	11/13/2018	4:00 PM
Tuc Rm 222	Hearing	11/15/2018	10:00 AM
Tuc Rm 222	Hearing	11/16/2018	9:00 AM
N/A	Due - Decision	2/25/2019	4:00 PM

Ajo IC Electrical, Water and Wastewater Rate Increase request to the ACC:

Looking at the average numbers indicated in the Ajo IC's rate summary, the average residential wastewater bill will increase from \$16.10 to \$100.30/month a 523% increase; the average residential electric bill will increase from \$45.41 to \$106.11/month a 134% increase; and the average residential water bill will increase from \$18.40 to \$82.66 a 349% increase.

Ajo Improvement Company

Per the Arizona Corporation Commission's website the Ajo Improvement Company was formed as a Domestic For-Profit (Business) Corporation on 10/21/1916 with an approval date (Certificate of

C.H. Huckelberry

CHH Memo dated July 10, 2018 – Ajo Improvement Company Rate Increases for Electric, Water and Sewer  
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Convenience and Necessity) of 4/4/1917. The entity ID is 00266223, status is active and in good standing. The Statutory Agent Information name is Corporation Service Company, 2338 W. Royal Palm Rd., Ste. J, Phoenix, AZ 85021, email [regagentapproval@cscglobal.com](mailto:regagentapproval@cscglobal.com), and the information was last updated on 6/13/2008.

Historical Information: The New Cornelia Copper Company, which originally formed in 1890, founded the Town of Ajo in 1915. The New Cornelia Copper Company later merged with the Calumet and Arizona Mining Company in 1913 and then with the Phelps Dodge Corporation in 1931. The Ajo Improvement Company was originally owned by The New Cornelia Copper Company, then Phelps Dodge, and currently by Freeport-McMoRan via the Freeport Minerals Company. The Freeport Minerals Company is the only Shareholder in the Ajo Improvement Company (Ajo IC).

The Officers of the Ajo Improvement Company are listed below as of the last update on 4/17/2018 on this website: <https://ecorp.azcc.gov/BusinessSearch/BusinessInfo?entityNumber=00266223>

Title	Name	Address	Date of taking Office
Chairman of the Board of Directors	RICHARD C ADKERSON	333 N. CENTRAL AVE., PHOENIX, AZ, 85004, USA	3/26/2009
Director	MICHAEL J ARNOLD	Same as above	11/15/2007
Shareholder	Freeport Minerals Company	Not given	12/31/9999
Officer	ROBERT R BOYCE	Same as above	11/15/2007
Officer	MICHELE A HUGHES	Same as above	11/15/2007
Officer	DEBORAH A BAN	Same as above	6/15/2005
President	ROY ARCHER	Same as above	2/15/2011
Secretary	DOUGLAS N CURRAULT II	Same as above	11/15/2007
Treasurer	KATHLEEN L QUIRK	Same as above	11/15/2007
Vice-President	FRANCIS R MCALLISTER JR	Same as above	5/1/2013
Vice-President	LINDA K LEWIS-SCOTT	Same as above	9/17/2012
Vice-President	WILLIAM E COBB	Same as above	1/7/2009
Vice-President	L RICHARDS MCMILLAN II	Same as above	11/15/2007
Vice-President	C DONALD WHITMIRE JR	Same as above	11/15/2007
Vice-President	KATHLEEN L QUIRK	Same as above	11/15/2007
Vice-President	MICHAEL J ARNOLD	Same as above	11/15/2007
Vice-President	DEAN T FALGOUST	Same as above	11/15/2007
Vice-President	HUGH O DONAHUE	Same as above	1/1/2006
Vice-President	STEVEN I TANNER	Same as above	5/22/2003

Electrical, Water and Wastewater Rate Increase Impact to Pima County Properties:

Pima County has numerous utility accounts with Ajo IC. The two tables below include two such accounts, a smaller facility and a larger one. The tables demonstrate current actual costs, a comparison

C.H. Huckelberry

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with current TEP or Tucson water costs and the future cost increase should the proposed electrical and water rate increases be approved. Facilities Management can provide a complete assessment of all affected properties.

Compare Ajo IC Electrical rates to TEP rates for a typical month both current rates and proposed:

Location	kWh	Ajo IC Current	TEP Current	Ajo IC Proposed	% Inc. Over TEP current
Health Clinic, 120 W. Estrella	3,400 kWh	\$ 375	\$ 503	\$ 781	55%
Jail, 1249 Well Rd	12,200 kWh	\$1,329	\$1,805	\$2,755	52%

Compare Ajo IC Water rates to Tucson Water rates for a typical month both current rates and proposed:

Location	Water Use	Ajo IC Water + Sewer Current	Tucson Water + Sewer Current	Ajo IC Proposed	% Inc. Over Tucson Water Current
Health Clinic, 120 W. Estrella	1,100 gal	\$ 34.00	\$ 40.64	\$182.19	348%
Jail, 1249 Well Rd	24,100 gal	\$ 150.82	\$326.83	\$820.84	151%

It is obvious the proposed rate increases will severely impact the citizens and businesses served by the Ajo IC utility should they be approved by the Arizona Commerce Commission. Even taking into account the five-year rate increase phase in structure, the resultant utility rate increases are dramatic and the impact to the community will be far reaching.

LJ/dlm