

JUN 22 2001

OPEN MEETING



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MEMORANDUM

2001 JUN 22 P 1:27

AZ CORP COMMISSION  
DOCUMENT CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 21, 2001

RE: IN THE MATTER OF THE APPLICATION OF AJO IMPROVEMENT COMPANY FOR AN INCREASE IN ITS PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE ("PPFAC") RATE (DOCKET NO. E-01025A-01-0341)

On April 20, 2001, Ajo Improvement Company - Electric Division ("Ajo" or "Company") requested a change in its Purchase Power and Fuel Adjustment Clause ("PPFAC") rate from \$0.005332 to \$0.05 per kilo-Watt hour ("kWh"). The PPFAC rate was last established in Decision No. 62764, dated August 2, 2000. The Company also notified its customers by mail of its request to increase its PPFAC rate and illustrated the effect of the increase on the average customer bill. Only four (4) complaints have been received as of May 25, 2001.

The Company is an Arizona public service corporation certified by the Arizona Corporation Commission ("Commission") to provide electric, water and wastewater services in and around the incorporated community of Ajo in Pima County, Arizona. Ajo serves approximately 1,030 customers, including approximately 840 residential customers.

Ajo is a wholly owned subsidiary of the Phelps Dodge Corporation ("PD") and for many years Ajo purchased all its power requirements from PD. Currently, Ajo purchases its power from Tucson Electric Power Company from October through June at a cost of \$0.07 per kWh plus \$0.005 per kWh payable to Arizona Public Service Company ("APS") for transmission. During July, August and September, Ajo's power requirements are supplied by Phelps Dodge at a cost of \$0.08 per kWh with no transmission charges. Staff believes Ajo's purchased power practices to be prudent.

On September 9, 1999, Ajo filed a rate request for increased rates necessitated by growth in its rate base and increases in its purchase power costs. As a result of that case, the Company's monthly service charge was increased by \$0.70, from \$4.50 to \$5.20 but its energy charge was reduced by \$0.032 per kWh, from \$0.09430 per kWh to \$0.06230 per kWh. Additionally, Ajo's PPFAC rate was increased by \$0.056032 per kWh, from a negative \$0.0507 to a positive \$0.005332. This change in the PPFAC rate was intended to allow the Company to recover its under-collected purchased power bank account balance of \$54,852.

However, since the establishment of the current PPFAC rate, wholesale electrical power costs have increased significantly, leaving the PPFAC bank balance under-collected by

\$1,077,596 as of March 31, 2001. According to the Company, the under-collected bank balance is anticipated to continue to grow by approximately \$41,000 per month under the current PPFAC rate for the foreseeable future if the adjustor rate is not increased. This requested increase in the PPFAC rate is intended only to address the continued increases in the under-collected bank balance, and is not intended to significantly reduce the large under-collected balance.

Staff reviewed the Company's application and related schedules. The attached schedule provides the expected PPFAC bank balance, using the current adjustor rate of \$0.005332 and the recommended adjustor rate of \$0.05 (beginning in July 2001 through June 2002). Using the current adjustor rate, the Company's under-collected balance is expected to increase to \$1,571,844 by the end of June 2002, compared to an under-collected bank balance of \$1,073,732, if the recommended adjustor rate is adopted.

The increase in the PPFAC rate from \$0.005332 to a \$0.05 per kWh will increase the average residential bill, with a monthly usage of 427 kWh, by \$19.07, from \$34.09 to \$53.16, as illustrated in the following chart:

**Average Residential Bill Based on a Monthly Usage of 427 kWh**

Description	Current Bill PPFAC @ \$0.005332	Proposed Bill PPFAC @ \$0.05	Increase
Monthly Service Charge	\$5.20	\$5.20	\$0
Energy Charge	\$26.61	\$26.61	\$0
PPFAC	\$2.28	\$21.35	\$19.07
<b>TOTAL</b>	<b>\$34.09</b>	<b>\$53.16</b>	<b>\$19.07</b>

The actual increase in a customer's bill will depend on that customer's actual usage.

Staff believes the increase in this adjustor is necessary to eliminate further increases in the under-collected bank balance. Since this change will ostensibly keep the current under-collected balance at or near its current level, Staff recommends its approval without a hearing.

Absent from the Company's application was a plan to recover the large under-collected balance. Staff raised the issue of recovery methods to address the outstanding bank balance. Subsequently, the Company proposed to recover the under-collected bank balance over a ten-(10) year period with no interest component. The Company's proposed plan would add approximately \$0.01 to the proposed adjustor.

THE COMMISSION

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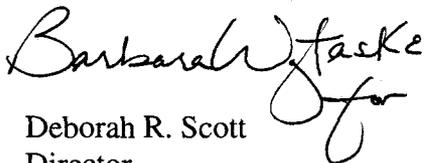
Staff continues to be involved in ongoing discussions regarding an appropriate plan for the recovery of the under-collected bank-balance. The Company wishes to recover the large under-collection over a ten (10) year period with no interest component in order to reduce "rate shock". Staff believes the lengthy collection period requires future customers' to pay current customers electrical usage.

Historically, Staff-recommended PPFAC rates have been designed to recover under-collected bank balances within the same time frame over which the deficiency was accrued. In this case, the under-collected balance was accrued over a three-year period. The adjustor rate would increase by another \$0.032178 per kWh if it were collected over the next three years, increasing the current combined PPFAC rate to \$0.082178 per kWh. Such a rate would increase the average residential bill by 96 percent instead of the proposed 56 percent and would exacerbate any "rate shock". Staff will continue to work closely with the Company to resolve the under-collection issue.

Staff recommends that the fuel adjustor rate of \$0.005332 per kWh, as approved in Decision No. 62764, dated August 2, 2000, be increased to \$0.05 without a hearing, and remain in effect until further order of the Commission.

Staff further recommends that Ajo be ordered to file the approved PPFAC tariff rate with the Commission within thirty days of the effective date of the Commission's decision.

Staff further recommends that Ajo be ordered to file a request to recover the under-collection of its PPFAC bank balance with the Commission. The filing should be made within sixty days of the effective date of the Commission's decision on this matter.



Deborah R. Scott  
Director  
Utilities Division

DRS:REL

ORIGINATOR: Ronald E. Ludders



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**BEFORE THE ARIZONA CORPORATION COMMISSION**

WILLIAM A. MUNDELL  
Chairman  
JIM IRVIN  
Commissioner  
MARC SPITZER  
Commissioner

IN THE MATTER OF THE APPLICATION ) DOCKET NO. E-01025A-01-0341  
OF AJO IMPROVEMENT COMPANY )  
FOR AN INCREASE IN ITS PURCHASED ) DECISION NO. \_\_\_\_\_  
POWER AND FUEL ADJUSTMENT )  
CLAUSE ("PPFAC") RATE ) ORDER

Open Meeting  
June 26, 2001  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company - Electric Division ("Ajo" or "Company") is certified to provide electric service as a public service corporation in the State of Arizona.
2. On April 20, 2001, Ajo filed an application to change its Purchased Power and Fuel Adjustment Clause ("PPFAC") rate from \$0.005332 to \$0.05 per kilo-Watt hour ("kWh") The current PPFAC was last established in Decision No. 62764, dated August 2, 2000.
3. On April 20, 2001, the Company also notified its customers by mail of its request to increase the PPFAC rate. The Company's notification illustrated the effect of the increase on the average customer's bill. Only four (4) complaints had been received as of May 25, 2001.
4. The Company seeks Commission approval of its proposed PPFAC rate that is intended to stop continuing increases in the under-collected PPFAC bank balance. The proposed adjustor is not intended to significantly reduce the large under-collected balance.
5. Under the current circumstances, the Company's under-collected bank balance is projected to be approximately \$1,571,844 by June 30, 2002, without any adjustment in the current PPFAC rate. The bank balance as of June 30, 2002, is estimated to be approximately \$1,073,732 with the approval of the requested adjustor for a difference of approximately \$498,112 or about \$41,500 per month.



BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
Executive Secretary of the Arizona Corporation  
Commission, have hereunto, set my hand and caused the  
official seal of this Commission to be affixed at the Capitol,  
in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_,  
2001.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Secretary

DISSENT: \_\_\_\_\_

DRS:REL: