

R-973954

8/19/97

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00973954

DIRECT TESTIMONY OF
JAMES H. ROONEY
ON BEHALF OF ARMSTRONG WORLD INDUSTRIES, INC.

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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DIRECT TESTIMONY OF JAMES H. ROONEY
ON BEHALF OF ARMSTRONG WORLD INDUSTRIES, INC.

15 Q. Please state your name and business address?
16

17 A. My name is James H. Rooney and my business address is 2500
18 Columbia Avenue, Lancaster, PA, 17604.
19

20 Q. On whose behalf are you appearing in this proceeding?
21

22 A. I am appearing on behalf of Armstrong World Industries, Inc.
23 which is participating in this case as a member of the PP&L
24 Industrial Customer Alliance.
25

26 Q. What position do you hold within Armstrong World Industries,
27 Inc.?
28

29 A. I am the Manager, Energy-Corporate Purchasing. In that
30 capacity, I am responsible for the purchases of natural gas
31 and electricity at Armstrong plants within North America and
32 Europe.
33

34 Q. Please provide a brief description of Armstrong's facilities

1 served by PP&L.

2
3 A. Armstrong has numerous facilities in PP&L's service
4 territory. There are three major facilities that would be
5 dramatically affected by PP&L's restructuring plan. The
6 first is Armstrong's Lancaster plant. This plant employs
7 approximately 1,600 people and makes resilient flooring
8 materials.

9
10 The second plant is our Marietta plant. It employs
11 approximately 500 people and makes commercial ceiling and
12 wall products.

13
14 Armstrong's third major facility is our Innovation Center.
15 This facility traditionally employed people in Armstrong's
16 corporate research, engineering and styling and unstyling.
17 It has recently been expanded to provide facilities for
18 Armstrong's major business unit managers. Expansion
19 continues and we are currently adding facilities for our
20 corporate management. Today the Innovation Center employees
21 approximately 800 people.

22
23 Q. Pursuant to what Rate Schedules do the Armstrong Plants
24 currently purchase energy from PP&L?

25
26 A. Armstrong's Lancaster and Marietta plants purchase electric
27 service under PP&L's IS-T (Interruptible Large General

1 Service at 69,000 Volts or Higher). Armstrong's Innovation
2 Center purchases electric service under PP&L's IS-P
3 (Interruptible Large General Service at 12,470 Volts or
4 Higher).

5
6 Q. What is your understanding of PP&L's proposed calculation of
7 the Competitive Transition Charge ("CTC") to be imposed on
8 present interruptible customers that exercise the right to
9 obtain service from a supplier other than PP&L?

10
11 A. It is my understanding that PP&L proposes to calculate the
12 CTC for present interruptible customers that choose an
13 alternate supplier based on the CTC for a firm LP-5 or LP-6
14 customer.

15
16 Q. Is this method of treating interruptible customers as firm
17 customers for CTC purposes appropriate?

18
19 A. No. When we began taking interruptible service from PP&L,
20 the Company informed me that PP&L had the right to interrupt
21 Armstrong's facilities for any system or local transmission
22 or distribution emergencies as well as emergency generation
23 problems. Furthermore, Armstrong would be interrupted
24 before any firm customers during any transmission or
25 distribution emergency. Because Armstrong would be
26 interrupted before any firm customers during a transmission
27 or distribution emergency, it is illogical for PP&L to now

1 convert the status of Armstrong or any interruptible
2 customer that obtains generation supply from an alternate
3 supplier to a firm rate schedule CTC as opposed to an
4 interruptible rate schedule CTC. Interruptible customers
5 traditionally have faced the prospect of interruption for
6 both generation and transmission and distribution
7 emergencies, and such a customer's decision to directly
8 access some or all of their requirements from an alternate
9 supplier cannot convert that customer's CTC from
10 interruptible to firm.

11
12 Q. If you obtain service from a supplier other than PP&L for
13 your generation, would you obtain firm power service?

14
15 A. Probably not. We would negotiate the most cost-effective
16 power contract to provide appropriate service for our
17 requirement, which would probably be an interruptible
18 service contract. Our decisions with respect to electricity
19 supply will be similar to what we do with natural gas at
20 many facilities, including the Lancaster, Marietta and
21 Innovation Center facilities. We have various forms of
22 service including various interruptible and recallable
23 services to choose from in purchasing natural gas supplies.

24
25 Q. If you obtain firm power, would you also contract for
26 interruptible transmission and distribution services?

1 A. Yes. As long as the service characteristics and criteria
2 with respect to the frequency of interruption remain the
3 same as those stated in Rate Schedules IS-T and IS-P,
4 Armstrong would be willing to be an interruptible
5 transmission and distribution customer.

6

7 Q. What monetary impact would adoption of PP&L's proposed CTC
8 calculation have on Armstrong?

9

10 A. As calculated by the PPLICA consultants, J. Kennedy &
11 Associates, adoption of this proposal will force Armstrong
12 to incur an additional \$2,436,862 per year in CTC and
13 delivery charges for the three major facilities, if PP&L
14 obtains recovery of its claimed stranded costs. This
15 additional cost exceeds 1¢/kwh at each of our facilities.

16

17 Q. What practical impact would adoption of this proposal have
18 on Armstrong?

19

20 A. Adoption of the PP&L proposal would sharply limit the
21 competitive alternatives for the Armstrong facilities. The
22 PP&L proposal economically forces Armstrong to forego the
23 pursuit of competitive options and to remain on the current
24 interruptible rate schedule from PP&L. In short, adoption
25 of the PP&L proposal will prevent Armstrong from exercising
26 the customer choice guaranteed to it by the "Electricity
27 Generation Customer Choice and Competition Act."

1 Q. Does Armstrong have any alternative to simply remaining a
2 captive interruptible service customer on PP&L's system or
3 paying the proposed CTC increase if Armstrong were to choose
4 an alternative supplier?

5
6 A. Yes. Armstrong can mitigate the effects of PP&L's proposal,
7 but those mitigation attempts could hurt Armstrong's
8 Innovation Center, Marietta plant and Lancaster plant and
9 our employees. To explain, just let me give some examples.
10 Both the Lancaster plant and the Marietta plant compete with
11 other Armstrong plants around the world to produce products
12 sold by Armstrong. I'll call this internal competition. In
13 addition, Armstrong competes with other companies for
14 business on a world-wide basis. I'll call this external
15 competition.

16
17 Any large increase such as that proposed by PP&L will
18 measurably increase Armstrong's total direct costs. One
19 example of how Armstrong could mitigate the effect of this
20 increase is to maintain our overall cost structure necessary
21 to compete in the external market. To do this Armstrong
22 could reduce jobs at our Innovation Center, where we have
23 business tasks and management, and provide corporate
24 services. This would reduce our direct cost to offset the
25 PP&L proposed increase.

26
27 Another example of mitigation could focus on internal

1 competition. Consider the Marietta plant. It competes
2 primarily with four other Armstrong ceiling plants in the
3 following cities: Mobile, Alabama; Macon, Georgia;
4 Pensicola, Florida; and St. Helen, Oregon. To a lesser
5 extent, Marietta also competes with plants in these cities:
6 Shanghai, China; Team Valley, United Kingdom; Hoogezand,
7 Netherlands; and Tontarlier, France. These non-Pennsylvania
8 facilities have recently decreased and/or attempting to
9 decrease their electric costs. Their reduction will reduce
10 their direct costs in relationship to Marietta, while PP&L's
11 proposed CTC calculation method would increase Marietta's
12 direct costs in relationship to them. This is the worst
13 situation to Marietta. A form of mitigation for Armstrong
14 would be to shift production away from Marietta to plants
15 outside of Pennsylvania to offset the proposed increase by
16 PP&L.

17
18 The Lancaster plant is a very old plant and makes many types
19 of flooring. It competes with other Armstrong domestic and
20 foreign flooring plants in the same way the Marietta plant
21 competes with other ceiling plants outside of Pennsylvania.
22 Armstrong's Lancaster plant, being old, can use all the help
23 it can get to reduce its direct cost relationship to these
24 other plants outside of Pennsylvania, which are many times
25 newer than the Lancaster plants. To have customer choice in
26 Pennsylvania increases Lancaster's direct costs, as PP&L

1 proposes, seems inconsistent with my understanding of Act
2 138.

3
4 Q. Had you expected customer choice to help Pennsylvania's
5 electric customers?

6
7 A. I understood that customer choice legislation would not hurt
8 any customer. In my opinion, PP&L's approach to charge a
9 firm rate schedule CTC to interruptible customers that
10 exercise customer choice such as Armstrong is not consistent
11 with the purpose or intent of Act 138.

12
13 Q. Does this complete your testimony at this time?

14
15 A. Yes, it does.
16

PPLICA STATEMENT NO. 5

R-173954

8/19/97

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BEFORE THE
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JAMES S. SCHNEIDER
ON BEHALF OF R. R. DONNELLEY & SONS, INC.

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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DIRECT TESTIMONY OF JAMES S. SCHNEIDER
ON BEHALF OF R. R. DONNELLEY & SONS, INC.

Q. Please state your name and business address.

A. My name is James S. Schneider and my business address is R. R. Donnelley & Sons, Inc., 216 Greenfield Road, Lancaster, PA 17601-5885.

Q. What is your position with R. R. Donnelley & Sons, Inc.?

A. I am the Manager for Corporate Energy Affairs at Donnelley's Lancaster area facilities. Attached as Appendix A is a description of my educational background and employment history.

Q. Can you describe for the Commission the type of business in which R. R. Donnelley & Sons, Inc. is involved?

A. Donnelley is a leader in the printing and related technologies industries and has more than 200 manufacturing

1 and non-manufacturing facilities worldwide. 1994 gross
2 sales for the company exceeded \$4.8 billion and our employ-
3 ment levels exceeded 39,000 worldwide.

4
5 Q. What facilities does Donnelley have in PP&L's service terri-
6 tory?

7
8 A. Donnelley has four major printing facilities in Pennsylva-
9 nia, all located in PP&L's service territory:

10 R.R. Donnelley & Sons, Inc.
11 Lancaster East Facility
12 216 Greenfield Road
13 Lancaster, PA 17601

14
15 R. R. Donnelley & Sons, Inc.
16 Lancaster West Facility
17 1375 Harrisburg Pike
18 Lancaster, PA 17601

19
20 R. R. Donnelley & Sons, Inc.
21 Steelway Facility
22 391 Steelway
23 Lancaster, PA 17601

24
25 Haddon Craftsmen, Inc.
26 Division of R. R. Donnelley & Sons, Inc.
27 Wyoming Avenue & Ash Street
28 Scranton, PA 18509
29

30 At these facilities, Donnelley employs over 2,800 people.

31
32 Q. How does Donnelley utilize the electricity it purchases from
33 PP&L?
34

1 A. While electricity is one of a number of manufacturing costs
2 associated with the printing industry, it is used in nearly
3 every facet of the manufacturing process from prepress
4 through printing to binding and shipping. Our principal use
5 of electricity is to operate the printing presses which
6 transport paper through the printing units, thus allowing
7 ink to be applied to the paper in the printing process. The
8 price of electricity is extremely important to Donnelley
9 because the printing industry is highly competitive and
10 Donnelley is continuing to search for ways to become the
11 lowest cost supplier.

12

13 Q. Does Donnelley make significant contributions to the local
14 and state economy?

15

16 A. Yes. During 1994, Donnelley invested more than \$49 million
17 at its facilities in Pennsylvania and anticipates an addi-
18 tional expenditure of \$49 million in 1995. Among these
19 investments were a recently completed \$30 million investment
20 at our Lancaster-based West Facility which added approxi-
21 mately 100 new employees. We recently began a \$70 million
22 investment at our Lancaster-based East Facility which we
23 believe will add an additional 100 employees to the local
24 economy.

1 In order to convey the magnitude of Donnelley's operations
2 in Pennsylvania to the Commission, I would like to note that
3 Donnelley purchased more than \$121 million of services from
4 the U.S. Postal Service in the Lancaster area alone. During
5 1994, Donnelley also purchased approximately \$1.85 million
6 of services from trucking firms located within the south-
7 central Pennsylvania region. We estimate that in a typical
8 year, Donnelley purchases more than \$3 million of materials
9 and labor within the Commonwealth of Pennsylvania.

10
11 With our employment level in excess of 2,800, our employees
12 contributed in excess of \$3.4 million in state and local
13 taxes and Donnelley alone paid more than \$2.2 million in
14 taxes to the Commonwealth of Pennsylvania in 1994.

15
16 **Q. Pursuant to what rate schedules does Donnelley purchase**
17 **electricity from PP&L?**

18
19 **A.** The majority of Donnelley's consumption is purchased pur-
20 suant to Rate Schedule IS-T (Interruptible Large General
21 Service at 69,000 Volts or Higher). Annual consumption is
22 approximately 110 million kWh at an average cost of 4.49¢
23 per kWh.

24

1 Q. What is your understanding of PP&L's restructuring proposal
2 with respect to the calculation of a Competitive Transition
3 Charge ("CTC") for current interruptible service customers
4 that switch to an alternate supplier?

5
6 A. It is my understanding that PP&L proposes to charge a cur-
7 rent IS-T interruptible service customer that elects to be
8 supplied an alternate supplier a CTC based on the methodol-
9 ogy for calculating the CTC for firm LP-6 or LP-5 customers.

10

11 Q. Has Donnelley calculated the effect of this proposal on its
12 CTC level?

13

14 A. Yes. PPLICA consultants calculate that Donnelley's annual
15 CTC and delivery payments under rate LP-5 for the Harrisburg
16 Pike and Greenfield Road facilities (should those facilities
17 elect an alternate supplier) would be \$1,583,031 higher than
18 if those plants remained PP&L interruptible service cus-
19 tomers. This assumes that PP&L obtains recovery for its
20 claimed stranded costs. However, the impact exceeds
21 1.3¢/kwh at both facilities.

22

23 Q. Would adoption of this proposal impact Donnelley's electric
24 generation supply decisions?

1 A. Yes. Adoption of the PP&L proposal will severely limit
2 Donnelley's access to alternate suppliers and may force the
3 company to remain a captive PP&L interruptible service
4 customer throughout the transition period. Furthermore,
5 Donnelley's Pennsylvania facilities are in competition with
6 the Company's facilities in the following cities: Des
7 Moines, Iowa; Danville, Kentucky; Glasgow, Kentucky;
8 Daytona, Florida; Mattoon, Illinois; and, Willard, Ohio.
9 Any charges approved by the Commission must consider whether
10 the Pennsylvania Donnelley facilities will be unreasonably
11 competitively disadvantaged vis-a-vis Donnelley facilities
12 in other states.

13
14 Q. Does that complete your testimony at this time?

15
16 A. Yes and thank you.

17

JAMES E. SCHNEIDER

Bachelor of Science in Electrical Engineering (Power) from
Clarkson University, Potsdam, New York.

Completion of course work for Master of Business Administration
at Penn State University (Harrisburg).

1978-1980 - Employed by New York State Electric & Gas Corporation
in their Corporate Market Service Department.

1981-Present - Employed by R. R. Donnelley, Inc. in Lancaster,
Pennsylvania, in various roles with increasing responsibility
within engineering, project design and installation, project and
contractor management, and energy affairs.

APPENDIX A