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9 **BEFORE THE ARIZONA CORPORATION COMMISSION**

10 IN THE MATTER OF THE APPLICATION OF  
11 ARIZONA WATER COMPANY, AN ARIZONA  
12 CORPORATION, FOR A DETERMINATION OF  
13 THE FAIR VALUE OF ITS UTILITY PLANT  
14 AND PROPERTY, AND FOR ADJUSTMENTS  
15 TO ITS RATES AND CHARGES FOR UTILITY  
16 SERVICE AND FOR CERTAIN RELATED  
17 APPROVALS BASED THEREON.

Docket No. W-01445A-08-0440

**Notice of Filing**

18 Abbott Laboratories, through its undersigned counsel, hereby provides notice of filing the  
19 Direct Testimony of Stephen V. Chasse in the above-referenced matter.

20 RESPECTFULLY SUBMITTED this 12th day of June 2009.

21 RYLEY CARLOCK & APPLEWHITE

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Arizona Corporation Commission  
**DOCKETED**

JUN 12 2009

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1 An original and thirteen copies of the  
2 foregoing filed this 12th day of June 2009 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 W. Washington St.  
6 Phoenix, Arizona 85007

7 Copies of the foregoing mailed this 12<sup>th</sup> day  
8 of June 2009 to:

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1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2  
3                   COMMISSIONERS

4                   KRISTIN K. MAYES, Chairman  
5                   GARY PIERCE  
6                   SANDRA KENNEDY  
7                   PAUL NEWMAN  
8                   BOB STUMP

9                   IN THE MATTER OF THE APPLICATION OF  
10                  ARIZONA WATER COMPANY, AN ARIZONA  
11                  CORPORATION, FOR A DETERMINATION OF  
12                  THE FAIR VALUE OF ITS UTILITY PLANT  
13                  AND PROPERTY, AND FOR ADJUSTMENTS  
14                  TO ITS RATES AND CHARGES FOR UTILITY  
15                  SERVICE AND FOR CERTAIN RELATED  
16                  APPROVALS BASED THEREON.

Docket No. W-01445A-08-0440

17                                   **Direct Testimony**  
18                                   **of**  
19                                   **Stephen V. Chasse**  
20                                   **on behalf of Abbott Laboratories**  
21                                   **June 12, 2009**  
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**Direct Testimony**  
**of**  
**Stephen V. Chasse**  
**on behalf of Abbott Laboratories**  
**June 12, 2009**

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## Executive Summary

Stephen V. Chasse is the Manager of Facilities and Utilities for the Abbott Nutrition Division's Casa Grande manufacturing plant. The plant purchases water through a six-inch meter from Arizona Water Company, and uses the water to manufacture a variety of infant formula and adult nutritional products. The plant employs 450 employees and operates 24 hours per day, 365 days per year.

Arizona Water Company withdraws groundwater through a well, adds chlorine, and delivers the water to Abbott through a dedicated, seven-mile pipeline. Arizona Water Company does not provide any other treatment for water delivered to Abbott. Abbott treats the water received from the Arizona Water Company in a reverse osmosis water treatment plant to ensure water used in the plant meets applicable water quality standards. Abbott's treatment process includes arsenic and fluoride removal. The Arizona Department of Environmental Quality monitors compliance with drinking water quality standards at the outflow from Abbott's water treatment plant.

Even though Abbott treats the water provided by Arizona Water Company at Abbott's own expense (at a cost of \$0.74 per thousand gallons in 2008), Abbott currently pays Arizona Water Company a \$0.2147 per 1000 gallon total arsenic surcharge. Arizona Water Company is proposing to incorporate a portion of the current arsenic surcharge (\$0.1558 per 1,000 gallons) in Abbott's new Industrial base rate of \$1.6430 per 1000 gallons. Under both the current and proposed rates, Abbott is required to pay an arsenic treatment cost that is not incurred by Arizona Water Company in providing service to Abbott.

To reduce operational costs and to promote sustainability, Abbott has focused, and continues to focus, significant resources toward conserving water at the Casa Grande plant. Abbott has reduced its water consumption per pound of product significantly in the past five years, with an aggressive corporate goal of achieving 40% water use reduction by 2011, using Abbott's 2004 usage as a baseline, indexed to sales. Abbott has significant financial and environmental incentives to reduce the amount of water it must purchase and use, including the cost of water, water treatment, and wastewater treatment. Arizona Water Company's industrial customers are already paying significantly more for water service than the cost of service, and additional water price increases or incentives for the small number of industrial water users in Arizona Water Company's Casa Grande system are not needed to further promote conservation.

1 **I. Introduction**

2 **Q. Please state your name, business address, and telephone number.**

3 A. My name is Stephen V. Chasse. My business address is 1250 West Maricopa Highway,  
4 Casa Grande, Arizona 85193. My telephone number is (520) 421-6600.

5 **Q. In what capacity and by whom are you employed?**

6 A. I am employed by Abbott as the Manager of Facilities and Utilities for Abbott's Casa  
7 Grande manufacturing plant.

8 **Q. Please describe your primary responsibilities for Abbott.**

9 A. I am responsible for all utilities that come into the plant. I ensure that utilities are  
10 delivered to all operations in a timely and cost efficient manner. My other key  
11 responsibility is to proactively look for methods to reduce overall utility consumption to  
12 reduce costs and environmental impacts.

13 **Q. Please describe your professional experience and education.**

14 A. I have worked for Abbott since June 2004 as the Manager of Facilities and Utilities for  
15 the Casa Grande, Arizona site. Before that, I worked for Ardais Corporation and Dow  
16 Chemical in similar capacities. I hold a Bachelor of Science in Mechanical Engineering,  
17 a Master of Business Administration, and am a Registered Professional Engineer.

18 **Q. Have you previously testified before this Commission?**

19 A. No.  
20

21 **II. Purpose of Testimony**

22 **Q. What is the purpose of your testimony in this case?**

23 A. Upon information and belief, Abbott is the largest, or at least one of the largest, industrial  
24 customers in Arizona Water Company's Casa Grande system. The purpose of my  
25 testimony is to describe the services provided to Abbott by Arizona Water Company, the  
26 facilities used to provide those services, and Abbott's role in treating water prior to use in  
27 its manufacturing facility. I will also describe Abbott's water conservation programs.  
28

1 **III. Water Facilities**

2 **Q. Please briefly describe Abbott's Casa Grande business.**

3 A. The Abbott Nutrition division of Abbott operates a manufacturing plant located on the  
4 west side of Casa Grande, Arizona within Arizona Water Company's Certificate of  
5 Convenience and Necessity in sections 13 and 24, Township 6 South, Range 5 East,  
6 GSRB&M. The plant manufactures a variety of infant formula and adult nutritional  
7 products for distribution mainly in the western United States.

8 **Q. Please describe the water facilities that supply the plant.**

9 A. Abbott receives groundwater from one of three Arizona Water Company-owned wells.  
10 Water is supplied to the plant through a dedicated 7-mile pipeline that was constructed by  
11 Abbott and contributed to Arizona Water Company.

12 **Q. Does Arizona Water Company provide any treatment services to Abbott?**

13 A. I understand that Arizona Water Company chlorinates the water before it is supplied to  
14 Abbott, but I do not believe that Arizona Water Company provides any other treatment.  
15 Because Abbott manufactures products that must meet stringent quality standards, Abbott  
16 treats the water entering the plant in Abbott's own reverse osmosis treatment plant.  
17 Abbott's reverse osmosis treatment plant provides treatment to ensure water used in the  
18 plant meets applicable water quality standards, and includes arsenic and fluoride removal.  
19 The Arizona Department of Environmental Quality considers Abbott's water treatment  
20 plant the "point of entry" into Arizona Water Company's system, and the water is tested  
21 for compliance with water quality standards just after the water has passed through  
22 Abbott's water treatment plant.

23 **Q. Is Abbott currently paying a potable water rate that includes a surcharge for the  
24 cost of arsenic removal?**

25 A. Yes. Abbott currently pays a \$0.2147 per 1000 gallons arsenic surcharge. Under  
26 Arizona Water Company's proposed Industrial six-inch meter commodity rate, a portion  
27 of the arsenic surcharge (\$0.1558 per 1000 gallons) is incorporated in the proposed base  
28

1 potable water rate of \$1.6430 per 1000 gallons. Accordingly, under both the current and  
2 proposed rates, Abbott is required to pay an arsenic treatment cost that is not incurred by  
3 Arizona Water Company in providing service to Abbott. As previously stated, Abbott  
4 receives water at the point of entry and subsequently treats for arsenic and other  
5 constituents at Abbott's own cost.  
6

7 **IV. Water Use**

8 **Q. For what purposes is water used at the plant?**

9 A. Water is used for a variety of purposes. Water becomes part of some finished products,  
10 and is an integral part of some of the manufacturing processes. Water is also used to  
11 clean manufacturing equipment, and for the production of steam and in cooling towers.

12 **Q. How many employees work at the Casa Grande plant?**

13 A. The plant employs approximately 450 employees.

14 **Q. What are the plant's hours of operation?**

15 A. The plant operates 24 hours, 7 days per week, 365 days per year.

16 **Q. Does Arizona Water Company currently provide all of the plant's water supply?**

17 A. Yes.

18 **Q. How much water did the plant purchase from Arizona Water Company in 2006,  
19 2007, and 2008.**

20 A. In 2006, Abbott purchased 403 million gallons of water from Arizona Water Company.  
21 In 2007, Abbott purchased approximately 412 million gallons of water. In 2008, Abbott  
22 purchased 339 million gallons of water.

23 **Q. Under what rate structure is Abbott currently charged?**

24 A. Abbott receives service through a six-inch meter, and under Arizona Water Company's  
25 Casa Grande tariff is currently charged a monthly commodity rate of 1.4869 per 1000  
26 gallons for the first 2,160,000 gallons and \$1.6500 per 1000 gallons for amounts  
27  
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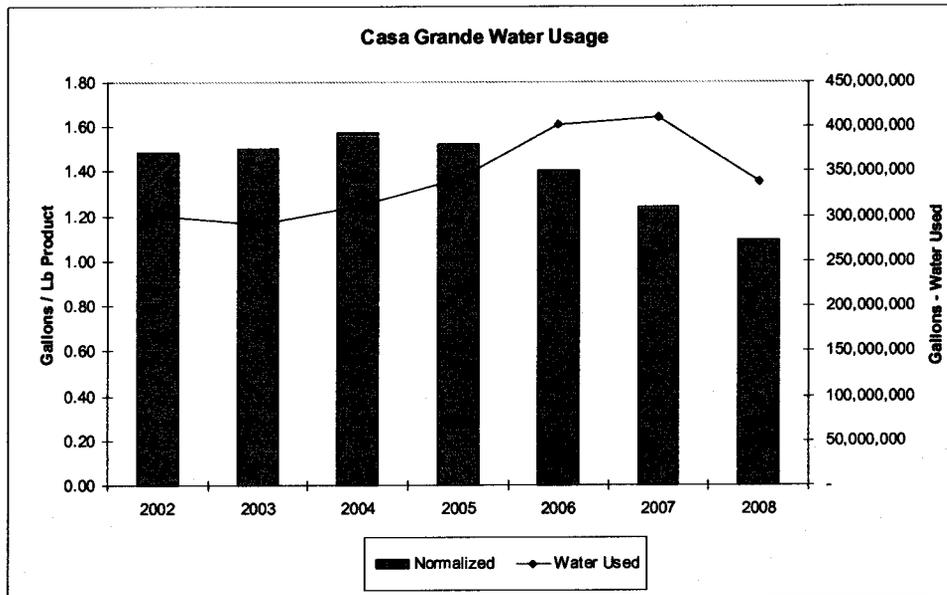
1 exceeding 2,160,000 gallons, in addition to other tariffed fees and charges. These water  
2 rates are a significant operational cost.  
3

4 **V. Water Conservation**

5 **Q. Does Abbott currently have incentives to reduce its water use?**

6 A. Absolutely. Abbott has significant financial and environmental incentives to reduce the  
7 amount of water it purchases and uses. First, because water is a significant product  
8 production cost, Abbott has ongoing cost incentives to reduce the amount of water it must  
9 purchase. In addition, every gallon of water Abbott purchases must be treated, so a  
10 reduction of the volume of water going through the treatment processes will reduce  
11 treatment, operation and maintenance expenses. Reduction of water intake into the plant  
12 also reduces the volume of wastewater that must be treated.

13 Second, Abbott has identified responsible water use as one of its strategic  
14 environmental priorities. Abbott established a corporate goal of 40% water use reduction  
15 by 2011, using Abbott's 2004 usage as a baseline, indexed to sales. Abbott identified the  
16 Casa Grande plant as one of its high priority sites in its global operations based on a  
17 review of water supply stress. Abbott's corporate initiatives have focused and continue  
18 to focus additional resources and efforts toward reductions in water use. These efforts  
19 include Abbott's partnership with the University of Arizona and Project WET to promote  
20 water conservation, not only within Abbott's facility, but within the Community. The  
21 following chart demonstrates that the Casa Grande plant has already achieved significant  
22 water reductions through ongoing water conservation efforts and is already ahead of  
23 aggressive corporate goals.  
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13 **Q. How much does Abbott spend on initial water treatment at the plant inlet?**

14 **A.** The 2008 annual operation and maintenance cost for the Abbott reverse osmosis  
15 treatment system, not including capital costs, was \$0.74 per thousand gallons. This cost  
16 is paid by Abbott in addition to the water rates that Abbott pays to Arizona Water  
17 Company.

18 **Q. Should the Arizona Corporation Commission impose further price incentives in**  
19 **Arizona Water Company's new rates to reduce industrial water use?**

20 **A.** No. The small number of significant industrial users in Arizona Water Company's Casa  
21 Grande system already have significant price incentives to reduce water use. Arizona  
22 Water Company's Cost of Service Study indicates industrial users in the Casa Grande  
23 system already pay substantially more than the cost of providing water service to that  
24 class of customers. That extra cost alone encourages water conservation.

25 Additionally, to my knowledge, major industrial users in the system have been  
26 investing in programs and equipment to make their operations more water efficient in  
27 order to reduce water use for all the reasons Abbott has done so. Additional price  
28

1 incentives would simply raise production costs to the detriment of Abbott product  
2 consumers.

3 **Q. Does this conclude your direct testimony in this case?**

4 **A. Yes.**