



MEMORANDUM

Date: May 8, 2019

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

From: C.H. Huckelberry
County Administrator 

Re: **Update on the Ajo Improvement Company's (AIC) Rate Increase Applications to the Arizona Corporation Commission (ACC)**

Pima County continues to actively participate as an intervener in the AIC rate case applications to the ACC. Since my last update, testimony were submitted by parties at an evidentiary hearing, followed by briefing. All of this was considered by the Administrative Law Judge (ALJ).

On April 9, 2019, the ALJ issued her Record of Opinion and Order (ROO) to the ACC for their consideration that includes:

- Requiring AIC to submit a 5-Year Construction Work Plan prior to any future capital improvement projects for ACC review 90 days before beginning construction.
- Establishing a bill assistance program (note that the ALJ requested that a copy of the bill assistance program plan be filed in early June)
- No new rate cases from AIC until 2024, which also calls for staggering rate cases in the future.

The ALJ also recommends a slight, further reduction to the AIC proposed rates, but the resulting rates still fall drastically short in providing meaningful relief to the Ajo community, which will be forced to bear these unreasonable and enormous rate hikes. While the ROO outlines some possible future measures for more oversight and reaffirms some of the statements made by intervenors regarding AIC's unchecked spending through the years and their unfair proposed rate increases, it does not go far enough to address the substantial impact these hikes will have on residents and businesses.

The County's position remains the same. As an intervener and, in response to the ROO, the County filed Exceptions on May 3. In it, the County continues to challenge the arbitrarily

The Honorable Chairman and Members, Pima County Board of Supervisors

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proposed length of the rate phase-in period, the apparent double-expensing of improvements in AIC's calculations, and unfairly placing the burden on ratepayers for recovering costs caused by many years of mismanagement resulting in rehabilitation activities over the course of the past twelve years that were never heard or approved by the ACC.

The ROO and filed Exceptions and comments on the AIC rate case will be heard by the ACC at a public hearing currently scheduled for May 21 and May 22, 2019.

CHH/dr

Attachment

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

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11 **BEFORE THE ARIZONA COPORATION COMMISSION**

12 COMMISSIONERS

13 BOB BURNS- Chairman
14 ANDY TOBIN
15 BOYD W. DUNN
16 SANDRA KENNEDY
17 JUSTIN OLSON

18 IN THE MATTER OF THE APPLICATION OF AJO
19 IMPROVEMENT COMPANY - WASTEWATER
20 DIVISION FOR AN INCREASE TO ITS
21 AUTHORIZED RATES AND CHARGES, FOR A
22 DETERMINATION OF THE FAIR VALUE OF ITS
23 PROPERTY DEVOTED TO WASTEWATER
24 UTILITY SERVICE IN THE STATE OF ARIZONA,
25 AND FOR OTHER RELATED APPROVALS.

Docket No. WS-01025A-17-0361

26 IN THE MATTER OF THE APPLICATION OF AJO
IMPROVEMENT COMPANY - ELECTRIC
DIVISION FOR AN INCREASE TO ITS
AUTHORIZED RATES AND CHARGES, FOR A
DETERMINATION OF THE FAIR VALUE OF ITS
PROPERTY DEVOTED TO ELECTRIC UTILITY
SERVICE IN THE STATE OF ARIZONA, AND FOR
OTHER RELATED APPROVALS.

Docket No. E-01025A-17-0362

IN THE MATTER OF THE APPLICATION OF AJO
IMPROVEMENT COMPANY - WATER DIVISION
FOR AN INCREASE TO ITS AUTHORIZED RATES
AND CHARGES, FOR A DETERMINATION OF THE
FAIR VALUE OF ITS PROPERTY DEVOTED TO
WATER UTILITY SERVICE IN THE STATE OF
ARIZONA, AND FOR OTHER RELATED
APPROVALS.

Docket No. WS-01025A-17-0363

**INTERVENOR PIMA COUNTY'S
EXCEPTIONS**

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1 Pima County applauds inclusion in the Recommended Opinion and Order
2 (“ROO”) of a Determination advising that “[i]t is reasonable to require that before AIC
3 implements any future capital improvement projects for any Division, the Company must
4 first submit a Five-Year Construction Work Plan to this docket at least 90 days in
5 advance of the construction of the plant for Staff’s review.” ROO, ¶ 88. The ROO also
6 includes Determinations regarding establishing a bill assistance program (¶ 89) and
7 prohibiting new rates cases until 2024 with a staggered rate case requirement for the
8 Divisions. ¶ 90. These are all improvements but they do little now to improve the plight
9 of the ratepayers who, through no fault of their own, are being jolted by the enormous
10 increases proposed in the current rate case.

11 Pima County also supports the findings in the ROO that AIC/Staff “revenue
12 requirements and resulting rates are still too high” and “given the Company’s
13 management decisions over a substantial period of time, it is not reasonable or fair to
14 ratepayers to seek such substantial increases over the periods suggested by AIC and
15 Staff.” ROO, p. 23, l. 22-25. Based on these findings, the ROO proposes further
16 reductions from the AIC rate proposal - resulting in an approximately 15.5 % reduction in
17 the combined, median bill impact¹ over the seven year phase-in period. While that is a
18 step in the right direction, the percentage reduction over this period still compares two,
19 unreasonably high numbers. When compared to current rates, the ROO proposal still
20 represents a 106% increase² in combined, median bill impact over the phase-in period.

21 Pima County agrees AIC’s rates should be set at a level providing enough revenue
22 to operate and, in normal situations, it should receive a reasonable rate of return on
23 equity. This is not a normal situation. AIC spent, with no oversight, \$47.8 million of its
24 parent company’s money on rehabilitating utility facilities that appear to have been
25

26 ¹ AIC’s proposed combined median residential monthly bill results in a total charge of \$12,858.60 to a customer over the seven years; the ROO proposed total over the same period is \$10,878.72.

² At the current rate, total median bill impact over the seven year phase in period is $\$62.99 \times 12 \times 7 = \$5,291.16$.

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1 neglected for a substantial amount of time. It further, for reasons of its own, delayed
2 seeking rate increases to cover the rehabilitation costs even though those activities have
3 taken place over the past twelve years. AIC now proposes using an operating margin rate
4 setting model - which would provide the Company with an inappropriate amount of
5 revenue given the impact on its ratepayers.

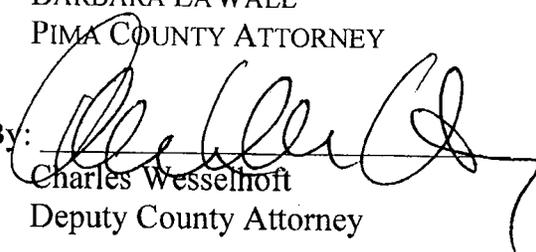
6 Pima County supports the ROO's suggestion of using a cash flow methodology as
7 the best way to address the current rate case. The cash flow method ensures AIC has
8 enough revenue to fund its operations and, given the upgraded status of the facilities,
9 additional reserves should not be necessary.

10 There is nothing magic about the length of the proposed seven year phase-in
11 period. Extending that period to ten or more years, with leave to seek inflation- or
12 energy-based increases in the interim, would greatly assist the ratepayers.

13 Further, Pima County continues to believe that depreciation of improvements
14 made by AIC, and apparently previously expensed by AIC's parent company at the time
15 of appropriation, is inappropriate. At the time some of the improvements were made,
16 AIC's parent company believed the expenditures to be non-recoverable "due to customer
17 demographics and ACC policies and practices." PC 1. Removing the capital related to
18 these improvements from the depreciation tables will substantially reduce the burden on
19 the ratepayers.

20 RESPECTFULLY SUBMITTED May 3, 2019.

21
22 BARBARA LA WALL
23 PIMA COUNTY ATTORNEY

24
25 By: 
26 Charles Wesselhoft
Deputy County Attorney

CERTIFICATE OF SERVICE

The Original and thirteen copies of the foregoing were mailed this day to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, AZ. 85007

I further hereby certify that I have on this day served the foregoing documents on all parties of record in this proceeding by either emailing a copy to those who have consented to email service, or by mailing a copy thereof, properly addressed with first class postage prepaid to:

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Dated at Tucson, Arizona, this 3rd day of May, 2019.

By: Marilee Weston

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