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March 5, 2007

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

filed electronically in docket office on 03/05/07

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 Jack Callaghan 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 JACK CALLAGHAN**

**IN BEHALF OF CHATTANOOGA MANUFACTURERS ASSOCIATION**

**Direct Testimony of Jack Callaghan**

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

A. Jack Callaghan, Division President, R.L. Stowe Mills, Inc. My business address is 1101 South Watkins Street, Chattanooga, Tennessee 37404.

**Q. What are your principal responsibilities at R.L. Stowe Mills, Inc.?**

A. I am principally responsible for the yarn dyeing and mercerizing divisions of R.L. Stowe Mills, Inc. I am in charge of establishing and monitoring the operations and quality specifications for the production units and final product at our facility. I supervise all sales, marketing and production of the Chattanooga facility. Managers and other personnel report to me, and I am directly responsible for our customers. I have significant knowledge of the effects of utility rates and other costs involved in our production processes.

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

A. I earned a Master of Business Administration degree, in 1975, from Baldwin-Wallace College in Berea, Ohio, and was awarded a Bachelor of Arts degree from Rutgers University in 1966. I have been in my current capacity at R.L. Stowe Mills, Inc. since 1999, and have attended numerous professional seminars and training courses.

**Q. Have you or R.L. Stowe Mills, Inc. previously submitted testimony for the Chattanooga Manufacturer's Association ("CMA") to this Authority?**

A. Yes.

**Q. What is the subject of your testimony?**

A. I will present information opposing Tennessee-American Water Company's petition to increase (again) the water rates it charges customers, and specifically oppose the nearly twenty-percent (20%) increase requested in this action.

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

A. Not at this time.

**Q. Does your company have a facility located in Hamilton County, Tennessee that utilizes water supplied by Tennessee-American Water Company?**

A. Yes. R.L. Stowe Mills, Inc. has two facilities located inside the Chattanooga city limits in Hamilton County, Tennessee. We employ hundreds of people in the business of mercerizing yarn and of applying color/dyes to natural yarn.

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

A. The company's facility on South Watkins Street in Chattanooga, Tennessee is arguably the most modern facility in the United States producing dyed yarn for resale, and manufacturers and produces colored yarn for the textile and apparel industries. Water is a main component in the mercerizing and dyeing processes for yarn products. For example, the dyeing process requires our use of several gallons of water for every pound of yarn that is submitted to a series of processing steps in order to color natural yarn fibers for purposes of resale. In the

mercerizing process, water is used to rinse natural yarn both before and after mercerizing.

Water is also used in our facilities to rinse/sanitize facilities, for employee purposes.

**Q. How much Tennessee-American Water Company water is used in your Chattanooga production facilities?**

A. R.L. Stowe Mills, Inc. approximately utilizes between 800,000 and one-million gallons/per day at current production levels. However, at least two customers are in the process of closing operations and moving offshore because, as I understand it, they cannot compete due to cost pressures here as opposed to those globally. Of course, one would hope for R.L. Stowe Mills, Inc.'s production to increase, and in turn our water usage would rise proportionately (at least).

**Q. Does your company have an alternative supply for the production processes and other operations currently supplied by Tennessee-American Water Company water?**

A. Yes, in part.

**Q. Please explain.**

A. R.L. Stowe Mills, Inc. has a system of wells at its facility. The company, and its predecessor, previously has used blended water in some processes and production operations.

**Q. Does R.L. Stowe Mills, Inc. have the ability to bypass Tennessee-American Water Company water?**

A. Other than the well system described above, not to my knowledge.

**Q. Do you understand that the water company does not want you to reduce the amount of water usage, but instead wants you to simply use the higher priced water?**

A. Yes, that is my understanding. In fact, Tennessee-American Water Company has visited our facility more than once to inquire about possibly increasing our Tennessee-American Water Company water usage.

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

A. The impacts would be devastating, as we would be facing an adverse five-figure to six-figure difference, annually, in our cost structure. The cost of water alone per pound of yarn would increase from approximately 12¢/per lb. to 14¢/per/lb.

**Q. That seems like an insignificant change per pound of yarn; is it?**

A. No, the textile and apparel fiber supply industry in which R.L. Stowe Mills, Inc. is engaged has been fighting to stave off elimination imposed by increasing domestic costs and foreign competition. In 2005, trade barriers and quotas were eliminated on a global basis, and, as predicted, a significant usurpation of market share by artificially-priced imports is occurring. Our entire domestic industry is now selling yarn after production at price levels similar to those year's ago. The trend since the late-1990's has been for the sales price of yarn after

production to regress or retreat. The fear that U.S. companies like mine would be confronted by foreign entities that do not appear to properly recognize costs has come to fruition.

**Q. Has R.L. Stowe Mills, Inc. specifically targeted any cost reductions as goals in its attempt to remain competitive?**

A. Yes. There are three main costs (labor, water and power) in our manufacturing matrix. Since the recent rate cases, R.L. Stowe Mills, Inc. Inc. has been trying to reduce its water costs. For example, we have installed higher efficiency dryers in the mercerizing process and are recycling/reusing as much water as we can in our processes. In a recent cost containment move, we were forced to sever approximately twenty (20) hourly jobs during the same month (November 2006) that this petition to increase water rates was filed.

**Q. If Tennessee-American Water Company's proposed price increase is implemented, would your Chattanooga facilities operate at a competitive disadvantage?**

A. Absolutely. In our industry, success or failure is gauged by looking at **each penny per pound** of yarn sold and, if the current petition is approved and when considering the prior rate increases, the cost per pound of yarn processed will rise substantially despite our efforts to hold the line on costs. As noted before, if the nearly twenty-percent (20%) rate increase is allowed, as proposed by the water company, the variance in water costs alone will dramatically impact R.L. Stowe Mills, Inc. and its Chattanooga facility.

Q. **Anything else?**

A. Yes. R.L. Stowe Mills, Inc. is proud of the Chattanooga facility, because the facility in Tennessee arguably is the most technologically advanced; however, the situation simply is critical. Rate increases of the magnitude requested here would be shocking. If a textile firm in the United States is uncompetitive, the jobs simply get eliminated in this country (they don't just move geographically within the U.S.). While I do not believe that is in the best economic interest of this country, I recognize that others may not have the same perspective on American job transfer/job losses.

Q. **If some rate increase is granted by the Tennessee Regulatory Authority to Tennessee-American Water Company, how do you believe that increase should be allocated?**

A. It is simply hard for me to believe that such an exorbitant increase would be granted. But, if one is granted, in today's business climate for companies like R.L. Stowe Mills, Inc.'s Chattanooga operation who employ local citizenry in jobs involving global competition, we clearly cannot afford to subsidize the other customers.

Q. **Does this complete your testimony at this time?**

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 9 day of March 2007.

  
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Henry Walker