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BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 19 2015

DOCKETED BY 

IN THE MATTER OF THE APPLICATION
OF AJO IMPROVEMENT COMPANY FOR
AN ADJUSTMENT IN ITS PURCHASED
POWER AND FUEL ADJUSTMENT
CLAUSE RATE ("PPFAC")

DOCKET NO. E-01025A-14-0413

DECISION NO. 75088

ORDER

Open Meeting
May 12 and May 13, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company ("Ajo" or "the Company") is certificated to provide electric service as a public service corporation in the State of Arizona. Ajo serves approximately 1,040 customers in Pima County. The Company is directly owned by Freeport Minerals Corporation, a wholly-owned subsidiary of Freeport-McMoRan Inc.

Background

2. Adjustor Resets. Ajo filed an application on December 17, 2014, to accelerate the third and fourth steps of a phased-in increase to its Purchased Power and Fuel Adjustment Clause ("PPFAC") that was approved in Decision No. 74298 (January 29, 2014).

3. Under-collected Bank Balance. As of January 2015, the under-collected bank balance was \$227,794. Based on the currently approved adjustor changes, Ajo projects that the under-collected

1 balance will grow to \$324,054 by December 2015, increasing to \$406,654 by December 2017. An
 2 under-collected balance arises when a utility is not recovering the full cost of its energy purchases.

3 4. Power Purchases. Ajo purchases approximately 70% of its wholesale energy
 4 requirements through a contract with Freeport-McMoRan Copper and Gold Energy Services, LLC, a
 5 subsidiary of Freeport-McMoRan Inc. The remaining 30% is purchased from the wholesale power
 6 market.

7 **Current and Proposed Increases to the PPFAC**

8 5. Existing Phased-in Increase. In its last Application, Ajo proposed to increase the adjustor
 9 rate from \$0.01000 to \$0.03250 per kWh as of February 2014. Due to the significant impact of such
 10 an increase on customer bills, Staff recommended a phased-in increase, scheduled to take place from
 11 2014 to 2017. The Commission approved the phased-in increase in Decision No. 74298, (January 29,
 12 2014), as reflected below (steps (i) and (ii) have already been put into place):

- 13 (i) An adjustment to \$0.02438 per kWh (starting February 2014);
- 14 (ii) An adjustment to \$0.02763 per kWh (starting February 2015);
- 15 (iii) An adjustment to \$0.03250 per kWh (starting February 2016); and
- 16 (iv) An adjustment to \$0.03575 per kWh (starting February 2017).

17 6. Proposed New Phased-in Increases. In its current application, Ajo proposes to move Step
 18 (iii) from February 2016 to August 2015 and Step (iv) from February 2017 to February 2016. In
 19 addition, Ajo proposes a fifth step to take effect in August 2016, taking the increase to \$0.03900 per
 20 kWh. The new proposed schedule of phased-in increases is shown below (proposed changes are in
 21 bold print and underlined.)

- 22 (i) An adjustment to \$0.02438 per kWh (starting February 2014);
- 23 (ii) An adjustment to \$0.02763 per kWh (starting February 2015);
- 24 (iii) An adjustment to \$0.03250 per kWh (starting **August 2015**);
- 25 (iv) An adjustment to \$0.03575 per kWh (starting February **2016**); and
- 26 (v) **An adjustment to \$0.03900 per kWh (starting August 2016).**

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Adjustor Rates with Bill Impacts

7. The tables in this section indicate the bill impacts of the entire adjustor rate, based on an average Residential usage of 615 kWh per month.

8. Existing Phased-in Increases. Below is a table showing Ajo's adjustor rates since Decision No. 73079 (April 5, 2012), including the monthly and yearly bill impacts, based on average Residential usage. This table also shows the bill impact of adjustor rates that have been approved, but which have not yet taken effect. (Changes that have not yet taken effect are bolded.)

Adjustor Rates, Historic and Pending (Approved in Decision No. 74298)

Date Changed	Decision No.	Adjustor Rate	Average Monthly kWh Usage	Monthly Impact	Yearly Impact
Apr-12	73079	\$0.01000	615	\$6.15	\$73.80
Feb-14	74298	\$0.02438	615	\$14.99	\$179.92
Feb-15	74298	\$0.02763	615	\$16.99	\$203.91
Feb-16	74298	\$0.03250	615	\$19.99	\$239.85
Feb-17	74298	\$0.03575	615	\$21.99	\$263.84

9. Proposed New Phased-in Increases. The table below shows Ajo's adjustor rates since Decision No. 73079 (April 5, 2012), and the monthly and yearly impacts of those adjustor rates, based on average Residential usage. This table also includes impacts from adjustor rates proposed in the current application. (Proposed changes are in bold.)

Adjustor Rates, Historic and Proposed by Ajo

Date Changed	Decision No.	Adjustor Rate	Average Monthly kWh Usage	Monthly Impact	Yearly Impact
Apr-12	73079	\$0.01000	615	\$6.15	\$73.80
Feb-14	74298	\$0.02438	615	\$14.99	\$179.92
Feb-15	74298	\$0.02763	615	\$16.99	\$203.91
Aug-15	proposed	\$0.03250	615	\$19.99	\$239.85
Feb-16	proposed	\$0.03575	615	\$21.99	\$263.84
Aug-16	proposed	\$0.03900	615	\$23.99	\$287.82

1 **Analysis**

2 10. Current Under-collection. Given Ajo's comparatively small customer population (1,040),
 3 Staff is concerned about the current under-collection. The \$227,794 under-collection is equal to
 4 approximately \$219 per customer and is projected to grow larger, if not addressed. Based on the
 5 currently approved schedule of adjustor changes, the under-collection should increase to
 6 approximately \$406,564 by December 2017 (or to approximately \$391 per customer). Moreover, the
 7 \$406,564 under-collection is likely to increase thereafter, barring significant changes to the cost of
 8 power.

9 11. If the adjustor rates proposed in the current application are approved, the under-
 10 collected bank balance is projected to increase to approximately \$318,000 by August 2016, and then to
 11 begin decreasing, reducing to \$304,543 by December 2017. At approximately \$293, this amount still
 12 represents a significant per-customer under-collection.

13 **Recommendation**

14 12. In order to better address the under-collection, Staff proposes five stepped increases,
 15 two more than the three proposed by Ajo. The first three are the same as those proposed by Ajo.
 16 The fourth step would be an increase to \$0.04000 in February 2017, while the fifth step is an increase
 17 to \$0.04200 in August 2017. Projections indicate that Staff's proposed phased-in adjustor reset would
 18 lower the under-collection to approximately \$287,000 by December 2017.

19 13. The table below shows both historic adjustor rates and the five stepped increases
 20 proposed by Staff.

21 **Historic and Staff-proposed new rates**

Date Changed	Decision No.	Adjustor Rate	Average Monthly kWh Usage	Monthly Impact	Yearly Impact
Apr-12	73079	\$0.01000	615	\$6.15	\$73.80
Feb-14	74298	\$0.02438	615	\$14.99	\$179.92
Feb-15	74298	\$0.02763	615	\$16.99	\$203.91
Aug-15	proposed	\$0.03250	615	\$19.99	\$239.85
Feb-16	proposed	\$0.03575	615	\$21.99	\$263.84
Aug-16	propose d	\$0.03900	615	\$23.99	\$287.82
Feb-17	propose d	\$0.04000	615	\$24.60	\$295.20

1	Aug-17	proposed	\$0.04200	615	\$25.83	\$309.96
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3 14. Ajo estimates that the average Residential bill is \$60.52. (Based on the current PPFAC
4 rate of \$0.02438 per kWh.) With the monthly PPFAC impact going from \$16.99 to \$25.83, Staff's
5 recommendation would increase the average monthly Residential bill by \$8.84 over two years.

6 15. Unanticipated changes to the cost of power could affect both the bank balance and the
7 bill impact, either increasing or decreasing them.

8 **Bank Balance Volatility**

9 16. Volatility. In addition to addressing the immediate under-collection, Staff is concerned
10 that large over- and under-collections tend to accrue for Ajo, relative to its small customer population.
11 From July 2001 to September 2011, Ajo paid down an approximately \$1.2 million under-collection.
12 During that period the PPFAC rate was set at \$0.05000. Since the bank balance reached zero in
13 September 2011, the Company has filed with the Commission three times over two years to address
14 large bank balances:

- 15 • In January 2012, Ajo filed for a reset to address an *over-collection* that was projected
16 to reach over \$500,000 by the end of 2012. At that time, the PPFAC rate was reset
17 from \$0.05000 to \$0.01000. (Decision No. 73079; April 5, 2012.)
- 18 • In October 2013, Ajo filed an adjustor reset for an *under-collection* projected to
19 reach approximately \$280,000 by the end of 2014. Stepped increases to \$0.03575
20 were approved, as discussed herein. (Decision No. 74298; January 29, 2014.)
- 21 • In December 2014, in the current filing, Ajo filed an adjustor reset to address a
22 *continuing under-collection* projected to reach approximately \$323,000 by the end of
23 2015.

24 17. All of these bank balances represent a substantial per-person level of debt, either owed
25 by, or to, the customers.

26 18. Rate Case Option. Staff notes that Ajo's last rate case was filed in 1999, with a Decision
27 issued in that case in 2000 (Decision No. 62764; August 2, 2000). Staff believes that a rate case might
28 prove necessary in order to make changes to the adjustor mechanism that could reduce volatility for

1 the bank balance and limit or reduce rate shocks. Staff also believes that a reset of the base cost of
2 power may help to limit rate shocks. In addition, a review of Ajo's power purchasing practices may be
3 useful in helping to ensure that reasonable purchasing practices are in place.

4 19. Staff has recommended that if Ajo has not filed a rate case in the interim, the
5 Company file a letter in the current docket by December 31, 2017, citing the current bank balance and
6 indicating when it intends to file a rate case. If Ajo determines that a rate case is not necessary, it
7 should explain why in the docketed letter.

8 20. Summary of Recommendations.

- 9 • Staff has recommended the following phased-in increases to the adjustor rate:
- 10 ○ An increase to \$0.03250 per kWh (starting August 2015);
 - 11 ○ An increase to \$0.03575 per kWh (starting February 2016);
 - 12 ○ An increase to \$0.03900 per kWh (starting August 2016);
 - 13 ○ An increase to \$0.04000 per kWh (starting February 2017); and
 - 14 ○ An increase to \$0.04200 per kWh (starting August 2017).
- 15 • Staff has recommended that unless it has filed a rate case in the interim, Ajo
16 Improvement Company file a letter in the current docket by December 31, 2017,
17 citing the bank balance and indicating when it will file a rate case, or explaining
18 why a rate case is not yet necessary.

19 CONCLUSIONS OF LAW

20 1. Ajo is an Arizona public service corporation within the meaning of Article XV, Section
21 2, of the Arizona Constitution.

22 2. The Commission has jurisdiction over Ajo and over the subject matter of the
23 application.

24 3. The Commission, having reviewed the application and Staff's Memorandum dated
25 April 27, 2015, concludes that it is in the public interest to approve changes to the adjustor rate as
26 discussed herein.

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ORDER

IT IS THEREFORE ORDERED that the Ajo Improvement Company's Purchased Power and Fuel Adjustment Clause rate be reset in accordance with Finding of Fact No. 20, herein.

IT IS FURTHER ORDERED that unless it has filed a rate case in the interim, Ajo Improvement Company shall file a letter in the current docket by December 31, 2017, citing the bank balance and indicating when it will file a rate case, or explaining why a rate case is not yet necessary.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

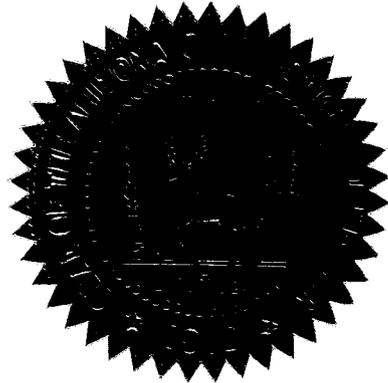

CHAIRMAN


COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director 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 19th day of May, 2015.


JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JMK:vsc/CHH

1 SERVICE LIST FOR: Ajo Improvement Company
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**EXHIBIT A-1
Staff Alternative**

Date	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Adjustor Rate	0.02438	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.03250	0.03250	0.03250	0.03250	0.03250
Bank Balance	\$ 228,817	\$ 237,384	\$ 245,951	\$ 254,518	\$ 263,085	\$ 271,652	\$ 280,219	\$ 284,762	\$ 289,305	\$ 293,848	\$ 298,391	\$ 302,934
Date	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Adjustor Rate	0.03250	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03900	0.03900	0.03900	0.03900	0.03900
Bank Balance	\$307,477	\$309,334	\$311,191	\$313,048	\$314,905	\$316,762	\$318,619	\$317,791	\$316,963	\$316,135	\$315,307	\$314,479
Date	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Adjustor Rate	0.03900	0.04000	0.04000	0.04000	0.04000	0.04000	0.04000	0.04200	0.04200	0.04200	0.04200	0.04200
Bank Balance	\$ 313,651	\$ 311,996	\$ 310,341	\$ 308,686	\$ 307,031	\$ 305,376	\$ 303,721	\$ 300,414	\$ 297,107	\$ 293,800	\$ 290,493	\$ 287,186

Ajo Proposal

Date	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Adjustor Rate	0.02438	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.03250	0.03250	0.03250	0.03250	0.03250
Bank Balance	\$ 228,817	\$ 237,384	\$ 245,951	\$ 254,518	\$ 263,085	\$ 271,652	\$ 280,219	\$ 284,762	\$ 289,305	\$ 293,848	\$ 298,391	\$ 302,934
Date	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Adjustor Rate	0.03250	0.03575	0.03575	0.03575	0.03575	0.03575	0.03575	0.03900	0.03900	0.03900	0.03900	0.03900
Bank Balance	\$307,477	\$309,334	\$311,191	\$313,048	\$314,905	\$316,762	\$318,619	\$317,791	\$316,963	\$316,135	\$315,307	\$314,479
Date	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Adjustor Rate	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900	0.03900
Bank Balance	\$ 313,651	\$ 312,823	\$ 311,995	\$ 311,167	\$ 310,339	\$ 309,511	\$ 308,683	\$ 307,855	\$ 307,027	\$ 306,199	\$ 305,371	\$ 304,543

Currently Approved

Date	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Adjustor Rate	0.02438	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763	0.02763
Bank Balance	\$ 228,817	\$ 237,384	\$ 245,951	\$ 254,518	\$ 263,085	\$ 271,652	\$ 280,219	\$ 288,786	\$ 297,353	\$ 305,920	\$ 314,487	\$ 323,054
Date	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Adjustor Rate	0.02763	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250	0.03250
Bank Balance	\$ 331,621	\$ 336,164	\$ 340,707	\$ 345,250	\$ 349,793	\$ 354,336	\$ 358,879	\$ 363,422	\$ 367,965	\$ 372,508	\$ 377,051	\$ 381,594
Date	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Adjustor Rate	0.032500	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750	0.035750
Bank Balance	\$ 386,137	\$ 387,994	\$ 389,851	\$ 391,708	\$ 393,565	\$ 395,422	\$ 397,279	\$ 399,136	\$ 400,993	\$ 402,850	\$ 404,707	\$ 406,564