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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271

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

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

APRIL 1995

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
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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 Senior Electrical Engineer with responsibility for 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?**

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 in 1994.

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 LP-5 on both a firm and an Optional
21 Interruptible Power basis. Annual consumption is approxi-
22 mately 110 million kWh at an average cost of 4.49¢ per kWh.

1 Q. What is the impact of PP&L's proposed rate increase on
2 Donnelley?

3
4 A. If PP&L receives the increase requested as well as the
5 modifications to the LP-5 interruptible rate design, the
6 increase to Donnelley will be in excess of \$1 million per
7 year in Pennsylvania. Such an increase would change the
8 average cost per kWh of electricity mentioned previously of
9 4.49¢ per kWh to 5.41¢ per kWh. This would represent an
10 increase in excess of 21% to the average cost of electricity
11 purchased by Donnelley from PP&L.

12
13 Q. How do Donnelley's current average cost per kWh of 4.49¢ per
14 kWh and the PP&L proposed average cost per kWh of 5.41¢ per
15 kWh compare to the electricity prices of Donnelley's other
16 divisions which produce similar products to those at
17 Donnelley's Lancaster facilities?

18
19 A. Not very well. Listed below are six facilities within
20 Donnelley all of which compete directly with Donnelley's
21 Lancaster facility and which have average costs per kWh well
22 below Donnelley's present and proposed average cost per kWh
23 in PP&L's service territory:

1 Des Moines, Iowa: 3.76¢/kWh
2 Danville, Kentucky: 3.22¢/kWh
3 Glasgow, Kentucky: 3.94¢/kWh
4 Daytona, Florida: 3.94¢/kWh
5 Mattoon, Illinois: 4.43¢/kWh
6 Willard, Ohio: 4.0¢/kWh.

7
8 If PP&L's proposal is accepted by the Commission, our
9 Lancaster facilities would also be paying an average cost
10 per kWh in excess of our Dwight, Illinois facility which
11 currently has a 4.7¢ per kWh average cost of electricity.
12 Thus, if PP&L is "successful" in this proceeding, the only
13 two remaining Donnelley facilities which would have an
14 electricity cost in excess of PP&L's would be our Old
15 Saybrook, Connecticut, facility with an average cost of
16 5.62¢ per kWh and our Los Angeles, California, facility with
17 an average cost of 8.61¢ per kWh. However, due to the geo-
18 graphical distance between Lancaster, Pennsylvania, and Los
19 Angeles, California, our Lancaster plant does not compete
20 directly with the Los Angeles facility.

21

22 **Q. What can this Commission do to lessen the impact of PP&L's**
23 **proposal on Donnelley in this proceeding?**

24

1 A. The adverse impact on Donnelley is caused not only by PP&L's
2 proposed base rate increase but also by PP&L's proposed
3 revision to the rate design for the LP-5 - Optional Inter-
4 ruptible Power service. Donnelley urges the Commission to
5 accept the recommendation of the PP&L Industrial Customer
6 Alliance expert witnesses with respect to both the final
7 increase to which PP&L may be entitled and with respect to
8 the appropriate rate design for the LP-5 - Optional Inter-
9 ruptible Power group of customers.

10

11 Q. Does that complete your testimony at this time?

12

13 A. Yes and thank you.

14

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.

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DIRECT TESTIMONY AND EXHIBITS OF
ROBERT K. FELTER
ON BEHALF OF THOMSON CONSUMER ELECTRONICS

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
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DIRECT TESTIMONY OF ROBERT K. FELTER
ON BEHALF OF THOMSON CONSUMER ELECTRONICS

Q. Please state your name and business address.

A. My name is Robert K. Felter and my business address is Thomson Consumer Electronics, 200 Keystone Industrial Park, Scranton, PA 18512-4511.

Q. Please provide a brief educational and employment history.

A. I'm a graduate of Lehigh University with a Bachelor of Science Degree in Chemical Engineering. Twenty-seven years of my 36 years of employment experience have been in manufacturing operations. During the last 11 years, I've been specifically involved in the manufacturing operations of television picture tubes. For the last four years, I have served as the manager of Thomson Consumer Electronics, Scranton, Pennsylvania plant.

1 Q. What Thomson Consumer Electronics facilities are located in
2 the service territory of Pennsylvania Power & Light Company?
3

4 A. Thomson has facilities located in Scranton, Lancaster, and
5 Harrisburg, Pennsylvania, all within PP&L's electric utility
6 service territory. Our primary facility in Scranton employs
7 approximately 1,250 individuals. Our Lancaster facility
8 employs an additional 230 people and our Harrisburg facility
9 employs an additional 120 people. Thus, Thomson's total
10 Pennsylvania employment in PP&L's service territory is
11 1,600.
12

13 Q. Please describe Thomson's manufacturing facility in
14 Scranton, Pennsylvania.
15

16 A. Attached as Exhibit RKF-1 is a 2-page brochure describing
17 Thomson's Scranton facility. The facility utilizes electric
18 power for several thermal tube manufacturing processes and
19 for all production equipment and automation. Substantial
20 quantities of electricity are also used for plant refrigera-
21 tion equipment needed for process cooling and critical
22 factory temperature controlled environments. These produc-
23 tion and process uses are in addition to the standard light-
24 ing and general service application uses for electricity.

1 Scranton plant consumes in excess of 90 million kWh per year
2 and purchases service from PP&L pursuant to Rate Schedule
3 LP-5 - Optional Interruptible Power.
4

5 **Q. What impact does the Scranton facility have on the local and**
6 **state economy?**
7

8 A. With an employment level of 1,250 individuals, we estimate
9 that the total financial impact on local community wages and
10 benefits approximately \$90 million per year with total
11 expenditures by Thomson's Scranton facility totaling \$270
12 million per year. In immediate local purchases alone, the
13 facility expends nearly \$18 million per year.
14

15 **Q. What type of products are manufactured at Thomson's Scranton**
16 **facility?**
17

18 A. Our Scranton facility manufactures over 8,000 color TV
19 picture tubes daily. Since the construction of the facility
20 in 1966, the plant has manufactured over 35 million color TV
21 tubes. One in every 11 large tubes manufactured worldwide
22 is made in Scranton, Pennsylvania. A diagram of our product
23 is included on page 2 of Exhibit RKF-1.
24

1 Q. Who are Thomson's primary competitors nationally and inter-
2 nationally in the manufacturing of color TV picture tubes?
3

4 A. Other picture tube manufacturers in the United States
5 include Phillips, Zenith, Toshiba, Sony, Matsushita, and
6 Hatachi. Even within Thomson Consumer Electronics, the
7 Scranton, Pennsylvania facility's cost of electricity is
8 higher than the sister plants in Marion, Indiana, and
9 Circleville, Ohio. In addition, Thomson owns a picture tube
10 manufacturing facility in Mexico City, Mexico.
11

12 Q. What type of economic contribution does Thomson make to the
13 greater Scranton area?
14

15 A. Our compensation and benefit package for the 1,200 employees
16 at the Scranton facility totals \$65.8 million per year. We
17 average capital expenditures on new plant and equipment of
18 about \$9.5 million per year with approximately 10% of that
19 amount purchased from local entities. Our direct material
20 costs are approximately \$166.9 million per year, again, with
21 approximately 10% of those direct materials being purchased
22 locally.
23
24

1 Q. What type of service does Thomson purchase from PP&L?

2
3 A. Thomson purchases electricity from PP&L pursuant to Rate
4 Schedule LP-5 - Optional Interruptible Power. Thomson chose
5 to switch to interruptible power in order to keep the
6 Scranton plant competitive within Thomson's sister facil-
7 ities as well as with its non-affiliated competitors. Our
8 Circleville, Ohio facility is served by Columbus Southern
9 Power and we purchase firm electricity at an average price
10 of approximately 4.3¢ per kWh. Our Marion, Indiana facility
11 also purchases firm power at an average rate of approxi-
12 mately 4.1¢ per kWh. In order to obtain a comparable rate
13 from PP&L, Thomson needed to convert from firm service to
14 interruptible service because the LP-5 firm rate was averag-
15 ing approximately 5.2¢ per kWh prior to our switch to inter-
16 ruptible service.

17
18 Q. What is the potential impact on Thomson if PP&L's proposals
19 are accepted by the Commission?

20
21 A. As an LP-5 - Optional Interruptible Power customer, Thomson
22 could experience an increase as high as 28% if PP&L receives
23 its entire requested rate increase. Rather surprisingly, we
24 also understand that even if PP&L receives no portion of its

1 requested increase, the increase to the LP-5 - Optional
2 Interruptible Power customers will be 22.46%. Increases of
3 this magnitude will cause our Scranton plant's electric rate
4 to be higher than our sister plants in Circleville, Ohio,
5 and in Marion, Indiana, as well as with the other national
6 and international competition mentioned earlier in my testi-
7 mony.

8
9 **Q. How can the Commission elevate the adverse competitive**
10 **consequences of PP&L's proposal on Thomson?**

11
12 **A.** As a member of the PP&L Industrial Customer Alliance,
13 Thomson is also sponsoring testimony submitted by J. Kennedy
14 and Associates, Inc. in this proceeding. We urge the Com-
15 mission to adopt the recommendations contained in that
16 testimony and contribute to a more competitive environment
17 for Pennsylvania industry as that competition relates to
18 electricity pricing.

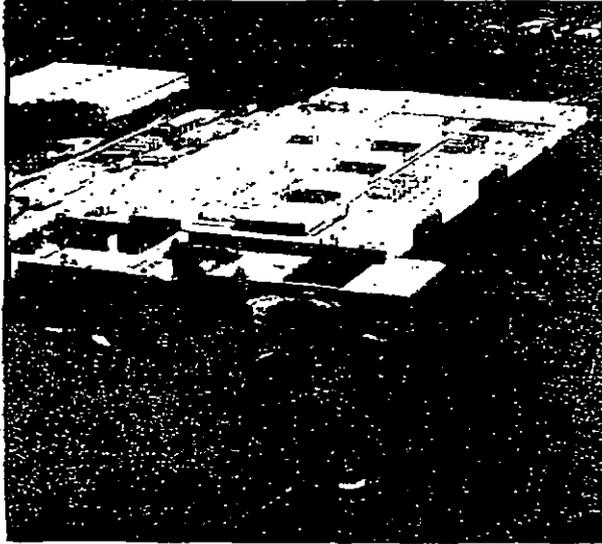
19
20 **Q. Does this complete your testimony at this time?**

21
22 **A.** Yes. Thomson appreciates having the opportunity of sub-
23 mitting this testimony to the Commission.

WORLD CLASS QUALITY

Thomson Consumer Electronics

Scranton, PA



Quality Policy

**WE, THE PEOPLE OF THOMSON
NATD,
WORKING TOGETHER,
WILL MEET OR EXCEED
OUR CUSTOMERS'
EXPECTATIONS
FOR QUALITY, RELIABILITY AND
SAFETY
IN EVERYTHING WE DO.**



What is World Class?

- A.** Meeting and exceeding our customers' expectations (both internal and external) in terms of:
- product quality
 - cost
 - delivery
 - service
- We are Customer Driven!**
- B.** Using all of our resources to continuously improve our performance. Our resources include:
- people
 - materials
 - technology
- C.** Continuous improvement to our systems and processes to minimize variation and to assure our customer that we provide the BEST product possible. These systems include:
- Safety
 - Productivity
 - Total Quality
 - ISO 9000
 - Manufacturing Resource Planning (MRP II)
 - Statistical Process Control (SPC)
 - Quality Leadership Process (QLP)

During 1993, Scranton became certified ISO 9002. This certification is a global recognition that Scranton operates within a quality system.

The Quality Leadership process is the cornerstone of TCE's global quality structure. At the heart of the process are QLP teams – groups of employees who tackle quality issues, both large and small, right where they are happening. Scranton's winning Quality Leadership Team symbolizes our commitment to quality.



Problem Busters QLP Team

"Success in today's business environment demands getting the basics right. It also requires the will to win – what we call Winning Spirit . . ."

**Alain Prestat
Chairman and CEO**



Thomson Consumer Electronics manufactures and markets home entertainment products world wide – products which connect us to one another. They inform, educate, and entertain.

The Company

TCE is the largest consumer electronics Company in the U.S. and the fourth largest in the world
 Over 18,000 employees in the Americas in consumer electronics
 Over 1,200 people are employed, across three shifts, at Scranton with an average of over 18 years of service.



The Facility

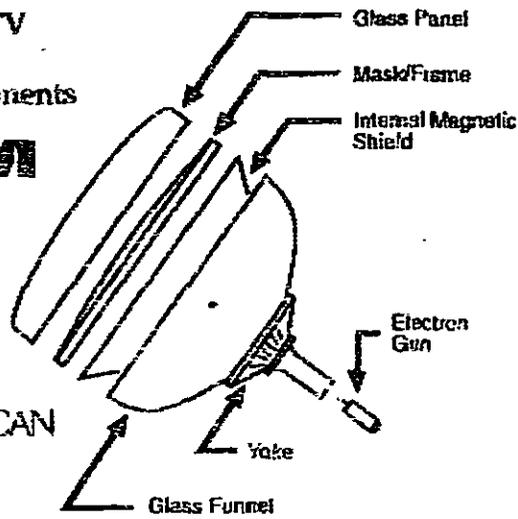
The main building occupies 480,000 sq. ft.
 Other buildings 120,000 sq. ft.
 The plant site 92 acres
 Plant construction January 1966
 First tube December 1966
 First and second major expansions: 1969 and 1971
 Over 3.5 miles of conveyor systems
 Financial impact on local community wages and benefits \$90 million
 Total expenditure of TCE Scranton \$270 million

Approximate Annual Services

Electric	90,000,000 k Whr
Natural Gas	373 million cubic ft.
Water	182 million gallons
Compressed air	390,000 cubic ft./hr.
Steam	18,000 lbs/hour
Cooling Capacity	3,600 tons

The Product

Color TV Tube Components



- Over 8,000 color TV picture tubes are manufactured daily
- It takes over 24 hours from raw goods to finished product
- Over 6,700 tons of steel and 61,000 tons of glass are used annually in producing TV picture tubes
- Finished goods are used in the U.S., Europe, South America the Far East and Antarctica
- One in every 11 large tubes (world-wide) are made at this location
- About half of the production is used by other TV manufacturers
- The Scranton Plant manufactured over 35 million color TV tubes since 1966.

Safety and Health

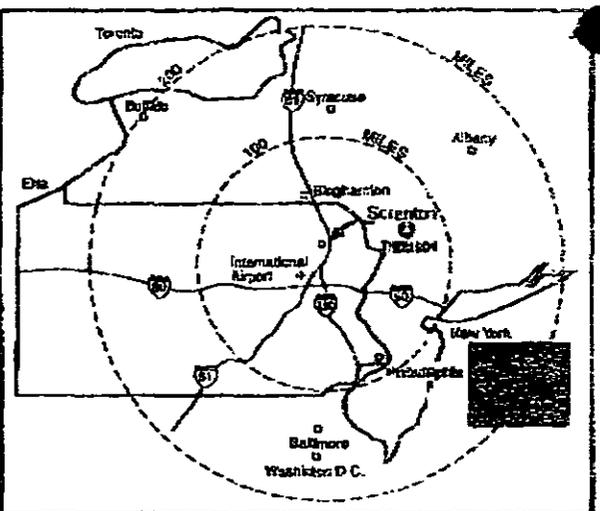
TCE is committed to providing a safe and healthy work environment for all employees. Emphasis is placed on safety program ownership and responsibility at every level of the organization. TCE is dedicated to improving the environment.

New Technology Mastery

Cinema Screen TV (A wide-screen 16 by 9 aspect ratio vs. today's standard of 4 by 3)

High Definition TV with advanced features including digital video picture and digital CD quality audio

Digital Satellite System (small 18" fixed dish with over 150 channels)



The success story of the Scranton Plant over the years is a tribute to the many fine employees working at this facility. Scranton offers a high tech environment with an opportunity for people to advance. These outstanding employees and the country's most popular brands make Scranton a great place to work

An Equal Opportunity Employer



Thomson Consumer Electronics
 200 Keystone Industrial Park
 Dunmore, PA 18512
 Phone: (717) 316-7771
 Fax: (717) 959-5497

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DIRECT TESTIMONY OF
DON A. HORNUNG
ON BEHALF OF HERSHEY FOODS CORPORATION, INC.

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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BEFORE THE
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DIRECT TESTIMONY OF DON A. HORNUNG
ON BEHALF OF HERSHEY FOODS CORPORATION, INC.

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

A. My name is Don A. Hornung. I am an energy manager for Hershey Foods Corporation, Inc. ("HFC"), at 19 East Chocolate Avenue, Hershey, Pennsylvania 17033.

Q. Briefly describe your educational and professional background?

A. I was awarded a Bachelor of Arts Degree in Biological Sciences in 1972 from Mansfield State College. From 1973 until 1990, I held various specialist and managerial positions within HFC's environmental departments. In 1990, I began a development assignment to improve HFC's competitive position as it relates to energy and to identify any synergies from the melding of energy and environmental issues.

1 I and my staff currently support HFC's twenty-seven (27)
2 North American (Canada, United States, Mexico) facilities on
3 energy-related matters. This responsibility includes
4 natural gas purchasing and transportation, alternate fuels,
5 electric power purchases, evaluating electric power alterna-
6 tives, review of energy-related capital project proposals,
7 and represent HFC's business interests on energy matters at
8 the state and federal level.

9
10 **Q. On whose behalf are you appearing in this proceeding?**

11
12 **A.** I am appearing on behalf of my employer, Hershey Foods
13 Corporation, Inc. ("HFC"), which is participating in this
14 proceeding as a member of the PP&L Industrial Customer
15 Alliance ("PPLICA").

16
17 **Q. How many HFC facilities are located on the Pennsylvania**
18 **Power & Light ("PP&L") system and how many people do you**
19 **employ?**

20
21 **A.** HFC currently has fifteen (15) major facilities in PP&L's
22 service territory. The total employment at these locations

1 is approximately 7,300. These employees represent approxi-
2 mately 60% of HFC's North American work force.

3
4 **Q. Has HFC's level of commitment, in the PP&L service terri-**
5 **tory, increased since PP&L's last base rate case?**

6
7 **A.** Yes, in addition to purchasing and expanding operations at a
8 former Cadbury facility in Hazleton, Pennsylvania, HFC has
9 built additions on its Y&S Candies plant (licorice) in
10 Lancaster, the H. B. Reese Candy Co. in Hershey, the new
11 West Hershey plant, which is a milk processing and manufac-
12 turing operation, two (2) new, large scale product distribu-
13 tion centers in the Mechanicsburg and New Kingston area, and
14 finally, HFC's new Corporate Headquarters/Data Center Com-
15 plex in Hershey.

16
17 Because of these commitments, HFC (United States) now pur-
18 chases more than 60% of its electric power from PP&L.

19
20 **Q. What would be the impact on HFC from PP&L's proposed rate**
21 **increases?**

1 A. A majority of HFC's facilities are purchasing power under
2 PP&L's LP-5 (firm) rate. HFC also has two (2) LP-4 (firm)
3 and two (2) GS-3 accounts. As stated above, PP&L supplies
4 more than 60% of the electricity purchased by HFC in the
5 United States.

6
7 Because HFC, as a corporation, is so densely settled in
8 PP&L's services territory, rate increases have a significant
9 negative impact on operational costs. PP&L's new rate
10 proposals would increase HFC's costs by approximately
11 \$2,000,000 per year, at HFC's current level of use.

12
13 Q. Does HFC utilize either of PP&L's economic development
14 initiatives (EDI or IDI) to lower its electric rates to
15 levels comparable to other electric utilities?

16
17 A. Yes, HFC currently receives the benefits of EDI and IDI at a
18 value of approximately \$1,500,000 per year based on the
19 incremental growth of electric use at the above-mentioned
20 facilities. This expense savings allows HFC to make other
21 capital investments to continue to grow in an ever increas-
22 ing competitive environment.

23

1 The plant managers at HFC's Pennsylvania facilities view
2 their participation in these programs (EDI or IDI) as their
3 way of achieving comparable electric rates to those that
4 their sister plants are paying on straight retail tariffs in
5 Virginia.

6
7 **Q. Why are comparable electric rates important to HFC's manu-**
8 **facturing plants?**

9
10 **A.** Although HFC does purchase most of its electricity in PP&L's
11 service territory, it has other comparable operations served
12 by Metropolitan Edison Company and many others outside of
13 Pennsylvania. As in any business, new capital investment is
14 directed to those areas where the probability of the return
15 on that investment is greater. HFC is constantly assessing
16 its manufacturing costs and other synergies, at every facil-
17 ity, to determine where its next investment should be made.
18 Each manufacturing facility is in, more or less, competition
19 for the next production line investment. A new production
20 line translates into jobs, facility vitality and longevity.
21 The proposed \$2,000,000 per year increase puts HFC's Penn-
22 sylvania facilities at a further disadvantage at receiving
23 significant future investments. This is why HFC has joined

1 PPLICA to state its opposition to PP&L's significant and
2 detrimental rate increase proposal.

3

4 Q. Does this complete your testimony?

5

6 A. Yes, it does.

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DIRECT TESTIMONY AND EXHIBITS OF
PETER F. CHAMBERLAIN
ON BEHALF OF BOC GASES

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

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11
12 PETER F. CHAMBERLAIN
13
14 ON BEHALF OF BOC GASES
15
16

17 Q. What is your name and title?

18
19 A. My name is Peter F. Chamberlain. I am Manager, Utilities
20 and Regulatory Affairs for BOC Gases. My educational back-
21 ground and employment history is set forth in Appendix A.
22

23 Q. Who is BOC Gases?

24
25 A. BOC Gases is the second largest industrial gases supplier in
26 the world. We manufacture and market nitrogen, oxygen and
27 argon at atmospheric plants. We purify, liquefy, and
28 distribute CO₂ at other facilities as well as helium and
29 hydrogen.
30

31 Q. Is BOC served by PP&L?

32
33 A. Yes. Our Bethlehem, Pennsylvania, facility takes electric
34 service from PP&L.
35

1 Q. Please describe your Bethlehem facility.

2

3 A. Certainly. Our Bethlehem facility was constructed in 1968,
4 primarily to provide oxygen to the Bethlehem Steel mill. It
5 consists of two air separation units (ASUs) with a capacity
6 of producing 550-600 tons of gaseous oxygen per day and two
7 liquefiers with a combined capacity of liquefying over 900
8 tons of oxygen and/or nitrogen.

9

10 Q. Could you please describe your operation in Bethlehem.

11

12 A. BOC produces oxygen, nitrogen and crude argon cryogenically
13 at Bethlehem. By that I mean, we use cooling processes to
14 produce these valuable industrial gases.

15

16 The process is fairly straightforward. We take air and
17 liquefy it by cooling it down to below -300°F. This "liquid
18 air" is then sent to a distillation column where air's major
19 components (oxygen, nitrogen and argon) are separated
20 through evaporation in the column. Gaseous oxygen is piped
21 directly to Bethlehem Steel. The remaining oxygen and
22 nitrogen is then liquefied for sale to hospitals, electronic
23 companies, and other companies for industrial purposes.

24

25 Q. How do you use electricity?

26

27 A. In order to cool air down to -300°F, a large compressor

1 liquefies the air using the same basic theory used in one's
2 refrigerator. Compressors are driven by large electric
3 motors. Similarly, each of air's major components (eg.
4 oxygen and nitrogen) are liquefied for truck shipment. This
5 is accomplished by another compressor which is driven by a
6 large electric motor. These motors account for over 90% of
7 the electric usage on an annual basis.

8
9 **Q. Why do electric costs represent such a large portion of**
10 **BOC's costs?**

11
12 **A.** Our raw material - air - is free. Therefore, our production
13 costs are basically for electricity, salaries and supplies.
14 Other industries, like the paper industry for example, have
15 labor costs, pulpwood costs, chemical costs and energy
16 costs. While electricity costs in the paper industry are
17 probably less than 5% of total production costs, electricity
18 costs for BOC at Bethlehem exceed 70% of total production
19 costs.

20
21 **Q. Is there any other industry whose electricity costs**
22 **represent such a large portion of its costs?**

23
24 **A.** No. Even for industries that use electrolysis, such as the
25 chlor-alkali industry, electricity costs represent 30% to
26 40% by our estimates.

1 Q. Can you tell us more about BOC's Bethlehem's operation?

2

3 A. Certainly. We currently employ 19 full-time employees.

4 Annual salaries and benefits for 1994 totaled over

5 \$1,000,000. BOC Gases paid \$60,000 in state income taxes,

6 and \$115,000 in state real estate taxes. In addition, BOC

7 paid \$48,000 in sales tax, \$33,000 in city payroll taxes,

8 \$360,000 in state payroll taxes and \$185,000 in unemployment

9 taxes. These taxes total approximately \$813,000 per year.

10

11 Q. What other value do you provide to the community?

12

13 A. BOC purchases over \$900,000 worth of goods and services

14 throughout the Commonwealth.

15

16 Q. Is BOC Gases an interruptible customer of PP&L?

17

18 A. Yes, BOC Gases is one of the original PP&L interruptible

19 customers. We have been on PP&L's Rate LP-5 - Optional

20 Interruptible Power since it was first introduced in August

21 of 1992. Prior to that, BOC purchased service from PP&L

22 pursuant to the Interruptible Service by Agreement tariff,

23 and, before that, Rate Schedule IS-2.

24

25 Q. What percentage of the plant's variable production costs

26 does electricity represent at your Bethlehem facility?

27

1 A. Approximately 91% in fiscal year 1994. Since our raw
2 material is air, virtually all of our direct production
3 costs are electricity. As a percentage of total production
4 costs, (including depreciation), electric costs represent
5 71%.

6
7 Q. Have you estimated the impact of PP&L's proposed filing on
8 your electric costs?

9
10 A. Yes, we have. If PP&L's proposed rates were put into
11 effect, BOC's costs would rise approximately 24.4%, or over
12 \$1,500,000 annually, based on 1994 usage and load profile.

13
14 Q. What is the future of the Bethlehem plant?

15
16 A. As I mentioned earlier, we provide approximately 400 tons
17 per day of oxygen to Bethlehem Steel. As many are aware,
18 the steel mill is shutting down a major portion of the
19 mill's operation and will cease taking oxygen from BOC in
20 late 1995.

21
22 Q. What impact will that have on BOC?

23
24 A. The impact will be severe. First, our facility was designed
25 and built primarily to serve Bethlehem Steel, providing
26 gaseous oxygen. As a result, our air separation units
27 (ASUs) were sized to serve the mill's load plus that gas

1 which is liquefied to serve our merchant and wholesale
2 market.

3
4 Q. What are the practical consequences to the operation of your
5 facility when Bethlehem Steel ceases operation?

6
7 A. The result will be a significant mismatch between our
8 ability to produce gaseous oxygen and nitrogen and our
9 ability to liquefy these products. We will be forced to
10 "vent" gaseous nitrogen and oxygen back into the atmosphere
11 and liquefy what product we need to serve our liquid market.

12
13 Q. Why don't you reduce the output of the ASU to match your
14 liquid requirements?

15
16 A. ASU's have only a limited ability to be "turned down" --
17 that is to say, reduce output. Below 70 to 75% of rated
18 capacity, our Bethlehem ASU's become very inefficient and
19 can lose purity in the distillation column. Even for
20 operations above 70%, efficiencies drop as you reduce output
21 from 100%.

22
23 Q. Does your Bethlehem facility compete for sales of liquid
24 oxygen and nitrogen?

25
26 A. Yes, BOC competes with Air Products in Lancaster, PA,
27 Praxair in Hatfield, PA, Liquid Carbonic in Stockertown, PA

1 (all served by PP&L), Liquid Air in Coatesville, PA (served
2 by PECO Energy Company), and MG Industries in Reading, PA
3 (served by Met-Ed).
4

5 Q. Does the Bethlehem facility compete with any other plants?
6

7 A. Yes. We have liquid capacity in Claymont, Delaware, Arroyo,
8 West Virginia, and Selkirk, New York. Moreover, because our
9 plants form a supply network reaching from Kittery, Maine,
10 to Joliet, Illinois, and south, a reduction in output from
11 one facility can be made up from one as far away from
12 Bethlehem as Maine or Illinois.
13

14 Q. Does BOC have excess capacity in its east coast network?
15

16 A. Yes, although the level of excess varies with season and
17 market conditions.
18

19 Q. In today's market for liquid oxygen and nitrogen, could the
20 liquid nitrogen/oxygen (LOX/LIN) output from the Bethlehem
21 plant be made up from other BOC sources?
22

23 A. Yes. The current LOX/LIN loading at Bethlehem could be made
24 up from other plants in our system, thereby eliminating the
25 need for liquid product off of our Bethlehem plant. Under
26 this scenario, the need for continued operation at Bethlehem
27 would be seriously questioned.

1 Q. How do electric rates at these other locations compare with
2 PP&L's proposed rates?

3
4 A. Very favorably. For competitive reasons, I will not cite
5 specific rates. However, PP&L's proposed rate for
6 interruptible power exceeds all but one rate at another
7 location and that rate is for firm service.

8
9 Q. How do efficiencies at these other locations compare to the
10 Bethlehem facility?

11
12 A. Even with the steel mill taking oxygen, our Bethlehem plant
13 is the most inefficient plant among those with capacity to
14 replace LOX/LIN being produced at Bethlehem. As I discussed
15 earlier, the efficiency will decline substantially when the
16 steel mill ceases taking gaseous oxygen from our facility.

17
18 Q. What were the future plans for the Bethlehem facility prior
19 to the filing of this rate case?

20
21 A. The future was very much in doubt. Several factors were
22 being considered and weighed including the value of keeping
23 Bethlehem open to "back-up" certain facilities, the value of
24 Bethlehem as a "swing" plant -- that is operated when
25 product was tight in the region, and the relative delivered
26 cost of product from Bethlehem compared to other BOC plant
27 locations or through competitor purchases.

- 1 Q. What is the effect on future plans for Bethlehem if PP&L
2 receives approval of its rate proposals?
3
- 4 A. Bethlehem will go from being a very marginal plant to a very
5 uneconomic plant. We will not operate a facility at a loss
6 unless meeting existing customer product requirements demand
7 that we do so. We certainly would take on no new customers
8 if the incremental costs of production are greater than the
9 price we receive for the product, on a delivered basis.
10
- 11 Q. If PP&L received no overall increase but received approval
12 of its rate design changes to LP-5 interruptible customers,
13 what would be the effect on BOC's electric rates?
14
- 15 A. PP&L responded to an on-the-record data request made on
16 March 29, 1995 and indicated that if no increase in revenue
17 requirement is granted by the Commission, Rate Schedule LP-5
18 interruptible customers would still receive a 22.46%
19 increase if the rate design modification as proposed by PP&L
20 for LP-5 interruptible customers is approved. (See
21 DR-PPLICA-5 attached as Ex. PFC-1).
22
- 23 Q. Has BOC ever experienced an increase in rates of 22.46% in
24 one rate case when a utility's overall revenue requirement
25 is not increased by the Commission?
26
- 27 A. No. I joined BOC Gases (then Airco Industrial Gases) in

1 1989. I am aware of no increases anywhere at any of the
2 over 40 locations we operate across the country, where we
3 have experienced a 22.46% increase in one rate case, let
4 alone PP&L's proposed 27% increase to interruptible
5 customers. BOC did not even experience increases of this
6 magnitude when its serving utilities were adding significant
7 rate base additions. Here, BOC is exposed to a potential
8 22.46% rate increase even if the Commission holds PP&L's
9 current revenue requirement constant.

10
11 **Q. What are you asking this Commission to do?**

12
13 **A.** BOC respectfully requests that this Commission review the
14 extensive analysis and testimony that our expert consultants
15 have prepared and adopt their recommendations. The chilling
16 effect on job creation of such draconian and, we believe,
17 warranted modifications to rates cannot be overstated. In
18 particular, the Commission must be sure to prevent a rate
19 design change to Rate Schedule LP-5 - Optional Interruptible
20 Power which produces a 22.46% rate increase for those
21 customers even if PP&L's total revenue requirement requested
22 increase is reduced to zero.

23
24 **Q. Does this complete your testimony?**

25
26 **A.** Yes, it does.
27

BIOGRAPHY OF PETER F. CHAMBERLAIN

Mr. Chamberlain is Manager, Utilities and Regulatory Affairs for BOC Gases, a division of the BOC Group Ltd., its British Parents. Mr. Chamberlain is responsible for electric contract negotiations, regulatory activities, and lobbying activities.

Mr. Chamberlain has testified before state and federal regulatory agencies and before the United States Congress on energy matters.

Mr. Chamberlain received his Bachelors degree in Electrical Engineering from Clarkson University in 1973 and his MBA from the Wharton School of the University of Pennsylvania in 1979.

Mr. Chamberlain works out of BOC's Murray Hill, NJ, headquarters for the Americas.

Prior to joining BOC Gases, Mr. Chamberlain was employed for ten years by Westvaco Corporation, a large forest products and chemical company. He served as Westvaco's corporate energy manager, responsible for energy purchases of electricity and natural gas.

O. G. Kasper

**Pennsylvania Power & Light Company
Response to Data Request of
PP&L Industrial Consumers Alliance
March 29, 1995 Hearing (Tr. 806-807)**

Docket No. R-00943271

Q.DR-PPLICA-5. Please quantify what the average percentage increase would be for Class LP-5I customers assuming PP&L's rate structure proposals are approved but no rate increase is granted.

A.DR-PPLICA-5. If no increase is granted, but the proposed structure of Rate Schedule LP-5(I) remains as filed, Rate Schedule LP-5(I) customers would receive an overall increase of 22.46%. Because the resulting hypothetical design does not involve any roll-in, current adjustments are applied to present and proposed base rates. EDI credits apply to the proposed rate only.

The above hypothetical rate design was developed only for the purpose of responding to this data request. PP&L does not represent that this design will be retained if the Commission grants other than the proposed rate increase.

KJR

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA POWER & LIGHT COMPANY

DOCKET NO. R-00943271

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DIRECT TESTIMONY OF

PAUL R. WILLIAMS

ON BEHALF OF AIR PRODUCTS AND CHEMICALS, INC.

A MEMBER OF THE

PP&L INDUSTRIAL CUSTOMER ALLIANCE

DOCUMENT
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APRIL 1995

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271

DIRECT TESTIMONY OF PAUL R. WILLIAMS
ON BEHALF OF AIR PRODUCTS AND CHEMICALS, INC.

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

A. My name is Paul R. Williams. I am an energy analyst for Air Products and Chemicals, Inc. (Air Products), at its headquarters located at 7201 Hamilton Boulevard, Allentown, Pennsylvania 18195.

Q. Briefly describe your educational and professional background.

A. I studied Electrical Engineering at Drexel University in Philadelphia, where my concentration was Power Systems, and I graduated with a Bachelor of Science in Electrical Engineering degree in 1988. I also studied Engineering Management at Drexel University, where my concentration was Utility Management, and I received a Masters of Science in Engineering Management degree in 1991.

1 I began my professional career with Philadelphia Electric
2 Company (PECO) in 1988. While at PECO I performed various
3 functions in their Rates Department, including rate design,
4 cost of service and revenue requirements analysis. I pre-
5 pared testimony, exhibits and various filings for Pennsyl-
6 vania, Maryland and FERC jurisdictions. In 1994 I joined
7 Air Products, where I am responsible for the electricity
8 supply arrangements for existing and proposed plant sites in
9 a number of states. My specific duties include the negoti-
10 ation of power contracts, rate case interventions, and power
11 cost forecasting in Pennsylvania.

12
13 Q. How many Air Products facilities are located on the Penn-
14 sylvania Power & Light (PP&L) system and how many people do
15 they employ?

16
17 A. Air Products has five major facilities located on the PP&L
18 system. They are our Lancaster air separation facility, our
19 International Headquarters in Trexlertown, our Hometown
20 manufacturing facility, our Wilkes-Barre manufacturing
21 facility, and our Gardner Cryogenics plant in Bethlehem. In
22 addition to these facilities, Air Products has numerous
23 smaller commercial facilities located throughout the PP&L
24 service territory. Air Products employs in excess of 4,900

1 people at facilities located within PP&L's service terri-
2 tory.

3
4 Q. What contributions does Air Products make to the PP&L
5 service territory?

6
7 A. As previously stated, Air Products employs in excess of
8 4,900 individuals at facilities located throughout the PP&L
9 service territory. Annual payroll to Air Products'
10 employees in the PP&L service territory is approximately
11 \$350 million. State and local income taxes on these wages
12 produce in excess of \$10 million for state and local govern-
13 ments. Although it is impossible to accurately measure the
14 total contributions through federal, state and local income
15 taxes, state sales and use taxes, and real estate taxes paid
16 by our employees, it is not unreasonable to estimate that
17 the total would exceed \$100 million per year paid to local,
18 state and federal governments.

19
20 In addition to employee costs, Air Products spends approxi-
21 mately \$40 million on goods and services from the commun-
22 ities within the PP&L service territory each year, pays \$1.4
23 million in property taxes, and in excess of \$15 million in

1 state unemployment, federal and state corporate net income,
2 and federal social security taxes.

3
4 Q. What type of products are produced by Air Products in the
5 PP&L service territory?

6
7 A. Approximately 75% of the energy consumed by Air Products on
8 the PP&L system is used to produce liquid nitrogen, liquid
9 oxygen, crude argon and various specialty gases. Air Prod-
10 ucts currently purchases that energy from PP&L on Rate
11 Schedule LP-5 - Optional Interruptible Power. The remaining
12 25% is consumed at commercial facilities, in research and
13 development and the manufacture of specialty equipment. The
14 industrial gases produced by Air Products are used by some
15 of the regions largest employers in the hospital/medical,
16 metals, fertilizer, food processing, electrical/electronics,
17 and pharmaceutical industries.

18
19 Q. Why is the cost of electricity so important to Air Products?

20
21 A. The air separation process involves the compression and
22 refrigeration of atmospheric gases, allowed by expansion of
23 the gas within distillation columns to separate the elements
24 of atmospheric gas based on the differences in boiling/

1 condensing temperatures of the different components: nitro-
2 gen and oxygen primarily. The air separation process is
3 electricity intensive. In essence, electricity is the basic
4 raw material in the production process and accounts for 60
5 to 70 percent of the cost of production at an air separation
6 facility. At this time Air Products purchases in excess of
7 240 million kilowatt-hours annually from PP&L at a cost of
8 more than \$10 million.

9
10 Q. What would be the impact of the PP&L proposed base rate
11 increase on Air Products industrial gas production facil-
12 ities?

13
14 A. Air Products production facilities on the PP&L system com-
15 pete against other industrial gas producing facilities
16 located in other parts of Pennsylvania, Delaware, Maryland,
17 New York, North Carolina, Ohio, and West Virginia. Many of
18 these competing facilities already pay significantly less
19 for electricity than Air Products' facilities located on the
20 PP&L system. The total impact on Air Products of PP&L's
21 proposed new rates would be an electricity cost increase in
22 excess of \$2.2 million per year.

23

1 The magnitude of the cost increase that Air Products would
2 experience as a result of the PP&L rate proposal is
3 unreasonable. At Air Products' industrial gas production
4 facilities the electricity cost increase would approach 28%.
5 An instantaneous 28% cost increase in our largest production
6 cost component has a significant harmful effect on the
7 ability of Air Products' Lancaster facility to compete
8 against other industrial gas producing facilities. This is
9 particularly offensive when compared to the recent rate
10 reductions that PP&L has given to municipal wholesale custo-
11 mers. In fact, after the final rate reduction becomes
12 effective for PP&L's wholesale customers on January 1, 1996,
13 PP&L's current proposal would force Air Products to pay in
14 excess of 20% more for interruptible power than a firm
15 wholesale customer pays when served at the same voltage
16 levels. Over the long run, the PP&L proposal can only lead
17 to decreased investment and employment within the PP&L
18 service territory.

19
20 Q. What do you want the Commission to do in this case?

21
22 A. I recommend that the Commission adopt the proposals made by
23 PPLICA's expert witnesses on revenue requirement, rate
24 design, and cost of service.

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

2

3 A. Yes it does.

4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271

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

A MEMBER OF THE
PP&L INDUSTRIAL CUSTOMER ALLIANCE

APRIL 1995

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
PENNSYLVANIA POWER & LIGHT COMPANY
DOCKET NO. R-00943271

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 of Engineering and Energy Purchasing. In
30 that capacity, I am responsible for the purchases of natural
31 gas and electricity at Armstrong plants within the United
32 States. For a complete description of my educational and
33 professional background, see my resume attached hereto as
34 Exhibit No. JHR-1.

1 Q. Please provide a brief description of Armstrong's facilities
2 served by PP&L.

3
4 A. Armstrong has numerous facilities in PP&L's service
5 territory. There are three facilities that would be
6 dramatically affected by PP&L's requested rate increase.
7 The first is Armstrong's Lancaster plant. This plant
8 employs approximately 1,800 people and makes resilient
9 flooring materials.

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

14
15 Armstrong's third major facility is our Innovation Center.
16 We have corporate research, engineering, styling and
17 miscellaneous staff functions at this facility. The
18 Innovation Center employs approximately 600 people.

19
20 Q. What would be the cost impact to Armstrong at these three
21 facilities if PP&L receives their requested rate increase?

22
23 A. In 1994, Armstrong paid PP&L approximately \$9,000,000 for
24 electric service at these three facilities. PP&L's
25 requested increase represents a 33% increase to the Marietta
26 facility, a 30% increase to the Innovation Center, and a 25%
27 increase to the Lancaster plant. These increases are

1 unexpected and we believe unnecessary and excessive.

2
3 Q. Did PP&L talk to Armstrong about its requested rate increase
4 prior to making the filing at the Pennsylvania Public
5 Utility Commission?
6

7 A. No. PP&L did not come to us prior to filing the increase
8 despite the fact that Armstrong has been very proactive in
9 informing PP&L that it needs competitively priced
10 electricity. We also told PP&L many times that Armstrong
11 needed PP&L's interruptible rate to make the price of
12 electricity at Lancaster, Marietta, and the Innovation
13 Center competitive. We have also told PP&L that if they
14 increased the Optional Interruptible Power rate
15 disproportionately, we would be faced with the necessity of
16 finding lower cost alternative sources of electricity.
17

18 Q. In what forums did you present this information to PP&L
19 about your need for competitively priced electricity?
20

21 A. Two particular forums were used. First, we had specific
22 individual meetings with PP&L representatives. These
23 meetings included the local PP&L representative, middle
24 management, and corporate management groups. One such
25 example of this type of meeting was when we signed the
26 Optional Interruptible Power rate agreement for Lancaster
27 and Marietta. Armstrong had a luncheon meeting with PP&L

1 where Mr. Frank Long and Mr. John Seger, two vice presidents
2 at that time, were present. One of Armstrong's vice
3 presidents and plant managers from the Marietta and
4 Lancaster plants were also present. At this luncheon
5 meeting, Armstrong emphasized the need for competitive
6 electricity and that our need for competitive electricity
7 was why we were signing the Optional Interruptible Power
8 rate agreement.

9
10 The second forum we used was PP&L's Large Customer Advisory
11 Panel (LCAP). At LCAP meetings, I and others specifically
12 and repeatedly told PP&L that we needed competitively priced
13 electricity in PP&L's service territory. It was ironic that
14 when PP&L was filing this base rate increase notice under
15 seal with the Commission, PP&L was having an LCAP meeting
16 with its largest industrial customers on the very same day.
17 At no time during that meeting did they mention even the
18 potential for a rate increase. We were totally caught off
19 guard and totally surprised by PP&L's requested increase.

20
21 **Q. Is the timing of PP&L's proposed base rate increase logical**
22 **to you?**

23
24 **A.** No. Given the internal reorganization and internal cost
25 cutting efforts currently underway at PP&L, we were also
26 surprised by the timing of this base rate increase. PP&L,
27 for instance, has just required each one of their marketing

1 people to reinterview for their jobs and many have lost
2 jobs, have been moved or reduced in position. Also, the
3 marketing and rate group has just been redesigned and
4 reorganized.

5
6 **Q. Why is PP&L doing this at a time when they are filing such a**
7 **significant rate increase?**

8
9 **A.** I don't know. PP&L is reorganizing and eliminating
10 employees at one end and dramatically increasing rates to
11 their customers at the same time. My opinion is that they
12 are feeling the pressure from investors. We at Armstrong
13 feel this pressure also, and we are also trying to increase
14 our revenue and reduce our costs. However, it appears from
15 the testimony which I have seen that PP&L is trying to raise
16 revenue by claiming that it is cost driven. It is
17 unfortunate because I believe that PP&L has been a credible
18 utility up until recently and has worked with their
19 customers to maintain that credibility. I know that PP&L
20 has lost a lot of credibility with me over this rate
21 increase and other recent events.

22
23 **Q. Based upon your knowledge of the marketplace, are there any**
24 **other reasons PP&L might be requesting this increase?**

25
26 **A.** I believe that many utilities are trying to increase their
27 rate base to prepare for deregulation. As an example of how

1 this might work, PP&L is seeking to include Susquehanna II
2 into their rate base. When deregulation arrives, and if
3 Susquehanna Unit II is considered used and useful, it would
4 be more likely to be subject to any future transition cost
5 recovery. I believe many utilities across the country are
6 looking for legitimate ways to get as much into rate base as
7 they can. Then they can more likely recover it through
8 transition costs as we move into a more competitive market.
9 From the testimony presented by OCA witness Kahal, I don't
10 feel that PP&L's request for adding Susquehanna Unit II to
11 their rate base is justified.

12
13 **Q. Why doesn't Armstrong just accept the increase and pass it**
14 **along to your customers?**

15
16 **A.** Armstrong cannot pass an electric rate increase along to our
17 customers. We cannot add a charge to our bills to our
18 customers to reflect electric cost increases that were
19 unexpected by us. We will need to offset these increases in
20 some way.

21
22 **Q. How will Armstrong attempt to offset these PP&L increases if**
23 **they are granted by the Public Utility Commission?**

24
25 **A.** We will attempt to reduce the impact of these increases in
26 two ways. First we will look for alternative suppliers of
27 electricity and alternative ways to provide electric energy.

1 This will be similar to the way Armstrong offsets raw
2 material increases or other price increases when we feel
3 they are excessive and not market driven.
4

5 Second, any increases of the magnitude proposed by PP&L will
6 increase our direct costs of producing ceilings and floors
7 at our plants served by PP&L. One way to mitigate an
8 increase of this magnitude is to shift manufacturing to
9 other Armstrong facilities around the country that have
10 lower direct costs.
11

12 Q. Please explain specifically how you could implement these
13 two methods to minimize the impact of any increases granted
14 to PP&L if the increases are, in Armstrong's opinion,
15 excessive?
16

17 A. First, let us look how Armstrong will attempt to find
18 alternate suppliers of electricity and alternate ways to
19 provide electrical energy. At our Marietta ceiling plant,
20 we know of at least three options we will investigate.
21 First, we will determine whether another utility that is
22 close to our Marietta plant can provide service at a more
23 competitive price. Second, we will study whether we can
24 form a municipal utility in the Borough of Marietta. We are
25 looking at municipalization in several other places in the
26 country where electric costs are high. Third, we would
27 reactivate our cogeneration study. We already know that

1 Marietta is a prime candidate for a small combustion
2 turbine. They have an excellent heat balance and the waste
3 heat from the turbine can be directly used in Marietta's
4 process. A turbine and self-generation also makes our
5 operations more dependable and truly gives us two sources of
6 power.

7
8 At our Lancaster plant, we would also look at the
9 possibility of municipalization. At Lancaster we would try
10 to bring other industrial customers together to form an
11 alliance and provide electricity to that industrial
12 alliance. Industry is not going to stay complacent in the
13 increasing competitive world of electricity when we are
14 faced with excessive prices by our local utilities. In
15 areas where we cannot obtain competitively priced
16 electricity from a utility, Armstrong will act as a catalyst
17 to organize industry where it is necessary to achieve lower
18 electric costs. Also at Lancaster we will reactive their
19 cogeneration study. The magnitude of any increase will
20 determine whether or not cogeneration is competitive.

21
22 Q. Why do you think that these alternate forms of electricity
23 are more competitive than PP&L?
24

1 A. Let me provide some data.

2 TABLE 1

3	4	5	6
	Annual Electricity costs		Lancaster & Marietta
7			
8	PP&L's Proposed Rates with		\$9,460,000
9	100% Firm Service		
10			
11			
12	PP&L's Proposed Rates with Current		\$8,998,000
13	Firm/Interruptible Mix		
14			
15			
16	PP&L Current Rates with Current		\$7,280,000
17	Firm/Interruptible Mix		
18			
19			
20	PP&L 1/1/96 Wholesale Rate to		\$6,677,000
21	Municipalities with Armstrong		
22	Load Characteristics		
23			
24			
25	Cogeneration First Year Cost		\$5,706,000
26	With 15 Year Amortization		
27			
28			

29 The first line of Table 1 shows the combined annual charges
30 that Armstrong's Lancaster and Marietta plants would pay to
31 PP&L for firm power if PP&L's rate request is granted. the
32 second line represents what Armstrong would pay for our
33 current mix of firm and interruptible power if PP&L were
34 granted their full increase. And the third line represents
35 what Armstrong pays today for a year of electricity from
36 PP&L at PP&L's current rates at Armstrong's current
37 interruptible contract with PP&L.

38
39 The last two lines of Table 1 show two competitive
40 alternatives that Armstrong has available to obtain power

1 from alternate suppliers or in alternate ways. Line 4 is
2 particularly concerning to me. It represents the cost that
3 would be charged by PP&L to two municipals that are exactly
4 the same size as Armstrong's Lancaster and Marietta plants
5 and are in PP&L's service territory. Please note that this
6 line represents the decrease in price PP&L is giving to
7 their wholesale customers in their service territory on
8 January 1, 1996. If Armstrong were one of those customers,
9 we would be paying \$2,321,000 less than PP&L is proposing we
10 pay with their rate request, and we would be receiving firm
11 power. That is we are paying 35% more as a captive customer
12 for inferior interruptible service than we would as a whole
13 customer with firm service. Why is this? How can this be
14 fair?

15
16 Line 5 in Table 1 shows our year one price of electricity
17 including amortization costs for a cogeneration facility.
18 To realize this savings, one cogeneration system would be
19 installed at Lancaster and one at Marietta.

20
21 **Q. Why did you choose this particular wholesale customer group**
22 **to compare with Armstrong's costs of electricity?**

23
24 **A.** I chose this group because they represent PP&L's competitive
25 marketplace and really should be the benchmark for
26 competitive electricity to captive customers. In no case
27 should Armstrong be paying a higher price for interruptible

1 electricity, an inferior product, than what PP&L currently
2 charges municipal customers for firm power. These
3 municipals offer PP&L no less difficulty in service than
4 Armstrong would be and are on PP&L's service territory. It
5 is also interesting to note that the municipalities also
6 have a much higher demand charge and only one energy charge
7 block other than the demand charge blocks. Query why there
8 is only one energy charge block for the municipal rate and
9 no load factor implication.

10
11 **Q. Why do you think municipal utilities might offer an**
12 **advantage to Armstrong?**

13
14 **A.** When a town has a municipal utility and wishes to attract
15 business, they can, in essence, sell their electricity to
16 the business or industry without profit and their town sees
17 no penalty as a result of that. As a matter of fact, the
18 town receives the additional business associated with the
19 employees who are then employed by that local business or
20 industry. If the town elects to sell electricity at a
21 reduced cost to existing local business and industry, it
22 helps the business be more competitive and helps other
23 businesses realize that this town views business and
24 industry in a favorable way. Also, citizens from within the
25 town can pay the same rates as they would pay their local
26 utility and the city or town is able to use profit from the
27 sale of electricity to reduce the citizens' tax rate. This

1 is a true win/win situation for the municipality, business,
2 and the citizens.

3
4 Q. What happens to these municipals and their revenue after
5 retail wheeling takes place? Won't industry just leave
6 them?

7
8 A. Industry will make changes based upon cost reduction
9 opportunities and contracts that they have with their
10 suppliers. However, if industry has elected to enter a
11 long-term agreement with a municipality, industry would be
12 bound by that contract. If Armstrong establishes relation-
13 ships with the cities that may support us through munici-
14 palization, we will view this as long-term relationship.

15
16 Municipalities could, in fact, become our agents of the
17 future. Municipalities could still make profit from the
18 electricity they sell to us by buying larger blocks of
19 electricity and redistributing it to us. This is very
20 similar to what gas marketers do in the natural gas
21 industry. The marketers go into the marketplace, buy the
22 gas, sometimes rebundle it with transmission and then ship
23 it to us. Our local gas utilities distribute it and make a
24 profit also. This could be the electric municipal's role of
25 the future. The municipal could become the broker and the
26 transporter, and redistribute electricity to us as gas
27 utilities and marketers sell and distribute gas to us today.

1 We see relationships with municipalities as potential long-
2 term relationships because Armstrong does not want to be in
3 the electric supply business. We want somebody to do it for
4 us, but we want that person to do it at competitive prices.

5
6 PP&L will not be competitive with their requested increase.
7 They are making the cost of electricity that we buy from
8 PP&L uneconomical with other choices. Armstrong must find
9 those other choices and implement them. We regret that PP&L
10 proposes to charge their native load customers who are tied
11 to them and depend on them such a disproportionate premium.
12 What makes it even less palatable is that PP&L is raising
13 our prices at the same time they are reducing the price of
14 electricity they sell to their non-captive wholesale
15 customers on January 1, 1996.

16
17 Q. You mentioned a second way Armstrong might mitigate the
18 impact of a large PP&L increase would be to shift production
19 to other Armstrong plants outside of Pennsylvania. How
20 would this happen?

21
22 A. This shift in production could occur in two ways. First,
23 Armstrong could decide to expand and add new production
24 capabilities to other locations around the country. Second,
25 Armstrong can make many existing products at several
26 locations. The choice of where to produce and ship from is
27 based on many parameters. One parameter is direct cost.

1 The large increase that PP&L is proposing will increase
2 Armstrong's direct costs to produce floors and ceilings in
3 Lancaster County, and our Marietta and Lancaster plants
4 compete with other Armstrong plants around the country.

5
6 Marietta competes primarily with four other Armstrong
7 ceiling plants in Mobile, AL; Macon, GA; Pensacola, FL; and
8 St. Helens, OR. The cost for electricity at these four
9 plants in 1994 was 4.2¢/kWh, 5.0¢/kWh, 4.3¢/kWh, and
10 4.6¢/kWh. It needs to be emphasized that these prices are
11 primarily for firm power. If Marietta had not taken the
12 lower quality interruptible power from PP&L, its costs for
13 power in 1994 would have been 5.5¢/kWh. For Marietta to
14 compete with these other Armstrong plants and other reasons,
15 it elected to take interruptible service for its production
16 operation. If PP&L calls for an interruption, Marietta must
17 shut down all of its production facilities.

18
19 Please also note that Armstrong's non-Pennsylvania
20 facilities are decreasing their electric costs. Pensacola
21 has already implemented a change in their electric supply
22 which will reduce their cost by at least 12% for 1995.
23 Macon, Mobile, and St. Helens are all looking at ways to
24 further reduce their electric costs. These reductions and
25 potential reductions will even further exaggerate the
26 differential between electricity at Marietta and non-
27 Pennsylvania Armstrong ceiling plants.

1 The Lancaster plant is a very old plant and makes many types
2 of flooring products. It competes with several plants in
3 the same way Marietta competes. The Lancaster plant,
4 because of cost pressures, accepted PP&L's inferior quality
5 interruptible service to reduce their costs. Lancaster is
6 willing to interrupt production and deal with all the
7 production problems associated with that interruption in
8 order to reduce our electricity costs. We have accepted
9 these interruptible hardships to reduce our costs and keep
10 business in Lancaster County. Armstrong plants compete
11 feverishly with each other to ship product to our customers.
12 All plants are looking for ways to reduce their direct
13 costs, and electricity is one of those costs.

14
15 Q. How can the PUC help Armstrong control their electric costs,
16 be responsible to PP&L, and keep as much business in
17 Pennsylvania as possible?

18
19 A. First, I am sure that the PUC will look at the revenue
20 requirement requested by PP&L and see that it is excessive.
21 Second, no matter what increase is granted, no customer
22 should be forced to see an increase of the magnitude
23 requested by PP&L from Armstrong. It is unreasonable for
24 Armstrong to receive large increases when other non-captive
25 wholesale customers of similar size to Armstrong are seeing
26 cost reductions. Also, I ask the PUC to cap any rates
27 charged by PP&L to any captive customers. For Armstrong,

1 the cap should be same as PP&L charges non-competitive
2 customers that have choices. We should pay no more for firm
3 power, much less interruptible power, than PP&L charges
4 their PP&L wholesale customers for firm power. That would
5 be a fair way to handle pricing of captive customers until
6 full retail competition is realized. If this is not done,
7 captive customers will be hurt in two ways. First, their
8 rates will be higher than non-captive customers with
9 choices. Second, captive customers will help cover PP&L's
10 cost of off-system sales made at prices below PP&L's cost of
11 several energy purchases by paying PP&L through the ECR.
12 What an unfair double hit.

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

15
16 A. Yes, it does.
17

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EXPERIENCE**1968 To Present ARMSTRONG WORLD INDUSTRIES (CORPORATE OFFICES)****Manager, Engineering and Energy Purchases (1991-Present)**

Directs energy procurement for 37 plants. Annual budget of \$80 million includes responsibility for energy strategies, suppliers and negotiations. Cost reductions implemented in 1994 will exceed \$3 million. In 1993 received a General Manager's Award for gas savings exceeding \$1.8 million while implementing FERC-Rule 636 at Armstrong's plants. National speaker for natural gas issues regarding FERC-Rule 636 and industrial energy strategies.

Purchasing Manager-Engineer and Energy Purchases (1989-1991)

Directed energy procurement for 14 plants and capital procurement for Floor Division. Annual budget of \$85 million. Cost saving exceeded \$2.0 million per year including \$1.1 million in savings for gas purchases in the Carpet Division. In 1990 received a General Manager's Award for a BTU conversion that saved \$1.6 million and a Manager's Award for contractor negotiations on disputed charges exceeding \$500,000.

ARMSTRONG WORLD INDUSTRIES (MARIETTA PLANT)**Purchasing Manager (1984-1989)**

Managed department of 5 with \$40 million annual budget for raw materials and MRO purchases. Led multi-discipline waste reduction team that reduced waste disposal costs by \$650,000. Budgeted and achieved purchase savings in excess of \$500,000 new savings each year. Changed department from administrative focus to value added focus. Developed and implemented on-line computer purchase order system then used by other plants. Initiated SQC for raw materials, JIT direct release for repetitive items, and invoiceless payment system. Received Manager's Award for multi-plant calcium carbonate negotiations.

ARMSTRONG WORLD INDUSTRIES (CORPORATE OFFICES)**Purchasing Manager-Systems Components (1980-1984)**

Managed \$45 million procurement of major raw materials and components where Armstrong represented a large percentage of suppliers' output. Developed tooling programs, negotiated prices, and coordinated vendor cost reduction programs to specifically reduce the cost of products purchased by Armstrong. Production line speed increase and gauge reduction of ceiling grid saved in excess of \$600,000 the first year. Built dockside warehouse and imported bulk shiploads of a raw material that saved \$1.2 million annually. Presented negotiation seminars for Armstrong's marketing representatives.

Purchasing Coordinator-System Components and Accessories (1977-1980)
Managed \$7 million procurement of specially designed grid, lighting and air distribution systems resold by Armstrong. Purchasing/production representative on Armstrong "Vendor Product Development Steering Committee." Implemented formal cost reporting and measurement system.

Purchasing Agent-Jobbed Products (1976-1977)
Managed \$4 million procurement of miscellaneous jobbed products resold by Armstrong. Negotiated price, delivery, and coordinated efforts of plants distributing purchased items.

ARMSTRONG WORLD INDUSTRIES (CENTRAL ENGINEERING)

Project Engineer-Furniture Operations (1975-1976)
Special Assignment to coordinate multi-discipline effort to solve lumber handling problems at Thomasville Furniture. US Patent 4,220,115 issued.

Product Engineer-Corporate Projects (1972-1975)
Engineered new modular furniture product lines for special president's office project. Engineering/production representative to 5 person task force responsible to develop a new plant for modular furniture lines. College Recruiter for Engineering graduates.

Engineer (1969-1971)
Led efforts to engineer and install \$4 million integrated additives handling process at new plant. Developed new process for roof insulation manufacturing and installed \$1.5 million systems that saved over \$2 million per year from previous concept. Led effort to integrate textile production through automation of labor intensive mechanical processes.

Engineer in Training (1968-1969)
Machine design including layout and detailed design. Assisted other engineers on their projects.

EDUCATION MBA-Lebanon Valley College, 1993

BSME-University of Delaware, 1968
Major: Mechanical and Aerospace Engineering