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March 5, 2007

Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

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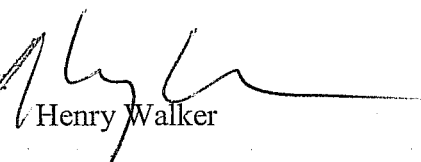
Re: *In re: Petition of Tennessee- American Water Company to Change and Increase Certain Rates and Charges so as to Permit it to Earn a Fair and Adequate Rate of Return on its Property Used and Useful in Furnishing Water Service to its Customers*
Docket Number: 06-00290

Dear Chairman Kyle:

Attached is the Direct Testimony of Dan Nuckolls on behalf of Chattanooga Manufacturers Association.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By 
Henry Walker

HW/djc
Enclosure

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

MARCH 5, 2007

*In re: Petition of Tennessee- American Water)
Company to Change and Increase Certain Rates and)
Charges so as to Permit it to Earn a Fair and Adequate)
Rate of Return on its Property Used and Useful in)
Furnishing Water Service to its Customers)*

Docket No. 06-00290

DIRECT TESTIMONY OF DAN NUCKOLLS

IN BEHALF OF CHATTANOOGA MANUFACTURERS ASSOCIATION

Direct Testimony of Dan Nuckolls

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

A. I am Dan Nuckolls, Director of Exports & Transportation for Koch Foods, LLC. My business address is 1835 Kerr Street, Chattanooga, Tennessee 37401.

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

A. I am responsible for all export logistics and over the road transportation departments for Koch Foods Corporation. My other responsibilities have included special projects involving my company's production facility in Chattanooga, and my former title was Director of Operations & Maintenance responsible for all plant operations, plant maintenance, and export logistics for the production and feed mill facilities in Chattanooga and Hamilton County.

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

A. I received a Bachelor of Business Administration degree with an emphasis in management from West Georgia State University. I also have an Associate's degree in Architectural Engineering Technology from Southern Tech in Marietta, Georgia. I have worked in the poultry industry for 25 years. I have been at Koch Foods nine years, including my roles as Director of Operations & Maintenance and Director of Exports & Transportation.

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

A. Yes, I have. As my facility is one of the largest water customers, my past testimony includes opposition to previously proposed levels for the Tennessee-American Water Company's (the "Water Company's") requests to increase rates.

Q. What is the subject of your testimony?

A. I am presenting information opposing the Water Company's current petition to increase water rates. The petition filed in November, 2006 is at least the third petition by the Water Company seeking to increase water rates since February, 2003.

Q. Have you prepared any exhibits to accompany your testimony?

A. No.

Q. Have you held positions in any trade associations that involve water or utility issues?

A. Other than having been elected to CMA's Board of Directors, no.

Q. Is it true that your company has a facility located in Hamilton County, Tennessee that utilizes water supplied by the Water Company?

A. Yes. Koch Foods has two facilities located in Hamilton County, Tennessee that employs more than 275 people. The production facility in Chattanooga has been in operation since March, 1996, and has existed, either as Koch Foods or a predecessor, for greater than four (4) decades.

Q. Is Chattanooga the only location where Koch Foods operates a facility?

A. No. Our company has facilities in five states other than Tennessee, but all of the Tennessee operations generate about \$300 million per year in economic impact for Tennessee's economy.

Q. Please describe the type of labor that your company uses in its manufacturing and production processes in Chattanooga.

A. Our direct labor pool includes both highly technical careers requiring college and/or post-graduate degrees and occupations involving lesser skill levels requiring a high school education or equivalent (sometimes less). We also employ various professionals and service companies in and around Chattanooga to support our production processes.

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

A. Koch Foods utilizes approximately 2.086 million gallons of water per production day in its manufacturing and production processes, that include poultry slaughter, cleaning and chilling our products, and for purposes of sanitizing the production facility.

Q. How much water is used in your Chattanooga production facility?

A. Koch Foods utilization rate equates to over one-half (1/2) billion gallons annually. The volume has increased significantly (perhaps as much as 300,000+ gallons/per day avg.) in the last couple of years because of our investments in Tennessee.

Q. Does your company have the ability to bypass the Water Company's water?

A. At this time, no.

Q. Do you understand that if Koch Foods were to reduce the amount of water usage, or invest in a reduction technology, it may lead the Water Company to again seek to raise the price your company would pay for water?

A. Yes, that is my understanding, but based on the requests being made it seems the Water Company is filing rate increase petitions without regard to or consideration of the impacts on its customers. And, it then tries to downplay the effects/economic impact its proposed rate increases will have on ratepayers and customers.

Q. Describe the impacts on your facility or production processes that the Water Company's proposed rate increase will have if approved by the Tennessee Regulatory Authority.

A. The poultry industry has been operating on extremely tight, small margins for several years. An increase in the water rates by an exorbitant amount such as that proposed in this case (almost 20%) will hinder, perhaps cripple, the opportunity to successfully operate our Chattanooga facilities in the food production industry without drastic adjustments.

Q. What is the estimated, annualized dollar impact of the rate increase proposed?

A. Over \$100,000 for my facility alone at the proposed 19.67% rate increase.

Q. Why not just raise your chicken prices twenty-percent (20%) or whatever is necessary?

A. Koch Foods is involved in a pure commodity-based industry and does not have the luxury of simply raising its prices equivalent to the production cost increases it will experience if the water rates are allowed to be raised, yet again, as requested by the Water Company.

Q. If the Tennessee American Water Company's proposed 19.7% increase was implemented, what competitive effect would that have on your Chattanooga facility?

A. Increased water rates at that level would be shocking. It would put my facility at a distinct and immediate disadvantage due to the tight margins in our industry.

Q. Anything else?

A. Yes.

Q. Please explain.

A. Certainly. Koch Foods has invested a significant amount of money in the Chattanooga, Tennessee operation. Of course, we would like to continue to attract additional investment to the Chattanooga production facility; however, to the extent that margins continue to be impacted due to increased water costs, especially 20% increases, then capital investment and/or jobs will be more difficult to attract and retain at the Chattanooga facility. In fact, this proposed rate increase could negatively impact future capital investment and growth at this facility, or even lead to a future diversion of operational capacity to any of the other states (five of them) in which Koch Foods operates similar facilities.

Q. From your point of view as a ratepayer, does the Water Company's petition constitute an appropriate water delivery service pricing policy for the State of Tennessee?

A. No. It is not reasonable to accept the currently proposed increase at the extravagant levels requested as necessary, or just, or fair. If any other, non-monopoly, provider of raw material attempted similar increases so soon after the increases made just months ago, then I would immediately search out a new supplier for my company. I cannot comprehend how this

monopoly would be allowed to abuse an exclusive water franchise by again seeking to raise its rates at the expense of its customer base. Unless my company can identify how to supply its own adequate water, we are bound by their management (or mismanagement) and the pricing that flows from what is allowed to take place at Tennessee American. I cannot imagine the State of Tennessee would want to foster repetitive rate increases.

Q. Assuming TRA grants any amount of a rate increase to the Water Company, how do you believe that increase should be allocated?

A. I believe that each class of customers should pay its fair share for actual water usage, based upon what it costs to actually provide service to the customer. I do not believe any customer class should subsidize another customer class. I certainly believe customers would be shocked by suffering increases like the one the Water Company proposes.

Q. Does this conclude your direct testimony?

A. Yes.

CERTIFICATE OF SERVICE

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

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on this the 5th day of March 2007.

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