Outline of Testimony for W. A. Verrochi

Q. Please state your name and address.

A. My name is William A. Verrochi. My business address is 1001 Broad Street, Johnstown, Pennsylvania 15907.

Q. By whom are you employed and in what capacity?

A. I am employed by Pennsylvania Electric Company ("Penelec") as President, Chief Operating Officer and Director of that company.

Q. Please describe your education and professional background.

A. A summary of my educational and professional background is set forth on Appendix A attached to this testimony.

Q. What is the purpose of your testimony in this proceeding?

A. The basic purposes of my testimony are to describe qualitatively the benefits which are expected to be achieved by, and the steps which have been taken and plans which have been developed to implement, the planned combined management of Penelec and Metropolitan Edison Company ("Met-Ed") and the concurrent operating division reorganizations of those two companies.

Q. I show you a document which has been marked for identification as PN/ME Exhibit 6. Could you please identify that exhibit?

A. That exhibit is the Combined Management Agreement executed as of July 1, 1980 by Penelec and Met-Ed, covering the planned combined management of those two companies. That agreement is the subject of the proceeding at Docket No. G-80070101.

Q. Will your testimony cover the quantification of any benefits expected to be achieved as a result of the implementation of the Combined Management Agreement and divisional reorganization?

A. No. That area will be covered by the testimony of Mr. F. A. Donofrio.

Q. Based on one of your earlier answers, is it correct that the scope of the planned Penelec/Met-Ed management reorganization is not limited to the matters which appear on the face of the Combined Management Agreement, namely the common officerships and directorships of Penelec and Met-Ed, changes in their respective corporate names and the allocation of the costs and services to be rendered by common management for those respective two companies?

A. Yes, that is correct. It is also the intention of Penelec and Met-Ed, respectively, to review their operating

division alignments; in the case of Penelec, to reduce the size of certain large divisions to provide for a closer working relationship between the division manager and his service area; in the case of Met-Ed, to consider consolidation of two divisions; to close smaller, less efficient business office operations; to centralize various functions in division headquarters; and to institute additional standardization of policies and procedures throughout the two companies.

While the planned Penelec/Met-Ed combined management and the reorganization of the operating divisions of the two respective companies are separable matters which could proceed independently of each other, and the reorganization of operating divisions could take place within either Penelec or Met-Ed without regard to what takes place in the other company, a coordinated approach to the several matters has distinct benefits.

Q. Can you identify any such benefits?

A. First of all, the strengthened management resulting from the management combination will be able to realize more effectively the advantages of the division reorganization in each of the two companies. Secondly, the plans with respect to both areas of reorganization could be communicated at the same time, with more effectiveness and positive impact and less confusion than if communicated separately. The planned divisional reorganization depends upon strengthened headquarters staff support. To proceed

with the divisional reorganization in each company separately would require duplication of headquarters staffs. Moreover, more effective use of the personnel selection process can be achieved by proceeding with both proposals in a coordinated way.

Q. What are the objectives of the proposed management combination and divisional organization?

A. The objectives of the two proposals, as we have previously stated them to this Commission at the Penelec/Met-Ed annual review on June 26, 1980, are as follows:

To continue to provide ratepayers with reliable electric service at the lowest possible cost.

To increase the degree of dedication to customer service and the commitment to conservation at the people-to-people level.

To enhance the center of excellence in Johnstown for GPU owned and operated coal-fired generation.

To further centralize and strengthen coal supply strategy, procurement and source development.

To centralize Pennsylvania aspects of policy making, load management, tariff administration and rate cases.

To reduce operating costs.

To position the companies better to meet the challenges of the 1980's and beyond through maximizing the benefits of strength of scale in management.

Q. Please describe briefly the planning by Penelec and Met-Ed to implement the decision to combine the managements of Penelec and Met-Ed and to reorganize their respective divisions.

A. I would like at the outset to make several basic observations with respect to the planned combination of managements. First of all, Penelec and Met-Ed are the subject of extensive regulation by various governmental agencies. Before the Combined Management Agreement can be implemented, various regulatory authorizations must be obtained. Mr. Dieckamp has discussed such authorizations in his testimony.

Secondly, Penelec and Met-Ed have the same problems in terms of meeting environmental requirements, effective operation of generating plants, procurement of coal, transmission and distribution line construction and maintenance, hooking up customers, customer relations, interactions with the PUC and so forth. So the bulk of the management problems of Met-Ed and Penelec are similar, and are very much influenced by the fact that the two companies are operating in the same jurisdiction.

Thirdly, the formulation of plans to implement the planned management combination and divisional reorganization is a developmental and iterative process. Goals and objectives had to be analyzed, formulated, reviewed, revised, rereviewed, and so on as additional facts and perspectives presented themselves.

Input into the planning process came from a variety of sources, both within and outside the GPU system. This process has been a continuing one thus far throughout 1980 and is still going on. As to the sources of input into this process from outside the GPU system, Theodore Barry & Associates ("TB&A") (which was engaged by this Commission to make a management audit of the GPU system) has been a significant source of input. Many of the suggestions and recommendations of TB&A have been incorporated in the iterative process of preparing the plans to implement the proposed management combination. I have no hesitancy in stating that if any comments or suggestions were to arise during the course of this proceeding which can be factored beneficially into the combined management plans, we would be happy to incorporate them into such plans.

Q. What benefits, if any, are expected to result from the planned management combination and divisional reorganization?

A. There is quite a number of benefits expected to be derived from the planned management combination and reorganization. It will enable Penelec and Met-Ed, respectively, to continue to provide their ratepayers with reliable electric service at the lowest possible cost through a plan which:

Enhances management effectiveness in dealing with increasingly complex financial, regulatory, technical, governmental and customer problems and concerns;

Permits significant cost savings and cost avoidance;

Strengthens local customer service organizations by centralizing qualified customer-related personnel and information systems in division headquarters locations readily accessible to the customer (i.e., division headquarters will serve, with one exception, an area within a 30-mile radius);

Provides greater accessibility to local managers because the Division Managers (a) will generally be responsible for smaller geographic areas (within a 30-mile radius) and (b) will no longer be responsible for the functional, technical division operating staffs, which will get their technicaal direction from corporate headquarters;

Enhances the ability to achieve conservation and load management objectives through staff and field personnel dedicated specifically to this activity;

Retains and expands the large coal-fired generation function in the heart of the western Pennsylvania coal fields, thereby providing better local contact and control of all aspects of the operation;

Strengthens fossil generation and coal supply management through improved control procedures and standardization which directly affects the fuel component in the customer's bill;

Improves communications with regulators, legis-

lators, customers, employees and the media through establishment ment of communications as a separate function, not directly responsible to one specialized function;

Provides opportunities to consolidate, standardize and streamline procedures, thus achieving economies directly affecting operating costs and, ultimately, the customer's bill'

Increases staff support in planning, direction and control; and

Improves control of budgets, operating and maintenance expenditures, facilities management and construction modifications.

Q. Who will be the beneficiaries of the various benefits and cost savings and avoidance that you expect to result from the management combination and reorganization?

A. Clearly, the primary beneficiaries will be the customers of Penelec and Met-Ed. Any cost savings and avoidance will be reflected in the respective companies' cost of service calculations and thence in the rates chargeable to their customers. Such benefits as improvements in service, access to local managers and communications will likewise redound to the benefit of the customers.

Q. Will any class of customers benefit more than any other class from the proposed management combination and reorganization?

A. I do not foresee that any class of customers

will benefit more than any other class. As we see it, the benefits will be applicable to all classes of customers.

Q. What possible negative effects do you foresee as a result of the planned management combination and divisional reorganization?

A. The planned combination and reorganization will affect a number of corporate and operating division employees. For some, relocation will be unwelcome. For others not relocated, there will be changes in job responsibilities. Some employees will lose their jobs. A move of the corporate headquarters may be regarded by some as a loss of prestige to the Johnstown community. Some employees would be moved from Johnstown to Reading. Others would be moved from Reading and Parsippany to Johnstown. It is anticipated that the overall job loss in Johnstown will be less than 85 people.

However, as we view it, the positive benefits to customers and employees of Penelec and Met-Ed far outweigh these negatives.

Q. Will the planned divisional reorganization involve the abandonment of any of the places where Penelec or Met-Ed presently have line crews which do such things as repair and construct transmission and distribution lines?

A. No. It is recognized that customers can best be served by maintaining Line Construction and Maintenance personnel at each of the 68 locations where the two companies now have facilities. For this reason, it is not envisioned that any district of sub-district facilities will be abandoned

by this realignment, except as work load distribution changes would dictate in the same evolutionary process as has been followed in the past.

Q. Has any chart been prepared to show what the proposed combined management organization will look like?

A. Yes. We have prepared, reviewed, revised and updated a chart of such organization. Its development has been part of the iterative process I have previously mentioned. The present chart of such organization is shown on PN/ME Exhibit 2.

Q. Could you describe briefly the responsibilities of the various management positions reflected on that exhibit?

A. The respective responsibilities can be described briefly as follows:

1. The Senior Vice President-Customer Operations will focus on the importance of the customer/company relationship, and under him:

a. The Vice President-Customer Services will have direct responsibility for the policies and procedures relating to customer needs, including business office transactions, customer requests, community services and group and individual customer contacts relating to general matters. This function will also provide liaison with the Rural Electric Cooperatives.

b. The position of Vice President-Conservation and Load Management gives increased emphasis to this important area. New federal and state legislation and

regulation on conservation, together with the GPU System 10-year Master Plan to effectively reduce load growth, require expert attention and an appropriate level of staffing at both the corporate and operating level. Consideration has been given to the fact that the development of most programs will be done in the next few years, with a swarm of new activities and procedures (e.g., energy audits) at the start. Once established, since much of the program will involve repetition, a decision will be made at that time as to whether the position should be continued at an officer level.

c. The Vice President-Division Operations will be responsible for Division management. Central coordination and control will assure uniformity of policy application, emphasize and accomplish energy conservation by innovative load management, and establish improved quality of all company operations involving interfaces with the public.

d. The Vice President-T&D Engineering and Operations will oversee all aspects of the System-wide transmission and distribution functions, including the engineering, design, licensing, construction, operation, maintenance and allocation of resources for facilities. The Operating Superintendents will report to this Vice President on a functional basis but each will be responsible to his Division Manager for meeting the service needs of customers.

2. A Fossil Generation function will be headed by a Senior Vice President-Generation. In addition to current responsibilities related to operation, maintenance and construction modifications of existing facilities, he will also be responsible for engineering, design, licensing and construction of new fossil generation facilities. In addition, he will focus on expanding the breadth and depth of expertise in engineering and management of performance improvement activities. The generation function will place increased emphasis on research and development in environmental compliance and the use of Pennsylvania coal.

3. A Senior Vice President and Chief Financial Officer will be responsible for the Comptroller, Secretary and Staff Counsel, Treasury and Rate Case Management functions. While rate making will be separate for each company, a strengthened group, with the same people involved for both companies, will provide a helpful consistency in preparation and presentation of rate cases.

4. In recognition of the increasing importance of external and internal communications and the fact that all aspects of the company operation are involved, a separate communications function, headed by a Vice President, will be established. The state government relations function will report to this Vice President, instead of to the President, as has been the case.

5. The Vice President-Materials Management will assume the present Met-Ed and Penelec duties of this function and will have the added responsibilities of fuels development, coal research and development, mining engineering support, fuels quality and mining reserve agreements, which are being transferred from GPUSC.

6. The Vice President-Personnel & Services will be responsible for employee matters and administration of general services, involving a number which had been under various functions.

Q. Is a change in management or corporate organization an unusual event in Penelec's and Met-Ed's histories?

A. No, like most electric utility companies, both Penelec and Met-Ed grew through the merger and acquisition of many local or single purpose power companies beginning in the last quarter of the nineteenth century. For instance, Penelec is an amalgamation of about 125 small systems and Met-Ed, over 300. But more to the point in comparison to the presently planned management combination are the following examples: For about a 2-year period in the late thirties, accounting for both companies was done in Reading. The Penelec President from 1951 to 1958 was also the President of Met-Ed for a portion of that time. Prior to the merger of GPU subsidiary, Northern Pennsylvania Power Company, with Penelec in 1956, that company's general accounting was done by Met-Ed in Reading. From 1954 to 1962 the field sales organizations

of the two companies followed plans developed and monitored by a combined staff organization headquartered in Reading.

Q. Why was Reading chosen as the location for the headquarters of the combined management staff?

A. Let me direct your attention first of all to PN/ME Exhibit 1, which is a map showing the GPU service territory. Within Pennsylvania, the lighter shaded area is Penelec service territory and the darker shaded is Met-Ed service territory. Together, they cover roughly half of the land area of Pennsylvania but serve only about 20% of the state's population.

As is apparent from that exhibit, plus a realization that customer density varies substantially throughout, it would be difficult to pick a truly central location for the widely dispersed service territories of the two Companies.

In terms of size, Erie is the largest city in the combined Penelec/Met-Ed service territories and, in fact, in the GPU System. It is clearly not, however, centrally located within the combined service areas of Penelec and Met-Ed. Reading is the next largest city in the service area. Johnstown, present location of Penelec headquarters, is the fifth largest city in the service area (behind Erie, Reading, Altoona and York).

Reading was selected because of major facilities now in place there as well as certain geographic advantages,

which result in economies in travel costs. The extensive GPU System Electronic Data Processing (EDP) Center is already located in Reading. Systems and methods in the necessarily rapid and cost-saving expansion of EDP, such as future installation of an on-line system-wide customer inquiry system, can be more closely coordinated and the ongoing creative process greatly enhanced if the people involved are in close proximity. The GPU System Load Dispatching and Interchange Accounting functions are also in Reading. Met-Ed's existing headquarters is located there and with the relocation of personnel to Three Mile Island, has space available for the combined management group, whereas location in Johnstown would require a costly investment in space.

Furthermore, Reading is reasonably near GPU headquarters in Parsippany, New Jersey, and relatively close to regulatory and governmental centers in Harrisburg and Washington.

PROFESSIONAL QUALIFICATIONS OF

WILLIAM A. VERROCHI

B. S. Mechanical Engineering, Massachusetts Institute of Technology, 1947.

Licensed Professional Engineer in Massachusetts, New Jersey and Pennsylvania.

U. S. Army Corps of Engineers, February 1943 to June 1946; First Lieutenant, General Service Regiment; 30 months duty in North Africa and Italy.

Former member of the Board of Directors of Jersey Central Power & Light Company, 1970 - 1976; member of the Board of Directors of Pennsylvania Electric Company, elected October 1976; member of Board of Directors of GPU Service Corporation, elected September 1977.

June 1977 to date: At Pennsylvania Electric Company, Johnstown, Pennsylvania. In June 1977, became Executive Vice President, and in September 1977, became President and Chief Operating Officer of Pennsylvania Electric Company.

October 1969 to May 1977: At Parsippany, New Jersey. In May 1971 became Vice President, Design and Construction, and in December 1974, Vice President, Generation, of the GPU Service Corporation, responsible for design and construction of all new generation facilities, performance improvement of existing generation facilities, and related site selection, safety, licensing, environmental, quality assurance, and research and development activities in the General Public Utilities System. From October 1969 to May 1971 on special assignment assuming many of these responsibilities during the organization of the GPUSC.

April 1961 to October 1969: At Pennsylvania Electric Company, Johnstown, Pennsylvania, as Superintendent of Production and then Assistant Vice President - Technical, responsible for operation and maintenance of all electric generating stations, including Seward, Shawville, Keystone, Homer City and Conemaugh, coal purchasing and design and construction of transmission facilities.

July 1947 to April 1961: At Jackson & Moreland, Boston, Massachusetts, and AllStates Design and Development Company, Inc., Trenton, New Jersey, with project engineering and management responsibilities in the air pollution control, power generation and test facility fields.