



MEMORANDUM

Date: February 5, 2019

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 "CH Huckelberry", is written over the printed name and title.

Re: **Status Report regarding Ajo Improvement Corporation Rate Increases for the Ajo Community Pending Before the Arizona Corporation Commission**

I am providing a status report regarding Pima County's continued participation in the Ajo Improvement Company's (AIC) rate case applications pending before the Arizona Corporation Commission. Pima County continues to believe the proposed rate increases for water, sewer, and electricity are unjust and unreasonable and suggest that any rate increases granted in these matters be substantially reduced to levels consistent with the ability of the Ajo area customers to pay for these increases. In addition, I am providing the following comments regarding the rate case:

1. Please keep in mind that AIC is not a stand-alone business; it existed for the benefit of its parent company, Freeport-McMoRan (formerly Phelps Dodge) providing utility services to the community formed to support the mine. AIC's present financial woes are the result of AIC and its parent companies' mismanagement over an extended period of time. Reasonable rates were not sought on a timely basis, nor were assets properly maintained. AIC now seeks to quickly right the ship.

AIC suggests it is shouldering the burden of remedying the mess due to forgoing recovery of past losses and phasing-in the proposed rate increases. In the end, however, AIC will have new facilities paid for by punishing utility rates imposed on the Ajo community without any community input or regulatory oversight into how and when the money was spent. AIC's customers should not have to bear this burden on a schedule convenient to AIC.

2. Over the last ten years, AIC spent a substantial amount of money to upgrade facilities it neglected for many years prior. Not only does AIC expect repayment of the capital, it also expects to gain a return on that investment, albeit indirectly, by including depreciation of the expenditures in the expenses used to calculate the operating margin. Including this in the expenses substantially inflates the margin and rewards AIC for expenditures made repairing its own mess.

The Honorable Chairman and Members, Pima County Board of Supervisors

Re: **Status Report regarding Ajo Improvement Corporation Rate Increases for the Ajo Community Pending Before the Arizona Corporation Commission**

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3. AIC asserts that it made repairs to the water and sewage conveyance infrastructure to comply with Pima County code. In particular, AIC asserts it separated water and sewer lines that formerly were installed in the same trench without proper separation. While proper separation of water and sewer lines is part of the International Plumbing Code (adopted by reference by Pima County) and is required by Arizona Department of Environmental Quality regulations, the concept is hardly new and is intended to ensure water supplies are not contaminated by sewage. AIC's customers should not be forced to pay for correcting poor water/sewer system design.
4. After prodding, AIC agreed to initially establish a \$20,000 per year assistance fund for low-income customers. It suggests that this is equivalent to Arizona Public Service providing \$8 to \$10 million in assistance to its customers. AIC arrives at this by simple ratio, making no comparison of the number of Ajo low-income residents to those similarly situated customers receiving service from Arizona Public Service. AIC also ignores the probability that a much higher percentage of the Ajo residents will seek assistance due to the size of the proposed rate increases thereby substantially reducing the amount of assistance available to each resident. While establishment of an assistance fund is a step in the right direction, it is not nearly the sacrifice to AIC that it is spun to be.

CHH/lab

c: Andrew Flagg, Chief Civil Deputy County Attorney
Charles Wesselhoft, Deputy County Attorney
Diana Durazo, Special Project Manager, Pima County Administrator's Office