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June 12, 2003

AZ CORP COMMISSION  
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Arizona Corporation Commission

DOCKETED

JUN 12 2003

Mr. John Chelus  
Utilities Division  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007



Re: *Ajo Improvement Company's Application for Adjustments in Its  
Water and Wastewater Rates - Docket No. SW-01025A-03-0350*

Dear Mr. Chelus:

In response to Staff's request to Dan Neidlinger, Ajo Improvement Company ("AIC") submits the following information:

1. A copy of the agreements between AIC and Phelps Dodge for purchased water is attached hereto.
2. The ADEQ system numbers for AIC's water and wastewater systems are:
  - a. AIC Water - Permit No. 10-001
  - b. AIC Wastewater Treatment Plant - Permit No. 40-100
3. The ADEQ permit number for Phelps Dodge water treatment plant that supplies AIC is 10-221. In addition, the Phelps Dodge wells that provide the water have the following ADWR permits:
  - 55-600488 (C-11-6-24 ada)
  - 55-600590 (C-11-6-24 add)
  - 55-600486 (C-11-6-24 aca)

Please let either Mr. Neidlinger or me know if you have any questions.

Sincerely,

Michael W. Patten

MWP/djj  
Enclosures

ROSHKA HEYMAN & DEWULF

Mr. John Chelus  
ACC Utilities Division  
June 12, 2003  
Page 2

Original +13 copies of the foregoing  
filed with Docket Control

cc: Ron Smith (w/enclosure)  
Dan Neidlinger (w/enclosure)

**ATTACHMENTS**



Corporation New Cornelia Branch, Ajo, Arizona 85321

File

3

November 29, 1993

James L. Armstrong  
President and Manager  
Ajo Improvement Company  
Post Office Drawer 9  
Ajo, Arizona 85321

Dear Mr. Armstrong:

This is to advise you that effective January 1, 1994 the water rate will be \$1.08 per 1,000 gallons or any portion thereof. This increase conforms to the contract dated January 1, 1984 between the Phelps Dodge Corporation and the Ajo Improvement Company in article five.

Should you have any questions concerning this increase a meeting can be arranged to discuss any issues that may arise.

Yours very truly,

A handwritten signature in black ink, appearing to read "Keith R. Keime". The signature is fluid and cursive.

Keith R. Keime  
Accounting Manager

KRK:sg

WATER AGREEMENT

THIS AGREEMENT, made as of the 1st day of January, 1984, by and between PHELPS DODGE CORPORATION, a New York corporation (hereinafter referred to as "Phelps Dodge") and AJO IMPROVEMENT COMPANY, an Arizona corporation (hereinafter referred to as "AIC").

WITNESSETH:

WHEREAS, Phelps Dodge has available untreated water at its New Cornelia Branch, Ajo, Arizona, and

WHEREAS, AIC operates a public utility in the vicinity of Ajo, including a treatment plant that provides potable water to residential and commercial customers in the area, and

WHEREAS, AIC needs a supply of raw water to treat for distribution to its public utility customers, and

WHEREAS, Phelps Dodge needs certain limited amounts of treated water for its mining related activities,

NOW, THEREFORE, the parties enter into this Agreement and for and in consideration of the mutual covenants, warranties, and representations, agree as follows:

1. Phelps Dodge agrees to sell and AIC agrees to purchase the full requirements of untreated water of AIC, which water will be treated by AIC at its water treatment plant.

2. Delivery of the untreated water under this Agreement shall be through Phelps Dodge owned and operated non-utility facilities to a mutually agreed upon delivery point at the AIC treatment plant.

3. Phelps Dodge, at its expense and at the delivery point, shall install and maintain a water meter approved by AIC and shall furnish monthly to AIC a statement for the consumption during the preceding month. The meter shall be calibrated to the satisfaction of both parties and shall be calibrated within a reasonable time after request made by either party, in accordance with the following procedures:

(a) The calibration shall be done in the presence of the authorized representative of each party and the cost shall be borne equally by both parties.

(b) If the calibration discloses inaccuracy exceeding 3%, proper calibration shall be made of the consumption recorded during the previous 30 days or the part thereof which may be subsequent to the last preceding calibration.

(c) In the event that any meter shall cease registration or that it shall be evident that inaccuracy has existed for a shorter period than 30 days, correction shall be made as estimated from other meters and from other proper data.

(d) Corrections so made shall be accepted by both parties as adjusting all claims arising out of such inaccuracy.

4. Payment for all said water shall be made monthly by AIC to Phelps Dodge at its general offices in Ajo, Arizona, within 15 days from the date of receipt of the bill therefor,

which payment shall be in conformity with the following stated rates and charges which AIC hereby agrees to pay:

Water Rate - \$.65 per 1,000 gallons or  
any portion thereof

5. The charge per 1,000 gallons of usage shall be subject to increase each calendar quarter based on Phelps Dodge cost of electricity, depreciation, taxes, labor, overheads, and a return associated with the pumping and delivery of the water to the AIC treatment plant.

6. In further consideration for the sale of untreated water to AIC, Phelps Dodge shall have the first right to refusal to 2,000 gallons per hour up to 48,000 gallons per day of treated water from the AIC treatment plant. Phelps Dodge shall compensate AIC for the treated water under terms and conditions set forth in Arizona Corporation Commission approved tariffs.

7. AIC agrees to provide such treated water which is tested and treated to the standards set by the Arizona Department of Health Services or other appropriate regulatory agency.

8. Phelps Dodge shall not be liable to AIC nor to any of AIC's consumers, nor to any other person, firm or corporation whatsoever, for or on account of any interruption or failure in delivery of water in accordance with this Agreement, or for or on account of any loss, injury or damage occasioned thereby, where such interruption or failure, either directly or indirectly, is caused by or results from any of the following:

(a) Fire, lightning, flood, windstorm, Act of God, invasion or force majeure.

(b) Compliance with any orders, rules, or regulations, whether valid or invalid, of any governmental authority or agency.

(c) Strikes, lockouts or labor disputes.

(d) Breakdown, repair or replacement of any machinery, equipment, transmission line, pipeline or other facility.

(e) Shortage of any fuel, supplies, material or labor, or where such interruption or failure is directly or indirectly due to any cause not reasonably preventable by Phelps Dodge or not reasonably within its control.

In case such interruption or failure shall be occasioned by any cause specified under (d) or (e) above, Phelps Dodge will endeavor to remedy or eliminate such cause as expeditiously as is reasonably possible. In the event claims or causes of action are instituted by third parties as a result of any interruptions or failures as hereinabove specified, AIC shall indemnify and defend Phelps Dodge against all liability or loss.

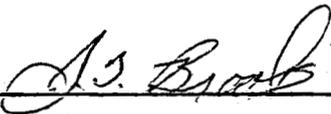
9. Phelps Dodge shall perform no public service corporation functions or services as a result of this Agreement. If, at any time, the Arizona Corporation Commission, or any other state or federal commission or body having authority to regulate the sale or distribution of water, should attempt or threaten to exercise jurisdiction over Phelps Dodge for the purpose of regulating sales of water made by it, whether to AIC or any other person, firm or corporation, or for the purpose of examining the

books, accounts or other internal affairs of Phelps Dodge in connection with such sales or any thereof, Phelps Dodge may notify AIC of such facts, and this Agreement shall be deemed terminated fifteen (15) days following receipt of such notice by AIC.

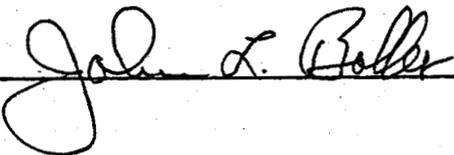
10. This Agreement and shall remain in full force and effect for the term of one year from the effective date and thereafter until terminated by either party hereto by giving written notice of such termination to the other. Such notice must specify the date of termination and shall be given not less than sixty (60) days prior to such date.

IN WITNESS WHEREOF, the parties hereto have caused these presents to be executed as of the day and year first herein written.

AJO IMPROVEMENT COMPANY

By 

PHELPS DODGE CORPORATION

By 

WATER TREATMENT PLANT

OPERATING AGREEMENT

THIS AGREEMENT, made as of the 1st day of January, 1984 by and between AJO IMPROVEMENT COMPANY, an Arizona corporation, hereinafter referred to as "AIC" and PHELPS DODGE CORPORATION, a New York corporation, hereinafter referred to as "Phelps Dodge".

WITNESSETH:

WHEREAS, AIC is a public service corporation operating a water utility system in the vicinity of the Town of Ajo, Arizona, and

WHEREAS, AIC procures, under a separate agreement with Phelps Dodge, all water it provides as a public service corporation, and

WHEREAS, water purchased under that Agreement must be treated to meet various health agencies requirements, and

WHEREAS, the treatment plant was designed, built and previously owned and operated by Phelps Dodge to provide their potable water needs and, incidentally, to supply the water requirements of AIC, and

WHEREAS, the treatment plant has subsequently been acquired by AIC, and

WHEREAS, the water treatment plant, which is contiguous to Phelps Dodge power house, has been operated for a number of

years by qualified Phelps Dodge personnel who simultaneously operate the power house, and

WHEREAS, continuing this operating condition is advantageous to AIC and not overly burdensome on Phelps Dodge,

NOW, THEREFORE, the parties enter into this Agreement and for and in consideration of the mutual covenants, warranties and representations, and agree as follows:

1. By terms of this Agreement, Phelps Dodge shall not obtain and AIC does not surrender any ownership rights in the treatment plant owned by AIC.

2. Phelps Dodge shall retain its priority right to the production output of the treatment plant as set forth in the "Water Agreement" dated January 1, 1984. AIC shall have sole right to the remaining production of the treatment plant.

3. Phelps Dodge shall operate AIC's treatment plant, utilizing Phelps Dodge employees, in a manner consistent with the industry standards for the operation of said plant, and consistent with the requirements of the appropriate health agencies. The operation shall include the right to modify, remove and replace any and all facilities within the treatment plant. Consistent with the above standards and requirements, the day-to-day operation and maintenance of the treatment plant shall be the responsibility and prerogative of Phelps Dodge, however, any maintenance or capital expenditures exceeding \$1,000.00 will require the specific approval of AIC.

4. Phelps Dodge shall bill AIC on a monthly basis, for the following costs associated with the operation of the treatment plant:

(a) Direct labor of Phelps Dodge power house employees for those hours associated with operation of the water treatment plant.

(b) An agreed upon percentage of direct labor costs as overheads associated with direct labor.

(c) All direct materials and supply costs, including electrical power and energy, associated with operating the water treatment plant.

(d) An agreed upon percentage allocation of Phelps Dodge's costs common to the power plant and treatment plant.

The charges and allocations for this billing shall be negotiated each year based on the prior year's experience.

5. AIC will be responsible for taking, computing, and recording the meter readings and measurements used to determine the total water treated and that consumed by Phelps Dodge.

6. AIC shall have the right to review the charges and billing procedure under Paragraph 4, including the man-hours assigned to the treatment plant, allocations of common costs, billings for services performed, and capital expenditures.

7. Payment for the treatment services performed under Paragraph 4 shall be made monthly by AIC to Phelps Dodge at its general offices in Ajo, Arizona, within 15 days from date of receipt of the billing therefor.

8. AIC shall be responsible for filing, maintaining, and reporting all regulatory, health, tax and corporate documents necessary for the continued operation of the treatment plant.

9. AIC agrees that to the extent it is capable, and in its sole discretion, consistent with sound utility and management practices, it will provide the capital, or Commission approved funding mechanism, necessary to provide needed capital improvements.

10. Phelps Dodge shall arrange to have AIC named as an additional insured on its liability insurance coverage and shall maintain reasonable amounts of liability insurance during the term hereof. Phelps Dodge shall indemnify and hold AIC harmless from any and all liability for acts or omissions related to the operation of the treatment plant occurring during the term of this contract.

11. Phelps Dodge shall not be liable to AIC nor to any of AIC's consumers, nor to any other person, firm or corporation whatsoever, for or on account of any interruption or failure in delivery of treated water in accordance with this agreement, or for any substandard quality water supplied, or for or on account of any loss, injury or damage occasioned thereby, where such interruption or failure, either directly or indirectly, is caused by or results from any of the following:

(a) Fire, lightning, flood, windstorm, Act of God, invasion or force majeure.

(b) Compliance with any orders, rules, or regulations, whether valid or invalid, or any governmental authority or agency.

(c) Strikes, lockouts or labor disputes.

(d) Breakdown, repair or replacement of any machinery, equipment, transmission line, pipeline or other facility.

(e) Shortage of any fuel, supplies, material or labor, or where such interruption or failure is directly or indirectly due to any cause not reasonably preventable by Phelps Dodge or not reasonably within its control.

In case such interruption or failure shall be occasioned by any cause specified under (d) or (e) above, Phelps Dodge will endeavor to remedy or eliminate such cause as expeditiously as is reasonable possible. In the event claims or causes of action are instituted by third parties as a result of the interruptions or substandard quality water supplied as hereinabove specified, AIC shall indemnify and defend Phelps Dodge against all liability or loss.

12. Phelps Dodge shall perform no public service corporation functions or services as a result of this Agreement. If, at any time, the Arizona Corporation Commission, or any other state or federal commission or body having authority to regulate public utilities, should attempt or threaten to exercise jurisdiction over Phelps Dodge for the purpose of regulating the operation of the treatment plant for AIC, or for the purpose of examining the books, accounts or other internal affairs of Phelps Dodge in connection with such treatment, Phelps Dodge may notify AIC

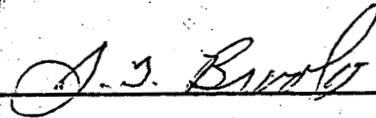
of such facts, and this Agreement shall be deemed terminated fifteen (15) days following receipt of such notice by AIC.

13. This Agreement shall remain in full force and effect for the term of one year from the effective date and thereafter until terminated by either party hereto by giving written notice of such termination to the other. Such notice must specify the date of termination and shall be given not less than sixty (60) days prior to such date.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

AJO IMPROVEMENT COMPANY

By



PHELPS DODGE CORPORATION

By

