

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

October 16, 2006

In re: Petition of Chattanooga Gas Company for)
Approval of Adjustment of Its Rates and Charges,)
Comprehensive Rate Design Proposal, and Revised)
Tariff)

Docket No. 06-00175

**DIRECT TESTIMONY OF DAN NUCKOLLS
IN BEHALF OF THE
CHATTANOOGA MANUFACTURERS ASSOCIATION**

Q. Please state your name, business address and occupation.

A. I am Dan Nuckolls, Director of Exports & Transportation for all of Koch Foods, LLC ("Koch Foods"). My business address is 1835 Kerr Street, Chattanooga, Tennessee, 37401, the location of our main Chattanooga plant.

Q. What are your principal responsibilities as Director of Exports & Transportation of Koch Foods?

A. I am primarily responsible for all export logistics for the company, and the company's transportation division located in Gainesville, Georgia. My company's facilities include our production facility in Chattanooga and feed mill in Hamilton County, just outside of the Chattanooga city limits.

Q. Please outline your educational and professional training and experience.

A. I earned my Bachelor of Business Administration Degree from West Georgia State University, with an emphasis in Management. I also earned an Associate Degree in Architectural Engineering Technology from Southern Tech in Marietta, Georgia. I have

worked in the poultry industry for 24 years with the following companies: Con-Agra, Seaboard Farms and Koch Foods. I have been with my present company, Koch Foods, for over 9 years. I have been Director of Operations and Maintenance at our Chattanooga-area facilities since 2002 and recently have taken over Exports and Transportation.

Q. Have you previously submitted testimony for the Chattanooga Manufacturers' Association ("CMA") to this Authority?

A. Yes. I filed testimony in 2004, when Chattanooga Gas Company sought to increase rates and charges through TRA Docket No. 04-00034. I also recall submitting testimony in conjunction with the Tennessee American Water Company's 2003 requests to change and increase water rates in TRA Docket Nos. 04-00288 and 03-00118.

Q. What is the subject of your testimony?

A. I am providing information regarding Chattanooga Gas Company's petition in this matter that seeks to revise natural gas tariffs.

Q. Does your company have a facility located in Hamilton County, Tennessee that purchases gas from Chattanooga Gas?

A. Yes. Koch Foods has two facilities located in Hamilton County, Tennessee that employ over 275 people. Both facilities use natural gas provided by Chattanooga Gas. Also, we help employ others that contribute to our facility through farming and raising chickens or feed. Our Tennessee operations generate about \$300 million per year in economic impact for the state economy.

Q. Is Chattanooga the only area in which Koch Foods operates?

A. No. In addition to operations in Upper East Tennessee, my company also has facilities in five other states.

Q. Does Koch Foods intend to further expand its facilities in Chattanooga or Hamilton County, Tennessee?

A. We hope to continue to do so.

Q. Do utility services factor into your expansion plans?

A. Definitely. While all costs and expenses factor into such plans for any company that seeks to increase capacity and grow jobs in Chattanooga or Hamilton County, it is extremely frustrating that we are confronted with rate increases proposed almost annually by utilities serving our Chattanooga facilities. Although we are encouraged by Chattanooga Gas' rate design proposals that appropriately are moving in the direction of cost of service principles in this rate case, we have been faced with four (4) rate cases before this Authority since Spring, 2003.

Q. How does that affect a facility such as yours?

A. Every time a utility proposes a rate increase, it requires us to review and justify our attempts to expand with our headquarters. It is becoming more difficult to convince others in my company that, instead of supporting its facilities in other states, contributing capital here in Tennessee is more effective and beneficial.

Q. Are there mechanisms related to ratemaking that might help increase the chances of additional capital projects?

A. Yes. We are willing to pay our fair share of the costs regarding natural gas. But, our rates should be based on what it costs the utility to serve us. Therefore, to the extent that the current petition of Chattanooga Gas Company moves towards equitably allocating the

revenues through the application of cost of service principles, the better the likelihood that my company will stay in Chattanooga and expand its operations there.

Q. Please describe your company's use of natural gas in its manufacturing and production processes in Chattanooga.

A. Natural gas is used to produce steam and heat water for our slaughtering processes and manufacturing feed.

Q. Does your company have the ability to bypass Chattanooga Gas Company's gas pipeline?

A. No.

Q. Describe the impacts on Koch Foods facility or production processes that Chattanooga Gas Company's proposed rates and other tariff provisions will have if approved by the Tennessee Regulatory Authority.

A. The poultry industry continues to operate on very meager margins, as it has for several years. Adopting a rate design that more closely reflects a utility's cost of service, as demonstrated by the filed study and other testimony, will assist Koch Foods in competing more effectively in its purely commodity-based industry. Since Koch Foods does not have the luxury of simply raising its prices in a manner equal to associated production cost increases, a move towards cost-based pricing as requested by Chattanooga Gas would be a recognized benefit.

Q. Would your Chattanooga facility operate at a competitive disadvantage if all of the Company's proposed changes are allowed to be implemented?

A. Yes. Koch Foods has invested a significant amount of money in its Chattanooga-area operation. Of course, we would like to continue to attract additional investment in this

production facility; however, to the extent that the margins are extinguished or diminished due to increased costs, then capital investment and jobs will not be assigned or implemented in the Chattanooga facility and, instead, those investments would go to another facility Koch Foods already operates or construction of a new facility elsewhere.

Q. Is there anything you would oppose with respect to the tariffs, pricing, or penalty policy Chattanooga Gas Company has recommended in this filing?

A. Yes. We oppose Chattanooga Gas Company's proposal to increase penalties to \$25.00/per dekatherm. The current penalty language provides more than sufficient incentive to discourage customers from using unauthorized gas volumes. We also oppose the Company's proposal to eliminate the Semi-Firm Sales Service Rate and ask that the TRA adopt the CMA's recommendations regarding this rate offering.

Q. How would the Semi-Sales Firm Service (SF-1) assist Koch Foods in managing natural gas costs?

A. The Semi-Firm Sales Service would allow us to bid on storage gas considerably lower cost storage gas, and provide a flexible hedge and access to a fixed volume of gas during the winter, than winter gas pricing.

Q. Did you bid on the SF-1 natural gas volumes that were posted in 2005?

A. After reviewing costs associated with the SF-1 rate posted by the Company and the minimum bid posted, we concluded that the SF-1 rate would provide little value based on market conditions in August, 2005.

Q. What recommendations would you make for the TRA to consider related to the Semi-Sales Firm Service and Chattanooga Gas Company's storage assets?

A. If the TRA would adopt the CMA's tariff recommendations on the Semi-Firm Sales Service, and allow gas users to establish the value of this service through competitive bid, I am confident this service would provide us with an option to reduce our risk exposure and natural gas costs. More importantly, the entire value of these storage assets would benefit Chattanooga's ratepayers, including manufacturers.

Q. What other concerns does Koch Foods have?

A. The punitive nature of cashout provisions for current T-2 and T-1 users concern us. Since those T-1 and T-2 cashout provisions were adopted in the last proceeding, we have been adversely impacted by the 2005 hurricane events that interrupted some of our gas supplies. The cashout tiers were (and remain) overly harsh whenever a customer has a delivery imbalance. We believe the provisions should be amended to moderate some of the penalties and to allow the short sale of volumes at rates that are closer to cost-based.

Q. Is there anything else you would like the TRA to consider?

A. Yes. Koch foods supports the Company's proposal in its rate design that seeks to more accurately reflect cost of service principles, and we support a design where potential increases or decreases within the industrial rate class would be equitably and moderately allocated.

Q. Does this complete your testimony in this rate increase proceeding?

A. Yes, I believe this completes my testimony as to issues related to Phase I of this proceeding.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being forwarded via email and U.S. mail, postage prepaid, to:

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on this the 16 day of October, 2006.


Henry M. Walker