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ARIZONA CORPORATION COMMISSION

November 27, 2018

RE: In the matter of the application of Ajo Improvement Company: WS-01025A-17-0361;
E-01025A-17-0362; WS-01025A-17-0363.

Dear Ajo Improvement Company,

On October 16, 2018, the Company submitted pre-filed testimony, which stated that the Company was forgoing \$14.25 million in revenue.¹ On November 9, 2018, the Company filed additional testimony, which stated that the Company, and its parent, believed that the Company would never earn a return on its capital investments.² On November 15, 2018, during the Commission's evidentiary hearings in this case, the Company testified further that its parent company would not recover all of its \$48.2 million dollars in capital investments through the Company's rates,³ emphasizing "through rates."

I feel that the statements suggesting that foregoing \$14.25 million in revenue is acceptable to the Company's owner, or that not recovering a return on \$48.2 million in capital was a part of the owner's plan, warrant additional explanation. How the Company's parent intends to recover its ownership interests and capital gains in this case, I feel is a critical question going toward the public interest in this matter and to understanding the prudence and reasonableness of the underlying investments and the requested rates, respectfully.

Please clarify whether the Company's owner is accepting these investments as sunk costs, or whether it plans to recover on or subsidize its investments by some other means. Thank you.

Andy Tobin
Commissioner

Arizona Corporation Commission

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¹ See Rebuttal Testimony of Roy Archer, Thomas Bourassa, and Dan Neidlinger on Behalf of Ajo Improvement Company, p.6 (Oct. 16, 2018), PDF available at: <http://docket.images.azcc.gov/0000192926.pdf> ("AIC will give up annual revenues of about \$2.85 million by proposing an operating margin approach of 12 percent as compared to a typical rate of return approach to setting the revenue requirement. . . . Over 5 years, this amounts to about \$14.25 million."), p.9 ("AIC will not be recovering its current expenses for at least four years"), p.17 ("AIC is not requesting recovery of the foregone revenues during the phase-in period").

² See Rejoinder Testimony of Roy Archer on Behalf of Ajo Improvement Company, p.11 (Nov. 9, 2018), PDF available at: <http://docket.images.azcc.gov/0000193521.pdf> ("AIC and its parent company believed that it was not likely to ever earn a return on the significant capital investment.") ("Phelps Dodge, and subsequently Freeport, were willing to invest millions of dollars into AIC to allow AIC to improve the utility system, even though it was unlikely AIC would ever earn a significant return on the rate base funded by that investment given the magnitude of the cost versus the number of customers.").

³ See Video Archive of Evidentiary Hearing, 05:02:07-05:02:59 (Nov. 15, 2018), recording available at http://azcc.granicus.com/MediaPlayer.php?view_id=3&clip_id=3330 ("The Company will not recover all of its \$48.2 million dollars . . . it's gone. . . . it is something the company will never recover, or the investor will never recover through rates . . . or even have an opportunity to recover through rates.") (emphasis added).

On this 27th day of November, 2018, the foregoing document was filed with Docket Control as a Correspondence From Commissioner, and copies of the foregoing were mailed on behalf of Andy Tobin, Commissioner - A.C.C. to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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WS-01025A-17-0361

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