

THE AMERICAN ENERGY INITIATIVE

Testimony of Daniel E. Nation
Division President, Parkdale mills

July 16, 2012



A Leader in the Textile Industry Since 1913

531 Cotton Blossom Circle
Gastonia, NC 28054
(704) 874-5136

Summary of Major Points:

- Parkdale Mills is the largest producer of spun yarns in the world.
- Yarn spinning is a power intensive industry, comprising 25% of the cost to produce yarn.
- Power costs continue to rise dramatically and we are unable to pass cost through the supply chain.
- Green House Gas New Source Performance Standard will increase energy cost for manufacturing to the point of job destruction in the U.S.
- It must be recognized that manufacturing cannot be penalized for energy consumption, but instead rewarded for job creation.
- A regulation enacted to incentivize consumers to use less energy is not logical for a manufacturer. Over consumption is the base that utilities need to lower their costs.
- The Greenhouse Gas New Source Performance Standard does not solve a problem; it creates a larger one by destroying existing jobs and the potential for job growth.

**STATEMENT OF DAN NATION, DIVISION PRESIDENT, PARKDALE MILLS
HOUSE ENERGY AND COMMERCE COMMITTEE
SUBCOMMITTEE ON ENERGY AND POWER
JULY 16, 2012**

My name is Dan Nation and I am the Division President of Parkdale Mills. I appreciate the opportunity to speak to you this morning regarding the impact of rising energy costs on Parkdale Mills and the textile industry.

Parkdale is a North Carolina based textile company that has 28 plants in operation and over 4,000 employees in 8 different states. In addition to our U.S. facilities, Parkdale has operations in 6 countries outside of the U.S. in North, Central, and South America. Over 90% of our production takes place in the U.S., in turn 78% of that U.S. production is exported to other countries. The major export markets for Parkdale Mills are Central America, Mexico, China, and South America.

Parkdale Mills is the number one manufacturer of spun yarn in the world. Our business model centers on a constantly evolving supply chain in order to yield a faster response, better service and continued improvements in speed to market. Parkdale also has a business diversification strategy that aims to complement our core competencies. Some of these products are sold direct to retail and include cotton balls, swabs, and pads. Our core finished product is a tube of yarn. These tubes are sold to knitting companies such as Hanes and Fruit of the Loom and made into garments that include underwear and t-shirts. We also sell to weavers for end uses such as denim and military uniforms.

Yarn spinning is a very volume driven commodity business. Textiles are some of the first manufacturing plants built in emerging economies, requiring us to compete in a growing global arena. We are constantly under pressure to lower conversion costs to stay competitive. Our conversion cost is expressed in cents per pound which is the cost to convert a pound of cotton into a pound of yarn. The major components of conversion costs include labor, energy, benefits (health care), and maintenance. All are escalating but of these, energy represents the highest percentage increase.

Many might be surprised to learn that the largest yarn spinner in the world is located in the United States. Last year Parkdale produced 850 million pounds of yarn and we were the 88th largest exporter out of the United States. In order to compete against extremely low wage countries, it has been necessary for us to invest capital in automation. The downside is that automation consumes more energy. As energy prices continue to escalate, we are losing the cost advantage of the automation investment. Yarn spinning is a very power intensive industry, comprising 25% of our conversion costs. As a reference point, last month all Parkdale plants in the U.S. consumed 86 megawatts of power, or enough energy for almost 100,000 homes.

Over the last few years, our power costs have continued to rise and we are unable to pass these increases through the supply chain. What is more concerning to Parkdale and other manufacturers is the Greenhouse Gas New Source Performance Standard which will create even larger energy cost escalations that our supply chain cannot absorb. One of our plants near here is a perfect representative example of what is happening to Parkdale companywide. In 1995, Parkdale Mills built a 750,000 square foot spinning mill with an investment of \$200 million in

Hillsville, VA. It is still one of the most modern and automated spinning mills in the world. This operation employs 381 people and supports a substantial amount of other local jobs. We are the largest employer and tax payer in the county. Over the last 4 years, our power cost has increased 24% in this facility. Energy cost increases of this magnitude put manufacturing companies at serious risk as well as destroying any potential for future investment and job growth. Energy price rates have become the primary consideration for us when evaluating where we locate a new facility.

The Greenhouse Gas New Source Performance Standard is in fact a penalty designed to incentivize the consumer to lower energy consumption by raising their price. It needs to be understood that this strategy does not work with power intensive manufacturing companies. Parkdale has been in the energy saving business for years. We invest a lot of capital in energy efficient lighting, motors, and machinery. We cannot reduce our energy demand to offset higher prices. It is not possible for us to turn off more lights at night or raise the temperature on the thermostat by 5 degrees. There is no way to cut consumption to compensate for the cost increase like a residential consumer could. In fact, we contribute to overall energy efficiency by running our factories at a consistent 24 hours a day, 7 days a week giving the utilities a base capacity, which lowers their cost. The only way a strategy like this could possibly work is if you punish the consumers who can do something about their consumption, if they so desire.

Furthermore, manufacturing is not creating new demand or the need for any added capacity. We have been using the same amount of energy for years. It is not in the best interest of job

preservation or growth to penalize manufacturing for this. We are the one creating the jobs so the people who need this energy can pay for it.

If we have to turn lights off to conserve energy, we turn them all off, close factories and people start losing jobs. These jobs then end up overseas and we never get them back. Putting higher energy costs on the back of manufacturing is one of the fastest ways I know of to kill more U.S. jobs. This regulation does not solve a problem, it creates a larger one.

Thank you for the opportunity to speak to you this morning and I look forward to answering your questions.