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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR ADJUSTMENTS
TO ITS RATES AND CHARGES FOR UTILITY
SERVICE FURNISHED BY ITS WESTERN
GROUP AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-10-0517

Abbott Laboratories'
Notice of Filing Direct Testimony

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

RESPECTFULLY SUBMITTED this 5th day of December 2011.

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Arizona Corporation Commission

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1 An original and thirteen copies of the
2 foregoing filed this 5th day of
3 December 2011 with:

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

8 Copies of the foregoing mailed this
9 5th day of December 2011 to:

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 COMMISSIONERS

4 GARY PIERCE, Chairman
5 BOB STUMP
6 SANDRA D. KENNEDY
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9 IN THE MATTER OF THE APPLICATION OF
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14 TO ITS RATES AND CHARGES FOR UTILITY
15 SERVICE FURNISHED BY ITS WESTERN
16 GROUP AND FOR CERTAIN RELATED
17 APPROVALS.

Docket No. W-01445A-10-0517

18 **Direct Testimony**
19 **of**
20 **Stephen V. Chasse**
21 **on behalf of Abbott Laboratories**
22 **December 5, 2011**
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1 **Executive Summary**

2 Stephen V. Chasse is the Manager of Facilities and Utilities for Abbott Laboratories'
3 Casa Grande manufacturing plant. He is responsible for all utilities that come into the plant, and
4 also looks for methods to reduce costs and environmental impacts.

5 Mr. Chasse testifies that Abbott is one of the largest industrial customers in Arizona
6 Water Company's Pinal Valley system. The Abbott Nutrition division operates a manufacturing
7 plant that employs approximately 500 employees and is located on the west side of Casa
8 Grande. The plant manufactures a variety of infant formula and adult nutritional products for
9 distribution mainly in the western United States.

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

13 Because Abbott manufactures products that must meet stringent quality standards, Abbott
14 treats the water entering the plant in Abbott's own reverse osmosis treatment plant. Under both
15 the current and proposed rates, Abbott is required to pay an arsenic treatment cost that is not
16 incurred by Arizona Water Company in providing service to Abbott.

17 In 2009, Abbott purchased 387 million gallons of water from Arizona Water Company.
18 In 2010, Abbott purchased approximately 379 million gallons of water. In 2011, through
19 October, Abbott has purchased 327 million gallons of water.

20 Abbott receives most of its water service through a six-inch meter, and under Arizona
21 Water Company's Pinal Valley tariff for a six-inch meter is currently charged a monthly
22 commodity rate of 1.5036 per 1000 gallons, in addition to other tariffed fees and charges.
23 Abbott has significant financial and environmental incentives to reduce the amount of water it
24 purchases and uses. First, because water is a significant product production cost, Abbott has
25 ongoing cost incentives to reduce the amount of water it must purchase. In addition, every
26 gallon of water Abbott purchases must be treated, so a reduction of the volume of water going
27 through the treatment processes will reduce treatment, operation and maintenance expenses.
28 Reduction of water intake into the plant also reduces the volume of wastewater that must be
treated.

Second, Abbott has identified responsible water use as one of its strategic environmental
priorities. Abbott established a corporate goal of 50% water use reduction by 2015, using
Abbott's 2005 usage as a baseline, indexed to sales. The Casa Grande plant has already
achieved significant water reductions through ongoing water conservation efforts and is actively
working to meet the aggressive corporate goals.

The Arizona Corporation Commission should not impose further price incentives in its
rates to reduce industrial water use. Arizona Water Company's updated Cost of Service Study
indicates industrial users in the Pinal Valley system will continue under the Company's
proposed rates to pay substantially more than the cost of providing water service to that class of
customers. That extra cost alone encourages water conservation.

Finally, Mr. Chasse testifies that Arizona Water Company's proposed Off-Site Facilities
Fee tariff language should be changed to exclude new service connections intended to provide
alternate delivery locations for existing water service.

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 Laboratories ("Abbott") as the Manager of Facilities and
7 Utilities for Abbott's Casa 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 Ardaís 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. Yes. I testified on behalf of Abbott in a similar capacity in the previous water rate case
20 for Arizona Water Company's Casa Grande system, Commission docket number W-
21 01445A-08-0440.

22 **II. Purpose of Testimony**

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

24 A. Abbott is one of the largest industrial customers in Arizona Water Company's Pinal
25 Valley system. The purpose of my testimony is to describe the services provided to
26 Abbott by Arizona Water Company, the facilities used to provide those services, and
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1 Abbott's role in treating water prior to use in its manufacturing facility. I will also
2 describe Abbott's water conservation programs.

3 **III. Water Facilities**

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

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

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

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

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

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

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

3 A. Prior to the previous rate case for the Casa Grande system, Abbott paid a \$0.2147 per
4 1000 gallons arsenic surcharge. It is my understanding this surcharge is now included
5 within the current rates approved in case number W-01445A-08-0440. Under both the
6 current and proposed rates, Abbott is required to pay an arsenic treatment cost that is not
7 incurred by Arizona Water Company in providing service to Abbott. As previously
8 stated, Abbott receives water at the point of entry and subsequently treats for arsenic and
9 other constituents at Abbott's own cost.

10 **IV. Water Use**

11 **Q. For what purposes are water used at the plant?**

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

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

16 A. The plant employs approximately 500 employees.

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

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

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

20 A. Yes.

21 **Q. How much water did the plant purchase from Arizona Water Company in 2009,**
22 **2010, and 2011.**

23 A. In 2009, Abbott purchased 387 million gallons of water from Arizona Water Company.
24 In 2010, Abbott purchased approximately 379 million gallons of water. In 2011, through
25 October, Abbott has purchased 327 million gallons of water.
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1 **Q. Under what rate structure is Abbott currently charged?**

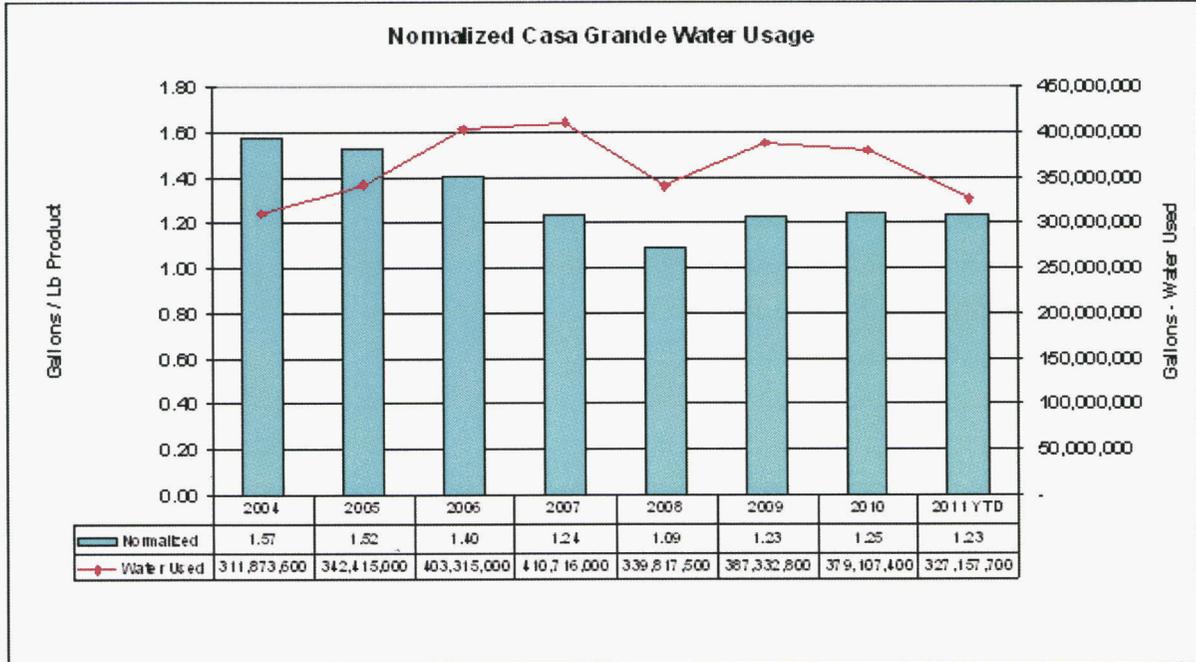
2 A. Abbott receives most of its water service through a six-inch meter (a relatively minor
3 amount is purchased through a two-inch meter), and under Arizona Water Company's
4 Pinal Valley tariff for a six-inch meter is currently charged a monthly commodity rate of
5 1.5036 per 1000 gallons, in addition to other tariffed fees and charges. This charge has
6 been in effect for just over a year. These water rates are a significant operational cost.

7 **V. Water Conservation**

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

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

16 Second, Abbott has identified responsible water use as one of its strategic
17 environmental priorities. Abbott established a corporate goal of 50% water use reduction
18 by 2015, using Abbott's 2005 usage as a baseline, indexed to sales. Abbott identified the
19 Casa Grande plant as one of its high priority sites in its global operations based on a
20 review of water supply stress. Abbott's corporate initiatives have focused and continue
21 to focus additional resources and efforts toward reductions in water use. These efforts
22 include Abbott's partnership with the University of Arizona and Project WET to promote
23 water conservation, not only within Abbott's facility, but within the Community. The
24 following chart demonstrates that the Casa Grande plant has already achieved significant
25 water reductions through ongoing water conservation efforts and is actively working to
26 meet the aggressive corporate goals.



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Q. How much does Abbott spend on initial water treatment at the plant inlet?

15 A. The 2010/2011 annual operation and maintenance cost for the Abbott reverse osmosis
16 treatment system, not including capital costs, was \$0.96 per thousand gallons. This cost
17 is paid by Abbott in addition to the water rates that Abbott pays to Arizona Water
18 Company.

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

21 A. No. The small number of large industrial users in Arizona Water Company's Pinal
22 Valley system already have significant price incentives to reduce water use. It is not
23 necessary for the Commission to adopt tiered rates or any other price incentives to
24 encourage further conservation. Arizona Water Company's updated Cost of Service
25 Study indicates industrial users in the Pinal Valley system will continue under the
26 Company's proposed rates to pay substantially more than the cost of providing water
27 service to that class of customers. That extra cost alone encourages water conservation.
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1 Please see the Surrebuttal Testimony of Dan L. Neidlinger docketed in the earlier water
2 rate case, docket number W-01445A-08-0440, on August 12, 2009, attached as Exhibit A
3 to this testimony, which remains relevant to the same cost of service issues being
4 considered in this new rate case.

5 Additionally, to my knowledge, major industrial users in the system have been
6 investing in programs and equipment to make their operations more water efficient in
7 order to reduce water use for all the reasons Abbott has done so. Additional price
8 incentives would simply raise production costs to the detriment of Abbott product
9 consumers.

10 **VI. Hook-Up Fee Tariff**

11 **Q. Does Abbott have a response regarding Arizona Water Company's Proposed Off-
12 Site Facilities Fee tariff?**

13 A. Yes. Abbott has reviewed the language in Exhibit JDH-9, attached as Exhibit B to this
14 testimony, and requests a change in subsection (d) of the "Applicability" language.
15 Subsection (d) indicates the fee would apply "for additional Service Connections to
16 existing premises." Given that the intent of the proposed fee is to fund construction of
17 additional plant capacity needed to serve new water demands caused by new
18 development, any new Service Connections that will not require additional off-site
19 facility capacity should be excluded. In particular, if a new Service Connection is made
20 for an existing customer with the intent to provide an alternate delivery route for the
21 existing use, then the proposed fee should not apply to the placement of the redundant
22 meter. I recommend the language of subsection (d) be changed to: "for additional
23 Service Connections to existing premises except new Service Connections that provide an
24 alternate delivery point for existing uses."

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

26 A. Yes.
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