

Abbott

OPEN MEETING AGENDA ITEM

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Commissioner Mike Gleason
Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

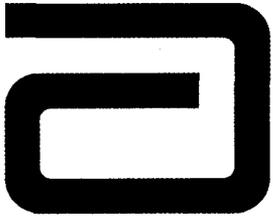
Re: Arizona Water Company Rate Case for Western Group, ACC Docket No. W-01445A-04-0650

Dear Commissioners:

On October 4, 2005, Administrative Law Judge Wolfe issued the Recommended Opinion and Order ("ROO") in the Arizona Water Company rate case for the Company's Western Group under ACC Docket No. W-01445A-04-0650. This letter is provided on behalf of Ross Products of Casa Grande, a division of Abbott Laboratories, relating to the adverse and unfair impacts of the ROO on Abbott and other local businesses in Arizona Water Company's Western service area.

Abbott Laboratories is a diversified health care company devoted to discovery, development, manufacturing and marketing of innovative products that improve diagnostic, therapeutic, and nutritional practices. Our Ross Products Division plant (RPD) was located in Casa Grande in 1984 to manufacture infant and adult nutritional products for a worldwide market under strict standards required by the Federal Food and Drug Administration. At the Casa Grande Facility, RPD manufactures nutritional products for infants and adults with special dietary needs. Abbott is one of the largest employers in Casa Grande--employing over 450 people with payroll in excess of \$32 million. Since its inception in 1984, Abbott continues to expand the Casa Grande Facility, including four major expansions totaling over \$136 million in capital investments. The Facility is designated as a Foreign Trade Zone and provides nearly \$2.5 million annually in tax revenues. Abbott's Casa Grande Facility has a substantial positive economic impact in Casa Grande and throughout the state of Arizona.

Abbott is strongly opposed to the recommended three-tiered inverted rate structure for Arizona Water Company's Western Group set forth in the ROO. That rate structure is an unanticipated and radical departure from the single-tier rate originally proposed by Arizona Water Company and relied upon by Abbott in operating its Casa Grande Facility. Arizona Water Company's single-tier rate structure has been in effect since RPD constructed the Casa Grande Facility in 1984. Abbott did not intervene because we had no reason to believe that the Company's current and proposed single tier rate structure would be replaced by a three-tiered inverted system which forces commercial businesses like Abbott to subsidize residential water use.

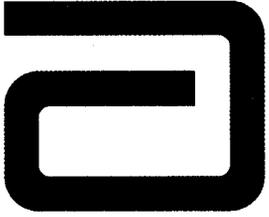


Currently, and as proposed by the Company, Arizona Water's rate design for Casa Grande includes a monthly minimum charge based on meter size and a uniform commodity rate for all gallons sold. In the pending rate case, however, ACC Staff proposed an inverted-block rate structure under which customers on 5/8 x 3/4-inch meters would have three commodity rate blocks. Customers on larger size meters would have two commodity rate blocks.

The ROO accepts this rate structure and produces a commodity rate for residential customers, which is less than the Company's existing commodity rate. Put simply, the ROO implements a rate reduction for the Company's largest water using group (residential users account for 80-90% of the Company's water usage) and shifts the revenue burden to customers on larger meters (such as Abbott). The net result is that Abbott and other businesses will be forced to subsidize the rate decreases for residential customers. Obviously, significant reductions in monthly bills for residential customers will not encourage reductions in water use.

In no uncertain terms, the rate design in the ROO is nothing more than a device to reallocate revenue recovery among customer groups. In Casa Grande, for example, the commodity rates for residential customers under the ROO in the first and second tiers are 36% and 18%, respectively, below the Company's existing commodity rate. That means many residential customers will receive substantial reductions in their monthly bills. That rate design is not intended to encourage water conservation, but results instead in encouraging and subsidizing of residential water use by businesses. This unanticipated proposal severely punishes business water users while granting rate reductions to residential consumers—all in the name of conservation. This just does not make sense and is patently unfair to Abbott and other local businesses.

Even further, this inverted block rate structure imposed by the ROO does not give Abbott any credit for its substantial water conservation practices at the Casa Grande Facility. Our Casa Grande Plant has been recognized for its commitment to reducing environmental impact and water usage. Over the last five years, RPD has or will complete water recovery and reuse conservation projects at the Casa Grande Facility totaling over \$2.5 million in capital investments. By implementing those projects, Abbott has reduced annual water demand at the Casa Grande Facility by nearly 90 million gallons. Our current average daily usage of 1.0 million gallons would have been significantly higher had we not been committed to water conservation. Since our liquid products are comprised in large part of water, and substantial quantities of water are required to heat and cool our products during production and to clean the plant between production runs, water is an essential ingredient required to supply infant and nutritional formulas to the public. Over the years, we have changed our chemical use and production methods to substantially reduce the amount of water required at the Casa Grande Facility. Further, Abbott currently discharges its wastewater through ADEQ regulated Land Application and to the City of Grande's system, thereby either returning water to the ground or enabling re-use of the water in a variety of lakes, golf courses and other uses of non-potable water in the area. On these issues, Abbott would note that ACC did not investigate or evaluate water usage or conservation practices by Abbott in the pending rate case.



Under the ROO, Abbott will experience a substantial increase in water rates. Assuming Abbott uses 30,000,000 gallons of water per month, its current commodity bill for water service would be approximately \$46,800 per month (30,000,000 gallons at the existing commodity rate of \$1.56/1000 gallons). Under the ROO, however, Abbott's monthly commodity charge would increase to about \$62,760 per month (2,000,000 gallons at \$1.28/1000 gallons and 28,000,000 gallons at \$2.15/1000 gallons). That amounts to an annual increase in Abbott's commodity charge of more than \$191,000 or a 34% increase. Switching to a rate structure that imposes a 34% rate increase on a thriving business that substantially supports employment and civic participation in the greater Casa Grande community will not promote conservation. We are keenly aware of the opportunities for conservation and the costs of not doing so, which already exist under the current rate structure. Water is unavoidably an essential part of the manufacturing process for our products and we are doing our best to conserve it. Further, decreasing rates for residential users, who currently use about 80-90% of the water in Casa Grande, will not result in conservation. Put simply, the rate structure in the ROO has the potential to discourage future new business location, future expansions of existing business, and could result in curtailment of some operations.

Abbott Laboratories urges the Commission to reject the three-tier inverted block rate structure in the ROO and, instead, implement the single-tier proposal submitted by Arizona Water Company. We look forward to the opportunity to present our objections more fully in your October 18 Open Meeting on this matter, and we welcome your questions at any time so that we might clarify our concerns.

Very truly yours,

Barbara Ortega for

s/ James Destadio

Original and 25 copies

Filed with Docket Control this
13 day of October, 2005.

Two copies delivered to each

Commissioner's Office this
13 day of October, 2005.

cc (hand delivered): Diane Targovnik, Attorney for Staff
cc (mailed): Norm James, Attorney for Arizona Water Company
Joan Burke, Attorney for City of Casa Grande
Marin Jones, Attorney for Pivotal Group
Dan Pozefsky, Attorney for RUCO