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# MEMORANDUM

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Date: January 14, 2019

To: Charles Wesselhoft  
Deputy County Attorney

From: C.H. Huckelberry  
County Administrator 

Re: **Response to our Objections to the Ajo Improvement Company Utility Rate Case**

I have reviewed the response from the attorneys representing Freeport McMoran for the Ajo Improvement Company (AIC) rate case and marked up my copy of the response. My notes summarize the following concerns to their response:

1. The AIC remains a utility operated by the parent company Freeport McMoran and its financial support for the investments for which they are now attempting to recover their costs came from Freeport McMoran, the company, not a bank or independent third-party financing that would require repayment.
2. The AIC admits to the equity investment as "paid-in-capital." Therefore, I question why the amount needs to be repaid at the rate of return requested and why there is a return on investment for this "paid-in-capital." Clearly, the AIC failed to adequately repair and replace their utility infrastructure. Waiting nearly 100 years to repair or replace the utility conveyance infrastructure is inappropriate and to fully reimburse the company for this late capital investment would be rewarding bad behavior.
3. I noticed "Pima County codes" were cited as the requirement for horizontal separation of wastewater and water utilities. As I recall, these are industry standards and adopted Arizona Department of Environmental Quality codes designed to prevent cross-contamination and disease. It is not the County's codes that require this horizontal separation, but those of the State of Arizona and accepted industry practice to protect public health.
4. On Page 8, the AIC admitted they repaved "all of Pima County's streets in its service area, including streets that had no trenching at all." As I previously stated, this is an expenditure that was made for public relation purposes and has no validity being a recovered expense in a utility rate case. AIC made this investment at the request of the parent company, Freeport McMoran, for public relations purposes.

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5. The concept of "paid-in-capital" and the statement, the "AIC is not seeking a return on that investment in this rate case" appears to be scattered throughout their response and is a disingenuous statement since it is clear there is a request of rate of return on invested capital. That capital was invested prior to Arizona Corporation Commission approval, solely at the whim and direction of the AIC and Freeport McMoran to repair and replace a utility system that should have been replaced 20 to 30 years earlier.
  
6. In the AIC's response to Mr. Sorrels, I note they made a big deal of the annual assistance fund for low income customers being \$25,000 annually for the first two years. The AIC does not mention what their gross revenues are or will be once the rates increase to determine how much the annual rate increase is being returned for low-income assistance. They make some unknown and confusing reference to this being equivalent to \$8 million to \$10 million assistance program by the Arizona Public Service (APS) Department. The customer rate base of the APS is vastly and dramatically different from the total rate base of the AIC. Trying to make some conclusion of their meager loan assistance program with that of the APS is a stretch.

I would appreciate your seeing that our concerns to the AIC's response to our objection of the Freeport McMoran/AIC utility rate case are brought to the attention of the Arizona Corporation Commission.

CHH/anc

Attachment

c: The Honorable Sharon Bronson, District 3 Member, Pima County Board of Supervisors  
Andrew Flagg, Chief Civil Deputy County Attorney  
Diana Durazo, Special Projects Manager, Pima County Administrator's Office