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C O N T E N T S

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4	By Mr. Russell	532			
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	<u>NUMBER</u>	<u>FOR IDENTIFICATION</u>	<u>IN EVIDENCE</u>
14	<u>JARI</u>		
15	3	666	--

P R O C E E D I N G S

1
2 JUDGE CASEY: We are on the record. I won't
3 read the four captioned cases or the docket numbers since
4 we are all aware of those.

5 I would simply like to say that this is the
6 third in a series of evidentiary hearings that have been
7 scheduled in these consolidated cases.

8 Tomorrow morning we meet at 9:00, but unfortunately
9 we won't have the use of this room because the Commission,
10 as I understand it, will be using it for a public meeting.

11 I believe that the room -- and you will have to
12 check me on this -- the room that we will be using is Room
13 503 of the Finance Building, which is directly across
14 Commonwealth Avenue from the North Office Building. I
15 understand that the accommodations are adequate for the
16 number of people that we expect to appear.

17 MR. RUSSELL: Is it 503?

18 JUDGE CASEY: I will double check that with Mrs.
19 Bentsel. If it is different from the number I have informed
20 you, I will tell you at the end of the day.

21 At the close of yesterday's hearing, we were
22 also going to discuss a tentative day or two days during
23 the week of December 15 in the event that we cannot complete
24 the case by tomorrow afternoon.

25 I have had an opportunity to review my own schedule

1 for the week of December 15, and I see that I have a hearing
2 at 10:00 a.m. on Tuesday, December 16. During that week
3 I also have a hearing at 10:00 a.m. on Wednesday, December 17.
4 On Monday I have a dental appointment in the morning, and
5 I am just afraid it might delay me past the 10:00 hour. I
6 am not sure. On Thursday and Friday, apparently I am
7 unattached on those days.

8 I think in my notes yesterday, Mr. Russell, you
9 indicated that the 15th, 16th, 17th and 19th would be
10 acceptable.

11 MR. RUSSELL: Thursday is the one day I don't
12 think I can get out of.

13 JUDGE CASEY: Thursday the 18th would be a
14 conflict?

15 MR. RUSSELL: Yes; and the 19th is a possibility.

16 JUDGE CASEY: The 16th, 17th and 18th then are
17 not good for Mr. Russell and myself, and Monday, if I knew
18 what time I would get out of the dentist's chair, that would
19 be all right; but I think maybe the 19th on a Friday.

20 Mr. Shilobod and Mr. Messer, is that acceptable?

21 MR. MESSER: That is fine.

22 JUDGE CASEY: That might give us a few more days
23 to set up the scheduling.

24 Mr. McClaren is not here this morning. I don't
25 know what his situation is, but if he personally is involved,

1 maybe he can have Mr. Christianson or someone sit in for him.

2 MR. RUSSELL: As a matter of information, as long
3 as we are discussing the scheduling and so on, is JARI
4 contemplating having prepared written testimony or putting
5 on testimony orally?

6 MR. SHILOBOD: Written.

7 MR. RUSSELL: And you still contemplate the same
8 two witnesses?

9 MR. SHILOBOD: Yes.

10 MR. JOLLES: When will we have that?

11 MR. MESSER: As soon as possible.

12 MR. JOLLES: Could you give me an idea of when
13 we would have it?

14 MR. SHILOBOD: We have to go through the examination
15 of the fellow from TB and A.

16 JUDGE CASEY: In other words, you have to see what
17 the TB and A testimony will be tomorrow before you can get
18 together with your witnesses to prepare your case?

19 MR. SHILOBOD: Yes.

20 JUDGE CASEY: Prepared testimony has been
21 distributed from the respondent's side a day in advance
22 or something of that nature; if you could have prepared
23 testimony available perhaps by Wednesday of next week.

24 MR. SHILOBOD: I have not seen the draft of it yet.
25 I presume that we should be able to do it. It depends to

1 some extent on how far we get along tomorrow, but I
2 certainly would get it to you as fast as we can. I am
3 very concerned over the time limitations place on us since
4 I think that the time limitation is more restrictive to us
5 than it is to the company.

6 MR. JOLLES: I don't understand that comment.

7 MR. RUSSELL: I don't know that any of us isn't
8 in a bind in this timetable that the Commission has imposed.

9 MR. SHILOBOD: I think that the time limitation
10 is for the convenience of the company rather than for the
11 convenience of us or the Commission. I think the company
12 has been wanting these regulatory bodies to act as fast
13 as possible, and I think the Commission is being responsive.

14 MR. RUSSELL: I am not prepared that I am going
15 to characterize the Commission action in that way.

16 JUDGE CASEY: You may be right. The only thing
17 is that somewhere in the file in the reading materials, I
18 noted a recommendation -- I don't know whether it emanated
19 from Theodore Barry and Associates -- to the effect that
20 once the affiliated interest contracts were filed, that they
21 hope that they could be implemented in three months' time;
22 a 90-day period.

23 Now whether the Commission in its order is trying
24 to accommodate the company or go along with Theodore Barry
25 and Associates' suggestion, I am not prepared to say. I am

1 hypothesizing that.

2 I would think in a real crunch, if the case is
3 hampered or jeopardized, that someone might get a brief
4 extension anyway. According to my timetable, I would
5 probably have to have my recommended decision in their hands
6 by January 19, which is a tall order.

7 MR. JOLLES: Your Honor, if Friday, the 19th is
8 the next hearing date and the only hearing date next week,
9 are we expecting the JARI witnesses to be put on on the 19th?

10 MR. SHILOBOD: It depends on whether we complete
11 the TB and A witness tomorrow.

12 JUDGE CASEY: Is there more than one witness?
13 Of course, you can't speak to that unless the administrative
14 staff is available; Mr. Morrison. Maybe I can contact them.

15 MR. SHILOBOD: There are three TB and A witnesses;
16 Wicker and Shoemaker and Wheaton.

17 MR. JOLLES: I would hope that they would at least
18 be available on Friday on the event that you did complete
19 their cross-examination.

20 JUDGE CASEY: Who would be available?

21 MR. JOLLES: The JARI witnesses.

22 MR. SHILOBOD: I think if you get through those
23 three witnesses in two days, you are going to very lucky.

24 MR. JOLLES: Then what you are saying is that
25 we will certainly need more hearings after next Friday?

1 MR. SHILOBOD: I believe so.

2 MR. JOLLES: When do you believe that we could have
3 those hearing dates?

4 JUDGE CASEY: Again, I have been trying to take it
5 one step at a time. I don't want to schedule too many. We
6 are getting into the Christmas period.

7 MR. JOLLES: That is why I am raising it.

8 JUDGE CASEY: I am not planning on taking the day
9 before Christmas and the day after. I think Christmas is
10 on a Thursday. I don't think that there will be too much
11 going on -- maybe there will be -- during that week, but
12 perhaps the week between Christmas and New Year's we might
13 be able to schedule another one or two days. I can't
14 give you a commitment on that until I check with the master
15 calendar in the Chief Judge's office. But before the end
16 of the day, we will explore one or two more days in addition
17 to the 19th, December 19th.

18 MR. SHILOBOD: If Your Honor please, if it appears
19 that we are going to go past next Friday, we have to consider
20 that we are going to have to have briefs, and Your Honor
21 has to have time for a decision; perhaps if it appears that
22 we have to go past next Friday, it might be a good idea
23 that perhaps we would present a petition to the Commission
24 in that time frame to ask --

25 JUDGE CASEY: I think whatever action is taken in

1 that regard should be a concerted action and should involve
2 everybody, not that we would be asking for any lengthy
3 extension. It would appear dilatory on its face, but something
4 could be elicited, perhaps 30 days or something like that.

5 So before the end of today, I will explore
6 the possibilities for hearing dates between Christmas
7 and New Year's, that week, and I will inform you of what
8 my schedule looks like, and then we will decide on Friday
9 perhaps, the 19th, whether we need to go to the Commission
10 for an extension of time.

11 Does that take care of the preliminaries this
12 morning?

13 MR. MESSER: The only additional problem, Your
14 Honor, is that yesterday we were advised that this morning
15 we would receive a copy of the Penelec portion of the Booz-
16 Allen Report. At this point in time we have not received
17 that report; and I believe it has been indicated to me
18 privately this morning that it is their intention to produce
19 it sometime this morning.

20 It may be necessary, however, if we don't get
21 the report today, to reschedule Mr. Verrochi to return on
22 some further hearing date. Hopefully, we will have the
23 report, and that will not be necessary.

24 MR. RUSSELL: It was my understanding it was to
25 be delivered to us this morning by Mr. Kelley, and as soon as

1 it is here, we will turn it over to you.

2 JUDGE CASEY: That is the best we can expect.
3 We will try to give you the opportunity before the day
4 is over to look at the report and use it for cross-examination.

5 MR. RUSSELL: I would say further if it is
6 that critical, I guess -- as I mentioned last week, it is
7 a public document that has been filed here in the Commission's
8 office -- if it is critical to see, it can be found there
9 right now.

10 JUDGE CASEY: Is the Booz-Allen Report in segments
11 depending on --

12 MR. RUSSELL: It is booklets for each company; the
13 operating companies, the service companies, etcetera, and
14 we have gotten all of the pieces except the Penelec piece.

15 JUDGE CASEY: And when it was filed with the
16 Commission, it was not all pulled together in a single item?

17 MR. RUSSELL: It was in booklets that were prepared.

18 JUDGE CASEY: One more thing. Yesterday, Mr.
19 Verrochi and Mr. Donofrio were sworn in as witnesses. Mr.
20 Verrochi testified in response to cross-examination at
21 some length. Mr. Donofrio answered certain questions which
22 were peculiarly within his domain.

23 Mr. Verrochi is here again today. He is available,
24 if necessary; but Mr. Donofrio is the witness whom Mr.
25 Shilobod desired to cross-examine; is that correct, Mr.

1 Shilobod?

2 MR. SHILOBOD: Yes.

3 JUDGE CASEY: You may proceed when ready.

4 Whereupon,

5 F. ALLEN DONOFRIO

6 having been duly sworn, testified as follows:

7 MR. RUSSELL: We have not identified the witness,
8 and we haven't had initial direct.

9 JUDGE CASEY: That is right; we haven't identified
10 his prepared statement into the record at this point.

11 DIRECT EXAMINATION

12 BY MR. RUSSELL:

13 Q Would you state your name and address, please, Mr.
14 Donofrio?

15 A My name is F. Allen Donofrio. I am the Comptroller
16 of Pennsylvania Electric Company. My business is 1001
17 Broad Street, Johnstown, Pennsylvania. 15907 is the zip.

18 Q Do you have before you a document which has
19 been marked for identification as Penelec/Met-Ed Statement C?

20 A Yes, I do.

21 Q Was that prepared by you or under your supervision?

22 A Yes, it was.

23 Q Does this represent your prepared written
24 testimony in this proceeding?

25 A Yes, it does.

1 Q For the record, if I were today to ask you the
2 same questions that appear in that statement, would your
3 answers be the same?

4 A Yes, they would.

5 Q In your statement, I believe you make reference
6 to the proceedings to analyze and implement the combined
7 management plan with respect to Met-Ed and Penelec; is that
8 correct?

9 A Yes, it is.

10 Q Who was in charge of that analysis and implementa-
11 tion?

12 A Mr. Verrochi was.

13 Q Was he in charge of the analysis and implementatio
14 as far as Penelec was concerned?

15 A He was in charge of the implementation of the
16 combined management, and that included the Penelec and
17 the Met-Ed piece.

18 Q Did the Met-Ed people operating under Mr. Smith
19 function under Mr. Verrochi's supervision?

20 A Yes, they did.

21 Q In your statement, you used the terms "potential
22 cost savings" and "potential cost avoidance." Could
23 for the record, identify briefly the distinction between
24 those two terms?

25 A What we have is a total savings with a potential

1 of about \$18 million. What happens is if you are at a
2 given base right now and the combination did not go through,
3 right from day one, the start, we would have to add the
4 potential of 205 jobs. This would start increasing our
5 expenses on an annualized rate of about \$8 million from
6 where we are today; so that is from day one.

7 However, if the combination is allowed to be
8 implemented and go in place, we believe from our present
9 base that we can reduce this by about \$10 million, and
10 this has to do with the combination of management of Met-Ed
11 and Penelec as well as the reorganization of our divisions,
12 which would be possible by this combination of management.

13 The savings of the \$10 million from today's
14 base would start, but would not be fully completed for
15 probably two to three years. We are talking about a
16 reduction of approximately 247 jobs. There would not be
17 a layoff. It would be by attrition.

18 Some of these jobs would be from day one because
19 we have started now not to fill jobs on a permanent basis.
20 As jobs become open, we are filling them on a temporary
21 basis or doing the present work on an overtime basis;
22 so some of it will start right away. But, as I say, by the
23 time that the 247th job would not be on our payroll, it
24 may be two to three years.

25 Now this is all planned under the present work

1 scope either with or without the combination. As additional
2 work duties are added, of course, personnel might be needed.

3 Q Do you have before you a document which has been
4 marked for identification as Penelec/Met-Ed Exhibit 7?

5 A Yes, I do.

6 Q Could you explain briefly what is represented on that
7 exhibit?

8 A Exhibit 7 reflects the potential cost savings from
9 a given base downward of \$10 million. What this shows
10 is the mix of employees that we would be talking about;
11 supervisory, exempt, clerical, the union and the total. It
12 breaks down the Penelec divisional, Met-Ed divisional,
13 reorganization and reduction as well as the corporate
14 combination.

15 The first totals on there of the 73 for Penelec
16 and 136 for Met-Ed would be the ones that I was talking
17 about over the next two to three years. The initial
18 reduction of corporate combination, we are looking forward
19 to have that started about day one from when we can start
20 implementing our plan. The next 19 would be approximately
21 one year after that plan was implemented.

22 The second half of this then takes those number
23 of employees and, in effect, puts dollars to them as to
24 what the potential savings would be from this reduction
25 of employees; again, the same kind of break-out which Penelec

1 divisional employees, Met-Ed and the corporate dollars
2 have been assigned. The assumptions are down at the bottom
3 of the page.

4 Q Mr. Donofrio, did you -- or if not you, who made
5 the estimates as to the possible reductions or potential
6 reductions in numbers of employees reflected on Exhibit 7?

7 A Mr. Verrochi was in charge of the implementation
8 of the combination of management. He had set up a task
9 force in order to bring this all together for review purposes,
10 and I was the coordinator of that task force.

11 This task force consisted of Mr. Verrochi as
12 chairman of it, Mr. Ralph Conrad, Mr. Floyd Smith and myself.
13 Input on the divisional reorganizational numbers was initially
14 started by Mr. Wise, the present Vice-President of Operations
15 at Penelec, with the help and support of Mr. Henry Robidoux,
16 the Met-Ed Vice-President of Operations, and Mr. Smith, whom
17 would be the senior Vice-President in charge of the Penelec
18 and Met-Ed divisions upon completion of the combined
19 management and reorganization of divisions.

20 On the corporate combination, again, I was
21 coordinator. However, the various officers that were put
22 in charge of the various functional areas came up with the
23 staffing and the reporting requirements for each of their
24 particular functions.

25 They were reviewed by the task force, and the 19

1 is a different number or a compilation of what would we
2 be looking at reorganized versus what we were in place as
3 of January 1, 1980.

4 Q Were these reductions reviewed and approved by
5 Mr. Verrochi?

6 A Yes, they were.

7 Q What is the factual basis for the assumptions
8 that are reflected in the lower lefthand corner of Exhibit 7?

9 A The factual basis is on the assumptions down there;
10 these are salaries in effect as of January 1, 1980 on an
11 annualized basis. It is the straight time salary.

12 What we did was looked at Penelec and the Met-Ed
13 on supervisory, and an average of the two came out to be
14 about \$32,000. We did the same for exempt, \$23,000, and so on
15 down the line.

16 As far as the fringe benefits, materials and supplies,
17 transportation and miscellaneous, these are developed from
18 statistics mainly of both companies looked at the last
19 couple of years as to what these ratios were, in fact, at
20 both of the companies and we use these in our assumptions.

21 Q Would you describe briefly what is meant by the
22 term "exempt" as you have used it on this exhibit?

23 A What this means is more or less the professional
24 individuals, engineers, accountants, etcetera, that are
25 not in a supervisory capacity, and they are not in a

1 clerical capacity, which on this schedule is referred to as
2 the "non-union non-exempt."

3 Q And the union personnel would be who?

4 A In Penelec's case, the ten there are the clerical,
5 the union personnel in one of our divisions. It is the
6 only division where the clerical function has been unionized;
7 and Met-Ed is more or less the same thing.

8 Q Have you before you a document which has been
9 marked for identification as Penelec/Met-Ed Exhibit 8?

10 A I do.

11 Q Was that prepared by you or under your supervision?

12 A It was.

13 Q And was Exhibit 7 likewise prepared by you or
14 under your supervision?

15 A It was.

16 Q Could you explain briefly what is represented
17 on Exhibit 8?

18 A Exhibit 8 is the cost avoidance savings -- that is
19 potential -- if the combination is allowed to go through.
20 What we have here is a range at Penelec and Met-Ed of the
21 additional employees that would be needed in order to
22 bring the staff to the level needed in order to function
23 as independent companies, and we have broken that down
24 again on the same kind of categories of Supervisory, Exempt,
25 Non-Union/Non-Exempt, Union, and Total, and this range is

1 120 to the potential of 205 jobs which must be added.

2 Again, we have gone through the same on Exhibit 8
3 as we did on Exhibit 7 by now putting dollar figures on the
4 employee numbers. The assumptions are down on the bottom
5 of the page.

6 I will just briefly go through the assumptions.
7 We took a study of both companies, Met-Ed and Penelec
8 corporate staffs as of the beginning of the year, and
9 the ratio of supervisors to exempt to the clerical was
10 one supervisor for every two exempt, for every two clerical.
11 We assume that that same kind of a ratio would be in the
12 future as it was in the present. That is for that first
13 assumption.

14 The same salary assumptions were used, as I
15 referred to on Exhibit 7, as well as adders or fringe
16 benefits, transportation, etcetera.

17 Q Mr. Donofrio, you have indicated a range of
18 employee cost avoidance and dollar cost avoidance, but
19 you round off the figure which is the high side of the range.

20 Could you explain what the occasion was for that
21 judgment?

22 A On the cost avoidance, employee levels were
23 discussed. Without going into an exact charting and saying,
24 "This is one job, two jobs, three jobs, etcetera," it was
25 looked at in terms of we know the appropriate level is about

1 50 to 75, as an example, in generation. Mr. Verrochi
2 discussed how this was done yesterday. It was done with
3 the functional heads as well as Mr. Smith, Mr. Verrochi,
4 etcetera.

5 What we are saying there is there's no ifs,
6 ands or buts that the minimum is 50. The potential is 75,
7 and the potential savings, we believe, are on the conservative
8 side.

9 I believe that TB and A reflects in their report
10 that their independent review and analysis of this also
11 so indicates. Again, this is the potential cost avoided
12 savings, and we believe it would be on the high side, and
13 we would have to add.

14 Q Was the development of the estimates reflected on
15 Exhibit 8 carried out under the same supervisory arrangement
16 that obtained with respect to Exhibit 7?

17 A Yes, it was.

18 Q Again, with respect to the possible achievement
19 of these potential cost avoidance savings, could you
20 describe the possible timing as you see it?

21 A Well, when we say the achievement of these savings,
22 what this is is a cost avoidance or an avoidance of
23 additional expense that we would face.

24 In other words, if the combination does not go
25 through, as soon as these jobs are added right from day one

1 that salary must be paid, and that then becomes an additional
2 expense above and beyond where we are today. So the
3 potential \$8 million really starts as soon as we start
4 adding these jobs.

5 Q Could you state whether or not you played any
6 role in connection with the preparation of what has been
7 described as the Blue Books, the Green Books and White
8 Books?

9 A Yes, I can.

10 Q All right. Would you describe for the information
11 of the Commission and the Judge the background for the
12 development of the initial one of those colored documents?

13 A About January 4 of 1980 was the first time that
14 I was aware of, let's say, a combination of management. On
15 January 4 and January 5 Mr. Verrochi and myself had
16 discussed exactly what might be needed to start putting
17 this in place. In other words, you could talk a lot about
18 it, but you had to have a document that everybody could see
19 in order to start going through iteration and getting it
20 down in black and white.

21 So what we discussed was exactly what kind of
22 information did we want to have in writing; and one of
23 the things was to have the organizational setup and what
24 possibly would be reporting to whom.

25 The other thing was asking what kinds of employees

1 are these? Are they officers, supervisory, exempt,
2 clerical, etcetera?

3 One of the other things we wanted was: what
4 would be the physical location of these employees; and
5 another thing was: what was the number of employees by
6 function that we were talking about?

7 Using that as the criteria, we started working
8 on developing what was termed the "Blue Book." This had input
9 from Penelec. It has input from Met-Ed. It was coordinated
10 by myself mainly in order to make the formats all the
11 same so that eight or ten different individuals didn't
12 get different formats, and I kept it straight to that extent.

13 The other thing that I did was to tie it into
14 the organization charts that were prepared by Met-Ed and
15 Penelec personnel departments, effective for January 1, 1980
16 levels.

17 What happened on this was that if individuals
18 had given me only 50 employees when they really had 51,
19 what I did was pointed this out, and the 51st individual
20 was put in here.

21 Again, it being an iterative process, we kept
22 it pretty confidential because the names might not necessarily
23 have started off where they were eventually to end up.

24 This took quite a bit of time and preparation,
25 and the planning draft is issued as of March 26, 1980.

1 This was the company's anticipation of what the organization
2 would be. To my knowledge, the main points of the TB and A
3 had eventually pointed out to us they had not reviewed
4 up to this point in time. This was all a company document.

5 Q When you say "this point in time," you mean what?

6 A About the time that the draft of March 26 or the
7 Blue Book was initiated and put out for distribution.

8 Q Was March 26 the first edition, so to speak, of
9 the Blue Book?

10 A Yes, it was. During this time, as I say, from
11 January 4 and 5 up to this time, there was a lot of
12 organizations' paperwork. We would do one organization.
13 Mr. Verrochi would review it. We would have it typed up,
14 proofed, etcetera, documented, and then eventually summarized.

15 Again, that was the aspects and the reasons
16 for Blue Book. It wasn't to package a management combination
17 to see what kind of cost avoidance there would be or most
18 of the savings involved or anything being close to the
19 subject without documenting the fact as such.

20 We kind of all accepted the thing that by
21 consolidation and by combining the management and avoiding
22 duplication, that the savings was there. It was inevitable
23 that savings would be there, and this document was not at
24 this point in time addressing that savings question.

25 Q You mentioned TB and A. What input, if any, did

1 TB and A have with respect to the first edition of the Blue
2 Book on March 26?

3 A In my aspect of it, they did not have any
4 participation. This was, in effect, a first document then
5 that they saw that had the company's ideas and plans
6 physically put out in writing.

7 Q To the best of your knowledge, approximately when
8 did TB and A see this first draft of the Blue Book?

9 A It would be after March 26 and sometime during
10 the month of April. The reason I say that is that I
11 personally attended a meeting early in May at which TB and A,
12 Mr. Dieckamp and Mr. Kuhns and Mr. Verrochi and Mr. Smith
13 and Mr. Conrad, etcetera, were there that discussed two
14 of the potential problem areas or two things that they
15 recognized in our document that they wanted to perceive;
16 that in all of their looking at other utility companies
17 and their experience, that they wanted to point out to us that
18 there were two areas of concern, and that maybe by putting
19 it out on the table, that we would look at it and address
20 it and possibly change our organization.

21 Q What were the two areas that they had expressed
22 concern about?

23 A The two areas were -- one was the materials
24 management function reporting to the chief financial officer.
25 They expressed some concern about having the chief financial

1 officer, who was really watching the dollars, keeping
2 everything at a minimum, and possibly by having the control
3 of inventories under his direction might keep the inventories
4 at too low a level, which would run into like stock-outs
5 at a division level where the material would not be
6 available.

7 Again, just because they made this suggestion,
8 all of a sudden the company didn't say, "Yes, let's move
9 it." We contacted 20 other companies to find out exactly
10 where the materials management function was in a reporting
11 relationship, when it was there, where it had been before,
12 if it had been recently changed, and why; and eventually
13 after doing some of this and seeing that other companies
14 indeed had expressed this concern and had not had the
15 function set up this way, we did change our original
16 thinking on that aspect.

17 Q And did what with it?

18 A And moved the materials management out from underneath
19 the chief financial officer and set it up as reporting
20 directly to Mr. Verrochi as chief operating officer.

21 Q Was there a second area where TB and A had some
22 sort of significant input?

23 A In our original proposal, we had the customer side
24 of the division area versus the line department operational
25 side reporting on a single structure up to a Vice-President,

1 an individual Vice-President, and this was the same kind
2 of individual setup that was in place at our sister company
3 in New Jersey; Jersey Central Power and Light Company.

4 This was a change in concept for Penelec and
5 Met-Ed whom had individual division managers with the line
6 department and operations as well as the customer side
7 reporting to the division managers; then the division
8 managers, in effect, reporting up in the organizational
9 structure.

10 TB and A had pointed out that they had not seen
11 this at other companies, that what they had seen was the
12 kind of organization where the division manager actually
13 was the manager in that particular division, and there was
14 no split functions; there was only one boss out there, and
15 they felt that that was a better way in remaining the
16 same as Penelec and Met-Ed had been set up instead of
17 changing it.

18 Again, the company did not just accept that
19 right off the bat kind of thing. In fact, there was quite
20 a bit of consternation and talk amongst the different
21 officers, including Mr. Verrochi, as to exactly how would
22 we set it up; could we really answer these kinds of questions;
23 were we positive in our mind that this was the way to go?

24 Upon further review, what we did was, in effect,
25 set up a senior Vice-President who would report to Mr.

1 Verrochi. He would have Vice-Presidents underneath him,
2 one with the customer services, which the division manager
3 would report to, as well as another Vice-President who
4 would have the engineering expertise on a corporate bases,
5 would give functional, technical direction out to the
6 divisions, and the division manager could spend more of his
7 time on customers, customer services instead of the technical
8 functions, as well as a Vice-President of conservation and
9 load management, again an area that we are getting into that
10 we were going to put more expertise and really highlight it.
11 That is a wave of the future.

12 So with these changes, then we had updates of
13 what was originally the Blue Book, which eventually ended
14 up as a White Book.

15 What happened after this Blue Book was published,
16 we started splitting them. In other words, we wanted
17 everybody, all the officers, etcetera, to know what the
18 organization was looking like and the responsibilities and
19 roles of the different areas and functions. However, we
20 didn't want all of the names still being published. So, in
21 effect, we split it out.

22 We ended up with what is termed the Green Book,
23 which shows the organization roles and responsibilities
24 with no names of individuals, and then we have the White Book
25 that interfaces with it that has all the names of the

1 individuals in it; again, to keep on a confidential basis
2 because it is an iterative process, and once the names are
3 there, the person may or may not accept the job, may not
4 be there anymore, and we have kept it pretty confidential
5 for those reasons.

6 MR. RUSSELL: Mr. Donofrio is available for
7 cross-examination.

8 JUDGE CASEY: First, Mr. Donofrio, could you
9 give us the chronology of the various books starting with
10 the Blue Book?

11 As I understand it, the Blue Book was prepared
12 and ready to be distributed somewhere around March 26 of
13 1980. Is that the date?

14 THE WITNESS: Yes, March 26, 1980 it was distributed.

15 JUDGE CASEY: And what followed the Blue Book;
16 the Green Book?

17 THE WITNESS: What happened is then we started
18 splitting them up. We had a revision to the Blue Book as
19 of May 7, and then that was the origination of also the
20 first Green Book.

21 The Blue Book was then further updated on June 4.
22 That is the last revision. The Green Book has been last
23 updated on August 15. That was the last revision.

24 JUDGE CASEY: How about the final? I think you
25 termed it the White Book.

1 THE WITNESS: That is the eventual Blue Book
2 revision dated June 4.

3 JUDGE CASEY: Mr. Shilobod, you may cross-examine
4 the witness.

5 MR. RUSSELL: If I may just interject one moment,
6 the Penelec portion of the Booz-Allen Report is at hand.
7 I am delivering it to Mr. Shilobod.

8 MR. SHILOBOD: Mr. Messer is out searching through
9 the files. It might take a few minutes, but I think maybe
10 if we are going to try to get to Mr. Verrochi, it might
11 behoove us to take a few minutes and tell him that it is
12 here.

13 MR. RUSSELL: We can send someone down to find
14 him in the file room.

15 CROSS-EXAMINATION

16 BY MR. SHILOBOD:

17 Q Mr. Donofrio, whenever you started to testify
18 this morning, you mentioned that there was a need to
19 add 205 jobs starting today.

20 Do you have a breakdown of what those jobs would
21 be or what they would entail?

22 JUDGE CASEY: That is if the management combination
23 agreement was not approved, you would find it necessary
24 to add 205 jobs.

25 MR. SHILOBOD: Yes.

1 THE WITNESS: They are detailed on Exhibit 8.

2 BY MR. SHILOBOD:

3 Q You are saying that if the management combination
4 were not approved, 205 jobs as set forth on Exhibit 8 would
5 have to be instituted starting immediately; is that correct?

6 A Yes, sir.

7 Q You indicate for Pennsylvania Electric that
8 approximately 45 to 85 jobs would be needed starting today.
9 Do you have a breakdown of what positions those are?

10 A We do not. As I explained before, this was done
11 with the Vice-Presidents of Operation; Mr. Floyd Smith and Mr.
12 Verrochi in discussing the needs of the different areas,
13 the potential jobs that would be needed, the 45 to 85 range
14 for Penelec as detailed on Exhibit 8. There was no exact
15 job description of these.

16 We had done our planning on the combination of
17 management going ahead and had detailed the jobs that
18 would be necessary under the combined management.

19 Q Are you the witness that would have the knowledge
20 to back up these figures of the number of jobs needed as
21 set forth on Exhibit 8, or is that for Mr. Verrochi?

22 A I believe Mr. Verrochi is in charge of the
23 implementation. This is a compilation of numbers, as I
24 mentioned before, of discussions with Mr. Verrochi and Mr.
25 Smith and various Vice-Presidents.

1 Q You had indicated that you were coordinator of
2 this task force. What did you do?

3 A As I tried to mention before, what would happen
4 is each of the different officers would come up with their
5 organization. If they would do it by themselves without
6 a coordinator, there would be different formats. I compiled
7 the numbers, had them all typed in the same thing, had
8 the same rationale, what was called a supervisor versus
9 exempt, etcetera. I summarized the numbers. I got them
10 all set and brought them in for the review.

11 I made sure that everybody was up to date as
12 far as what they were doing in September or August or
13 July. I kept riding herd on it to bring it to completion.

14 Q So for putting these numbers together, all that
15 you did was gather information that other people gave you.
16 You didn't look to see whether they were actually valid
17 or whether there were any other considerations to be given,
18 or you didn't check on their accuracy.

19 What you did was you gathered the information
20 that other people gave you, and you put them together.

21 A When you say "check on their accuracy," I will
22 give you an example. Mr. Floyd Smith is a designated senior
23 Vice-President. He has different officers underneath him.
24 Those officers came up with theirs. He would review their
25 organizations.

1 As far as my role, again I checked to make sure
2 that the starting point was the same. I set up controls
3 as to the number of supervisors, the number of exempt, the
4 number of clerical, etcetera. I looked to see whether there
5 was a reduction in staff versus any kind of increases in
6 there.

7 We had contemplated as an original goal that the
8 initial setup of the combined management, we would be
9 looking at a 10 percent reduction of all functions and
10 departments that physically were relocated and combined
11 together. That was an original goal, and that is the
12 development of the 19 individuals.

13 We are also are looking at one year after the
14 combination is put in place that by the time Penelec
15 employees learn Met-Ed and Met-Ed learns Penelec, etcetera,
16 that we would look for the additional 10 percent or the
17 additional 19.

18 JUDGE CASEY: Mr. Shilobod, can I interrupt for
19 a moment? I would like to put this issue into focus
20 for me because it is very important to the case, and I
21 would like to lay some foundation for further cross-examina-
22 tion on your part.

23 I am going to ask Mr. Donofrio to look at PN/ME
24 Exhibit 8, the lower lefthand corner, which is headed,
25 "Assumptions."

1 Are you saying, number one, that between 50 and
2 75 employees would have to be added in the area of generation
3 to the Met-Ed Company?

4 THE WITNESS: Yes, we are.

5 JUDGE CASEY: Are you saying that 25 to 50 employees
6 would have to be added at Penelec for the T&D function?

7 THE WITNESS: Yes.

8 JUDGE CASEY: Conservation and load management
9 between 20 and 30 at the combination of Met-Ed and Penelec?

10 THE WITNESS: Yes, sir.

11 JUDGE CASEY: You don't show any breakdown as
12 to which company gets what.

13 THE WITNESS: It would be split even; 10 to 15
14 for Penelec; 10 to 15 for Met-Ed.

15 JUDGE CASEY: Rate case load management; you
16 would have to add 5 to 10 for Met-Ed and Penelec?

17 THE WITNESS: Yes, sir.

18 JUDGE CASEY: This is without the combined management
19 agreement going into effect; is that correct?

20 THE WITNESS: Yes.

21 JUDGE CASEY: Policy and procedures; 5 to 10 people
22 at Met Ed?

23 THE WITNESS: Yes, sir.

24 JUDGE CASEY: Materials management, 10 to 20
25 people at Met-Ed and Penelec?

1 THE WITNESS: Yes, sir.

2 JUDGE CASEY: And finally, communications, 5 to
3 10 people, Met-Ed and Penelec?

4 THE WITNESS: Yes, sir.

5 JUDGE CASEY: You have labeled this, "Assumptions,"
6 and you give a low and a high figure in the lefthand column;
7 is that correct?

8 THE WITNESS: Yes, sir.

9 JUDGE CASEY: What are the assumptions based upon?
10 You have two operating utilities in Pennsylvania that
11 apparently were functioning; if not at optimal efficiency,
12 they were going all right before the accident; is that
13 correct?

14 THE WITNESS: Before the accident, you say?

15 JUDGE CASEY: Yes.

16 THE WITNESS: Yes.

17 JUDGE CASEY: Before the accident. The companies
18 apparently were at least in a regulatory sense doing their
19 jobs and doing it in a reasonably capable fashion; is that
20 right?

21 THE WITNESS: To the best of my knowledge, yes,
22 sir.

23 JUDGE CASEY: As a result of the accident, you
24 have had a very serious financial crisis. I don't know how
25 much attrition you have had, whether people have bailed out

1 from their employment because of the accident; perhaps not.

2 But have you lost personnel in both companies
3 since the accident?

4 THE WITNESS: We have lost personnel more so
5 at Met-Ed for those reasons than Penelec.

6 JUDGE CASEY: More so. In a circumstance where
7 you have been -- this is not my judgment, but it is the
8 judgment of a number of people -- that you might be on the
9 brink of insolvency or bankruptcy, you are considering this.

10 In such a climate, such an atmosphere, you are
11 considering adding as few as 120 people or as many as 205
12 people to the two utilities under those circumstances; is
13 that correct?

14 THE WITNESS: The assumptions being that these
15 added employees would fight for their priorities with the
16 others; again, based on cash restrictions or something to
17 that extent.

18 JUDGE CASEY: What do you mean "fight for their
19 priorities with the others"? I don't quite understand that.

20 THE WITNESS: All right. When you are adding
21 people and are going through layoffs, you have certain
22 constraints such as either cash financing, etcetera.

23 What you would do is set the limits of what you
24 can spend, and then you would set your priorities on what
25 you were going to spend that money on.

1 JUDGE CASEY: That is an accountant's observation.
2 What I am looking for is the rationale or the underlying
3 reason for expanding your payroll and your expenses at
4 a time where it seems to call for a belt tightening situation.

5 THE WITNESS: What is is, Your Honor, is that
6 given the work scope of having the combined management and
7 getting that same exact work done on an individual company
8 basis, it would require potentially 205 additional jobs
9 in order to do that same work scope.

10 JUDGE CASEY: Without the combined management?

11 THE WITNESS: Yes.

12 JUDGE CASEY: So you are saying that from this
13 day forward, without those 205 or the minimum of 120 people,
14 then Penelec and Met-Ed lack the capability to continue the
15 operations of the two utilities.

16 THE WITNESS: I don't think I am in a position
17 to go that far to make that statement, no.

18 JUDGE CASEY: There has to be, I would think, some
19 justification from a management viewpoint, from an
20 operational viewpoint, from a financial viewpoint to con-
21 template the additions.

22 Is your operation suffering because you don't
23 have these people?

24 MR. RUSSELL: If Your Honor please, this is one
25 of the specific reasons why I had suggested yesterday that

1 Mr. Verrochi and Mr. Donofrio could take the stand at the
2 same time because Mr. Verrochi is responsible for the
3 qualitative analysis of the requirements or calculation
4 of employee levels and so on.

5 Mr. Donofrio has quantified them in dollars and
6 so on and has done the legwork in terms of describing
7 for the group that has been functioning on this.

8 So I think your questioning is more in Mr. Verrochi's
9 area than it was in Mr. Donofrio's.

10 JUDGE CASEY: Mr. Verrochi may join Mr. Donofrio.
11 I am going to cease my questioning along these lines at
12 this point and turn it back to Mr. Shilobod.

13 I will have additional questions of Mr. Donofrio
14 on the timetable and the setting up of the claimed organiza-
15 tion and the new officers in combined management.

16 But I just wanted to make sure in the record that
17 this breakdown -- what will happen in your judgment, what
18 is necessary in the event that the combined management
19 agreement is not approved by the Public Utility Commission?

20 MR. RUSSELL: Your last question is in Mr.
21 Verrochi's area. Could we have him respond to it?

22 JUDGE CASEY: He can respond in place, if he
23 wishes, since he has already been sworn.

24 MR. VERROCHI: I guess the simplest way that I
25 can address the question and the line of questioning of both

1 you and Mr. Shilobod is, again, by example. If you take
2 a look at the assumed cost avoidance associated with say
3 the T&D function, we estimate 25 to 50 employees, a potential
4 savings of 25 to 50 employees if we combine the managements
5 of Penelec and Met-Ed rather than having them separately.

6 We estimate that all of those people will have
7 to be added to the Penelec payroll. We show none on the
8 Met-Ed because Met-Ed has a reasonably good staff at
9 headquarters to lend the necessary support under their
10 existing way of operation as well as under the proposed
11 way of operating between staff system headquarters and the
12 operating divisions.

13 In the case of Penelec, we are fairly lean.
14 We have very little staff in place currently in Johnstown,
15 where Bob Wise is Vice-President of Operations.

16 Because of that inadequate staff, it would be
17 very difficult for Bob Wise and his present staff of people
18 to lend the necessary headquarters support to the restructured
19 divisions that we are contemplating as a result of the
20 combination and consolidation of divisions.

21 JUDGE CASEY: We are not considering the
22 combination, Mr. Verrochi. We are assuming that these
23 additional expenses would have to be incurred if there
24 was no combination of management or operating divisions
25 at Penelec and Met-Ed.

1 MR. VERROCHI: If Penelec stays alone, Your Honor -
2 I guess what we are trying to say that if Penelec stays alone,
3 if Penelec thinks it is in the best interest of Penelec,
4 its customers, employees, and so forth, to restructure, for
5 example, the divisions; we want to go to eight operating
6 divisions, eliminate the district organizations, but not
7 the district facilities -- and I think we have described
8 that in some detail -- these eight new division headquarter
9 staff located in the division areas would have additional
10 managers, additional supervisors, additional people. They
11 would require direction and guidance, coordination, input
12 from a mirror image staff yet to be developed in Johnstown;
13 and it is those 50 people that would have to be added in
14 order to for us to realize the benefits that we contemplate
15 from the division restructuring.

16 JUDGE CASEY: Are they 50 new positions?

17 MR. VERROCHI: They would be 50 new positions.

18 JUDGE CASEY: Additional new positions?

19 MR. VERROCHI: Yes.

20 JUDGE CASEY: And you feel the need to reorganize
21 the divisions with or without the management combination?

22 MR. VERROCHI: Yes. We are operating under that
23 assumption.

24 JUDGE CASEY: And what would lead you to that
25 conclusion if Penelec, as we have heard all along -- and I

1 certainly wouldn't dispute it -- is an efficient operating
2 utility with an accent on coal-fired generation?

3 MR. VERRACHI: I think that is exactly the point.
4 Obviously, Penelec is far from perfect. I would be the
5 first to admit and recognize that.

6 We are trying obviously to capitalize on our
7 strengths and to correct our weaknesses. We do happen to
8 have what we think to be a very excellent headquarters
9 staff in generation, some 130 or more people who lend the
10 necessary support and guidance and help to the generating
11 station staffs that we have. It is that kind of an
12 organization that we like.

13 We are now trying to put that kind of an
14 organization in place in the operating divisions, kind
15 of a parallel with profiting, if you will, from that good
16 example in generation.

17 There has to be a certain amount of centralization
18 and decentralization in power plants. The superintendent
19 of a power plant is, in essence, the captain of the ship
20 at sea, so he has to have a good staff, and we have gone
21 a long way in recent years to increase the number and
22 quality and depth of the staff in place at power plants,
23 so they are not too dependent upon headquarters simply
24 because power plants are getting too complex, and the world
25 is getting more complex with regulations, and we have

1 inflation. We have increased the number and quality and
2 breadth and depth of our staff in generation at Johnstown.

3 We have not undergone yet a similar evolution
4 in the operations end of the business, and we think it
5 is timely for us to do that.

6 In order to do that, in order to improve that
7 relationship, we have to add people. We would have to
8 add people at headquarters in operations in Johnstown.

9 There would be some corresponding decrease in
10 the number of personnel in the operating divisions. We
11 are probably going from five divisions in 18 districts to
12 eight divisions and no districts per se, and if you shuffle
13 those numbers around, you do see that there is going to
14 be a personnel reduction there.

15 But in order to realize the personnel reduction
16 in the field, we have to add some of those people, some
17 of those numbers back in systems headquarters.

18 JUDGE CASEY: Without the management combination,
19 if you do see that these additional people are necessary
20 to accommodate this shift in organization in your operating
21 divisions, but at the same time you see employees being
22 subtracted because of that reorganization, should you also
23 -- it is almost like double entry bookkeeping -- shouldn't
24 you also show where there are going to be economies effected,
25 decreases in the number of jobs in other areas?

1 MR. VERROCHI: Yes, and Mr. Donofrio, I think,
2 tried to point out. If you go to Exhibit 7, he does
3 talk in terms of the combined management and the divisional
4 reorganization reduction in numbers, and now we
5 are showing in Penelec's case an increase at corporate
6 headquarters. We would have to show an increase of 50.

7 What is the corresponding reduction in Penelec
8 division reorganization? Is that 73?

9 THE WITNESS: Sticking strictly with the T&D, yes.

10 MR. VERROCHI: So we are kind of playing a numbers
11 game. If it sounds like it, Your Honor, I apologize. In
12 essence, the way I look at it is: look, we are going to
13 save 73 jobs or more. Is it 73? We are going to save 73
14 jobs at the division level, and if we didn't combine and
15 make use of Met-Ed's good corporate staff, we would have
16 to add 50 of those jobs back at Johnstown headquarters for
17 Penelec, so we would only have a net reduction of 23 people.
18 It would be a reduction.

19 If, however, we combined with Met-Ed, we could
20 realize the full 73 reduction. So I guess that is about
21 as succinctly as I can put it.

22 The way we propose to go in the division operations
23 at Penelec would be a net reduction of 73 people. If we
24 don't combine with Met-Ed, it would be a net reduction of
25 only 23.

1 JUDGE CASEY: I have one final question, and then
2 I am going to turn Mr. Donofrio back to Mr. Shilobod.

3 The exhibit with changes that are contemplated
4 here in Exhibit Number 8, is this something that was on
5 the drawing board, so to speak, for a number of years? Is
6 it a substantive change which is compelled by management
7 thinking over a long period of time, or is this, in effect,
8 what the GPU system perceives is a good response to the
9 regulators who are pressing the company and have been since
10 the TMI-2 accident in March of 1979?

11 MR. VERROCHI: I think if you look at Exhibit 8,
12 the total of 205 people, I think that two functions, namely
13 generation and T&D, account for in the case of generation 75,
14 in the case of T&D 50; 125. So over half of the 205 come
15 from these two functions.

16 I think the pressing need in generation is --
17 and I think Herman talked about it, and I think I talked
18 about it yesterday -- is that Met-Ed has had stripped from
19 it some fairly important people at the corporate headquarters
20 whose responsibilities were involved in both the nuclear
21 and the coal-fired functions for very good and proper reasons;
22 the higher priority was to have them focus all of their
23 attention on nuclear. So Met-Ed now has a stripped
24 organization. We should really fill that organization out.
25 So that is the 75 people there.

1 The Penelec situation, the 50 comes about from
2 considerations which I have just described to you. It is
3 hard for me to testify as to when exactly Penelec, if it
4 weren't for TMI and if it weren't for the pressing dates
5 to tell the Commission what our organization is planning to
6 do for the future, if it weren't for that, I think, in an
7 evolutionary way, we would certainly hope and expect to
8 reorganize our corporate and division organizations to
9 the setup that we are currently contemplating.

10 In other words, we felt for a long time that
11 we were weak in Johnstown in supporting division operations.
12 We were letting the divisions go their separate ways. They
13 weren't getting the guidance; they didn't have the cost
14 control or the budgeting; the attention to detail, if you
15 will, that we felt that we had achieved over the past ten
16 years in generation.

17 So I think Penelec clearly -- I know I personally
18 have been spending a lot of time in trying to reorganize
19 and restructure the way that we operated our divisions, and
20 I won't go into detail, but we have done an awful lot of
21 things along those lines, Your Honor.

22 The bottom line is that I think we need a better
23 staff at corporate headquarters to oversee and direct and
24 guide the division operations, and I think that we would
25 be doing it anyway, and I think we would be doing it at about

1 this time frame.

2 JUDGE CASEY: But without the accident, the
3 timetable would have been substantially different.

4 MR. VERROCHI: Perhaps a little more relaxed.

5 JUDGE CASEY: Perhaps it wouldn't be a high
6 priority item.

7 MR. VERROCHI: Exactly. We have got an awful
8 lot of balls in the air at GPU. We recognize that some people
9 think we may be trying to bite off more than we can chew.
10 But some of these things really can't wait. If we don't
11 combine, we really have to get humping at Met-Ed to add
12 to the generation division.

13 You are right; they are already strapped for
14 cash, and where are we going to find the money to do it?
15 But it is very important to keep those plants running.

16 JUDGE CASEY: One more encroachment on Mr. Shilobod:
17 yesterday I think you cited as a prime example of the
18 need for combined management teams the experience with
19 Jersey Central and Jersey Power and Light, those two
20 utilities.

21 MR. VERROCHI: Yes.

22 JUDGE CASEY: And I think by way of justification
23 for combining the management but not merging the companies,
24 you said that those two companies had functioned with the
25 combined management team for a period of 13 years

1 approximately, but eventually there was a true merger.

2 MR. VERROCHI: Yes.

3 JUDGE CASEY: What brought about the change in
4 circumstances that persuaded GPU management to merge the
5 two companies after 13 years of functioning with the
6 combined management?

7 MR. VERROCHI: Perhaps Mr. Donofrio can answer that.
8 I think the timing became right.

9 THE WITNESS: The timing and the size of the
10 companies. What happened was Jersey Central was a much
11 bigger company than Jersey Power and Light. They had
12 restrictions in there, if my memory serves me right, that
13 the leftover company or the taken-over company couldn't
14 be more than 15 percent of the combined total after a merger.

15 As Jersey Central was adding new plants, they
16 kept getting bigger and bigger in relationship to New Jersey,
17 and eventually they fit into the less than 15 percent, and
18 the merger could be accomplished.

19 Penelec and Met-Ed are much too big in comparison
20 to each other to contemplate at least in my foreseeable
21 future getting down to 15 percent.

22 JUDGE CASEY: All right, Mr. Shilobod.

23 MR. SHILOBOD: Your Honor, perhaps at this time
24 Mr. Russell's recommendation that we have Mr. Verrochi
25 available at the same time as Mr. Donofrio might be a good

1 idea. You have asked some questions. I have some questions
2 on Mr. Donofrio's documents.

3 JUDGE CASEY: If you would, Mr. Verrochi.
4 Whereupon,

5 WILLIAM A. VERROCHI
6 having previously been duly sworn, testified further as
7 follows:

8 CROSS-EXAMINATION (Continued)

9 MR. SHILOBOD: Before I get to some questions
10 for Mr. Verrochi based upon his most recent statements,
11 Mr. Donofrio, you were saying before that whenever you
12 were looking at these figures and when you were fulfilling
13 your obligation as a coordinator of the task force, there
14 was a goal of 10 percent in reduction of all functions
15 immediately and an additional 10 percent after one year.
16 Do you rec that testimony?

17 WESS DONOFRIO: Yes, I do. This was based
18 on the assumption that if in two different areas you had
19 a manager or a supervisor or they each had secretaries and
20 clerical functions, that by combining these two and
21 physically putting them under one location, the economies
22 of scale, you wouldn't need two managers, two supervisors,
23 two secretaries, and we believe initially that the 10
24 percent reduction would meet the economies of scale.

25 We really believe that we could have achieved the

1 20 percent right off the bat. However, we do realize
2 that it would probably take a year and a delay in this
3 20 percent savings by about half in order for Penelec
4 to become more familiar with Met-Ed and Met-Ed to become
5 more familiar with Penelec to achieve that 20 percent
6 savings.

7 MR. SHILOBOD: Would it be fair to say that
8 this reduction, namely the immediate 10 percent reduction
9 and the subsequent 10 percent reduction, that those
10 assumptions are the underlying bases for these calculations?

11 WITNESS DONOFRIO: I wouldn't go that far. On
12 Exhibit Number 7 at the top, when we are talking about
13 employees for the corporate combination, the underlying
14 assumption of the 10 percent only gave rise to the 19
15 individuals. That is 19 out of 247, and the additional 10
16 percent would be the 19 underneath that, which would make
17 that then a grand total of 38 out of 247.

18 MR. SHILOBOD: You are saying that that is the
19 underlying assumption for the calculation of the potential
20 cost savings of the corporate combination; is that correct?

21 WITNESS DONOFRIO: We are saying that that is
22 how the 19 was developed. We also take into consideration
23 that the realignment of the functional duties, etcetera,
24 let more work be done by the remaining 90 percent of the
25 individuals.

1 MR. SHILOBOD: When did this assumption of 10
2 percent and 10 percent come into existence? Was that from
3 the very beginning?

4 WITNESS DONOFRIO: To my recollection, yes.

5 MR. SHILOBOD: After the accident at TMI, did
6 Penelec lay off employees?

7 WITNESS DONOFRIO: Yes, they did.

8 MR. SHILOBOD: How many?

9 WITNESS DONOFRIO: 210.

10 WITNESS VERROCHI: It wasn't a layoff. It was
11 a workforce reduction.

12 WITNESS DONOFRIO: I am sorry. It wasn't all a layoff.
13 It was a workforce reduction. Some of that was layoff. Much
14 of it was through attrition.

15 MR. SHILOBOD: Was there a prior practice of
16 reducing workforce at Penelec prior to the accident?

17 WITNESS VERROCHI: Are you asking me?

18 MR. SHILOBOD: Yes.

19 WITNESS VERROCHI: Penelec had a workforce
20 reduction in 1974, as I recall. I wasn't there at the time.

21 Were you, Al?

22 WITNESS DONOFRIO: I wasn't.

23 WITNESS VERROCHI: Neither one of us was there,
24 but that was the only prior major workforce reduction that
25 I am aware of; one in 1974 and one last year.

1 MR. SHILOBOD: When did the workforce reduction
2 occur last year; approximately when?

3 WITNESS DONOFRIO: I would say between June
4 through September of 1979 time frame.

5 MR. SHILOBOD: In what capacities were these
6 various individuals working as far as their job functions?
7 Were they on the corporate level?

8 WITNESS DONOFRIO: Some of them were.

9 MR. SHILOBOD: How many of them were?

10 WITNESS DONOFRIO: There are exactly three parts
11 of what happened. Taking Penelec as an example, we had
12 an original budget workforce contemplated for the end of
13 the year 1979 of approximately 4,300 employees. We did
14 physically reduce the work scope. In other words, we cut
15 back our construction program, etcetera, after the accident
16 and had reduced the need for employees by about 100, and
17 then we went through about a five percent reduction across
18 the board for the attrition, the layoff, the 210 that I
19 just described before.

20 MR. SHILOBOD: Now simultaneous with the accident,
21 Mr. Verrochi, was a realization that the building program
22 was not necessary based upon the most current load forecast;
23 isn't that true?

24 WITNESS VERROCHI: Yes, the construction of
25 facilities; yes, new generating stations.

1 MR. SHILOBOD: And that would have had an impact
2 with respect to your concepts of the needed workforce at
3 that time; isn't that true?

4 WITNESS VERROCHI: Yes, to the extent that
5 in generation stations, new generating stations were at
6 that time primarily the responsibility of the GPU Service
7 Corporation, so the delay or cancellation of a major
8 generating unit, like Seward-7 or any other unit, would not
9 have any material effect on the number of people employed
10 by Penelec.

11 The place where the workforce reductions came
12 about as a result of a cutback in construction would be
13 more in the line department, transmission and distribution,
14 where some of that construction work, rebuilding old
15 facilities, adding transformers to a substation, at least
16 the engineering for it and some of the construction supervi-
17 sion is done by Penelec employees, although the bulk of that,
18 the bulk of the construction, has been done by outside
19 contractors.

20 The third area is that if you reduce the scope
21 of maintenance in your line department, you can effect a
22 reduction in supervisory and bargaining unit people.

23 MR. SHILOBOD: Was this done?

24 WITNESS VERROCHI: Yes. We looked very closely --
25 and Al did an excellent job of coordinating that activity, I

1 might add -- we looked very closely at where our manpower
2 needs would be in supervisory, exempt, non-exempt, non-
3 bargaining unit, bargaining unit people and tried to develop
4 and implement a workforce reduction plan that recognized
5 all of these factors.

6 So it was pretty much an across-the-board cutback.
7 We didn't single out any one department or any one type of
8 worker.

9 MR. SHILOBOD: Was there any reduction of the
10 maintenance of the system, or was this taken care of by
11 a modest reorganization?

12 WITNESS VERROCHI: Yes. There was unfortunately --
13 and we had hoped it would be a temporary reduction. As a
14 matter of fact, in some cases, I think we have built up since
15 that time, but not very much.

16 WITNESS DONOFRIO: Yes.

17 WITNESS VERROCHI: The workforce reduction, we
18 recognized, could have some long-term harmful effects to our
19 maintenance programs.

20 For example, in addition to the workforce reduction,
21 we did cut back on expenditures on outside contractors, and
22 as a result we cut way back in tree trimming, and we know
23 that cutting back in tree trimming is not a good idea in
24 the long run, but it is a damned good way to save money now.
25 If you need to save \$1 million or \$2 million, this is a very

1 quick way to do it. So we did cut back our budget in
2 tree trimming, and as we got confidence -- as we have been
3 regaining confidence since that layoff, since that cutback,
4 we have been restoring budget monies to things like tree
5 trimming, and too we have resumed in 1980 and will even
6 expand it in 1981 a rebuild program that we have been
7 contemplating in our old distribution facilities.

8 So I guess, Mr. Shilobod, you could characterize
9 the workforce reduction that Al talked about last year
10 as being a prudent step on the part of management since
11 we weren't exactly sure what the ripple effects on Penelec
12 were going to be as a result of the Three Mile Island accident.

13 But, to answer your question, we recognize that
14 when you cut back on maintenance -- we delayed, for example,
15 some scheduled inspections, annual inspections, in our
16 major generating stations, and, of course, they are our
17 life blood. But we knew that we were running some sort of
18 a risk.

19 If you were planning to take a unit down for four
20 weeks in June of 1979, and you said, "Well, let's slip it
21 until the first part of 1980," you run a slight risk that
22 that unit won't perform as well. It might break down more
23 frequently, and, as a matter of fact, it might prove to
24 be a bad idea; but it is a "calculated risk" that one has
25 to take.

1 So, sure, when you delay, when you cut back, you
2 do run some risks that the quality of service to your
3 customers will not be as good, and the performance from
4 your generating stations will not be as good.

5 I am happy to say that we pretty much restored
6 our funding and our level of activity to where we feel that
7 it should be.

8 MR. SHILOBOD: It is restored now?

9 WITNESS VERROCHI: I think it is now, yes. In
10 essence, we have a reasonably comfortable budgeting '80
11 and '81, as I think I testified yesterday.

12 MR. SHILOBOD: This assumption of the 10 percent
13 immediate reduction, other than with respect to the 38
14 employees under the corporate combination on Exhibit 7,
15 did it exist as an underlying assumption for any of the
16 other calculations?

17 WITNESS DONOFRIO: No, it did not.

18 MR. SHILOBOD: How many employees were laid off
19 at Met-Ed at the time of the accident?

20 WITNESS DONOFRIO: I believe by attrition, it
21 was somewhere around 140.

22 MR. SHILOBOD: And with the restriction of credit
23 under the revolving credit agreement, were there additional
24 layoffs at Met-Ed?

25 WITNESS DONOFRIO: I believe they are still under

1 a hiring freeze. As attrition occurs, they have not been
2 replacing various employees.

3 JUDGE CASEY: In what activity, Mr. Donofrio, or
4 was it across the board also, did Met-Ed attrition rate
5 and subsequent layoffs occur?

6 WITNESS DONOFRIO: What has been happening, Your
7 Honor, is that the 140 after the accident were by attrition,
8 and as an individual left a certain functional area, he
9 was not replaced, and within Met-Ed there was a balancing
10 between the various functions.

11 They are still on that kind of thing today. Again,
12 they have a cash problem month to month. They had gone
13 through a first layoff, I believe, just before Thanksgiving
14 or thereabouts. They are on a hold for a second one now
15 with a contemplated month to month review of their situation.
16 There is nothing scheduled for this month.

17 JUDGE CASEY: But the initial 140, were they
18 involved in operations of the two generating stations at
19 Three Mile Island, or were they from a variety of positions
20 within the Met-Ed structure?

21 WITNESS DONOFRIO: A variety of positions within
22 the Met-Ed structure.

23 JUDGE CASEY: Was there any accent on the generating
24 staff?

25 WITNESS DONOFRIO: It was mainly in the transmission

1 and distribution areas, not out in the divisions. It was
2 not mainly on the generating staff.

3 JUDGE CASEY: Is that a coincidence. When you
4 say "attrition," I usually think of it in terms of retire-
5 ments -- a combination of retirements, resignations. People
6 get new positions. Was it something that was ordered by
7 management initially, or did it just happen?

8 WITNESS DONOFRIO: It was planned.

9 JUDGE CASEY: It was planned?

10 WITNESS DONOFRIO: Yes.

11 MR. SHILOBOD: How many job reductions -- how
12 many employee reductions occurred at Met-Ed to date since
13 the accident through layoffs and through attrition?

14 WITNESS DONOFRIO: I do not have the numbers as
15 of the date of the accident for Met-Ed with me.

16 MR. SHILOBOD: Do you have the numbers as to
17 some particular date?

18 WITNESS DONOFRIO: I have actual December 31,
19 1979.

20 MR. SHILOBOD: What was the total reduction of
21 employees?

22 WITNESS DONOFRIO: The actual on hand, I have.

23 MR. SHILOBOD: Do you know what they were?

24 WITNESS DONOFRIO: 2,100.

25 WITNESS VERROCHI: Does that exclude Three Mile

1 Island? Are we talking with or without Three Mile Island?

2 WITNESS DONOFRIO: This excludes the TMI stations
3 as well as any corporate group that would be strictly
4 nuclear.

5 MR. SHILOBOD: Do you know how many employees
6 you had in those capacities prior to that?

7 WITNESS DONOFRIO: I do not have those numbers,
8 no, sir.

9 MR. SHILOBOD: Do you know, Mr. Verrochi?

10 WITNESS VERROCHI: No, I don't.

11 Al, you mentioned 2,100 in-house as of 12-79.

12 WITNESS DONOFRIO: Yes, sir.

13 WITNESS VERROCHI: How many are in-house as of
14 today? Do we have that?

15 WITNESS DONOFRIO: As of September 30, 1980, 1,994.

16 WITNESS VERROCHI: And the number was exactly
17 2,100?

18 WITNESS DONOFRIO: 2,099.

19 WITNESS VERROCHI: And what is it now?

20 WITNESS DONOFRIO: 1,994.

21 WITNESS VERROCHI: So it is a little over 100.

22 WITNESS DONOFRIO: That is through September.

23 MR. SHILOBOD: That is from December, 1979 through
24 September, 1980?

25 WITNESS DONOFRIO: Yes.

1 MR. SHILOBOD: There was a reduction of 105
2 employees?

3 WITNESS DONOFRIO: Yes.

4 MR. SHILOBOD: And there was a reduction of 140
5 employees as a result of the layoff after Three Mile Island?

6 WITNESS DONOFRIO: Yes, sir.

7 MR. SHILOBOD: Between the time when the accident
8 occurred at Three Mile Island and the summer of 1979, there
9 were other losses due to attrition; is that correct?

10 WITNESS DONOFRIO: I believe so, yes.

11 MR. SHILOBOD: You have indicated that these
12 job losses occurred in all capacities; is that correct?

13 WITNESS DONOFRIO: Yes, sir.

14 MR. SHILOBOD: What has been the effect of that
15 on the operations at Met-Ed?

16 WITNESS VERROCHI: It has been harmful. Met-Ed --
17 I don't know if this is hearsay, Sam, but my understanding
18 is that Met-Ed in its testimony requesting extraordinary
19 rate relief pointed out the statistics on the quality of
20 service to its customers by district and division in terms
21 of annual average customer outage hours per year and
22 showing that that trend had been going in the wrong direction.
23 In other words, it had been increasing significantly each
24 year to the point where Met-Ed felt that it was a reflection
25 on inadequate maintenance of the distribution and the

1 underlying transmission facilities to serve its customers'
2 needs.

3 They offered that -- and again we come to the
4 infamous tree trimming -- they claim -- and I think with
5 good justification -- that they have had inadequate budget
6 for tree trimming, below what they should be. So they use
7 these arguments; they use this evidence as argument for
8 extraordinary rate relief.

9 We know in the generating stations -- as a matter
10 of fact, Theodore Barry in its audit report points out that
11 Met-Ed's performance at its coal-fired generating stations --
12 there are only two; there is Portland and Titus -- in recent
13 years, the performance is measured by what we call the
14 capacity factor, which is the number of kilowatt hours
15 actually generated by the stations each year versus what
16 the stations could have generated had they been running
17 every hour of the day and night at full load, and the
18 capacity factors were low for both of these stations and
19 lower than EEI -- Edison Electric Institute -- who publishes
20 averages for those classes of units. They were below EEI
21 averages.

22 So from the point of view of being below EEI
23 averages and from the point of view that the annual capacity
24 factors in both stations have a general downtrend, which, of
25 course, is wrong, and also recognizing that even with the

1 best of maintenance and the best of intention you can have
2 bad luck at a generating station.

3 But, nevertheless, TB and A has concluded, as has
4 Met-Ed and we, that Met-Ed really should spend more time
5 and effort in trying to rehabilitate, restore and to service
6 Portland and Titus stations.

7 So, in these two areas, I guess you could -- both
8 in quality of customer service outage hours per year and in
9 generating station capacity factors, Met-Ed's inadequate
10 funding has shown some harmful effects.

11 Again, at the risk of talking too long, some of
12 the good points, though, are Met-Ed continues to have very
13 good reports from the PUC as to how it handles customer
14 inquiries and customer complaints and all that sort of
15 thing, so they are able to maintain adequate staffing
16 for that. So Met-Ed would benefit greatly from just a few
17 more bucks to fund some of these required programs, Mr.
18 Shilobod.

19 MR. SHILOBOD: Mr. Verrochi, you indicated on
20 your Exhibit Number 8 --

21 WITNESS VERROCHI: On mine or Mr. Donofrio's?

22 MR. SHILLOBOD: Mr. Donofrio's Exhibit 8 for the
23 assumptions that 25 to 50 employee, would be needed for
24 transmission and distribution at Penelec if the management
25 combination were not approved.

1 My understanding is that that need arises out
2 of the division reorganization; is that correct?

3 WITNESS VERROCHI: Yes, primarily from that.

4 MR. SHILOBOD: How many of those employees needed
5 under the conservation and load management arrangement
6 arise: out of the division reorganization?

7 WITNESS VERROCHI: I am not sure, Al. Are there
8 any? I don't think any from that particular point, Mr.
9 Shilobod.

10 MR. SHILOBOD: Is that because that program is
11 a new program that is to be implemented?

12 WITNESS VERROCHI: Yes, with or without approval --
13 I am not sure to what extent the 15 and 15 -- the 15 for
14 Met-Ed and 15 for Penelec reflects our need to support
15 the very ambitious ten-year Master Plan that we have talked
16 about.

17 I think I understand from talking to the Vice-
18 Presidents involved at Met-Ed and Penelec and to Mr.
19 Donofrio that the bulk of these people at corporate head-
20 quarters would be required even in the absence or in the
21 delay of approval of a Master Plan -- we simply have
22 identified a lot more things that we should be doing in
23 terms of conservation and load management plans and
24 implementation at the corporate level.

25 MR. SHILOBOD: This is a new plan that was adopted

1 after the accident; is that correct?

2 WITNESS VERROCHI: I guess it is just an increase
3 in activity and level of activity in load conservation, load
4 management and conservation which really started before
5 the accident.

6 We started at Penelec and I think at Met-Ed --
7 I know at Met-Ed -- we started keeping track of the results
8 of our effort to persuade customers, primarily industrial
9 and commercial customers, some residential, to conserve.
10 I think we started collecting statistics going back to 1972,
11 which, of course, preceded the accident and preceded the
12 Arab oil embargo; so I guess you could say it has been an
13 evolution of activity.

14 MR. SHILOBOD: But this program specifically now
15 is really a new program to intensify the conservation and
16 load management.

17 WITNESS VERROCHI: Fine. If you want to character-
18 ize it that way, an additional program.

19 MR. SHILOBOD: And this is not a part of past
20 practices that were simply an ongoing day-to-day normal
21 type of public utility operation at Met-Ed and Penelec, but
22 rather it is part of the new move to reduce needs in order
23 to avoid the need to construct.

24 WITNESS VERROCHI: Exactly.

25 MR. JOLLES: I think he has already answered the

1 question. I think what he has said is that it was a
2 continuation of a program, and you are putting words in his
3 mouth.

4 MR. SHILOBOD: Sir, I am cross-examining.

5 JUDGE CASEY: He agreed apparently, so the
6 record stands the way it is now. There is no objection.

7 MR. SHILOBOD: With respect to the rate case
8 management, does Penelec presently have a rate case pending
9 before the Public Utility Commission?

10 WITNESS VERROCHI: Yes, it does.

11 MR. SHILOBOD: Does Met-Ed presently have a case
12 pending before the Public Utility Commission?

13 WITNESS VERROCHI: Yes.

14 MR. SHILOBOD: And both of those cases are being
15 handled adequately by both companies, are they not?

16 WITNESS VERROCHI: I guess I would have to say yes,
17 sure; I hope they are. I hope we win.

18 MR. SHILOBOD: Does the need for these 5 to 10
19 people arise in any fashion out of the divisional
20 reorganization?

21 WITNESS VERROCHI: I don't think so, no.

22 MR. SHILOBOD: With respect to the 5 to 10 people
23 needed for policies and procedures, specifically what is that?

24 WITNESS VERROCHI: I think Mr. Donofrio can
25 answer that better than I, Mr. Shilobod.

1 WITNESS DONOFRIO: This is a group that formally docu-
2 ments and prepares operating procedures and policies, etcetera.
3 What has happened for both companies, Met-Ed and Penelec, is
4 that for whatever reasons that has been an activity that has
5 been dropped over the years.

6 Policies and procedures were dated in the 1940's and
7 the 1960', etcetera. Penelec started a group of approximately
8 ten individuals to bring their policies and procedures up to
9 date and document them and keep them up to date periodically,
10 annually.

11 Met-Ed has not been able to do that as yet. These
12 would be ten individuals needed now to duplicate this kind
13 of stuff that Penelec has at Met-Ed, in order for Met-Ed to
14 be on the same equal footing with the policies and procedures
15 that are in place with Penelec.

16 On an individual go-it-alone basis, they would have
17 to add ten people. With the combined management, we would
18 hope to have most of the policies and procedures being only
19 one for both companies.

20 MR. SHILOBOD: Mr. Donofrio, can you tell me what
21 the materials management functions are?

22 WITNESS DONOFRIO: In materials management, the
23 functions underneath what is termed "materials management" at
24 both companies are the procurement of fuel, the purchasing
25 department for all purchases other than fuel, the contracts

1 department to review and negotiate, etcetera, contracts for
2 maintenance as well as some operational; as well as inventory
3 management, and this includes all the storerooms, storekeepers
4 and receiving, etcetera.

5 MR. SHILOBOD: Are there any other functions?

6 WITNESS VERROCHI: You mentioned stores.

7 WITNESS DONOFRIO: I believe that is all.

8 MR. SHILOBOD: What positions would the ten to
9 twenty people fill in the materials management function?

10 WITNESS DONOFRIO: These would be additional jobs on
11 the corporate headquarters basis that would be required to
12 do the same work scope on a stand-alone as can be done by the
13 reduced work force on a combined management basis.

14 MR. SHILOBOD: Mr. Verrochi, how many of those ten
15 to twenty people are needed as a result of the divisional
16 reorganization?

17 WITNESS VERROCHI: I don't know.

18 A1?

19 WITNESS DONOFRIO: None to my knowledge.

20 WITNESS VERROCHI: We don't think any.

21 MR. SHILOBOD: Does Penelec presently handle its
22 own fuel procurement purchases and purchases of other materials,
23 or is that handled through the GPU Service Company?

24 WITNESS DONOFRIO: Right now the fuel purchases as well
25 as regular purchases in contracting for Penelec is done by

1 Penelec. There is a fuels planning group of approximately
2 five individuals located in the Service Corporation. That has
3 nothing to do with this, but would be a change in responsi-
4 bility under Johnstown as an excellence in generation of coal
5 which would be transferred and become under Penelec.

6 MR. SHILOBOD: And the contract department that
7 you referred to, what specifically is that; the legal
8 department?

9 WITNESS DONOFRIO: No, sir; contract administrators.

10 MR. SHILOBOD: And this is contracts for purchases
11 for contracts for construction, or both?

12 WITNESS DONOFRIO: It is for both.

13 MR. SHILOBOD: Does Penelec still handle its own
14 contracts administration?

15 WITNESS DONOFRIO: Yes. Penelec has a contracts
16 administrator group for Penelec projects that are existing
17 projects and/or transmission and distribution.

18 MR. SHILOBOD: And the inventory management, I take
19 it that Penelec still does its own materials management; is
20 that correct?

21 WITNESS DONOFRIO: Yes, we have our own storerooms.
22 Yes, sir.

23 MR. SHILOBOD: And Penelec is presently
24 handling the fuel procurement purchases, contract administration
25 and inventory management in an adequate fashion?

1 WITNESS DONOFRIO: It is all according to what you mea
2 by "adequate fashion." We are contemplating and do have plans
3 to go ahead with a more mechanized system, a better projection
4 kind of system, keeping control over our inventories, a
5 minimum-maximum kind of system, etcetera; and in order to
6 accomplish these goals and objectives that we have in these
7 areas -- again, this is materials management -- there's the
8 ten to twenty additional jobs that we would need.

9 However, we can accomplish all of these without that
10 addition if we are allowed to combine the managements.

11 MR. SHOLOBOD: Do you mean that there are plans for
12 a more mechanized system?

13 WITNESS DONOFRIO: We have physically planned in order
14 to automate, to start to keep control on the inventories,
15 the transmission and distribution of generating stations; we
16 are formulating storerooms in generating stations. We are
17 putting more under the control of our inventory systems.

18 We are coming up with better methods, we hope, on
19 bulk purchases and keeping track of quality assurance, on
20 the receipts of merchandise, quality inspection, setting up
21 systems that tell when vendors don't ship on time, or if they
22 quote a date and when they don't and when they do, buyer
23 performance, etcetera. We have quite a few of those.

24 MR. SHILOBOD: Those functions are designed to
25 reduce the need for manpower?

1 WITNESS DONOFRIO: Not to reduce the manpower. It is
2 to reduce forecasts of manpower. If you were going to set up
3 the systems and then physically do them manually, yes; we
4 would have to add more if we didn't do it mechanized.

5 MR. SHILOBOD: In all of those work duties that
6 you have mentioned, those are all handled by union employees
7 as a general rule; isn't that true?

8 WITNESS DONOFRIO: At the corporate headquarters staff,
9 there are no union employees.

10 MR. SHILOPOD: Those duties that you mentioned are
11 carried out by employees, not by corporate staff?

12 MR. RUSSELL: Would you identify which duties?

13 MR. SHILOBOD: He talked about inspection, about
14 listing what is in inventory. He talked about storage. He
15 talked about keeping track of what comes in and what goes out.
16 Is that done by corporate level people?

17 WITNESS DONOFRIO: The physical receipt of inventories
18 is done at the individual storerooms. When you say they are
19 strictly union, that is not necessarily true. We are going
20 through with some union jobs now, looking for a redefinition
21 of the duties and the classification, but also putting some
22 of these jobs as, in effect, analyst jobs or mechanized
23 inventory control system jobs, which probably would not be
24 union.

25 MR. SHILOBOD: Would they be clerical?

1 WITNESS DONOFRIO: I don't know whether it would be
2 considered clerical as much as exempt.

3 MR. SHILOBOD: What is the difference between someone
4 who is exempt and someone who is clerical; I am not sure I
5 understand the distinction.

6 WITNESS DONOFRIO: "Exempt" in my eyes would be a
7 professional background, or would not be subordinate, which
8 would be clerical duties; just doing work that is under the
9 supervision of somebody else. He may not exactly be a super-
10 visor; he may be called a storekeeper as such.

11 MR. SHILOBOD: So you are talking about people like
12 storekeepers and bookkeepers and so on; is that correct?

13 WITNESS DONOFRIO: It is the first time I have heard
14 the term "bookkeeper" today.

15 MR. SHILOBOD: I don't mean it as a negative
16 connotation. I didn't intend it to be.

17 Would that be a fair assessment?

18 WITNESS DONOFRIO: I would characterize an individual
19 out there as in charge of the storeroom.

20 WITNESS VERROCHI: Isn't the fundamental -- my under-
21 standing of "exempt" and "non-exempt" has to do with Wage and
22 Hour laws. The person whose job duties and pay scale and
23 amount of supervision or lack thereof, who is not exempt from
24 overtime, is a non-exempt employee.

25 If the person has high enough responsibilities so

1 that you can characterize him or her as a supervisor or some-
2 body is in a job type of position that we don't have to pay
3 them time and one-half for overtime, then they are exempt from
4 the Wage and Hour.

5 I think that is the simplest connotation I can place
6 on it.

7 JUDGE CASEY: Mr. Donofrio, did I understand you to
8 say that in the materials management area and possibly in
9 communications that the company desires to automate these
10 functions; in other words, have computers perform tasks that
11 were once done by hand recordkeeping and posting?

12 WITNESS DONOFRIO: No. I said like in the materials
13 management function, what we are trying to do is trying to set
14 up more controls over the inventories, and we are looking at
15 projections of our needs, etcetera, through some mechanized
16 system.

17 They are not systems that we have today. The only
18 distinction that I was making about mechanized versus manual
19 is that if we went ahead with a manual system, there would be
20 even more employees that would be needed.

21 WITNESS VERROCHI: Again, in our power plants we have
22 tremendous quantities of inventories, you know, from very,
23 very large pieces of equipment, and very large equipment as
24 well as parts of equipment, shafts, bearings, pumps; and no
25 matter how carefully you design them, the inventory needs are

1 fantastic, and we are talking about tens of millions of dollars.

2 We at Penelec are not as far advanced in the control
3 of that inventory as some other utilities are. We kind of
4 evolved to a point where we did not have storerooms and that
5 sort of thing. We are now trying to get into the modern era.
6 It is a tremendous work load, and that means, of course, that we
7 are putting physical facilities in place at the power plants
8 where such facilities don't exist.

9 We are also trying to develop or employ already
10 developed systems to make sure that we have better control of
11 our inventory, so we don't obviously have too much inventory
12 in place, so that we know where it is so that we can project
13 our needs so that we won't run out of it during a major
14 outage when we have a lot of people at site, Your Honor.

15 So we are kind of in the early stages of development
16 in our power plants. We have kind of neglected them, so it is
17 a major work load.

18 MR. RUSSELL: Your Honor, would this be a reasonable
19 time for a morning break?

20 JUDGE CASEY: I think it would. I was going to wait
21 until 11:00, but I agree that now would be a good time.

22 We will take a ten-minute recess.

23 (Recess.)

24

25

T2,S1

1 JUDGE CASEY: We are back on the record.

2 Mr. Shilobod?

3 MR. SHILOBOD: Mr. Donofrio, continue with this
4 analysis that we were talking about with exempt employees.
5 Mr. Verrochi gave some clarification.

6 These people carry out job functions in the sense of
7 doing work whether it is manual or control, but something
8 different from a supervisory role; isn't that true?

9 WITNESS DONOFRIO: That is true.

10 MR. SHILOBOD: And that is the same as the people who
11 are entitled non-union / non-exempt; isn't that true?

12 WITNESS DONOFRIO: As I tried to explain what this
13 supervisory versus exempt versus non-union/non-exempt, this
14 particular breakdown here is based on the exemption that the
15 end result, after adding 205 additional jobs, the breakout
16 would be in the same proportion as the corporate entity
17 breakout-wise at the beginning of 1980.

18 In other words, for each supervisor, there are two
19 exempt and two non-union/non-exempt.

20 MR. SHILOBOD: So, if I understand this correctly
21 then, what happened was there was a decision on how many
22 supervisory changes would be made, and then there was a
23 correlation with the number of exempt and non-exempt employees
24 normally associated with that number to develop these; is
25 that correct?

1 WITNESS DONOFRIO: No, sir; that is not correct.
2 Effective at the beginning of 1980 for the mixture of every
3 five employees physically on the corporate staffs of Met-Ed
4 and Penelec, their ratio is one supervisor for each two exempt,
5 for each two non-union/non-exempt.

6 MR. SHILOBOD: Then what you are saying is the
7 opposite of what I said; is that correct; that there was a
8 determination of the change in the number of exempt/non-exempt
9 employees and then from that you extrapolated, based upon
10 histories, the determinant number of supervisors; is that
11 correct?

12 WITNESS DONOFRIO: I think we are going around in
13 circles.

14 MR. SHILOBOD: The opposite of what I said before.

15 WITNESS DONOFRIO: It is a mixture, I believe, of
16 what the actuality is. For every five employees physically on
17 the payroll, there is one supervisor, two exempt and two
18 non-exempt. That means for every additional five employees,
19 we kept the same ratio that is actually there today of one
20 supervisor, two exempt, two non-exempt.

21 MR. SHILOBOD: Mr. Verrochi, you developed these
22 figures. Am I correct in what I interpreted, namely that the
23 analysis was based upon the determination on the change in
24 the number of exempt and non-exempt employees; and then based
25 upon these ratios the associated number of needed supervisory

1 people were determined as on Exhibit Number 8?

2 WITNESS VERROCHI: No, Mr. Shilobod; I would go a
3 step further from what you said. I think it was more like the
4 assumption was or the estimate was that we would save a
5 certain number of total people; let's say it's 50.

6 Then in order to try to put a cost estimate as to
7 what the payroll and fringe benefit and materials and supply
8 and transportation expenses would be, we tried to estimate of
9 those 50 people how many might be supervisors, how many may be
10 exempt/non-exempt.

11 Al is trying to describe the breakdown of the 50
12 people so we could put some cost numbers on which are simply a
13 reflection of the statistics in our present population.

14 So, it wasn't how many exempt or non-exempt; it was
15 how many total and what might be the distribution among them,
16 just a way of estimating.

17 MR. SHILOBOD: Then would I be correct in my
18 understanding that what there was was a determination of the
19 number of people?

20 WITNESS VERROCHI: Total number, yes, sir.

21 MR. SHILOBOD: And then what you did was based upon
22 the historical ratio of exempt/non-exempt and supervisory,
23 you created the breakdown?

24 WITNESS VERROCHI: Yes, the salary so we could put
25 the dollar figures on a little bit more precise, if you will,

1 than just doing it on total numbers.

2 MR. SHILOBOD: If there is this combined management,
3 are any of the work duties that would otherwise be performed
4 through these 205 employees that would otherwise be needed,
5 would any of those duties not be done under the combined
6 management?

7 WITNESS VERROCHI: Did you say if we don't have a
8 combined management would any of the duties that we would like
9 to have done not be done?

10 MR. SHILOBOD: That it would take the 205 employees
11 to do.

12 WITNESS VERROCHI: Yes; to the extent that we don't
13 either add these 205 employees or take some or all of them
14 from other functional groups and, if the priorities are high
15 enough, put them in here; to the extent that we don't have
16 these people, some or all of the work would not be done; that
17 is true.

18 MR. SHILOBOD: But to do these, what you want to do
19 with the combined management group, you are indicating that
20 you would do the same work that would otherwise take 164
21 exempt/non-exempt people to do; is that not true?

22 WITNESS VERROCHI: The 164?

23 MR. SHILOBOD: That is 82 plus 82, the maximum at the
24 top of the page.

25 WITNESS VERROCHI: Yes; the answer is yes.

1 MR. SHILOBOD: My difficulty, Mr. Verrochi, is that
2 if these people are essentially in the work force, they are
3 not supervisory people, and they only have eight hours a day
4 to do work, and they have certain work duties to perform,
5 whether it is keeping track of materials that are delivered
6 and the timeliness with which they are delivered, keeping
7 track of purchases or whatever.

8 There is only so much time that they are going to
9 be able to expend in order to do the work.

10 Can you tell me how, by changing and putting a group
11 of fellows into Reading rather than Johnstown, you are going
12 to eliminate the eight hours a day for 164 people?

13 WITNESS VERROCHI: Yes. We are still talking about
14 cost avoidance. We are still on Schedule 8; right?

15 MR. SHILOBOD: That's right.

16 WITNESS VERROCHI: You keep mentioning 164. It also
17 includes the 41 supervisory.

18 MR. SHILOBOD: I am presuming the supervisors'
19 primary duty is to perform work with respect to the people that
20 are otherwise on the line?

21 WITNESS VERROCHI: No; they are here to supervise
22 these people.

23 MR. SHILOBOD: That is correct.

24 WITNESS VERROCHI: Yes.

25 WITNESS DONOFRIO: Some of it is when you have a

1 supervisor, he, in turn, has a secretary. There is duplicate
2 filing there where you have file cabinets to maintain,
3 duplicate correspondence.

4 If you have one at Penelec and one at Met-Ed, that
5 clerical function wouldn't necessarily be there; the same
6 under exempt. It is avoiding duplication if you are only
7 doing it once.

8 WITNESS VERROCHI: I guess another way of saying it,
9 Mr. Shilobod, is Schedule 8, Exhibit 8 showing the effects of
10 not combining the management and saying that we estimate 205
11 more people to be required.

12 If we do combine the managements and the staffs at
13 corporate headquarters levels, there will be an amount of work
14 reduction. There will be a reduced amount of effort
15 necessary, such that 205 people fewer will be able to do that
16 work.

17 We are eliminating work and, therefore, we will
18 eliminate the need for people to perform that work. As Al
19 points out, it is primarily duplicate effort and so forth.

20 MR. SHILOBOD: If you are eliminating work, then how
21 are these functions going to be carried out?

22 WITNESS VERROCHI: Again, do you want to take a
23 functional area and we will talk about that?

24 MR. SHILOBOD: Let's take control over whether or
25 not there is timely deliverance of the various purchases.

1 WITNESS VERROCHI: Fine.

2 MR. SHILOBOD: There is only so much time that one
3 individual can spend to police those purchases.

4 WITNESS VERROCHI: Let's say, for the sake of
5 argument that currently -- then again, this might be a poor
6 example -- let's say, for the sake of argument, Penelec
7 currently has one supervisor, one stenographer or clerk and
8 three people doing that kind of work and let's say that Met-Ed
9 has one, one and three. So, there are currently ten people
10 doing that kind of work. Okay?

11 Now, if you put those ten people in the same office,
12 you don't need ten people; you might be able to get by with
13 eight people or nine people or seven people, because, sure,
14 the workers are there, but you don't need the same number of
15 supervisors.

16 There are many economies from having a bigger work
17 force centralized than there are from having people spread out
18 at every different location. There is just more efficiencies.
19 They complement each other. They help each other during times
20 of peak. They help answer the phone when the phone gets
21 busy, but if there is only one person in the office, that is
22 all he or she can do. So, that is the ten percent benefit,
23 the ten percent work force reduction from combining two
24 small groups.

25 If you look at each of these functional groups, like

1 materials management, and you take a look at where they are
2 deployed and what kinds of things they are doing, they are,
3 of course, subdivided into little work teams, each one of
4 which might have a supervisor dealing with three or four
5 people.

6 So, it is combining these small groups into
7 larger groups and capitalizing on the economies of scale
8 that come about from that kind of combination. The work still
9 has to be done. It's just a little less work; that's all.

10 MR. SHILOBOD: You are saying that under the
11 combined management group, each of these companies is going to
12 maintain its own separate books; isn't that true?

13 WITNESS VERROCHI: But in materials management, we
14 are not going to maintain a separate management of the
15 materials management effort and separate supervision. There
16 is going to be one set of managers and supervisors.

17 MR. SHILOBOD: There is going to have to be two sets
18 of books kept?

19 WITNESS VERROCHI: Yes; and that is one of the
20 reasons that you don't get as much reduction as you might
21 otherwise anticipate from simply the combination.

22 If we go back to Schedule 7, you will notice that
23 we are only estimating a reduction of 38 people from the
24 corporate combination of management.

25 The reason for that is this: that currently Penelec

1 has approximately --

2 MR. SHILOBOD: 38.

3 WITNESS VERROCHI: 19 and 19; currently, Penelec
4 has about 600 people at Johnstown at corporate headquarters,
5 and Met-Ed has roughly 500. I think those are roughly the
6 numbers.

7 Now, you might think based upon the Verrochi/Donofrio
8 formula, if you combine the two, you ought to be able to
9 effect a reduction of at least ten percent of 1,100 which is
10 110.

11 But, practically speaking, we are not going to be
12 combining 1,100 people. We are only going to be combining
13 a couple hundred of those people, because we are going to
14 have to keep in Johnstown a separate set of accountants to
15 keep a separate set of books for Penelec and different rate
16 cases and all the rest of this other stuff.

17 So, we have gone through each of the functional
18 groups, and we have identified that not 1,100 people are going
19 to combine, but only 200 and some.

20 MR. SHILOBOD: Actually, now you are going to need
21 more people, aren't you?

22 WITNESS VERROCHI: No; we are going to need fewer
23 people, 38 fewer.

24 MR. SHILOBOD: Let's take this. You are going to
25 have purchases control out of your corporate headquarters for

1 two companies. Each company is going to maintain its own set
2 of books.

3 WITNESS VERROCHI: Yes.

4 MR. SHILOBOD: Somebody is going to have to police
5 the propriety of the allocations; isn't that true?

6 WITNESS VERROCHI: Sure.

7 MR. SHILOBOD: Somebody is going to have to audit
8 those allocations?

9 WITNESS VERROCHI: Yes.

10 MR. SHILOBOD: You don't have to do that now, do you?

11 WITNESS VERROCHI: Oh, yes; my goodness, yes. We
12 have full-time auditors.

13 MR. SHILOBOD: Do you audit the purchases now?

14 WITNESS VERROCHI: That's not the point. We do
15 purchasing for a great many facilities, some of which we don't
16 own. We currently do purchasing for Conemaugh Station, for
17 Keystone Station, for Homer City Station and we only own half
18 of it.

19 We currently have an organization at Penelec. Met-Ed
20 currently has an organization -- had an organization that
21 was doing purchasing for Three Mile Island. They only owned
22 50 percent of it.

23 So, the procedures, the checks and balances, the
24 auditing, the inside auditing, the outside auditing, the
25 auditing by anybody and his brother is a matter of routine

1 business practice, Mr. Shilobod.

2 MR. SHILOBOD: The procedures are there, you are
3 saying?

4 WITNESS VERROCHI: Yes, sir.

5 MR. SHILOBOD: But the people to do the additional
6 work are not there?

7 WITNESS VERROCHI: There is no additional work.

8 MR. SHILOBOD: Wouldn't there be additional joint
9 purchases of the two companies?

10 WITNESS VERROCHI: Al, perhaps you can explain this
11 better than I.

12 WITNESS DONOFRIO: Sticking with materials
13 management as a function, there would still be a separate
14 purchasing and contracts department, one in Johnstown and one
15 in Reading.

16 What we are talking about is the management now of
17 those; the Vice-President and the secretary, the manager of
18 purchasing, the manager of contracts.

19 Again, to avoid duplication, to come up with the
20 same policies, procedures, management style, that is where we
21 are going to save.

22 You are still going to have separate purchase
23 orders for Penelec East and Penelec West and separate
24 contracts; you are going to have separate accounting.

25 In accounting, we are going to have separate

1 property records to record the assets.

2 We still have two physical companies here. They have
3 their own assets, their own financing, their own rate cases.

4 However, in the accounting area, policies and
5 procedures, we are only going to have one. A budget department,
6 we'll only have one. On our operations analysis and
7 development, again, we'll only have one to avoid duplication,
8 but the physical accounting, the physical assets, the physical
9 purchasing, they will remain separate.

10 JUDGE CASEY: Stop there for a minute. I think
11 what Mr. Shilobod is indicating is that even though you have
12 your high level corporate executives in the combination
13 management team and they are overseen in a broad, general
14 sense, these separated or bifurcated operations in the two
15 companies in the materials management, a Vice-President is not
16 going to do the manual or the physical work connected with
17 supplying the management or overseeing those two separate
18 functions.

19 WITNESS DONOFRIO: That is correct.

20 JUDGE CASEY: So, won't the new management combina-
21 tion need a new support staff, which is injecting a third
22 group or element into your two separated purchasing functions
23 within the two operating utilities?

24 WITNESS DONOFRIO: No, sir.

25 JUDGE CASEY: You will not?

1 MR. DONOFRIO: We will not.

2 MR. SHILOBOD: Well, at the present time in
3 Johnstown, there is a materials management group; isn't that
4 true?

5 WITNESS DONOFRIO: Yes, it is.

6 MR. SHILOBOD: They have their own management team
7 there and supervisors there?

8 WITNESS DONOFRIO: They have storekeepers which
9 report to them out in the divisions and the generating
10 station.

11 I use the term "storekeepers." They receive the
12 material, the physical watching, holding, issuing of material.
13 Within the corporate headquarters, there is called an
14 inventory management section. There is a physical purchasing
15 section and a contract section.

16 The purchasing and contract section will remain
17 independent and issue separate ones, but the inventory
18 management section would be a combined function that could
19 manage both companies and avoid duplication of having an
20 inventory management function at Met-Ed and an inventory
21 management function at Penelec.

22 MR. SHILOBOD: The difference from the way it is
23 today is that the management that is in place in Johnstown now
24 wouldn't be in Johnstown; it would be in Reading; right?

25 WITNESS DONOFRIO: In materials management?

1 MR. SHILOBOD: Yes.

2 WITNESS DONOFRIO: Purchasing and contracts would
3 still be out, as well as fuel procurement, in Johnstown.

4 MR. SHILOBOD: You are aware that we are talking
5 about Exhibit 8, are you not?

6 WITNESS DONOFRIO: Yes, sir.

7 MR. SHILOBOD: Are all of these 205 employees that
8 are listed there, are those corporate headquarter people or
9 are these field people, or are any of them field people?

10 WITNESS DONOFRIO: Corporate headquarter level
11 people.

12 MR. SHILOBOD: This is solely on the corporate
13 headquarter basis; is that correct?

14 WITNESS DONOFRIO: That is correct.

15 MR. SHILOBOD: How many of these 205 people would
16 be dedicated to, let's say, the materials and management
17 aspect?

18 WITNESS DONOFRIO: 20 out of the 205.

19 MR. SHILOBOD: I see. You are taking the basis
20 upon the assumptions that are shown on the lower left?

21 WITNESS DONOFRIO: Yes, I am.

22 MR. SHILOBOD: Mr. Verrochi, would you describe for
23 us what the present setup is at Penelec with respect to the
24 management of the transmission and distribution functions of
25 the company?

1 WITNESS VERROCHI: Yes. We have, as part of our
2 corporate staff in Johnstown, approximately 170 -- this is as
3 of January 1, 1980 -- we had about 173 people.

4 (Mr. Verrochi and Mr. Donofrio confer.)

5 WITNESS DONOFRIO: I don't have an organizational
6 chart with me, but the physical T&D operations piece that we
7 are speaking of today, the only thing in Johnstown today is
8 the Vice-President, his secretary and two staff people.

9 WITNESS VERROCHI: That's Bob Wise; that's the
10 Vice-President of Operations.

11 WITNESS DONOFRIO: Reporting to him are a couple of
12 functions on corporate headquarters, security and transporta-
13 tion; that, under the new organization, would no longer be
14 reported to him.

15 So, the only corporate staff that he has right now
16 that he would have for his division operations is a total of
17 about four people, and that is where Met-Ed has a bigger staff;
18 and we believe that that staff is too small in order to provide
19 the expertise and direction for the division in the T&D area
20 at Penelec as well as we have it set up in the generation area.

21 MR. SHILOBOD: So, Penelec is currently operating
22 with the corporate staff of a Vice-President, a secretary and
23 two staff people with respect to transmission and distribution?

24 WITNESS VERROCHI: With respect to the operations
25 of the division. In addition to that, we have a Vice-President-

1 Technical, Jack Poole, whose responsibilities are involved
2 with the design and the construction of major transmission
3 facility additions and improvements. He also serves to
4 coordinate and standardize the efforts of engineering that is
5 done at the division levels in division headquarter locations
6 and in district locations by operating division engineering.

7 MR. SHILOBOD: Is he a Penelec employee?

8 WITNESS VERROCHI: Jack Poole, yes, he is.

9 MR. SHILOBOD: Is he in Johnstown?

10 WITNESS VERROCHI: Yes, he is. Vice-President/
11 Technical has roughly 154 people and they are all in Johnstown.

12 MR. SHILOBOD: On the corporate level?

13 WITNESS VERROCHI: At the corporate level, they are
14 all in Johnstown.

15 WITNESS DONOFRIO: Reporting to him of which 46 are
16 dispatchers in the divisions.

17 WITNESS VERROCHI: I'm sorry; the 154 less 46 --
18 aren't some of those 28 in Johnstown?

19 WITNESS DONOFRIO: Yes, but they are not corporate
20 people.

21 WITNESS VERROCHI: I'm sorry. We don't have the
22 numbers exactly the way you want them, but the Vice-President/
23 Technical has a 154 people total who report to him; and of
24 those, all but 46 are in Johnstown.

25 MR. SHILOBOD: So, there is the Vice-President/Technica

1 plus 108 people in Johnstown; is that correct?

2 WITNESS VERROCHI: Including him, there are 108
3 people. The Vice-President of Operations in Johnstown,
4 including him, has 21 people.

5 MR. SHILOBOD: I am not sure I understand this,
6 because before you told me there was a Vice-President, a
7 secretary and two staff people, and now you come in with this.

8 WITNESS VERROCHI: Now, I am going to try to explain
9 that to you.

10 In Johnstown, reporting to the present Vice-President
11 of Operations, Mr. Wise, are 21 people. Actually, there are
12 19. Pardon me for the way we are jumping around here. There
13 are 19 people.

14 Those 19 are broken down by two executive, six
15 security system. It just happens that the people, the security
16 personnel at Johnstown headquarters are currently reporting
17 to him.

18 There are seven of those. There are six system
19 operating people with the dispatchers, and there are four
20 system transportation; is that right?

21 WITNESS DONOFRIO: Yes. That is what I was trying
22 to explain before, Mr. Shilobod; that the security and
23 transportation functions, some of these will not be reporting
24 to him after this. They will either go to the divisions or
25 some other officer; so, physically in the divisions right now --

1 MR. SHILOBOD: Is it six and two?

2 WITNESS VERROCHI: It is four on some of the other
3 systems, also.

4 MR. SHILOBOD: Are dispatchers corporate level
5 people?

6 WITNESS VERROCHI: No; they happen to be physically
7 located in Johnstown, some of them.

8 MR. SHILOBOD: I would like to go back. Maybe there
9 is some confusion. I was interested in specifically the
10 corporate level people in Johnstown or working for Penelec
11 now with respect to the transmission and distribution.

12 WITNESS VERROCHI: Well, the transmission and
13 distribution, engineering, design, construction team was that
14 104 we talked about under Jack Poole.

15 Under Mr. Wise, the Vice-President of Operations,
16 is approximately eight. There are eight working for the
17 Vice-President of Operations, including him.

18 In addition, at corporate headquarters, we have a
19 Vice-President of Consumer Affairs, Mr. Baker.

20 MR. SHILOBOD: I would like to just confine ourselves
21 to the transmission and distribution.

22 WITNESS VERROCHI: Which aspects of transportation
23 and distribution?

24 MR. SHILOBOD: The same that you referred to here
25 in your assumptions of needing 125 to 150 people.

1 WITNESS VERROCHI: I am sorry. This transportation
2 and distribution, Al, encompasses basically our present
3 Vice-President of Operations and our Vice-President/Technical;
4 is that right?

5 WITNESS DONOFRIO: Yes.

6 WITNESS VERROCHI: What about conservation and
7 load management?

8 WITNESS DONOFRIO: No.

9 (Mr. Verrochi and Mr. Donofrio confer.)

10 WITNESS VERROCHI: Al points out to me that it is
11 proper to include in that T&D function the current Vice-
12 President, Consumer Affairs, Dick Baker and his staff.

13 The total number on hand in Johnstown in that
14 function are 37, including the Vice-President of Consumer
15 Affairs.

16 Maybe you can explain, Al, why some of those don't
17 belong in conservation load management on Exhibit 8.

18 The confusion is that our current array of people,
19 Mr. Shilobod, is on the basis of the present Penelec
20 organization.

21 Al, on Exhibits 7 and 8, is trying to summarize
22 people on the basis of the proposed organizational setup. So,
23 that is why we are a little bit more confused than we normally
24 are.

25 MR. SHILOBOD: I am staying just within the box of

1 your assumptions in the lower left corner, namely the number
2 of people that you would need for transmission and distribution
3 but for the combined management operations.

4 WITNESS VERROCHI: Fine; and I think a fair estimate
5 would be the addition of the three numbers that I just gave
6 you; that's the 104, plus the 8, plus the 37. It's 149.

7 Al also points out to me, and again pardon us,
8 because we have made a lot of changes in going from where we
9 are to where we are proposing to go. We had better subtract
10 12 from that 37. Make that "37" "25" in Consumer Affairs,
11 Mr. Shilobod, and then I think we are closer to it. I get a
12 total of 137.

13 MR. SHILOBOD: 137.

14 WITNESS VERROCHI: I think that's right.

15 MR. SHILOBOD: That came out 147. You have 104
16 plus 8 plus 25.

17 JUDGE CASEY: 137.

18 MR. SHILOBOD: 137.

19 I thought that the way that this study was developed
20 was that there was a determination of the number of jobs
21 that could be avoided as a result of the combination, and
22 then there was a backing in to this breakdown of how many we
23 assigned to supervisory, exempt and so on.

24 My understanding was that that initial determination
25 of how many jobs would be saved was based upon an assumption

1 that the combination, per se, would cause -- what was it, a
2 ten percent savings?

3 WITNESS VERROCHI: We are talking about two
4 different things.

5 MR. SHILOBOD: How did you make the determination
6 on the number of jobs to be saved?

7 WITNESS VERROCHI: One of the things we did was we
8 took a look at this roughly 137 people that Penelec currently
9 has in the existing functions. That will come under the
10 direction of the T&D function in the new organizational setup.

11 In Penelec's case, that adds up to roughly 137
12 people.

13 If you took a look at Met-Ed's total numbers in
14 corresponding areas, I am sure you will find a larger number
15 of people. There are more people in Met-Ed doing it.

16 I think you would find that the fundamental area
17 where there are more people is in the Vice-President of
18 Operation's staff.

19 We have quoted here the present number of about
20 eight in that area. We are saying that that eight ought to
21 go up to about 58.

22 So, in order for Penelec to do it, at the operations
23 levels supporting the divisions, the reorganized divisions,
24 we would want about 58 people in that function instead of 8.
25 So, the total would be 137 instead of 157.

1 If we did what we wanted to do. staying as a
2 separate corporation, we would add people up to about the
3 extent of about 50 to this 137. I think that is as accurately
4 as I can portray it now.

5 MR. SHILOBOD: I may be a little slow, Mr. Verrochi,
6 because I am just realizing now what you had told me before;
7 that this need for 25 to 50 people at Penelec arises out of
8 the changes caused by the divisional reorganization; isn't
9 that correct?

10 WITNESS VERROCHI: In the T&D function, that's
11 right, primarily from that.

12 MR. SHILOBOD: And that is really an expense of
13 having gone through a divisional organization; isn't that
14 true?

15 WITNESS VERROCHI: Proposing to go through it, yes.

16 MR. SHILOBOD: And that isn't indicated as an
17 expense; rather, that is indicated as a saving on this
18 Exhibit Number 8; isn't that true?

19 WITNESS VERROCHI: Yes, again, because it's true
20 that if we stayed separate from Met-Ed and we went through
21 the division consolidation, which would generate by the way
22 at the division level, at the non-corporate location level, a
23 saving of some 73 people; we would eliminate 73 jobs in the
24 combined districts and divisions.

25 If we did not combine with Met-Ed, we would have a

1 reduction in the field of 73 people, but we would add to
2 corporate headquarters 53 people; so that that exercise would
3 result in a net reduction of 23 positions.

4 If, however, we can combine Penelec and Met-Ed's
5 managements, we can capitalize on the fact that Met-Ed already
6 has in place at corporate headquarters supervisors and staff
7 and exempt and non-exempt people to perform the kinds of
8 services which we would want to perform at corporate head-
9 quarters at Penelec.

10 So, if we don't combine, we think that we would have
11 to add about 50 jobs to Penelec. If we do combine, we don't
12 have to add those 50 jobs.

13 MR. SHILOBOD: Do you see my confusion really gets
14 very great when I look back at your Exhibit Number 7, because
15 for the divisional reorganization with respect to transmission
16 and distribution at Pennsylvania Electric, you say that you
17 are going to have a 73-job saving.

18 Yet, on Exhibit Number 8, you are saying that you
19 are going to avoid 25 to 50 jobs that you would otherwise
20 have to have as a result of the divisional reorganization.

21 Can you explain that apparent discrepancy?

22 WITNESS VERROCHI: I will let Mr. Donofrio try.

23 WITNESS DONOFRIO: If we went it alone, from day one,
24 we would have to add at the corporate staff level in T&D 25
25 to 50 people on Schedule 8.

1 Over the next two to three years, if we also went
2 it alone and went with the division reorganization, we could
3 then decrease out in our division 73 individuals.

4 So, the first thing you would do going alone is add
5 the 25 to 50, get a corporate headquarters staff, then over
6 the next two or three years reorganize the division down 73.

7 However, if you can combine, you don't have to add
8 the 50 in the first place. Then over the next two to three
9 years, you can do the division reorganization and come up with
10 the 73 reduction in the division.

11 MR. SHILOBOD: What you are saying then, if I
12 understand you correctly, is that if there wasn't a management
13 combination, there would be an addition of up to 50 people
14 and, after a couple of years, there would be a reduction of
15 73 people or a net reduction of approximately 23 people over a
16 number of years; is that correct?

17 WITNESS DONOFRIO: By the time that 73rd employee
18 wasn't on the payroll, you are talking probably two to three
19 years.

20 WITNESS VERROCHI: But you wouldn't wait three
21 years to do this. It would be happening all along.

22 MR. SHILOBOD: Or you might be able to add 25
23 people now and, in a couple of years, have a reduction of the
24 difference between 73 and 25 or approximately 48 people
25 reduced; is that correct?

1 WITNESS DONOFRIO: Yes; but if you go ahead with
2 the combination, you won't have to add that 25 right there.

3 MR. SHILOBOD: Staying with this Exhibit Number 7,
4 what are the potential cost savings from the corporate
5 combination alone?

6 WITNESS DONOFRIO: Specifically, on Exhibit Number 7,
7 the \$.7 million and \$.5 million or \$1.2 million are
8 attributable to corporate employees in a combined management.

9 However, you cannot do the division reorganization
10 and have those savings without adding the 50 individuals at
11 corporate that we talked about on Exhibit 7.

12 MR. SHILOBOD: I thought that all of these
13 individuals were at corporate level reductions or am I wrong?

14 WITNESS DONOFRIO: You are wrong. The last time
15 when we talked about that, it was on Exhibit 8 that they were
16 all corporate employees.

17 MR. SHILOBOD: How many of these 247 people are
18 corporate level employees?

19 MR. DONOFRIO: As denoted on the schedule, Penelec
20 divisional employees would be 73; Met-Ed divisional would be
21 136.

22 The 19 and then the additional 19 after one year
23 would be a total of 38, and they are the corporate employees.

24 MR. SHILOBOD: Let me see if I understood you
25 correctly. Thirty-eight of the 247 are corporate level and

1 209 are divisional level; is that correct?

2 WITNESS DONOFRIO: That is correct.

3 MR. SHILOBOD: We are getting right back to what
4 we spoke of before. If you are going to eliminate 28 union
5 employees to perform work on the divisional level, can you
6 tell me who is going to be doing that work?

7 WITNESS VERROCHI: The union, where are you, at the
8 divisions, Mr. Shilobod?

9 MR. SHILOBOD: I am on Exhibit Number 7 under
10 "Union." There is a total of 128 jobs being eliminated.

11 WITNESS DONOFRIO: Let me stick with the example of
12 Penelec here; the ten union employees or divisional employees
13 that are clerical in nature. A provision of this division
14 reorganization is the consolidation of business offices by
15 having a corporate staff of policies, procedures, and making
16 it more uniform by having our centralized cash remittance,
17 accepting a lot of our cash, et cetera.

18 We believe that we can do economies of scale with
19 our clerical force in the business office by having a
20 consolidation.

21 Again, that is a small piece of something that we
22 can effectuate by going ahead with this combination.

23 MR. SHILOBOD: You are saying that this is clerical
24 staff; is that what you are saying; that you will need 10
25 union employees?

1 WITNESS DONOFRIO: Yes.

2 MR. SHILOBOD: And you are going to eliminate
3 clerical staff even though you are going to have the very
4 same purchasing functions done in the Penelec area; you are
5 going to have the very same bookkeeping maintained in the
6 Penelec area? You are going to have the same job functions
7 being carried out in the Penelec area?

8 WITNESS DONOFRIO: Mr. Shilobod, you are mixing
9 apples and oranges. The accounting, materials management,
10 et cetera, are the corporate employees.

11 These here are as a result of consolidation and
12 the divisional reorganization.

13 That divisional reorganization is made possible
14 by having a more centralized, stronger, more expertise
15 corporate function in the T&D area.

16 MR. SHILOBOD: By the way, Mr. Verrochi, when these
17 determinations of 247 employees eliminations were considered,
18 was this based upon a work load study?

19 WITNESS VERROCHI: I think it was based rather
20 upon our knowledge as to what our work force levels were by
21 function and by company through operations analysis, through
22 monthly printouts of the work forces, and it was an analysis
23 of our existing work force and our existing work load and what
24 we thought would happen if we consolidated the divisions and
25 combined the corporations.

1 They were based on studies and input made by the
2 officers involved. Bob Wise, for example, on my staff, the
3 Vice-President of Operations, spent a lot of time in estimating
4 and developing criteria for reorganized divisions and
5 estimating and coming up with a division reorganization, a new
6 division organization chart.

7 He and some of his division managers worked out
8 what additions and reductions in employees would be required
9 to function under the new division organizational setup and
10 the new support organization setup that we would have to put in
11 place at corporate headquarters.

12 So, I don't know if that is what you are asking,
13 but, sure, they were based on studies like that.

14 MR. SHILOBOD: Was there any work load analysis done
15 on the employees?

16 WITNESS VERROCHI: Operations?

17 MR. SHILOBOD: Yes.

18 WITNESS VERROCHI: Operations analysis, as a matter
19 of routine, does try to estimate how many people for how long
20 a period of time are required to do certain jobs. It was an
21 extension of that sort of thing.

22 MR. SHILOBOD: Did you utilize time and motion
23 studies to determine the number of job reductions that would
24 be at Penelec?

25 WITNESS VERROCHI: We didn't use time and motion

1 studies on this particular point. I don't know to what
2 extent we used time and motion studies in operations.

3 Al Donofrio is responsible for O&A. Maybe he can
4 explain it better than I.

5 WITNESS DONOFRIO: We did not on this one. In
6 effect, what we are doing here is saying by having a
7 corporate staff, by having a functional mirror image of each
8 of the divisions, now we don't need that expertise in each
9 and every one of our existing five, and our potential eight
10 divisions.

11 So, again, it is a form of consolidating on a
12 corporate level. That is why the jobs are not necessary.
13 It is again avoiding duplication of efforts. It is not that
14 we are going to do less work; we aren't going to do less
15 work. We are going to do the same work.

16 MR. SHILOBOD: Tell me exactly how did you arrive
17 at this 73 figure for the savings at Penelec arising out of
18 the divisional reorganization?

19 WITNESS DONOFRIO: How we did it was again through
20 these studies that Mr. Verrochi referred to by Mr. Wise in
21 conjunction with the division managers. They came up with
22 the organizational setup for the potential --

23 MR. SHILOBOD: What do you mean by that? Let's
24 take it one step at a time. You came up with an organizational
25 setup. What do you mean?

1 WITNESS DONOFRIO: Exactly what a divisional work
2 force would look like as a result of the reorganization, such
3 as the division managers; the managers report to them; various
4 employees reporting to the supervisors, et cetera. This is
5 what it would look like at the end. This is in conjunction
6 with where we are at now with the reduction of 73 individuals.

7 Again, it is setting up the corporate staff for the
8 functions no longer provided in the division.

9 MR. SHILOBOD: But setting up that organization,
10 how did it filter down to determining the number of union
11 people, non-union people and exempt people and so on on
12 Exhibit 7?

13 WITNESS DONOFRIO: The union people, except for these
14 ten clerical which are identified because of the consolidation
15 of the business office functions, remained the same.

16 The work load for hooking up new customers, for
17 doing maintenance of lines remains the same.

18 So, the union employees within all of Penelec remain
19 the same, except for these ten that are in the business office,
20 clerical function.

21 WITNESS VERROCHI: How many union employees are
22 there, Al, that we are talking about in this functional area
23 with Bob Wise? He has at least 800 or 900 union employees,
24 doesn't he? Pardon me for interfering, Mr. Shilobod.

25 (Mr. Donofrio and Mr. Verrochi confer.)

1 WITNESS VERROCHI: In the operating divisions,
2 Mr. Shilobod, Penelec has 2,100 union employees. It is my
3 recollection that something on the order of 800 or more of
4 those union employees are working in the operating divisions
5 of Penelec.

6 What Al was saying in part was that we don't expect
7 a change as a result of this exercise in the number of
8 bargaining unit jobs in either the generation division or the
9 operating division.

10 So, we are simply talking about the supervision of
11 those people.

12 MR. SHILOBOD: I am going to get back to what I
13 started to do before. I am trying to find out exactly how
14 these precise figures came about such that you can tell me that
15 they are going to be 10 out of over 800 jobs eliminated.
16 That is a pretty refined number, isn't it?

17 WITNESS VERROCHI: It certainly is, and our studies
18 were focusing on exactly that point. How many jobs would you
19 have to add and how many would you have to subtract.

20 In the course of doing his investigation, Mr. Wise
21 came up inevitably with studies, work sheets. Again, they
22 were iterations of those.

23 What he did is he showed his present organization
24 charts and the tables showing the number of people he has by
25 division, by district, by function and where they are deployed.

1 He said if we decided to go from 5 divisions and
2 18 districts to 8 divisions and no districts, this is the
3 number of people we would need. This is the organization
4 chart we need at a division. This is the number of people we
5 need in each of the blocks shown on the organization chart
6 to supervise, direct and oversee the work load, and this is
7 the organization chart we need at corporate headquarters to
8 lend the necessary support.

9 We had dotted lines and solid lines and dashed
10 lines, all the things that you do when going through organiza-
11 tional charts, and it was very detailed on the part of him
12 and his division managers to come up with the proposed change
13 in organization.

14 He put numbers opposite them; and the numbers that
15 we are reporting to you represent the difference in numbers
16 of employees at corporate headquarters and division head-
17 quarters under the current organizational setup versus the
18 number of employees that we would have to have at corporate
19 headquarters and division headquarters under the proposed
20 organization setup.

21 So, it is the result of a detailed analysis like
22 that.

23 WITNESS DONOFRIO: May I also add that in the
24 course of this, we did come up with the total organization
25 concept; that in their review, TB and A had made comparisons

1 with other individual size companies; and it came about that
2 the approximate number of employees that we would end up with
3 falls exactly in line with how they would do outside studies
4 and make comparisons with us, with other individual -- we did
5 not have a target to shoot for anything. It happened that our
6 end result fell right in line with any other comparable
7 utilities.

8 WITNESS VERROCHI: At the risk of beating a dead
9 horse, one of the other things that we do very frequently again
10 in operations analysis is we make comparisons of the actual
11 number of people that are in place at a district or a division,
12 and we try to ascertain whether the number and type of
13 employees at a district or a division is reasonably consistent
14 with the work load, numbers of customers, customer density
15 and all that sort of thing, the number of lines and poles,
16 miles of distribution.

17 One of the major roles of operations analysis is to
18 continuously take a look at the existing divisions and try to
19 bring them more in line one with the other in terms of how
20 we deploy the troops and the resources.

21 You might want to remember that Penelec, like most
22 utility companies, is an agglomeration through the years of a
23 number of separate companies.

24 When you acquire and absorb a district or a division
25 or a company, it is just good management practice not to rock

1 the boat too much and kind of let them operate the way they
2 have been operating, and then you slowly but surely try to
3 make sure that District 11 doesn't have a disproportionately
4 high number of people because you haven't paid attention to
5 it.

6 So, that whole exercise is a continuing process.
7 Again, we simply applied that kind of approach to what if we
8 reorganized the divisions.

9 MR. SHILOBOD: Mr. Verrochi, there is a lot of room
10 within Penelec right now to effect cost savings without the
11 divisional reorganization or the management combination; isn'
12 that true?

13 WITNESS VERROCHI: I don't know if I would say there
14 is a lot of room without reorganization. I think I would
15 rather say that there is a lot of room to save money if, in
16 fact, we reorganize the divisions and if, in fact, we combine
17 the two managements.

18 MR. SHILOBOD: Let's take then, for instance --

19 WITNESS VERROCHI: I don't expect there will be much
20 cost savings, for example, in the generating division. I
21 think we have got that organized about the way we want it in
22 Penelec.

23 MR. SHILOBOD: Let's take your assumption. Your
24 assumption is that you spend 30 percent of the supervisor's
25 wages on materials and supplies; in other words, over \$10,000

1 per supervisor just for materials and supplies; isn't that
2 correct?

3 WITNESS VERROCHI: Al, that's not an assumption;
4 that's a fact, but go ahead, Al.

5 WITNESS DONOFRIO: When you say 30 percent of the
6 payroll is a small portion of the total, what we are talking
7 about here is about two percent of the total materials and
8 supplies.

9 MR. SHILOBOD: By the same token, the percent of
10 employees that we are talking about is a far smaller
11 percentage, is it not? We are talking about 247 employees out
12 of approximately 7,000; isn't that true?

13 WITNESS VERROCHI: Yes.

14 MR. SHILOBOD: So, then they are both a small
15 percentage if we are going to be dealing with that?

16 WITNESS VERROCHI: Yes, they are.

17 MR. SHILOBOD: So, let's go back now. You
18 nevertheless state that within the operations of your companies
19 you spend 30 percent of your supervisor's wages on related
20 materials and supplies.

21 WITNESS DONOFRIO: What we have is payroll, and what
22 we have done is an analysis based upon our straight time
23 payroll dollars.

24 In other words, with straight time payroll dollars,
25 there is associations of different other items of cost that

1 follow and parallel straight time dollars.

2 In an analysis of the companies for the past couple
3 of years, fringe benefits are approximately 30 percent --
4 pension costs.

5 MR. SHILOBOD: Let's stick with materials and
6 supplies.

7 WITNESS DONOFRIO: The fringe benefits follow
8 payroll pensions, hospitalization, et cetera. They total up
9 to about 30 percent.

10 What we did was we looked at the materials and
11 supplies in total. We looked at when we added employees,
12 when we had the layoff attrition of employees and looked at
13 the effect that added numbers of employees had on increasing
14 or less employees had on decreasing the total M&S spent at
15 Penelec.

16 What we found was there is a correlation that the
17 more employees you had given the same work scope, new
18 customers, et cetera, the more M&S was spent.

19 Again, that correlation was approximately two percent
20 of the total M&S would be saved by a reduction of about 247
21 people.

22 The last time when we had the layoff or attrition
23 that we mentioned before after the accident of 210
24 individuals, we found a correlation, even by revising work
25 scopes, that, at that point in time we saved a little over

1 seven percent of forecasted M&S by just having less employees
2 on hand there.

3 What we have done is take a conservative view that
4 even if we achieved only a third of what actual happenstance,
5 actual practice happened in 1979, that we could achieve a
6 representative two percent of our forecasted materials and
7 supplies; and that happens to equate to a 30 percent of the
8 payroll number.

9 MR. SHILOBOD: Was this an underlying assumption
10 of the study; that there would be the two and a half percent
11 saving in materials and supplies? Was that the assumption
12 that was made?

13 WITNESS DONOFRIO: It is an underlying assumption
14 that the amount of material and supplies does have a
15 relationship to the total employees on hand; that is correct.

16 MR. SHILOBOD: And the two and a half percent figure
17 came as a result of what?

18 WITNESS DONOFRIO: The actual circumstance that
19 happened in 1979 that resulted in a seven percent; again, for
20 conservative reasons, we took a third of that and said that
21 we should have no problem. It was a potential, but on a
22 conservative basis, we would have no problem by having 247
23 reduced employees; that we would see a reduction in our total
24 M&S of about two percent.

25 MR. SHILOBOD: Then the way that the amount of

1 materials and supplies was determined was not based on 30
2 percent of payroll, but rather it was two and a half percent
3 of your total materials and supply bill that happens to equate
4 to 30 percent of the payroll involved; is that correct?

5 WITNESS DONOFRIO: That is true.

6 WITNESS VERROCHI: Two and a half percent for a
7 specific number of reductions, Al.

8 MR. SHILOBOD: These changes that occurred in the
9 past in the materials and supplies as related to the number
10 of employees, those changes occurred whenever there was an
11 addition or a subtraction of numbers of employees due to
12 normal changes in business, namely, different numbers of
13 customers and different numbers of plants to be worked on and
14 so forth; isn't that true?

15 WITNESS DONOFRIO: The grand total forecasted was
16 based upon new customers, et cetera.

17 I am saying what we found was that once a forecast
18 was done, if you remained at the same level of employees, you
19 would hit your forecast.

20 However, if you reduced the number of employees,
21 you would still hook up the same number of customers and
22 maintenance, et cetera; and you would -- the fact was that
23 you reduced the total materials and supplies used.

24 MR. SHILOBOD: Is there a relation between the
25 materials and supplies used and the number of supervisors

1 that you have?

2 WITNESS DONOFRIO: We did our relationship based
3 upon total straight time payroll.

4 MR. SHILOBOD: Is there an in-fact relationship
5 between the materials and supplies used and the number of
6 supervisors that you have?

7 WITNESS DONOFRIO: I did not do that
8 analysis.

9 MR. SHILOBOD: Is there an in-fact relationship
10 between the materials and supplies and the number of people
11 that there are at corporate headquarters?

12 WITNESS DONOFRIO: I did not do that analysis.
13 There may or may not be.

14 MR. SHILOBOD: With respect to transportation, you
15 are aware that Mr. Dieckamp and Mr. Kuhns indicated that there
16 would be weekly trips back and forth between Reading to give
17 the amount of supervision that is needed for the operations at
18 the Penelec service area, are you not?

19 WITNESS DONOFRIO: Yes, sir.

20 MR. SHILOBOD: Where are those additional costs on
21 your Exhibit Number 7?

22 WITNESS DONOFRIO: The additional costs are netted,
23 if you would look under the savings and then the third line
24 and numbers down over under the columns, "Miscellaneous
25 expense including office space," the \$200,000.

1 MR. SHILOBOD: Those are savings of expenses; is
2 that correct?

3 WITNESS DONOFRIO: That is a net savings taking into
4 consideration not only the reduced travel by not having the
5 corporate headquarters in Johnstown, but also any net increase
6 by corporate headquarter people that would have to go from a
7 Reading headquarter to the divisions.

8 MR. SHILOBOD: What assumption was made on the
9 number of trips that would have to be made from Reading to
10 Johnstown?

11 WITNESS VERROCHI: Mr. Donofrio made a big analysis
12 on that, and maybe he can refer to it in the White Book.

13 MR. MESSER: What is the date of the White Book?

14 WITNESS VERROCHI: We made it earlier than that.
15 But what is the date of that?

16 MR. MESSER: We don't have color photocopies. We
17 have to relate it to a date, Mr. Verrochi.

18 WITNESS DONOFRIO: The Blue Book eventually revised
19 is a White Book revised June 4, 1980.

20 MR. SHILOBOD: I have one here June 10, 1980. Oh,
21 this is it.

22 MR. MESSER: Fine.

23 MR. SHILOBOD: What page are you referring to?

24 WITNESS DONOFRIO: It starts back on page 66, and
25 the summary is on page 69.

1 MR. SHILOBOD: If Your Honor please, we are going to
2 request that this document be marked as an exhibit. We would
3 have it marked as JARI Exhibit Number 3 and request permission
4 to reproduce it and to give it to the court reporter in the
5 next proceeding.

6 JUDGE CASEY: Describe what it is if you will.

7 MR. SHILOBOD: This is the Blue Book that has been
8 referred to as revised May 7, 1980 and revised June 4, 1980,
9 which was the final revision of the Blue Book as it was
10 previously referred to.

11 JUDGE CASEY: That was voluntarily provided to you
12 by the company; is that correct?

13 MR. SHILOBOD: That is correct, sir.

14 WITNESS DONOFRIO: Until Mr. Russell gets back,
15 Your Honor, it was voluntarily provided, but, as Mr. Shilobod
16 was saying, these are confidential names, and this really
17 wasn't going anyplace.

18 MR. SHILOBOD: I don't believe there are any names
19 in this.

20 WITNESS VEPROCHI: Maybe you want to put just those
21 pages in.

22 WITNESS DONOFRIO: The whole book has names.

23 MR. SHILOBOD: I will withhold that, Your Honor.
24 We will make some divisions of this book, because there is a
25 particular part I am interested in.

1 JUDGE CASEY: Don't forget it would have to be
2 duplicated if you are going to put it into the record, and
3 copied, because we need three copies for the reporter, and I
4 would need a copy.

5 MR. SHILOBOD: What we are interested in are the
6 sections beginning at page 66 and going through page 76, 66
7 through 76.

8 JUDGE CASEY: What does that pertain to, that
9 excerpt?

10 MR. SHILOBOD: Cost estimates.

11 JUDGE CASEY: Cost estimates. Do you want that
12 marked as JARI Exhibit Number 3?

13 MR. SHILOBOD: I did, but the documents that I have
14 here are not fastened together. So, we will withhold doing
15 that at this time.

16 You are referring to page 67; is that correct?

17 WITNESS DONOFRIO: 69.

18 MR. SHILOBOD: How did you arrive at the determina-
19 tion of the number of trips to be made by the officers of
20 the corporation to Johnstown?

21 WITNESS DONOFRIO: As assumption number one states,
22 this was done with individual officer interviews. It was
23 their assumption or their estimate of their trips.

24 MR. SHILOBOD: Their estimate of how many times
25 they intended to go to Johnstown from Reading; is that correct?

1 WITNESS DONOFRIO: To any of these functions listed
2 across the top of the page, either Reading, Harrisburg,
3 Parsipanny, et cetera.

4 JUDGE CASEY: Was this based upon their past
5 experience with the corporate setup as it is now, or are
6 these projections?

7 WITNESS DONOFRIO: Both; both on the present
8 condition and then the change if the corporate headquarters
9 was in Johnstown versus the corporate headquarters being
10 located in Reading.

11 MR. SHILOBOD: Can you tell me how they knew how
12 many times they would have to go to Johnstown?

13 WITNESS DONOFRIO: I don't understand your question.

14 MR. SHILOBOD: How did they know how frequently
15 they would have to take trips to Johnstown from Reading?

16 WITNESS DONOFRIO: It was their assumption of facts
17 as they saw what their duties and responsibilities would be
18 if they would be located in Reading.

19 Again, it depended upon each officer, exactly what
20 piece of his total function he had located in Johnstown.

21 MR. SHILOBOD: When did you gather this information?

22 WITNESS DONOFRIO: It would be prior to March 26,
23 1980, because it is in the original Blue Book dated March 26.

24 MR. SHILOBOD: But it was gathered after the
25 decision had been made to proceed with the management

1 reorganization; is that correct?

2 WITNESS DONOFRIO: Yes.

3 MR. SHILOBOD: And whenever you were gathering
4 this information, at that time, you were trying to establish
5 the savings that could be developed as a result of the
6 management combination; isn't that correct?

7 WITNESS DONOFRIO: Two things; that is one of them,
8 and the other thing that we were looking at was under the
9 kind of question that would be: what if you were consolidated
10 in Johnstown; would there be an increase in your travel and
11 expense costs? We tried to quantify it based upon certain
12 assumptions as listed on the page.

13 MR. SHILOBOD: I would like to take you back to the
14 previous page of that same document, namely 66.

15 I will let you look at this copy, Your Honor.

16 (Document handed to Judge Casey by Mr. Shilobod.)

17 WITNESS DONOFRIO: Your Honor, we are talking about
18 on page 66. I would refer back to what I said earlier on the
19 original Blue Book.

20 The original Blue Book nor this was intended to go
21 through and quantify the cost avoidance. The original
22 attempt and still is today is the establishment of the first
23 19 individuals or the first 10 percent reduction in the
24 corporate combination of management; and that is what this
25 refers to.

1 MR. SHILOBOD: You see, Mr. Donofrio, my problem is
2 that I sat in on the oral presentation of the annual review
3 to the Commission by Mr. Kuhns in which he told the Commission
4 that there was going to be savings of \$18 million from this
5 management combination. That was my understanding of it; that
6 was my perception of it.

7 At that time, there was in existence this Blue Book
8 with page 66 which suggested the savings are substantially
9 less from the management combination.

10 WITNESS VERROCHI: Not at all, sir. Where do you
11 get that from?

12 WITNESS DONOFRIO: This book is just a corporate
13 piece, and this is just 19 individuals. It has nothing to
14 do with the divisions or cost avoidance or adding corporate
15 people. This is the first 19.

16 If you will look over on page 68, you will see the
17 5 and the 14 being job eliminated. That is the 19. That is
18 all this book was meant to be. .

19 MR. SHILOBOD: What were you referring to on page
20 68?

21 WITNESS DONOFRIO: When you look at the employees,
22 then you come down 3, 1, 23, 5 and 14; at 5 and 14 is the
23 19 referred to over on Exhibit 7 that was put on the record
24 today.

25 Also on page 66 that you are referring to is we gave

1 a range in there in the last paragraph on page 66 that says,
2 "After the management combination has been in effect for a
3 year or so and employees become more familiar with their new
4 duties, it is anticipated that 15 to 30 additional positions
5 can be eliminated."

6 In our Exhibit 7 when we did that, we said that the
7 original ten percent of the 19 could be an additional ten
8 percent or an additional 19 after one year. That is all this
9 refers to.

10 This book has nothing to do with the division
11 reorganization or the cost avoidance if we don't go ahead
12 with this.

13 MR. SHILOBOD: Comparing page 66 to your Exhibit
14 Number 7, page 66 indicates that there would be no savings
15 from the management combination until into the fourth year;
16 isn't that true?

17 WITNESS DONOFRIO: What is says is that for the
18 total relocation expense, which is approximately a little over
19 \$2 million which is a one time over and once done with, that
20 just the savings for these first 19 individuals would turn
21 around during the second year.

22 JUDGE CASEY: What 19 individuals are you talking
23 about, Penelec people that have to be relocated to Reading or
24 the top 19 people in the management combination?

25 WITNESS DONOFRIO: The 19 is the initial job

1 reductions on a corporate level as a result of the combining
2 of existing forces.

3 MR. RUSSELL: Can you identify them on any exhibit?

4 WITNESS VERROCHI: On Exhibit 7.

5 MR. SHILOBOD: When you say there is a turnaround
6 in the second year, as I read page 66 of the Blue Book or the
7 White Book -- what color is this book supposed to be?

8 WITNESS DONOFRIO: There is one dated June 4.

9 MR. SHILOBOD: June 4, 1979?

10 WITNESS DONOFRIO: 1980.

11 MR. SHILOBOD: 1980. The fact is that there is a
12 cost savings of \$315,000 in the second year; isn't that true?

13 WITNESS DONOFRIO: This is only a piece; this is
14 only the reduction of the 19 of the corporate headquarter
15 staff net of the relocation expenses.

16 MR. SHILOBOD: Yes, but the relocation expenses for
17 the second year?

18 WITNESS DONOFRIO: No.

19 MR. SHILOBOD: Is that correct?

20 WITNESS DONOFRIO: Look at page 66. What we have is
21 relocation expenses that are paid out over a three-year
22 period. It is a one time and only deal.

23 MR. SHILOBOD: Let's start with that right there,
24 the relocation spread out over three years. I take it then
25 that what you are saying is that all of these transfers won't

1 be made immediately; they will be spread over a three-year
2 period?

3 WITNESS DONOFRIO: Look at page 67, if I may ask
4 you, which details again the assumptions and the work-up on
5 the cost of location, and this assumes that all of the costs
6 of relocation, moving expenses, et cetera are paid the first
7 year.

8 However, there is in effect a policy for mortgage
9 interest differential which is paid to employees over a three-
10 year period.

11 The first year is added to all of the other costs
12 of moving, et cetera, closing costs for the first year; and
13 then the second and third year payment for the mortgage
14 differential are the only costs for the second and third year
15 based upon this.

16 MR. SHILOBOD: But if we look at the management
17 combination alone, the annual savings do not reach \$700,000
18 until the fourth year; isn't that correct?

19 WITNESS DONOFRIO: And the cost avoidance of
20 \$8 million starts the first year, correct.

21 MR. SHILOBOD: I am staying now with our annual
22 cost savings.

23 WITNESS VERROCHI: It is both of those.

24 MR. SHILOBOD: When do we reach the \$1.2 million
25 shown on your Exhibit Number 7?

1 WITNESS DONOFRIO: The first \$.7 million of the
2 \$1.2 million starts effective as soon as the combination is
3 allowed to be implemented.

4 The \$.5 million would start one year after the
5 combination was allowed to be implemented.

6 MR. SHILOBOD: Could that answer be read back?

7 (Whereupon, the reporter read from the record as
8 requested.)

9 MR. SHILOBOD: Then what you are telling me is that
10 Exhibit Number 7 are not net cost savings; they are gross cost
11 savings, is that correct, prior to the additional expenses
12 that are related to the combination?

13 WITNESS DONOFRIO: Exhibits 7 and 8 are annualized
14 savings. Exhibit 7 nor Exhibit 8 do not reflect the cost of
15 relocation of the approximately \$2.5 million, the once and
16 over done costs.

17 MR. SHILOBOD: You may have explained it, but I am
18 not sure that I understand.

19 Does this report of June 4, 1980 contain a greater
20 breakdown of the \$.5 million savings related to the additional
21 reduction in corporate headquarter employees?

22 WITNESS DONOFRIO: If you look at page 66, if you
23 take the payroll -- let's say the first annualized year as a
24 .398 of \$398,000, plus the fringe benefits of \$113,000, that
25 is the same exact numbers as it would be for the additional

1 19 people.

2 In other words, there is no duplication. The travel
3 is a once and done savings. We are not duplicating that, nor
4 the building space; but the physical payroll and fringe
5 benefits are for 19 people. So, it is the same kind of
6 breakdown.

7 MR. SHILOBOD: I am trying to relate page 66 to
8 your Exhibit Number 7. As I read page 66, there are annual
9 savings of \$700,000.

10 WITNESS DONOFRIO: Yes, sir.

11 MR. SHILOBOD: Each year?

12 WITNESS DONOFRIO: For the first 19 individuals.

13 MR. SHILOBOD: For the first 19 individuals?

14 WITNESS DONOFRIO: Yes, sir.

15 MR. SHILOBOD: If I look at your Exhibit Number 7,
16 it shows \$.7 million or a \$700,000 savings for the first 19
17 individuals.

18 WITNESS DONOFRIO: It is the same \$700,000.

19 MR. SHILOBOD: The second \$500,000, where does that
20 come from?

21 WITNESS DONOFRIO: Again, it is the same derivation
22 of the payroll and fringe benefit piece of the \$700,000 for
23 another 19 employees. It is the same .4 and .1, or if you want
24 to refer to page 66, it is the same \$398,000 of payroll and
25 \$113,000 of fringe benefits.

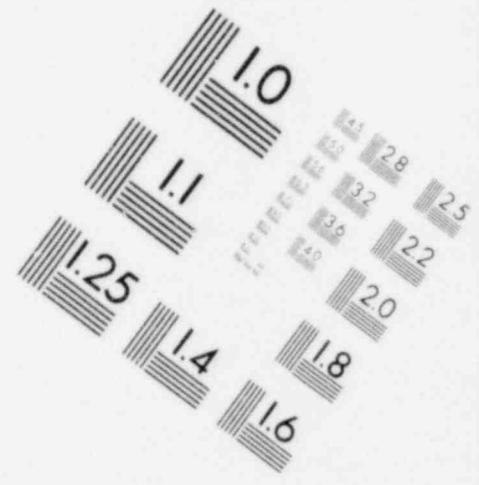
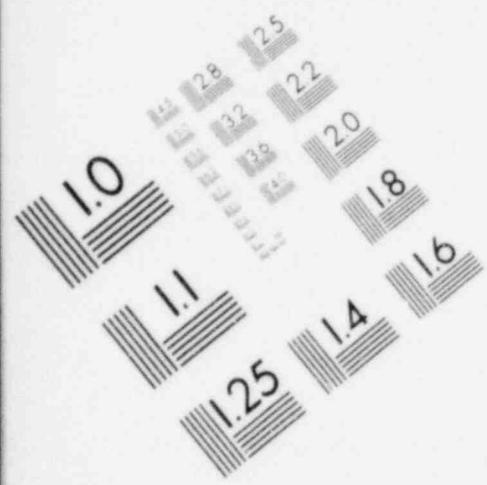
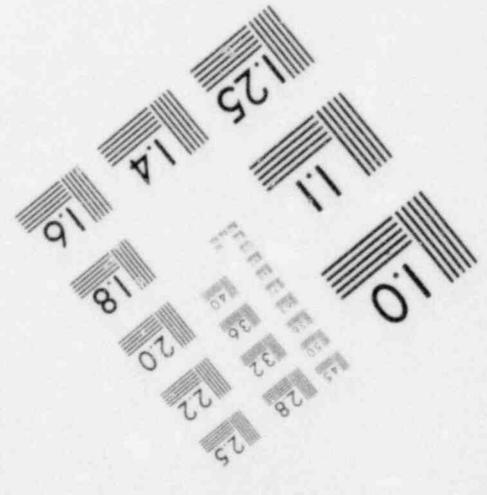
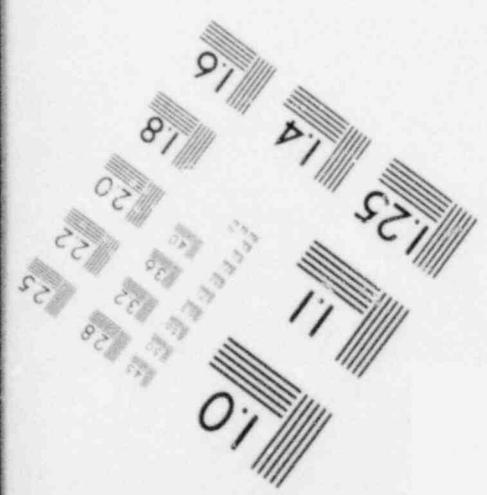
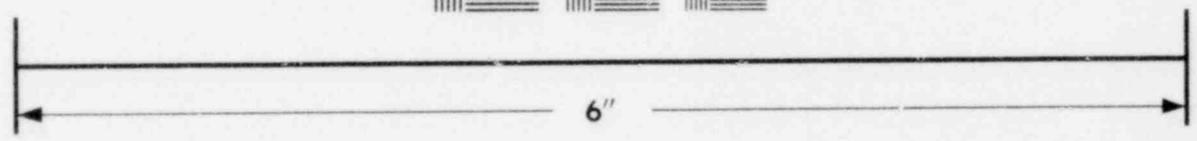
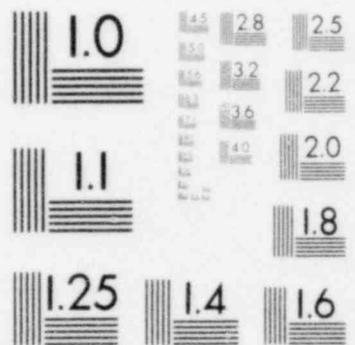


IMAGE EVALUATION
TEST TARGET (MT-3)



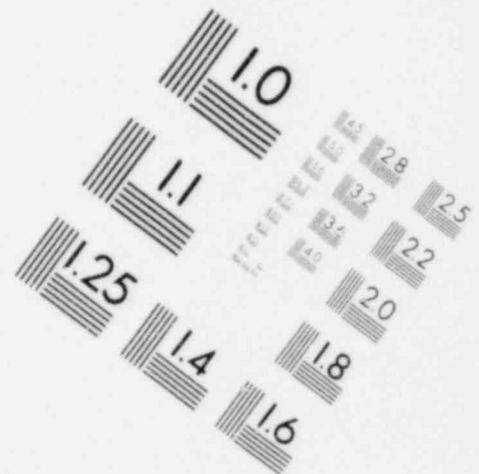
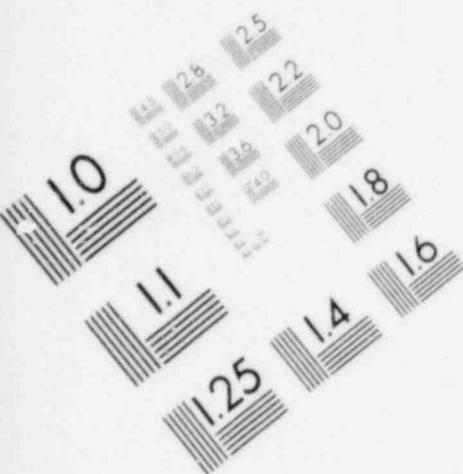
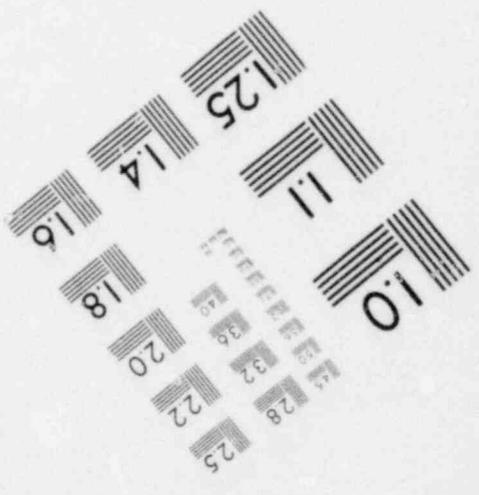
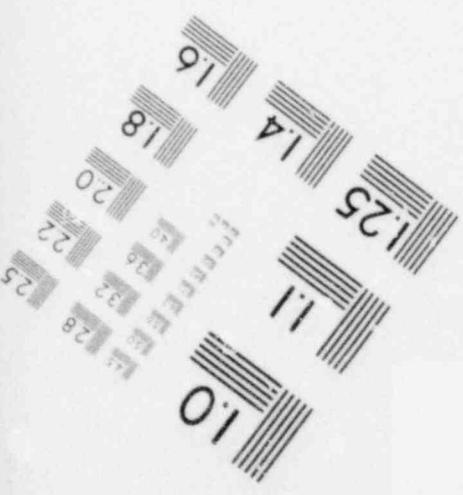
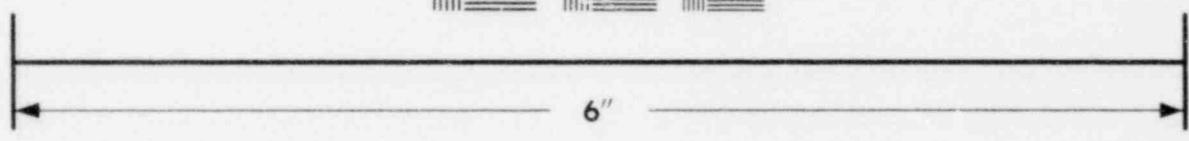


IMAGE EVALUATION
TEST TARGET (MT-3)



1 MR. SHILOBOD: Then the difference is that for the
2 second set of employees, there is no reduction in what,
3 transportation expenses; is that what you said?

4 WITNESS DONOFRIO: What we said is we already have
5 the total travel changes and the total building space alloca-
6 tion with the first 19 on having the headquarters at one versus
7 the present setup.

8 MR. SHILOBOD: So, the savings of \$200,000 from the
9 first 19 does not occur with the second 19; is that correct?

10 WITNESS DONOFRIO: No. At approximately ten percent,
11 it wouldn't show up in the roundings even if the ten percent
12 was added on there.

13 MR. SHILOBOD: The transportation expenses weren't
14 really based upon ten percent of the payroll. They were based
15 upon your determination of transportation savings that
16 happened to be equivalent to ten percent of the payroll; is
17 that a fair statement?

18 WITNESS DONOFRIO: The travel involved was put for
19 the first 19 which took into effect the change at headquarters.
20 Under transportation, the more individuals or less individuals
21 you have, we assume and our statistics indicate that
22 approximately ten percent of individual salary is used for
23 transportation.

24 Travel is one thing, and that is netted in the
25 \$160,000 which is detailed on page 66. That is the \$200,000

1 referred to on Exhibit Number 7.

2 (Mr. Donofrio and Mr. Verrochi confer.)

3 MR. SHILOBOD: You were having a conversation with
4 Mr. Verrochi. Is there some clarification you wish to make?

5 WITNESS DONOFRIO: He only --

6 MR. SHILOBOD: I am asking if there is something
7 he wanted to clarify.

8 WITNESS VERROCHI: The only point, and I hope it is
9 clarifying, Mr. Shilobod, if you look at Exhibit 7, A1
10 quantifies a \$700,000 saving for the first 19 reduction, but
11 a year later for the second 19 he only shows \$500,000.

12 I think if you look at the breakdown, transportation
13 is shown as being close enough to being zero to be neglected.
14 The big difference is that for the second 19 people, you
15 don't have a \$200,000 reduction in miscellaneous expenses,
16 including office space. You have already got office space.
17 I think that is the main reason why you don't have a \$700,000
18 for each successive 19 reduction.

19 Does that clarify?

20 MR. SHILOBOD: Yes. Thank you.

21 Mr. Donofrio, referring to page 71 of the report of
22 June 4, 1980, I believe that is your calculation of the
23 savings arising out of rental of office space; is that
24 correct?

25 WITNESS DONOFRIO: Yes, sir.

1 MR. SHILOBOD: Did you calculate these savings from
2 the corporate standpoint, or did you calculate them from the
3 ratepayers' standpoint?

4 MR. RUSSELL: Would you explain what the difference
5 is between the two?

6 MR. SHILOBOD: Did you perceive any difference
7 between the two?

8 WITNESS DONOFRIO: No, sir.

9 MR. SHILOBOD: With respect to Met-Ed, you show
10 that there are no corporate rentals, but there is for Penelec;
11 is that correct?

12 WITNESS DONOFRIO: Unless there is a deviation.

13 MR. SHILOBOD: But under the present condition, you
14 are showing that there is a \$32,000 annual rental for Penelec,
15 but no rental obligations for Met-Ed; isn't that correct?

16 WITNESS DONOFRIO: Yes, sir.

17 MR. SHILOBOD: Is that because Met-Ed owns its own
18 building?

19 WITNESS DONOFRIO: No, sir.

20 MR. SHILOBOD: Why is it that Penelec has rental
21 expense that Met-Ed doesn't?

22 WITNESS DONOFRIO: Again, it is dependent upon what
23 building space you have for your current complement of
24 employees.

25 MR. SHILOBOD: Either you rent it or you own it, I

1 presume. It can't be one or the other.

2 WITNESS DONOFRIO: Yes, it is; and you can own your
3 own building, but you could not have enough space in it. So,
4 you have to rent additional space.

5 MR. SHILOBOD: Penelec owns some of its own
6 buildings and rents additional space?

7 WITNESS DONOFRIO: Yes, sir.

8 MR. SHILOBOD: And Met-Ed owns its own original
9 building and has no need to rent additional space; is that
10 correct?

11 WITNESS DONOFRIO: I believe so.

12 WITNESS VERROCHI: You are working on deviations,
13 Al.

14 JUDGE CASEY: If Met-Ed owns its headquarters in
15 Reading and they have to accommodate 97 new people, won't
16 there be any rental expense in connection with this management
17 combination, this transfer of personnel?

18 MR. RUSSELL: Are you referring to additional
19 outside space to be rented?

20 JUDGE CASEY: My question, I guess, is: can you
21 accommodate this influx of people in existing quarters?

22 WITNESS DONOFRIO: Yes, sir. As detailed on page
23 71 under the study under assumption number three, no additional
24 space would be necessary at the Reading location due to the
25 assumption of relocation of Met-Ed current employees, some to

1 Three Mile Island and some to GPU Nuclear and their corporate
2 generation function going to Johnstown, vacating that space.

3 MR. SHILOBOD: How is the additional space that is
4 going to be needed at Met-Ed as a result of the management
5 combination, how is it being used presently?

6 WITNESS DONOFRIO: I do not know the answer.

7 MR. SHILOBOD: Where does GPU Service Corporation
8 operate?

9 WITNESS VERROCHI: In Reading in a separate
10 building. They have a separate building, Mr. Shilobod, near
11 the airport.

12 MR. SHILOBOD: Will that building be utilized as
13 part of the management combination?

14 WITNESS VERROCHI: It will not be. It is already
15 overcrowded with Service Corporation employees.

16 MR. SHILOBOD: Would it be utilized for the
17 divisional reorganization?

18 WITNESS VERROCHI: No, sir.

19 MR. SHILOBOD: What building is rented by Penelec
20 right now?

21 WITNESS DONOFRIO: The GTE Building on the next
22 block.

23 MR. SHILOBOD: What is it utilized for?

24 WITNESS DONOFRIO: Some of the corporate Penelec
25 generation employees are located there in that building; in

1 fact, as detailed on page 71, generation maintenance,
2 generation engineering; the breakout totalling about 51
3 employees.

4 MR. SHILOBOD: Are there any other functions being
5 carried out in that building?

6 WITNESS VERROCHI: By Penelec?

7 MR. SHILOBOD: Yes.

8 WITNESS DONOFRIO: I believe this is all.

9 MR. SHILOBOD: Whenever we have top management
10 coming from Reading to Johnstown, where would they function?
11 Are they going to use somebody else's offices?

12 MR. RUSSELL: Is this presently or under the proposed
13 combination?

14 MR. SHILOBOD: Under the proposed combination.

15 WITNESS VERROCHI: In my own case, I haven't really
16 decided, Mr. Shilobod, whether to vacate my Johnstown office.
17 My present thinking is that I would not. It seems to me I
18 would be back in Johnstown frequently enough that I would
19 like to have those quarters.

20 We do have a few executive office spaces which are
21 available and open now. That is one of the questions that
22 we really have not focused on in great detail, because one of
23 the things we will do at the combination is to reorganize and
24 reshuffle our remaining people in the existing corporate
25 complex.

1 That study, by the way, is underway now, but we
2 don't have any results and haven't seen a pressing need to
3 complete it.

4 But in my own case, for example, I would propose
5 to keep my present office both in Johnstown and to occupy an
6 office in Reading.

7 WITNESS DONOFRIO: The talk up to this date is there
8 would be very few, if any. Ralph Conrad may have an office
9 in Reading, and Bill may have an office there, but we are
10 not contemplating having duplicate offices on each function.

11 MR. SHILOBOD: When Mr. Conrad comes to Johnstown,
12 where will he stay?

13 WITNESS VERROCHI: He is in Johnstown and he will
14 stay there.

15 MR. SHILOBOD: What about the other Vice-Presidents?
16 What are the names of the other Vice-Presidents?

17 WITNESS VERROCHI: Mr. Smith.

18 MR. SHILOBOD: Mr. Smith, where is he going to
19 stay?

20 WITNESS VERROCHI: There will be a space for him
21 someplace or other, I am sure, and we might want to set up
22 several visiting offices in the existing officer complex on
23 the fourth floor at Penelec.

24 MR. SHILOBOD: Is it correct to say that for all of
25 these corporate officers exactly what combinations will exist

1 in Johnstown is a matter that simply has not been decided?

2 WITNESS VERROCHI: Yes; we don't see that it is a
3 major problem. Again, at the risk of prolonging this, our
4 existing officers do visit division locations and Johnstown
5 will be a major division.

6 They will be going from Reading to Johnstown just
7 as they currently go from Johnstown to Erie or Altoona or
8 Oil City or Towanda.

9 MR. SHILOBOD: From a conceptual basis, the
10 management reorganization of the divisional offices entails
11 reduction of some job functionings of the division managers
12 and giving them more responsibility with respect to direct
13 customer contact; is that a fair statement of what is entailed?

14 WITNESS DONOFRIO: It frees them up to spend more
15 of their time on the customer aspects by having their
16 functional expertise and mirrorimage for technical direction
17 being at the corporate headquarters.

18 MR. SHILOBOD: And when the technical decisions are
19 going to be carried out, they are going to have to be carried
20 out at the divisional level; isn't that true?

21 WITNESS DONOFRIO: Yes. That is why the mirror image
22 would be there.

23 MR. SHILOBOD: And someone is going to have to
24 supervise the carrying out at the divisional level?

25 WITNESS DONOFRIO: Yes.

1 MR. SHILOBOD: And they would continue to have that
2 obligation; isn't that correct?

3 WITNESS DONOFRIO: Yes.

4 MR. SHILOBOD: So, what you would now have is
5 divisional level carrying out decisions made at the corporate
6 level; whereas, presently, the divisional managers are
7 carrying out, to some extent, their own determinations of what
8 is best for their division; is that a fair statement?

9 WITNESS DONOFRIO: No. What you have is different
10 levels amongst the divisions of technical expertise, and they
11 may or may not be carrying out what is needed for a customer.

12 MR. SHILOBOD: Could you explain further?

13 WITNESS DONOFRIO: That on the consolidation coming
14 up with corporate standards instead of each division being
15 on their own on work practices, again putting the best
16 available of all our people together and having the expertise
17 there, we would come up with what is best for all of the
18 customers on a uniform basis and not leave it up to the
19 possibility of chance.

20 WITNESS VERROCHI: The present divisions each have
21 an operating superintendent. In the new setup, the divisions
22 will have a job that is equivalent to the operating
23 superintendent.

24 Presently, the operating superintendent looks to
25 his own division manager for direction and leadership and

1 guidance both in the technical functioning of the operating
2 superintendents' area.

3 In the new setup, the division manager will look
4 to the operating superintendent to make sure that he
5 prioritizes hooking up new customers and restoring service to
6 disconnected customers in accordance with the division
7 manager's wishes.

8 However, the operating superintendent will look to
9 the Vice-President-T&D and that Vice-President's staff at
10 corporate headquarters for more direction and control than
11 he is currently getting.

12 It is an attempt to kind of have the operating
13 superintendent look at the two areas for direction and
14 guidance rather than one.

15 MR. SHILOBOD: Mr. Verrochi, you had indicated
16 earlier that if the management combinations do not occur,
17 that with respect to Penelec, you would need the 25 to 50
18 additional people in the transmission and distribution
19 function.

20 Are there any other employees that would have to
21 be added as a result of the divisional reorganization if the
22 management combination is not allowed?

23 WITNESS VERROCHI: Let me ask Al to help me on that
24 one.

25 MR. SHILOBOD: I am speaking with respect to

1 Penelec.

2 WITNESS VERROCHI: Yes; the division consolidation
3 alone.

4 WITNESS DONOFRIO: There are two questions, and
5 we can only have one answer. What happens is if the
6 management combination is not allowed, the 205 total
7 additional jobs are needed; of which out of the 205, 85 are
8 at Penelec.

9 So, the first thing is the 85. Then the
10 divisional reorganization can be accomplished; and then over
11 the two to three-year period, you would have the reduction of
12 73 in the divisions.

13 WITNESS VERROCHI: But if we go through the array
14 of 85 people, Al, we have identified that 50 of those people
15 in T&D come about because we need them to permit the
16 reorganization of the divisions.

17 As I go through these, how about conservation and
18 load management, anything there? It seems to me that most
19 of these others are not materially affected by the division
20 reorganization, are they?

21 WITNESS DONOFRIO: No, but they all are by the
22 management --

23 WITNESS VERROCHI: Dennis is asking about division
24 reorganization. I think the answer to your question, after an
25 awful lot of talk, is that of the 85 total jobs to be avoided

1 by the combination, 50 come about because of the division
2 reorganization.

3 JUDGE CASEY: How does that figure, the 85 jobs
4 that can be avoided, how does that dovetail with the announced
5 loss of approximately 85 jobs in the Johnstown area in the
6 event that the management combination is approved? Is there
7 any relationship?

8 WITNESS VERROCHI: It just happens to be a
9 coincidence. If you like, Your Honor, I can give you half a
10 dozen numbers that add up to that 85. Would that be of any
11 help, or would that confuse the issue?

12 JUDGE CASEY: I am afraid it would.

13 WITNESS VERROCHI: It is a coincidence.

14 MR. SHILOBOD: With respect to the 205 jobs, you
15 are indicating that 120 of those would be allocable to Met-Ed;
16 is that correct?

17 WITNESS DONOFRIO: Yes, sir.

18 MR. SHILOBOD: How many of those 120 jobs would be
19 associated with the divisional reorganization, but for the
20 management combination?

21 WITNESS VERROCHI: None. I think most of the 120
22 in Met-Ed have to do with other than the division reorganiza-
23 tion.

24 WITNESS DONOFRIO: 75 are generation.

25 MR. SHILOBOD: Is that because there will be an

1 expanded number of divisions in the Penelec area and a
2 reduction in the number of divisions in the Met-Ed area?

3 WITNESS DONOFRIO: They already have a corporate
4 staff set up. At Met-Ed, they have a corporate staff set up
5 in the T&D function; at Penelec, we have a corporate staff
6 set up in the generation function.

7 What we are trying to do is, instead of duplicating
8 these, take advantage of having the Penelec's generation corporate
9 staff, in effect, manage both; and here, the T&D instead of
10 duplicating it at Penelec, let the Met-Ed staff manage it.

11 MR. SHILOBOD: As I understand it, Met-Ed presently
12 has four divisions. Under the reorganization, it would be
13 reduced to three; is that correct?

14 WITNESS VERROCHI: That is what I think is going to
15 happen, Mr. Shilobod; but as I testified yesterday, I have
16 been discussing this point with Mr. Smith, who is much more
17 knowledgeable about the details of the Met-Ed's operations,
18 and he and I aren't really yet sure that we are going to
19 reduce the number of division managers from four to three.

20 We may look hard at realigning some of the support
21 services to some of the divisions in fewer locations, like
22 engineering and base customer accounting and so forth, but we
23 haven't reached that stage of study yet in Met-Ed.

24 We have done much more work on this in Penelec. So,
25 it might be four divisions with some decreased staff at some

1 of the division locations, or it might be three divisions or
2 it might be four divisions with no decrease in staff. We
3 haven't really looked that hard at it yet.

4 MR. SHILOBOD: What role did the reduction from
5 four divisions to three divisions take with respect to that
6 estimate of the savings of 136 jobs, or the replacement of
7 136 jobs as a result of the divisional reorganization at
8 Met-Ed?

9 WITNESS VERROCHI: About ten, Al tells me.

10 MR. SHILOBOD: As I understand it then, based upon
11 current plans with respect to the divisional reorganization
12 of Metropolitan Edison, by having the management combination
13 you are going to immediately do away with four supervisors
14 that are currently functioning with respect to four districts
15 in the company; is that correct?

16 WITNESS VERROCHI: Are you talking about Met-Ed on
17 Exhibit 7?

18 MR. SHILOBOD: Yes.

19 WITNESS VERROCHI: That hasn't anything to do with
20 the management combination. That is the reorganization.

21 MR. SHILOBOD: If the management combination is
22 allowed to go through, as I understand it, you would have an
23 immediate reduction of four supervisors with respect to the
24 divisional reorganization, even though you are maintaining the
25 same number of divisions; is that correct?

1 WITNESS DONOFRIO: It would not be immediate, but
2 there would be a reduction.

3 MR. SHILOBOD: If it would not be immediate, over
4 what period of time are we talking about?

5 WITNESS DONOFRIO: Two to three years by the time
6 that eventual totals are not on the payroll.

7 JUDGE CASEY: Excuse me, Mr. Shilobod, but I think
8 now would be a good time to break. We will recess now for
9 lunch until 1:45. Then you can pursue this after the recess.

10 (Whereupon, at 12:45 p.m., the hearing was adjourned,
11 to be reconvened at 1:45 p.m., this same day.)

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AFTERNOON SESSION

(1:45 p.m.)

1
2 JUDGE CASEY: We will go back on the record at
3 this time and continue with the cross-examination of Mr.
4 Donofrio.

5 Mr. Shilobod?

6
7 Whereupon,

8 F. ALLEN DONOFRIO
WILLIAM A. VERROCHI

9 having been previously duly sworn testified further as follows:

10 CROSS-EXAMINATION (Continued)

11 MR. SHILOBOD: Referring to Exhibit Number 7,
12 there is an indication of an initial reduction of corporate
13 headquarters employees as a result of the proposed corporate
14 combination that would cause savings of \$700,000 per annum.

15 Is that based upon the assumption that all of the
16 perceived savings would instantaneously occur, or would these
17 occur over a period of time?

18 WITNESS DONOFRIO: The assumption is that \$700,000
19 is an annual amount, and you would realize that monthly until
20 you accumulated twelve months from the time the combination
21 of management was allowed to go ahead.

22 MR. SHILOBOD: So the presumption is that beginning
23 on day one of the reorganization you would start to accrue the
24 \$700,000 savings; is that correct?

25 WITNESS DONOFRIO: You would save approximately

one-twelfth of it each month.

2 MR. SHILOBOD: And the assumption would be that
3 there would be no break in stride whatsoever as a result of
4 the management combination; is that correct?

5 WITNESS DONOFRIO: When you say "no break in stride,"
6 whatsoever," one of the keys on how this can be effected is,
7 as we explained earlier, on permanent positions on a corporate
8 basis. Right now we are not hiring them with permanent people.

9 We are putting on temporaries and/or working
10 overtime to get the job done in anticipation of this.

11 MR. SHILOBOD: How many people are hired at
12 Penelec on a temporary basis in anticipation of this combined
13 management?

14 WITNESS DONOFRIO: If I could turn it around, if I
15 may; a total of both companies is 64 permanent positions have
16 not been hired because of it.

17 MR. SHILOBOD: With Penelec how many permanent
18 positions were not hired?

19 WITNESS DONOFRIO: I believe the number is 28.

20 MR. SHILOBOD: 28 out of 64?

21 WITNESS DONOFRIO: Yes.

22 MR. SHILOBOD: What positions are they?

23 WITNESS DONOFRIO: The 28 is a combined number of
24 positions in the corporate and in the divisions, in anticipa-
25 tion of not only some of the corporate people but also

1 the 73.

2 MR. SHILOBOD: Do you have a breakdown of what
3 those 28 positions are?

4 WITNESS DONOFRIO: I believe I may have notes
5 referring to it.

6 (Witness perusing documents.)

7 WITNESS DONOFRIO: Out of the total of 28 at
8 Penelec, 15 have been held up on the corporate side in
9 anticipation of the combined management.

10 MR. SHILOBOD: What about the other 13?

11 WITNESS DONOFRIO: They are being held up in the
12 divisions, based upon the reorganization of the divisions
13 concept.

14 MR. SHILOBOD: When you say "on the corporate
15 side," what do you mean?

16 WITNESS DONOFRIO: These are corporate head-
17 quartered employees. Out of the 15 there are three in materials
18 management, five in technical, three in the Personnel Depart-
19 ment, one in the operations, and three in the Comtroller,
20 totaling 15 vacant positions that could be hired today with
21 permanent employees.

22 MR. SHILOBOD: A little slower. Three in materials
23 management, five technical, three personnel; how many in
24 operations?

25 WITNESS DONOFRIO: one.

MR. SHILOBOD: How many in the Comtroller's office?

WITNESS DONOFRIO: Three.

MR. SHILOBOD: Are any of these positions
+ executive?

WITNESS DONOFRIO: How do you term "executive"?

MR. SHILOBOD: How does Penelec term "executive
7 positions"?

WITNESS DONOFRIO: I will assume for all intents
9 and purposes that executives may be an officer level.

MR. SHILOBOD: Are there any of them at an officer's
11 level?

WITNESS DONOFRIO: No.

MR. SHILOBOD: Are any of them on a supervisory
14 level?

WITNESS DONOFRIO: Yes, sir.

MR. SHILOBOD: How many?

WITNESS DONOFRIO: Either one or two.

MR. SHILOBOD: Where would they be?

WITNESS DONOFRIO: One is in materials management
20 and one is in the Comtroller's area.

MR. SHILOBOD: Is there any position higher than
23 supervisor among those 15 people?

WITNESS DONOFRIO: No, sir.

MR. SHILOBOD: How long has the position been
25 vacant for the supervisor in the materials management section?

1 WITNESS DONOFRIO: I do not have that information
2 available.

3 MR. SHILOBOD: Was that position ever filled, or
4 was that a new position that is conceived as now being needed?

5 WITNESS DONOFRIO: No, sir; all of these are
6 positions that had previously been filled.

7 MR. SHILOBOD: Do you have any estimation of how
8 long that position has been vacant?

9 WITNESS DONOFRIO: No, I do not.

10 MR. SHILOBOD: With respect to the one supervisor
11 in the Comtroller's office, how long has that position been
12 vacant?

13 WITNESS DONOFRIO: For at least a couple of months.

14 MR. SHILOBOD: How was the position vacated; do
15 you know?

16 WITNESS DONOFRIO: By a person who left Penelec
17 and was promoted to a position within the GPU Service Company
18 in Parsippany.

19 MR. SHILOBOD: What is the job obligation of that
20 supervisor?

21 WITNESS DONOFRIO: Assistant to the Comtroller.

22 MR. SHILOBOD: What does he do as assistant to
23 the Comtroller?

24 WITNESS DONOFRIO: He heads the staff functions
25 hiring, firing, goals review, coordinates meetings between

1 the department heads, works on presentations of the various
2 groups.

3 MR. SHILOBOD: Is that job function going to have
4 to be filled and carried out after the management combination?

5 WITNESS DONOFRIO: It has to be carried out after
6 the management combination in the Reading headquarters, and is
7 being fulfilled today by a temporary replacement who moved
8 out of the present Budget Department into that position; and
9 then the Budget Department is working overtime to make up for
10 the loss of the individual in order for them to meet their
11 work load.

12 MR. SHILOBOD: You are indicating that hiring
13 and firing in the Johnstown office is going to be carried on
14 out of Reading under the new arrangement; is that correct?

15 WITNESS DONOFRIO: What we are saying is that
16 the hiring and firing and promotions and everything that is
17 needed to be done for the Controller in the Controller's
18 function would all be coordinated out of there, yes.

19 MR. SHILOBOD: What do you mean by "coordinated"?
20 Is it something different than what the supervisor is doing
21 now?

22 WITNESS DONOFRIO: No, sir.

23 MR. SHILOBOD: What do you mean by "coordinated"?

24 WITNESS DONOFRIO: When I say "coordinated,"
25 this person sets up the interviews and physically interviews

1 the new jobs; he is over job positions. He makes the
2 recommendations to the Comtroller; and the Comtroller then,
3 based upon whatever level of that job, may or may not be
4 involved in the actual hiring of the individual.

5 On the ones that are a high level, the Comtroller
6 is involved. In that respect, this individual is a coordinator.

7 On lower levels of employee levels, he has the
8 right to hire and/or fire, in conjunction with the Personnel
9 Department, of course.

10 MR. SHILOBOD: When you talk about goal reviews,
11 what do you mean?

12 MR. RUSSELL: If Your Honor please, I have gone
13 along with this at some length. From the point of view of
14 materiality, I think that this has absolutely no materiality
15 to the issues in this case, which is whether or not this
16 agreement is in the public interests.

17 I think that it is so far afield that it is just
18 taking up time for no useful purpose. I object.

19 MR. SHILOBOD: If Your Honor please, I think that
20 it goes to the weight to be given to this estimate that has
21 been presented, this estimate of savings and how realistic
22 they are.

23 JUDGE CASEY: I tend to agree with you, but I
24 think that you are getting into very, very fine points. I
25 know there has to be a justification. We simply can't lock

1 at the agreement itself within the four corners and make
2 any judgments as to whether the agreement will be in the
3 public interest or not; but that certain supporting documenta-
4 tion submitted by the company by way of justification for
5 this move must be examined under a fine light, so to speak.

6 I think we can cut it and refine it too fine,
7 especially in the context of the time that we are working with.
8 I would just ask you to keep that in mind. I don't want to
9 circumvent your right to cross-examine.

10 MR. SHILOBOD: I certainly do understand the
11 limitations that we are under, and I will attempt to respect
12 those problems.

13 Mr. Donofrio, Exhibit Number 7 is entitled,
14 "Potential Cost Savings." With respect to the \$700,000, what
15 is the range of error in the calculation?

16 WITNESS DONOFRIO: The range of error, if any,
17 would be narrow; this is a low number. These are annualized
18 salaries as of January 1, 1980, and now we are in 1981.

19 MR. SHILOBOD: You are indicating no errors; is
20 that correct?

21 WITNESS DONOFRIO: On the 19 individuals?

22 MR. SHILOBOD: Yes.

23 WITNESS DONOFRIO: Well, we have a plan as in the
24 White Book on the physical reduction of these 19 jobs. We
25 have our original on-hand and our goal where we are going;

1 so there is no error in the 19.

2 MR. SHILOBOD: On that \$700,000, how much of it
3 is allocable to Penelec?

4 WITNESS DONOFRIO: It is hard to say exactly
5 how much would be to Penelec versus how much would be to
6 Met-Ed. This is a reduction of 19 from a combined present
7 now Met-Ed/Penelec to a new combined Penelec/Met-Ed. If
8 everything was in the same portion as the grand total of
9 corporate headquarters would be, there would be approximately
10 60 percent Penelec and 40 percent Met-Ed.

11 MR. SHILOBOD: Refresh my memory somewhat. You
12 indicated that these 247 employees, that is all on the
13 corporate level; is that correct?

14 WITNESS DONOFRIO: No, sir. The 19 and the
15 additional 19 one year later are on the corporate level of the
16 247.

17 MR. SHILOBOD: How many corporate employees does
18 Met-Ed presently have?

19 WITNESS DONOFRIO: If I may keep with consistent
20 statistics, on page 72 of the White Book that you have that?

21 MR. MESSER: Again, you are referring to the June
22 4th edition?

23 WITNESS DONOFRIO: Yes.

24 JUDGE CASEY: Has that also been described as the
25 final revision of the Blue Book, the first document?

1 WITNESS DONOFRIO: It is the latest revision.

2 MR. SHILOBOD: If Your Honor please, this would
3 be a good time if we may, to have this document marked as
4 JARI Exhibit Number 3.

5 What it is is the front page of the planning
6 document which is marked "Confidential, Met-Ed/Penelec,
7 Management Combination Planning Draft, 3/26/80, Revised
8 5/7/80 and Revised 6/4/80."

9 Attached to that confidential sheet is a table
10 of contents, and then attached thereto in addition are pages
11 66 through 76, which is one segment of that document which
12 is referred to under "Cost Analyses" on the table of contents.

13 May we have it so marked?

14 JUDGE CASEY: Yes, you may. It is JARI Exhibit
15 Number 3.

16 (Whereupon, the document was
17 marked as JARI Exhibit No. 3
for identification.)

18 JUDGE CASEY: Did you put this together, Mr.
19 Shilobod by extracting those sections of the total Base Book
20 or whatever it was, and it all pertains to one overall
21 subject?

22 MR. SHILOBOD: That is correct, Your Honor.

23 JUDGE CASEY: Cost reduction?

24 MR. SHILOBOD: That is correct.

25 Mr. Donofrio, you are referring to what page of

1 that document?

2 WITNESS DONOFRIO: Page 72.

3 Up in the lefthand corner you will notice actual
4 1180; that is the exact number of corporate employees on hand
5 as of January 1 of this year. It details it by the functional
6 group coming down the side of the page; and then across the
7 top it will break out Penelec, Met-Ed and then an addition or
8 the combination of the two of them together, broken out by
9 officers, supervisors, etcetera, which shows on January 1,
10 1980 at Penelec headquarters there were 616 corporate staff
11 combined with 460 of Met-Ed's staff, creating a total of
12 1,076.

13 The next one is the transfers between Johnstown
14 and Reading on jobs, the eliminations or additions, which we
15 will note over on the far right is the first 19 that we were
16 talking about, which then results in a consolidated as at
17 January 1, 1980 for the same exact work scope coming down to
18 a combined total of 1,057 employees, or 19 less that actually
19 on hand.

20 MR. SHILOBOD: Could you explain the next two
21 classifications, the change in responsibility and the total
22 authorized?

23 WITNESS DONOFRIO: We have now added a change
24 in responsibility, which in grand total is 53, and the total
25 authorized or allowable for the functions of 1,110.

1 Some examples of the change in the responsibility
2 are such things as Service Corporation in Parsippany in GPU
3 has responsibilities for new project generation management of
4 I believe 15 individuals.

5 What happens is that this is the corporate head-
6 quarters of the combined management. That work scope plus
7 these individuals are being transferred into this combined
8 management.

9 In materials management, again at the Service
10 Corporation, there are about five individuals. The work
11 scope plus individual jobs are being placed underneath the
12 authority of this combined management.

13 This would go up with or without the combination
14 because of the increased work scope now. That is why we
15 have them defined differently. Some of it may be a
16 division at corporate, but that is what the 53 is meant to
17 portray.

18 MR. SHILOBOD: I am not sure what exactly you
19 meant. Do you mean the 53 that are referred to under "Change
20 in Responsibility," those changes in responsibility may
21 arise out of the divisional reorganization; is that what you
22 are saying?

23 WITNESS DONOFRIO: No, sir.

24 MR. SHILOBOD: It is strictly with respect to
25 the corporate combination; is that correct?

1 WITNESS DONOFRIO: Yes, sir.

2 MR. SHILOBOD: What I don't understand is that
3 you don't show any change in the responsibilities for the
4 executive; is that true?

5 WITNESS DONOFRIO: When you say "change in the
6 responsibilities," what do you refer to?

7 MR. SHILOBOD: You have a section there entitled
8 "Change in responsibilities," and for the executives you show
9 none.

10 WITNESS DONOFRIO: Change in responsibility is
11 only for additional jobs that come along with additional
12 increased work scope.

13 The executive responsibility is the same for
14 the combined. We are still going to manage two companies
15 before or after the reductions.

16 MR. SHILOBOD: Then this is an overall change?
17 It doesn't have to do with change with respect to any one
18 individual; is that correct or not?

19 WITNESS DONOFRIO: It has to do with the whole
20 change from where we actually were as of January 1, 1980
21 at corporate headquarters at both companies to our goal and
22 projected organization with a combined management.

23 MR. SHILOBOD: Are you saying that the President
24 of the new company doesn't have any change in responsibility
25 as opposed to what he had at Penelec; is that what you are

1 saying?

2 WITNESS DONOFRIO: The change in responsibility,
3 which I reiterate, is above and beyond present work scope.
4 There is a work scope right now for the management of Met-Ed
5 and Penelec, and there still will be a work scope of manage-
6 ment of Met-Ed and Penelec. That is down there in the
7 consolidated before you get to a change in responsibility.

8 MR. SHILOBOD: So this combination then is based
9 upon the assumption that when it occurs, there responsibilities
10 of the executive officer is not changed at all in the
11 combination, as opposed to the two individual companies?

12 WITNESS DONOFRIO: No, sir. Mr. Verrochi would
13 be President, the operating officer of the combined management
14 and he is instituting a team of Senior Vice-Presidents to help
15 in the organization and in the management of the combined
16 management.

17 MR. SHILOBOD: That is what I thought. That is
18 why I didn't understand this chart. Frankly, I don't even
19 understand what the change in responsibility is.

20 JUDGE CASEY: Are you saying that there would be
21 a change perhaps in the degree of his responsibility, but not
22 in the nature of his responsibility?

23 WITNESS DONOFRIO: That is it.

24 WITNESS VERROCHI: May I try from perhaps another
25 tack, Your Honor. Perhaps we could have changed the title of

1 this "Change in Responsibility" to something that says that
2 we are recognizing that the combined managements will have
3 work loads and work assignments that they don't currently
4 have separately.

5 I think if we just pursue the example -- I keep
6 coming to generation, but I think it is the simplest. Right
7 now in Parsippany there are 19 people -- 15 people of this
8 19 -- see the entry where it says "generation."

9 Right now in Parsippany there are 19 people --
10 15 of those 19 people who are employees of the GPU Service
11 Corporation. They are managers and the senior type engineers
12 involved in design, construction and licensing of fossil power
13 plants.

14 One of the things that is going to happen with the
15 combination of management and the formation of the Nuclear
16 Corporation is that those 15 people will no longer be employees
17 of the Service Corporation, but they will become employees
18 of Penelec. They are currently doing the work, and whatever
19 projects they are working on now as employees of the Service
20 Company are being charged to that work order, and, of course,
21 the costs of that work order ultimately goes to the operating
22 companies when the units they are working on go into service
23 in proportion to the ownership.

24 So what Al is trying to show here is that there
25 are 15 people being transferred from the Service Company to

1 Penelec, and that is part of the 19 that show in the column
2 under "Combination" and below "Change in responsibility."

3 In other words, it is a change in responsibility
4 of the corporate entities. It isn't meant to address whether
5 Al has greater or smaller responsibilities. It is an
6 increased work scope.

7 Does that add anything?

8 MR. MESSER: May I ask a few questions, Your
9 Honor, in this regard?

10 JUDGE CASEY: Yes.

11 CROSS-EXAMINATION

12 MR. MESSER: Mr. Verrochi, the transfer of the
13 employees of GPU Service Corporation combined management team
14 that you envision would change the method of payment to those
15 individuals, wouldn't it?

16 WITNESS VERROCHI: Yes, they would become
17 employees of Penelec.

18 MR. MESSER: And instead of deferring the charge
19 against the utility, speaking of Penelec and Met-Ed, on a
20 future basis, it would become a current expense, wouldn't it?

21 WITNESS VERROCHI: No, not at all because their
22 time is charged to the construction or work orders that they
23 are working on, and that does not show in the income statement;
24 it is not an operating expense. It is a construction expense.

25 MR. MESSER: In order to assume then that the

1 charges to Penelec and Met-Ed would remain the same, you
2 would have to assume that those employees of GPU Service
3 Corporation are going to be paid in the same proportion in
4 the combination as they are right now; isn't that right?

5 WITNESS VERROCHI: They are paid -- their salary
6 expenses currently are apportioned to the work orders of the
7 jobs that they are doing, and that will continue.

8 MR. MESSER: That is my point.

9 WITNESS VERROCHI: There will be no change in that
10 at all.

11 WITNESS DONOFRIO: No change at all.

12 MR. MESSER: Is there any indication that these
13 employees only work on Met-Ed and Penelec projects currently,
14 or under the auspices of GPU Service Corporation they also
15 work on Jersey Central, isn't that right?

16 WITNESS VERROCHI: Sure; to the extent that they
17 do spend part of their time on Jersey Central projects, they
18 will not be doing that now. The 15 men who are coming over,
19 however, were all pretty much engaged in Homer City coal --
20 the multi-stream coal cleaning system, a very major project
21 that Joe Henry, Bill Hirst and those people were involved in.

22 That same group was also involved in the licensing
23 and design and construction effort for the Seward-7 coal-fired
24 addition which was going to be owned 90 percent by Penelec
25 and 10 percent by Met-Ed -- by Jersey Central.

1 They would be in various projects. It is true
2 that to some extent when they were at the Service Corporation,
3 not all of their time was being charged to these projects;
4 and obviously all of their time will now be charged to Penelec's
5 new construction projects.

6 In addition, this same group, now that we have
7 them -- some of them have already moved to Johnstown, by the
8 way -- will be working on major construction projects involved
9 with existing generating stations.

10 We spend a lot of money each year making major
11 capital improvements to existing generating stations, either
12 for environmental reasons or for performance improvement.

13 This team of very experienced and qualified
14 experts will be integrated into the Penelec organization
15 to do that kind of work for Penelec, and if we combine for
16 Penelec and Met-Ed.

17 But most of their time is currently charged to
18 construction work orders, and it will continue to be in the
19 future.

20 MR. MESSER: My point, Mr. Verrochi, is that
21 whatever the time is that they now devote to GPU business
22 which is not associated with Penelec or Met-Ed would be an
23 additional cost of the combined management team, wouldn't it?

24 WITNESS VERROCHI: Al might be able to answer that.
25 I tried.

1 WITNESS DONOFRIO: When they were over in the
2 Service Corporation, there wasn't only 15 people there. There
3 were more than 15 people over there.

4 The people that had transferred, we have looked
5 at the work load; and the work load that they have brought
6 with them is strictly our coal cleaning plant and the
7 construction of Seward-7. The other individuals that were
8 in the Service Company didn't come.

9 They aren't there. The work is not there, and
10 the employees aren't there.

11 WITNESS VERROCHI: They came from a group of
12 several hundred people.

13 MR. MESSER: Are they now employees of Penelec?

14 WITNESS VERROCHI: Some of them are.

15 WITNESS DONOFRIO: Of the 15, some have been
16 transferred.

17 MR. MESSER: How many people are due to be
18 transferred from GPU Service to the combined management; 53?

19 WITNESS VERROCHI: Oh, no.

20 WITNESS DONOFRIO: 15 in the new construction
21 effort, of which some of them already have. It has nothing
22 to do with the combined management. That is why it is under
23 "Change of responsibility."

24 MR. MESSER: I understand what you are telling me
25 now. But how many people from GPU Service who have already

1 been transferred or the intention is to transfer will there
2 be to the new combined management effort?

3 WITNESS DONOFRIO: There are 15 in the new
4 generation construction, and there is five in the materials
5 management in the coal development, coal planning and strategy
6 functions.

7 MR. MESSER: Are they in place now?

8 WITNESS DONOFRIO: Not as of this date

9 MR. MESSER: How many more? Any others?

10 WITNESS DONOFRIO: No.

11 MR. MESSER: We are talking about a total of 20
12 transfers to either the existing Penelec operation and
13 subsequently or optimally to the combined management group;
14 is that correct?

15 WITNESS DONOFRIO: Yes.

16 MR. MESSER: And you are telling me now that some
17 of the 15 who have already been transferred are on the payroll
18 of Penelec and some are not. Do you know the breakdown there?
19 How many are on Penelec's payroll versus those on GPUC?

20 WITNESS DONOFRIO: The positions are open and being
21 filled at Penelec. In other words, there were 15 employees'
22 bodies of work of which the work scope has been transferred out
23 to Johnstown responsibility.

24 So maybe five or six individuals have transferred;
25 they have transferred. Penelec now has open positions for the

1 other nine and/or they have been filled out there.

2 MR. MESSER: Now this is an increased cost; the
3 addition of these work scope jobs to Penelec is an increased
4 cost to Penelec as a result of the transfer, is it not?

5 WITNESS DONOFRIO: No, sir.

6 MR. MESSER: They are just jobs being filled?

7 WITNESS DONOFRIO: The end result is the same.

8 You can have a paycheck from the Service Corporation, and then
9 Penelec would be billed, or as it is now Penelec can give a
10 paycheck to the individual; the same end result.

11 MR. MESSER: As far as Penelec is concerned, there
12 is no change?

13 WITNESS DONOFRIO: Yes, sir.

14 MR. MESSER: As far as the Service Corporation is
15 involved, there is a service reduction?

16 WITNESS DONOFRIO: When you say there is a
17 reduction in costs, they paid out a salary and billed it to
18 Penelec. It washes on the Service Company.

19 MR. MESSER: What I am saying is that the Service
20 Company is no longer obligated to pay out of operating funds
21 of the Service Corporation for these employees.

22 WITNESS DONOFRIO: There are no operating funds
23 of the Service Company. The Service Company has zero costs.
24 What happens is they perform services for the operating
25 companies and bill for them at cost, and now it is just directly

1 at Penelec. A paycheck is given to the individual; the same
2 end result.

3 CROSS-EXAMINATION (Continued)

4 MR. SHILOBOD: Mr. Verrochi, there are new
5 Vice-Presidential positions created with this new management
6 combination, is there not?

7 WITNESS VERROCHI: Yes, that is right.

8 MR. SHILOBOD: How many new Vice-Presidential
9 positions have been created?

10 WITNESS VERROCHI: Prior to the -- again if you
11 will look at page 72, Mr. Shilobod, you will see that there
12 are on hand as of 1-1-80 eight officers in Penelec and seven
13 in Met-Ed for a total of 15.

14 We are going to increase that total number by one,
15 as shown under the consolidated as at 1-1-80. Do you see the
16 fourth group of numbers down?

17 In addition, because of the change in responsibility
18 the transfer of generation functions, one of those employees
19 who is not currently an officer, by the way, Bill Hirst, will
20 become a Vice-President. So the total authorized plan at the
21 bottom of the page -- we are going from 15 actual to 17 with
22 a net addition of two.

23 MR. SHILOBOD: How were the number of employees at
24 Met-Ed on Exhibit Number 7, the 136 employee changes as a
25 result of the divisional reorganization -- how were those

figures calculated?

1 WITNESS VERROCHI: Mr. Donofrio can, I believe,
2 do a better job than I.

3 WITNESS DONOFRIO: The same rationale as I had
4 explained under the Penelec 73. That is that the divisional
5 organization through Mr. Wise, who is our current Vice-Presi-
6 dent of Operations at Penelec, and Mr. Robidoux, who is
7 Vice-President of Operations at Met-Ed, and Floyd Smith, who
8 is the Senior Vice-President in charge of these functions
9 once the combined management is in effect, has gone through
10 and set up the typical division organization system at
11 Penelec and Met-Ed in the divisions; they have set that up
12 versus the current staffing level, and the reduction would be
13 136.
14

15 MR. SHILOBOD: Met-Ed has four divisions, and
16 now it appears that those divisions may remain in existence.
17 Nevertheless, just by changing the obligations within the
18 divisional organization, you are going to be able to reduce
19 136 employees from those four divisions; is that correct; or
20 approximately 34 individuals per division?

21 WITNESS DONOFRIO: There are two things on this.
22 This is the result of reorganizing the divisions and going
23 ahead with the corporate combination where, again, the
24 technical expertise, the set-up of corporate headquarters is
25 the same rationale as for Penelec.

1 MR. SHILOBOD: I understand that. This is broken
2 down into two parts here. The first section has to do with
3 the number of employees whose jobs are changed as a result of
4 the reorganization, and the other has the number of employees
5 caused by the corporate combination.

6 I am just confining our attention now to the
7 divisional reorganization as I read these.

8 Just by reorganizing the divisions, or the
9 functions of the division managers, you are going to be able
10 to eliminate 44 employees per division; is that correct, at
11 Met-Ed?

12 WITNESS DONOFRIO: I am not sure that it is
13 across the board 44 in each one, but dividing the 136 by four
14 equals 44.

15 WITNESS VERROCHI: No, it doesn't. It is 34.

16 MR. SHILOBOD: How does the divisional -- what
17 are the duties of the present divisional managers?

18 WITNESS VERROCHI: The present duties of a
19 division manager at Penelec -- and I assume at Met-Ed -- are
20 to supervise the efforts of the employees assigned to the
21 division. These employees are primarily in two basic efforts.

22 One is the so-called technical function, which
23 is the engineers and the workers, the bargaining unit people
24 and the supervisors who connect up new customers and make
25 repairs to damaged facilities as a result of storm damage or

1 any other damage, automobile accidents, who do the routine
2 and non-routine maintenance of transmission and distribution
3 facilities, including transmission lines and distribution
4 lines substations and the like; and who work on certain
5 aspects of construction projects involving transmission and
6 distribution facilities.

7 That is one side of the division manager's
8 responsibilities. The other side of the division manager's
9 responsibilities is in customer operations. That means that
10 he is responsible for the business offices. He is responsible
11 for the meter readers. He is responsible for customer
12 relations people, those customer contact people who help in
13 all three areas, residential, commercial and industrial.

14 He is responsible for local public relations and
15 relations with the media. In Penelec's case and Met-Ed's
16 case, he is their spokesman to the local community, both the
17 business community and the customer community, as well as the
18 media.

19 I am not sure; have I left anything out, Al?

20 WITNESS DONOFRIO: That is basically the division
21 manager's responsibility.

22 MR. SHILOBOD: And I take it he has a number of
23 supervisors underneath him, is that correct?

24 WITNESS VERROCHI: Currently he does, yes.

25 MR. SHILOBOD: Is there a common number of

1 supervisors each manager has, or does it change from division
2 to division?

3 WITNESS VERROCHI: It changes from division to
4 division and from district to division. I should have added
5 that in our present set-up, both at Met-Ed and at Penelec,
6 each division manager is located at a division headquarter
7 location, usually in a major city or some geographical area;
8 and in both cases, Met-Ed and Penelec, because of the
9 relatively far-flung nature of our operation and to provide
10 supervision at the local level where the line crews and meter
11 readers and so forth are, we have district offices.

12 The district offices -- I guess kind of
13 simplistically -- are sort of miniature versions of division
14 offices. They have few people. It pretty much covers the
15 same kinds of responsibilities, the technical as well as the
16 customer; so the division manager is responsible for the
17 operation of the districts that happen to be in his area.

18 And again, because of the geography and customer
19 density and so forth, our division staff and our district
20 staff tend to be somewhat different in terms of numbers and
21 in some cases the types of jobs that are filled.

22 MR. SHILOBOD: Mr. Verrochi, do you know how the
23 divisions are broken down in Met-Ed?

24 WITNESS VERROCHI: In what sense, Mr. Shilobod?

25 MR. SHILOBOD: First of all, do you know the

1 duties of the division managers at Met-Ed? Are they the
2 same as at Penelec, or do they have some different obligations?

3 WITNESS VERROCHI: I think they are pretty much
4 the same as they are at Penelec.

5 MR. SHILOBOD: Do you know?

6 WITNESS VERROCHI: To the extent that I can
7 see, they are pretty much the same. I have discussed this
8 with my associates in Penelec and Met-Ed, and as far as
9 general responsibilities are concerned, they are very similar.

10 MR. SHILOBOD: The 88 exempt people from Met-Ed
11 that would be eliminated as a result of the divisional
12 reorganization, do you know what their functions are, what
13 their job obligations are?

14 WITNESS VERROCHI: I don't. Mr. Donofrio might.
15 He worked a little more closely with Mr. Wise from Penelec
16 and Mr. Robidoux from Met-Ed.

17 WITNESS DONOFRIO: I don't have anything with
18 me to break that down.

19 MR. SHILOBOD: Do you know whether those numbers
20 were calculated based on a work load study or a time and
21 motion study?

22 WITNESS DONOFRIO: They were broken down on the
23 same work load of the new reorganized divisions, including
24 a combined management, versus the work load and the manning
25 level required for that work load today.

1 MR. SHILOBOD: I understand that. What I want
2 to know is: were these figures given as a result of surveyed
3 opinions or was a time and motion study or a work load study?

4 WITNESS DONOFRIO: There was not a time and
5 motion study as such performed by our operations analysis
6 group, but the intent is that this is a very close approxima-
7 tion, based upon the cognizant officers and division managers,
8 etcetera, and once we are allowed to go ahead with this, just
9 as we do in all functions, we will have our operations analysis
10 go through the work practices and work management to fine-
11 tune it.

12 MR. SHILOBOD: Well, you see, I have some diffi-
13 culty in that when I look at Exhibit Number 8 and I find that,
14 for instance, rather surprising when we look at your assumptions
15 the number of employees that you would otherwise need whether
16 Met-Ed or Penelec is involved -- I find it somewhat amazing
17 that the numbers are supposed to be indential in both
18 companies.

19 Is there some reason for that, or was that the
20 basis of the assumption with which you started to make these
21 calculations?

22 WITNESS DONOFRIO: Where do you see that they are
23 identical? Met-Ed is 85 and Penelec is 140.

24 MR. SHILOBOD: You indicated to us earlier with
25 respect to the conservation and load management that the 120

1 employees were divided equally between Met-Ed and Penelec.

2 WITNESS DONOFRIO: That is because that is what
3 would be needed for the conservation programs and to create
4 identical staffs at each company. They would be approximately
5 equal if both companies came up with the programs.

6 MR. SHILOBOD: So the assumption was that you
7 would otherwise have to make identical staffs at both
8 companies; is that correct?

9 WITNESS DONOFRIO: Yes, sir.

10 MR. SHILOBOD: Do they have identical staffs now?

11 WITNESS DONOFRIO: I am not positive whether they
12 do or do not. Again, the total staff underneath Consumer
13 Affairs isn't necessarily all conservation and load management
14 today.

15 It has to do with how many uncollectable accounts,
16 how many complaints they have, how many customers that they
17 have.

18 This is for added programs, new programs that are
19 necessary now. There is a new program on the Residential
20 Conservation Act being instituted in the state. A program is
21 needed at Penelec, and that same kind of program is needed at
22 Met-Ed. That is why we say the identical staff for an
23 additional program would be necessary.

24 MR. SHILOBOD: Is that the same with rate case
25 management?

1 WITNESS DONOFRIO: Yes, sir.

2 MR. SHILOBOD: Why is it that all of a sudden
3 makes Met-Ed need exactly five more people and Penelec need
4 exactly five more people in rate case management?

5 WITNESS DONOFRIO: We are not saying exactly
6 five more people. We are saying that it is our range of five
7 to ten needed at both headquarters, approximately the same
8 at each one needed for increased rate case activities.

9 MR. SHILOBOD: Why are they the same? Is this
10 just an assumption?

11 JUDGE CASEY: Wait a minute. That is a composite
12 figure, isn't it?

13 WITNESS DONOFRIO: Yes, sir.

14 JUDGE CASEY: And that shows the total number of
15 employees. That is the range. They may need anywhere from
16 five to ten.

17 WITNESS DONOFRIO: Yes, sir.

18 JUDGE CASEY: For instance, in rate case management
19 -- and then it says ME and Penelec -- so there is going to be
20 some provision of those five --

21 WITNESS VERROCHI: That is five and five.

22 JUDGE CASEY: It might be five and five, but it
23 may not be.

24 WITNESS VERROCHI: Our current estimate is that
25 it would be about five and five. That is how we arrived at

1 our best estimate as to -- if we take the 205 total, we
2 estimate that 120 of those are at Met-Ed and 85 at Penelec,
3 and we did that by going through each of the functions and
4 making our best judgment as to how those potential reductions
5 -- avoidances, rather, of management would take place.

6 I think we have given those numbers before.

7 I guess I hesitate when somebody says "exactly."
8 It may be four and it may be six in each case, or it might be
9 three and seven. We are not sure of that yet.

10 This is our best judgment now as to what the
11 relative numbers are. It is an estimate. It is an estimate
12 based on the amount of detailed studies we have made to date
13 and I might add as part of our response to the Theodore Barry
14 and Associates audit, we do plan to refine our numbers in
15 both the consolidation of divisions and to keep better track
16 as to what cost avoidance we might actually have realized.

17 We have an obligation to ourselves, and the
18 Commission has asked us to keep them posted. And we plan to
19 account for this as time goes on.

20 MR. SHILOBOD: All right, Mr. Verrochi, you may
21 have answered my question. You are indicating that these are
22 judgment figures, and it is an estimate of an equal division.

23 WITNESS VERROCHI: Yes.

24 And, again, we were trying to get a rough feel
25 for whether or not the two things that we are planning to do

would have any significant cost impact, either in cost
increase or decrease; and we were reasonably comfortable and
have been all along that the net effect will be a savings.

We don't get too hung up on whether it is going
to be \$16 million or \$18 million or \$20 million. The main
reason we are doing this is not to effect reductions in
personnel requirements. This is one of the benefits, but it
is by no means the only or the major benefit.

However, we are very happy to try to work the
numbers out.

But we still would have gone ahead with it if
these numbers were somewhat different.

MR. SHILOBOD: Going back to Exhibit Number 7,
the --

MR. MESSER: Excuse me, Mr. Verrochi; one
question: at what point would it not have made economic
sense to proceed?

WITNESS VERROCHI: I think it always would have
made -- our judgment has always been based on our own judgment
and our experience with our other two sister companies in
Jersey, that there is no way a combination of managements
could result in the specific sense of cost increase to either
company.

There is no way that could happen. It has got
to be at least a break-even cost or a savings. How significant

1 the saving is, I don't know.

2 MR. MESSER: If it was just a break-even situation,
3 what would the justification be in your mind for the
4 combination?

5 WITNESS VERROCHI: All of the other benefits
6 that we have described at great length in our direct and
7 indirect testimony and our cross-examination.

8 But I don't think that it is realistic, Mr. Messer,
9 to assume that the combination of management and the consolida-
10 tion of divisions is going to have miniscule cost savings.
11 I mean \$15 million or \$18 million or \$20 million is a lot of
12 money, and I would be the first to agree that that is a lot
13 of money.

14 However, in terms of -- again, we talk about a
15 percentage of the total revenues of Met-Ed and Penelec, and
16 it does kind of get masked. It is on the order of two percent
17 of our total revenues.

18 So it is kind of hard to get too excited about
19 something that at best will be of the order of one or two or
20 three percent savings. That is not the main reason to do
21 something like this, but it is comforting to us to know that
22 it is going to save money.

23 MR. SHILOBOD: Wasn't this assumption that
24 combinations per se will produce savings then in the back of
25 your mind in January when the commitment was made to proceed.

1 WITNESS VERROCHI: I think we said then and say
2 now, sir, that the major benefit and objective of the
3 combination is to improve the management of Penelec and Met-Ed.
4 It thereby -- as Al keeps reminding me, and we say this and
5 we do mean it -- we definitely think that the customers are
6 going to be better served by this organization.

7 There will be more people -- a greater fraction
8 of our people will be focusing fuller attention on the
9 customers' needs than currently exists.

10 Division managers, for example, will be spending
11 more of their time on customer needs rather than worrying
12 about what transformer to put up where. It is that kind of
13 thing.

14 That is a homely example, but it is typical of
15 what we are trying to do. We see the need to have a greater
16 fraction of our people get involved in customer service
17 directly and indirectly; and that is what we think this
18 management combination and consolidation of divisions is
19 going to achieve.

20 MR. SHILOBOD: Would you agree that at the present
21 time the customer service for the Met-Ed entity is looming
22 with greater importance?

23 WITNESS VERROCHI: Do you mean our ability to
24 continue serving the customers?

25 MR. SHILOBOD: The needs of the customers.

1 WITNESS VERROCHI: I guess I don't know what you
2 mean by that, sir.

3 MR. SHILOBOD: You were indicating that this
4 was really designed to meet customer needs. What did you
5 mean?

6 WITNESS VERROCHI: I say what the customer needs
7 in terms of the quality of electric service that we give them
8 and being responsive to their inquiries and requests and
9 demands.

10 MR. SHILOBOD: And with that interpretation, don't
11 you agree that the customers of Met-Ed are demanding more
12 attention to these matters than Penelec customers as a result
13 of the accident?

14 WITNESS VERROCHI: No, I don't think that is true
15 in terms of the division operations. Again, our own feeling
16 is -- and I think the Commission's periodic reports on this
17 subject indicate that Met-Ed gets very high marks in terms
18 of its service to its customers.

19 Penelec is kind of in the middle. We are not too
20 proud of that. We are neither the worst nor the best, but
21 Met-Ed continues to get pretty good marks in its response to
22 customer needs; so I don't think that Met-Ed needs shoring up
23 as much as Penelec does in that area.

24 Met-Ed doesn't serve its customers as well because
25 its generating stations aren't running as much as they should,

1 and we are going to try to correct that.

2 MR. SHILOBOD: I would like to go back to what
3 I was asking before on Exhibit Number 7, Mr. Donofrio.

4 The savings allocated to the corporate combination
5 that are to come sometime in the future of \$500,000, what
6 portion of those savings are allocable to Penelec and what
7 portion are allocable to Met-Ed?

8 WITNESS DONOFRIO: If it follows the same as
9 projected for the total corporate, it would be about 60
10 percent Penelec and 40 percent Met-Ed.

11 MR. SHILOBOD: How can you say that with respect
12 to the \$500,000 when you were not able to give an allocation
13 with regard to the \$700,000?

14 WITNESS DONOFRIO: I thought I gave the same
15 answer on the \$700,000.

16 JUDGE CASEY: I thought you had.

17 MR. MESSER: Yes.

18 MR. SHILOBOD: What are these contingencies upon
19 which the \$500,000 would rest, or are there any contingencies?

20 WITNESS DONOFRIO: The \$500,000 is built upon a
21 January 1, 1980 base of approximately an eight to ten percent
22 wage rate increase during the year. That is already built in
23 as a contingency on the low side.

24 MR. SHILOBOD: Would it be fair to say that it
25 depends upon the success of the combination?

1 WITNESS DONOFRIO: I would say that given the
2 amount of time -- we are saying that, given a year where
3 Penelec individuals learn the Met-Ed system and Met-Ed
4 individuals learn the Penelec system, that we believe that we
5 can accomplish it; it is potential.

6 MR. SHILOBOD: The timing of it then would depend
7 upon the employee response to the changes that are made; is
8 that correct?

9 WITNESS DONOFRIO: I don't think we are willing to
10 let that be the sole judge. What we will do is set up how
11 we have on the initial ten percent, and that is that the
12 task force to senior management will be looking at each
13 officer's function to see why he cannot accomplish this; what
14 is going on if, in fact, this potential cannot be realized.

15 MR. SHILOBOD: How was it decided that this
16 initial intention could be reached, that is the additional
17 19 people?

18 WITNESS DONOFRIO: I believe that went the
19 opposite way. The opposite way was that we believed that
20 by combining we really could come up with a 20 percent. The
21 only thing of it is that we felt that we only could achieve
22 on day one 10 percent, and get the bugs worked out, and let
23 the one company's employees gather knowledge on the other,
24 etcetera; and given that one year, then have the potential for
25 the extra ten percent.

1 MR. SHILOBOD: Then the perception is that that
2 additional ten percent is going to come from somewhere.
3 Exactly where, we can't say right now. Would that be a fair
4 statement?

5 WITNESS DONOFRIO: What we are saying is that it
6 should be just about across the board for all of the functions
7 that physically were combined.

8 MR. SHILOBOD: Is that the basis upon which the
9 initial 19 individuals were determined?

10 WITNESS DONOFRIO: Yes, sir.

11 MR. SHILOBOD: Then from those 19, you again
12 used the relationship of non-exempt to supervisory to get
13 the additional breakdown in Exhibit Number 7; is that correct?

14 WITNESS DONOFRIO: Yes, sir.

15 And Exhibit Number 7, the break-out of the
16 supervisory, the 5, and the non-union/non-exempt 14, is the
17 exact differentiation as on page 72, which detailed the
18 exact jobs in eliminating the 19.

19 MR. SHILOBOD: Were those calculations based upon
20 historical relative numbers of supervisory to non-union/non-
21 exempt?

22 WITNESS DONOFRIO: Not for these 19. These 19
23 were the exact shift from the organization in place at both
24 companies as of January 1 versus the projected goal
25 organization after the combined management.

1 The past history, the beginning of this year
2 relationship of the one supervisor, two exempt, two clerical,
3 was used for the cost avoidance figures, which are on
4 Exhibit Number 8.

5 MR. SHILOBOD: Then the presumption is that
6 the second savings of 19 would be identical to these
7 eliminations and additions shown on page 72 of JARI Exhibit
8 Number 3?

9 WITNESS DONOFRIO: That is the presumption.
10 Again, if the five supervisory and 14 union non-exempt were
11 19 all exempt, you would still come out with the same answer.

12 MR. SHILOBOD: Where would the additional
13 executive be eliminated?

14 WITNESS DONOFRIO: I don't follow your question.

15 MR. SHILOBOD: If I look at the eliminations
16 on page 72 for the combination, there is an indication that
17 one executive officer would be eliminated with the combination,
18 and that is utilized to come up with the change of 19.

19 I take it that there is another executive that
20 would be eliminated along the line?

21 WITNESS DONOFRIO: Sir, what we have used along
22 that line is 5 supervisory and 14 non-bargaining; but what
23 we have utilized here is of the 29 reduction in supervisors,
24 one became an officer, 23 became exempt, which nets out to
25 a reduction of 5 in supervisor, 14 in non-bargaining, totaling

1 the 19.

2 MR. SHILOBOD: Mr. Donofrio, you would agree that
3 there would be some additional bookkeeping arising out of
4 the management combination; isn't that correct?

5 WITNESS DONOFRIO: When you say "some additional
6 bookkeeping," what we are looking at is mechanizing the cost
7 allocation of the billing from one company to the other; and
8 our last estimate as of last week that I had on that was 450
9 hours of programming, which is approximately one-third of a
10 man year of about a \$30,000 programmer. We recognize that
11 that would be maybe \$10,000.

12 MR. SHILOBOD: So the only thing you see is the
13 change in the program?

14 WITNESS DONOFRIO: Yes.

15 One thing that I have learned is I started with
16 Jersey Central back in 1964, and that was in the format of
17 the combined management where one officer was a Jersey Central
18 and another officer was a New Jersey Power and Light. Believe
19 me, it is quite simple in keeping these statistics.

20 All you do is, in effect, change your time sheet,
21 which there is no additional cost. They are run with a couple
22 months of supply. All it is is an extra keypunch, one more
23 punch on that time sheet as to which allocation factor there
24 would be; so that is the additional that you may be speaking
25 of.

1 MR. SHILOBOD: Is that the only additional in
2 accounting expenses that you see?

3 WITNESS DONOFRIO: Yes. I do not see any others.

4 MR. SHILOBOD: Who is Mr. Vodzack?

5 WITNESS DONOFRIO: He is Manager of General
6 Accounting at Penelec.

7 MR. SHILOBOD: I show you an inter-office memo
8 dated October 13, 1980, and ask if you recognize that.

9 WITNESS DONOFRIO: Yes, sir.

10 MR. SHILOBOD: Is that a memo that was sent to
11 you by Mr. Vodzack?

12 WITNESS DONOFRIO: Yes, it is.

13 MR. SHILOBOD: I would like you to read the last
14 sentence in subparagraph A on page 2, where Mr. Vodzack is
15 referring to the changes in accounting needed for the manage-
16 ment combination.

17 I would like you to read the last sentence out
18 loud.

19 MR. JOLLES: May I see that first, please?

20 (Document handed to Counsel Jolles by Counsel
21 Shilobod.)

22 WITNESS DONOFRIO: The last sentence in A, it
23 says, "This change will require several weeks of work on the
24 part of the task force within Penelec and I/S personnel."

25 I referred to that I just got a programming

1 estimate from Information Services a week ago, 450 hours of
2 programming effort; out of a normal man year of 1,500 hours
3 that is less than one-third of one person's time to do the
4 programming.

5 MR. SHILOBOD: That 450 hours includes the time
6 at Met-Ed?

7 WITNESS DONOFRIO: No, sir. That is one
8 programmer putting the programs into effect by programmers,
9 450 hours.

10 MR. SHILOBOD: I understand that, but what Mr.
11 Vodzack is saying on the changes for the coding would require
12 several weeks of work by the task force, by Met-Ed and by
13 Penelec and by I/S personnel.

14 WITNESS DONOFRIO: The Information Service would
15 do the program; that is 450 hours.

16 MR. SHILOBOD: So the Information Services
17 personnel would take 450 hours?

18 WITNESS DONOFRIO: Yes, sir.

19 MR. SHILOBOD: How much time would be taken up
20 on the part of Penelec?

21 WITNESS DONOFRIO: I would say one; tops two
22 individuals. Tops, a man month effort.

23 MR. SHILOBOD: Are these calculations made here
24 anywhere?

25 WITNESS DONOFRIO: No, sir -- the 450 hours was the

1 one given to me. The other one is off the top of my head
2 as to exactly what we are trying to accomplish with it.

3 Let me explain what this is. All it is is setting
4 up exactly down on paper new department numbers for the new
5 organization. Now, if you went ahead on an individual company
6 basis and reorganized the piece of the personnel department
7 as to corporate secretaries or something like that, we would
8 have to do it anyway.

9 WITNESS VERROCHI: And we have been doing it.

10 WITNESS DONOFRIO: And we have been doing it.

11 MR. SHILOBOD: You are saying you have been doing
12 it outside the management combination anyway?

13 WITNESS DONOFRIO: I am saying that any time you
14 have these changes, you do it. We just did it for the Bill
15 Hirst group that Mr. Verrochi mentioned. When he came out
16 from the Service Company, we just went through and set up
17 one of those with a department number and put it into the
18 works so that he could use it.

19 We have a separate cost set of responsibility
20 for that group.

21 MR. SHILOBOD: Did you make an estimate of the
22 time required at Penelec to carry out this application?

23 WITNESS DONOFRIO: Just the one I did off the
24 top of my head right now.

25 MR. SHILOBOD: What was the figure you gave me?

1 WITNESS DONOFRIO: I said one to two individuals,
2 also putting in no more than one man month per individual,
3 plus the 450 hours of the programmer's time, which Information
4 Services had just provided to me, looking at the scope of
5 everything, what it would take them in order to accomplish
6 this; and this is a mechanized system that would take it from
7 one company's books and physically put it on the other
8 company's books with a mechanized journal entry.

9 MR. SHILOBOD: How much time would be required
10 from Met-Ed?

11 WITNESS DONOFRIO: Again, the same exact kind of
12 effort as at Penelec, and that is one or two people tops, one
13 man month per individual. This is just working out the
14 mechanics to make sure that they are done the same.

15 MR. SHILOBOD: How much time would be required
16 on the part of the task force?

17 WITNESS DONOFRIO: That is the task force.

18 MR. SHILOBOD: The task force has been working on
19 this to date; have they not?

20 WITNESS DONOFRIO: They have been meeting together
21 to identify what differences there are in the companies, and
22 what problems, if any, that they foresaw, or what kind of
23 timetable would be needed in order to make changes or come up
24 with the recommendations for changes.

25 MR. SHILOBOD: Do you know how much time you have

1 spent on this?

2 WITNESS DONOFRIO: We do not keep time records
3 on individual efforts like this, but I believe anything that
4 I had done on it, whether it would be for a combined and/or
5 Met-Ed, I have learned for the benefit of Penelec.

6 MR. SHILOBOD: How many people underneath you
7 have been working on this job?

8 WITNESS DONOFRIO: This, mainly due to the
9 confidentiality of it, very little of anybody working under-
10 neath me. Again, tops, one man month of effort of anybody
11 other than myself who has worked on this in my area.

12 MR. SHILOBOD: How many people have been working
13 on this effort at Met-Ed?

14 WITNESS DONOFRIO: I couldn't give you an exact
15 number. I would say, because of the confidentiality of it,
16 it was kept at a pretty high level, either officer or senior
17 officer level.

18 JUDGE CASEY: Do you mean confidential within the
19 GPU System?

20 WITNESS DONOFRIO: Within the names and the
21 framework of the organizations, etcetera.

22 JUDGE CASEY: Well, certainly from what I gather
23 here, the PUC Bureau of Audits and Theodore Barry and
24 Associates were in on the plan from the beginning.

25 WITNESS DONOFRIO: I was referring, Mr. Shilobod,

1 to the effort to put together these kind of documents. I
2 kept them mainly in-house, due to the confidentiality.

3 MR. SHILOBOD: Was there any study with respect
4 to the costs arising out of just the disruption of work load
5 arising out of the management combination?

6 WITNESS DONOFRIO: Are you questioning to date?

7 MR. SHILOBOD: Or to be expected.

8 WITNESS DONOFRIO: To date, I don't believe that
9 there has been any disruption of work, at least on a personal
10 aspect from the input and the work that I have had on it.

11 Being the coordinator, I would say that I
12 probably had the most work of any of the officers, and if
13 it meant a couple of hours at night that was that; my work
14 didn't get disrupted.

15 MR. SHILOBOD: If the management combination
16 proceeds, is there any study with respect to the probable
17 disruption of work loads?

18 WITNESS DONOFRIO: I don't think that there will
19 be disruption of work load. A lot of the systems that we
20 have in place today are going to continue until the proper
21 timing when we can assimilate making the change..

22 The thing we have got to remember is that we
23 still have two distinct independent organizations. They are
24 going to have their two distinct payroll systems, their
25 financing, their purchasing, their accounts payable, etcetera.

As the combined management would become involved, and come up with the "best of all worlds" on these, one by one we are going to have a timetable on it; there will be a simulation of the timetable of exactly when the best system will be put forward for both companies.

MR. SHILOBOD: When this management combination comes into effect, would there be an immediate release of 19 people, or will there be a mere avoidance of hiring 19 people?

WITNESS DONOFRIO: What we are going to have is a workforce that requires 19 less individuals. We have taken steps so that the filling of permanent positions is not occurring right now. Since we are not combined, the work scope reduction has not decreased, so we either are paying overtime and/or hiring temporary people to do this work.

MR. SHILOBOD: There have been a number of layoffs at Met-Ed, as was currently indicated; do you recall that?

WITNESS DONOFRIO: Yes, sir.

MR. RUSSELL: Several times.

MR. SHILOBOD: Sooner or later there is going to be a need to hire back some of these individuals, isn't that correct?

WITNESS DONOFRIO: There may or may not be for specific jobs.

MR. SHILOBOD: Would that be a result of perhaps

1 increased efficiencies, that you may not have to hire some
2 of them?

3 WITNESS DONOFRIO: As a result of the combined
4 management, that might be possible.

5 MR. SHILOBOD: Without the combined management,
6 are you saying that you are going to have to hire back every-
7 one?

8 WITNESS DONOFRIO: I don't know.

9 MR. SHILOBOD: What are the effects of the
10 restrictions on the lines of credit with respect to Met-Ed's
11 ability to hire back any of those people?

12 WITNESS DONOFRIO: I don't believe that I am
13 the qualified witness to answer that. Mr. Smith or Mr.
14 Dieckamp have been keeping the Commission informed on a month
15 to month basis as to the Met-Ed cash position and the Met-Ed
16 construction program and employee level.

17 MR. SHILOBOD: Do you know, Mr. Verrochi?

18 WITNESS VERROCHI: No, only what Al just described,
19 Mr. Shilobod. I know there is a monthly letter. I get a
20 copy of it. I thought -- wasn't a copy of that handed to
21 Mr. Shilobod when Mr. Dieckamp was here; or was I confused?

22 That is all I recall basically.

23 MR. MESSER: I didn't see it.

24 MR. SHILOBOD: I did not get a copy.

25 MR. RUSSELL: It is in the rate case.

1 MR. SHILOBOD: And that decision to lay off --
2 to continue to lay off, I think you previously indicated --
3 was partially a result of the cutbacks on the lines of credit;
4 isn't that correct?

5 WITNESS VERROCHI: Yes, that is one of the reasons
6 that came about.

7 MR. SHILOBOD: Isn't it a fact that sooner or
8 later the work that was otherwise done by those individuals
9 is going to have to be done by someone?

10 WITNESS VERROCHI: No, that is not the case at
11 all. It all depends on how quickly Met-Ed is able to improve
12 its cash position and its earning position through rate
13 regulatory treatment. And there is any kind of a scenario
14 that you may want to develop. I am sure Met-Ed is on record
15 as having said that it would like to have more people in its
16 employ to do the job that needs to be done.

17 MR. SHILOBOD: What would you say would be your
18 job as President of this combined operation in the event
19 that Met-Ed does not achieve the cash flow needed to do that?

20 WITNESS VERROCHI: It all depends on how long
21 that situation persists.

22 MR. RUSSELL: It all depends on actions by a lot
23 of other agencies like this Commission over which the company
24 has no control. It has sought rate relief. When it gets
25 it and in what amounts, that is highly relevant, but beyond

the company's control.

MR. SHILOBOD: I didn't say it was within the company's control.

JUDGE CASEY: I detect a note of pique in your tone of voice, and I can't say that I blame you, Mr. Russell.

MR. RUSSELL: That would have been within my control.

JUDGE CASEY: It is almost like a soap opera. It is something like "Dallas," you know.

MR. SHILOBOD: One of the things, looking through these documents, that is missing -- I am wondering where they are -- is the costs or savings relating to the GPU Nuclear.

Are they anywhere here to be found, or am I missing something, or what?

WITNESS VERROCHI: Mr. Donofrio and I were not involved in any detailed studies that would focus on those questions. I am not aware; I don't know whether such analyses have been made.

MR. SHILOBOD: As part of the GPU Nuclear, there is going to be the creation of a new corporate management, is there not?

WITNESS VERROCHI: Yes.

MR. SHILOBOD: And many of these people served similar functions at Met-Ed before; is that correct?

WITNESS VERROCHI: Some of them do, yes.

1 MR. SHILOBOD: And then there are additional
2 people hired at GPU Nuclear to fill other corporate functions?

3 WITNESS VERROCHI: That is right, and I think
4 that Mr. Dieckamp's exhibit showed the key people involved
5 and named them.

6 MR. SHILOBOD: There would be an entire hierarchy
7 that was otherwise handled by Met-Ed before that is now
8 functioning for GPU.

9 WITNESS VERROCHI: No, the scope of responsibility
10 of the GPU Nuclear Corporation is broader than the scope of
11 responsibility of the Met-Ed generation organization involved
12 with nuclear affairs, both before and after the Three Mile
13 Island accident.

14 The GPU Nuclear organization will have broader
15 responsibilities than Met-Ed's nuclear organization had.

16 MR. SHILOBOD: Then the GPU Nuclear Corporation
17 will operate with each nuclear power plant operating almost
18 like a separate division; would that be a fair description?

19 WITNESS VERROCHI: Mr. Dieckamp, I think, tried
20 to describe that.

21 MR. RUSSELL: I think this witness is not the
22 proper one for questions with respect to this. I think that
23 these are questions that should have been directed to Mr.
24 Dieckamp.

25 JUDGE CASEY: I am not too sure whether the GPU

1 Nuclear Corporation -- that is a fait accompli. That happened
2 in September. That is a New Jersey corporation. I think
3 we are called upon to approve the so-called operating
4 agreements between the owner-licensee's nuclear plants and the
5 new GPU Nuclear Corporation.

6 So I don't think they were defending nuclear
7 corporations on the grounds that they result in cost reductions;
8 they were saying that it is a combination of expertise and
9 concentration in the nuclear generating field, which -- I
10 won't say was obviously absent, but had something to do with --
11 perhaps had something to do with the accident in March of 1979.

12 It is to shore up that operation. The operating
13 agreement, I think your questions might have some relevance
14 as to what effect, if any, it would have on the new management
15 combination and on the flow of money to the Nuclear Corpora-
16 tion as a result of billings for operating two plants that
17 are not on line presently; and there is a question mark as to
18 when they will be on line.

19 Try to focus your attention on the bouncing ball
20 when you ask those questions.

21 MR. SHILOBOD: Yes.

22 The GPU Nuclear headquarters would be in New
23 Jersey?

24 WITNESS VERROCHI: Yes. The Nuclear Corporation
25 headquarters will be in Parsippany, New Jersey, I believe.

1 MR. SHILOBOD: And there will be some degree of
2 management or corporate control presence in Reading?

3 WITNESS VERROCHI: I don't remember.

4 MR. RUSSELL: I don't think Mr. Dieckamp's testi-
5 mony indicated that there would be.

6 JUDGE CASEY: I mentioned it to Mr. Dieckamp; I
7 said this would be a New Jersey corporation that is sort of
8 a satellite or string-off of the GPU Service Corporation.
9 They will be based in Parsippany, and I said that there won't
10 be any -- he argued with me as to whether there would be any
11 active function performed in Pennsylvania where the nuclear
12 plant was located in Middletown.

13 I don't know whether you remember that colloquy
14 between the two of us. He said that there won't be any
15 -- and I used the term "absentee owner" of land there, and
16 "absentee operator;" and he said: on the contrary, that in
17 an active operation, I guess at Three Mile Island --

18 MR. RUSSELL: They will, in fact, operate the
19 units.

20 JUDGE CASEY: They will be the actual operator
21 of the units.

22 MR. SHILOBOD: I would point out that Mr. Verrochi
23 is a Director in GPU Nuclear.

24 JUDGE CASEY: He is one of a number of in-house
25 executives in the GPU System that will serve either as a

1 Director or officer of that corporation.

2 MR. SHILOBOD: Mr. Verrochi, do you know whether
3 or not there will be any corporate presence of GPU Nuclear
4 in Reading?

5 WITNESS VERROCHI: I don't know. There will be a
6 corporate presence, of course, at each of the -- there will
7 be a presence of the GPU Nuclear Corporation employees; some
8 officers even at Three Mile Island and at Oyster Creek.

9 MR. SHILOBOD: What about at the company offices
10 in Reading?

11 WITNESS VERROCHI: In Met-Ed; I doubt that there
12 will be any at Met-Ed. The only reason I was a little
13 hesitant is GPU Service Corporation has an office building
14 at Reading where the Information Service people are located,
15 and several others; and it may well be that some -- I don't
16 know. Some of the GPU Nuclear Corporation staff might be
17 headquartered there, but Mr. Dieckamp could handle that
18 housekeeping detail better than I.

19 MR. SHILOBOD: How many employees were lost from
20 Met-Ed to GPU Nuclear; do you know?

21 WITNESS VERROCHI: I don't know.

22 MR. JOLLES: GPU Nuclear is not yet operating,
23 Mr. Shilobod.

24 MR. SHILOBOD: I believe they have been licensed
25 to maintain --

1
2 MR. RUSSELL: The corporation has come into
3 being.

4 MR. SHILOBOD: -- to shut down plants.

5 JUDGE CASEY: They were approved by the SEC in
6 September of this year.

7 MR. JOLLES: Your Honor, we received an order from
8 the SEC permitting the formation of the GPU Nuclear Corpora-
9 tion. That is all that has happened. The company is not
10 now operating. What is operating is a division of GPU
11 Service Company which is trying to form a nuclear group and
12 which will be transferred to the Nuclear Corporation once we
13 get the regulatory order.

14 JUDGE CASEY: GPU Nuclear is still on paper, in
15 the planning stages, and this group within GPU Service
16 Corporation you hope will form the nucleus of the Nuclear
17 Corporation.

18 MR. RUSSELL: I think you may recall -- I believe
19 it was part of Mr. Dieckamp's testimony -- there was an NRC
20 letter of September 15, 1980, which is Penelec/Met-Ed
21 Exhibit 4, which was the amendment of the TMI-1 technical
22 specifications to let this more informal nuclear group
23 function in the interim until the Nuclear Corporation is
24 able to get necessary authorizations to proceed and operate.

25 MR. SHILOBOD: I thought they had authorizations
to operate and shut down the plant.

1 JUDGE CASEY: I think that there was some sort
2 of a change in the operations team, which required approval,
3 and a letter back from the NRC indicated that the approval
4 was being extended for that change in the operations team
5 in the shut-down state of the plants, because I questioned
6 Mr. Dieckamp about that.

7 When he announced what it was, he didn't
8 specify that it was during the period of shutdown. It sounded
9 as though it was an approval for the indefinite future.

10 MR. SHILOBOD: I am going to want to break, Your
11 Honor, if I could ask just one question first.

12 JUDGE CASEY: Go ahead.

13 MR. SHILOBOD: Mr. Donofrio, referring to page
14 72 of JARI Exhibit 3 under the section "Transfers," there
15 is a showing of a transfer of 70 from Penelec to Met-Ed.
16 Would you explain what those transfers are?

17 WITNESS DONOFRIO: That is a net transfer of
18 employee levels from the Johnstown headquarters to the Met-Ed
19 headquarters. If you will notice on "Generation," which is
20 the third group down, the transfer is coming the other way.

21 In other words, the corporate route for these
22 kind of employees, supervisory, exempt, will be being trans-
23 ferred from the Reading headquarters to the Johnstown head-
24 quarters.

25 MR. SHOLOBOD: And, sir, where does it show the

1 transfers in either direction?

2 WITNESS DONOFRIO: If you come down to the third
3 group under "Transfers," you have "Executive Customer
4 Operations," and then "Generation."

5 Do you see that "21" being the other way?

6 MR. SHILOBOD: Yes, but on a net basis, there
7 is a transfer of 70 out from Johnstown and 70 in to Met-Ed,
8 as shown there; is that correct?

9 WITNESS DONOFRIO: Yes.

10 MR. SHILOBOD: And there are an additional 15,
11 as I recall, that would be transferred out somewhere; isn't
12 that correct, for a net loss of 85 at Johnstown?

13 WITNESS VERROCHI: Here we go again, Mr. Shilobod
14 (Mr. Verrochi and Mr. Donofrio confer.)

15 WITNESS DONOFRIO: Mr. Verrachi is pointing out
16 that on page 67, this will detail the number of employees
17 down the first column of the relocations; how many from
18 where to what locations, to another location coming down.

19 However, the 85 net job reduction is a combination
20 of a couple of things, and that is the actual as of 1-1-80.
21 In the Johnstown headquarters, there is 616 individuals, and
22 the total authorized after this, including changes in
23 responsibility, is the bottom number of page 72; 543.

24 That gives a reduction of 73 in corporate head-
25 quarters. The only thing is that within there there is an

1 effect on adjustments of differences and changes in
2 responsibilities between corporate and the division; or the
3 Johnstown division.

4 That is approximately 12 individuals. The 73 plus
5 the 12 is 85; and of these 12, 2 of them are telephone
6 operators and 10 are mail services, which are being transferred
7 in duties from the division to the corporate.

8 MR. SHILOBOD: But these 70 individuals referred
9 to under "Transfers" will remain on the Penelec payroll; isn't
10 that correct?

11 WITNESS DONOFRIO: Again, it is a combination.
12 In getting down to that 73, it is the physical transfer of
13 70 individuals and elimination of 41 jobs, a change in
14 responsibility or addition of 38 jobs, netting to the 73.

15 MR. SHILOBOD: But the individuals that previously
16 worked for Penelec were considered to be paid by Penelec
17 and, hopefully, reimbursed with a portion from Met-Ed; isn't
18 that correct?

19 WITNESS DONOFRIO: If in fact any of these
20 jobs -- you have to track them when they went on here --
21 are going to be 100 percent Met-Ed jobs in the corporate
22 headquarters at Reading. They would be transferred to Met-Ed.

23 Initially, what we are going to do is transfer
24 these individuals, leave them on the individual payrolls that
25 they are on today if they have joint responsibilities, and

1 then according to the allocation formula it would be like
2 60-40.

3 60 percent would be payable by Penelec, and 40
4 percent would be billed to Met-Ed.

5 On the other hand, Met-Ed employees that are
6 in the corporate headquarters today, that are going to have
7 joint combined responsibilities, will bill Penelec 60 percent
8 approximately of their payroll.

9 JUDGE CASEY: On that note, let's take a five
10 minute recess.

11 (Recess.)
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1 JUDGE CASEY: We are back on the record.

2 MR. SHILOBOD: Just a few detailed items and then
3 we are going to have some policy questions.

4 Mr. Verrochi, what is the total level of expense
5 right now for the payroll expense of all employees of Met-Ed?

6 WITNESS VERROCHI: I don't know offhand; maybe
7 Mr. Donofrio has it.

8 MR. SHILOBOD: I meant Mr. Donofrio.

9 WITNESS DONOFRIO: The only reports I have with me
10 for Met-Ed are through October 1980, so this is a ten-month
11 number; the total payroll for ten months, through October 1980
12 to date, was \$53.7 million.

13 MR. SHILOBOD: And if we added approximately one-
14 fifth again to that figure, we would come up with a reasonable
15 approximation of an annual expense; would that be a fair
16 statement?

17 WITNESS DONOFRIO: It all depends on the way you are
18 going to use it, I guess.

19 MR. SHILOBOD: As an approximation of payroll.

20 WITNESS DONOFRIO: Sure.

21 MR. SHILOBOD: It is about \$5.4 million per month?

22 JUDGE CASEY: Was this a ten-month figure that you
23 just furnished?

24 WITNESS DONOFRIO: Yes.

25 JUDGE CASEY: Would there be anything that would

1 change the payroll level in the succeeding two months till
2 the end of the calendar year?

3 WITNESS DONOFRIO: The only thing I do not have is
4 what projection is overtime within this. Overtime could
5 change the --

6 JUDGE CASEY: That is a variable.

7 WITNESS DONOFRIO: The month of October happens to
8 be \$5.1 million versus the average of \$5.4 million.

9 MR. SHILOBOD: But a fair approximation would be
10 \$5.4 million a month; would that be agreeable?

11 WITNESS VEROCCHI: I think you would be better off
12 using what you saw in the month of October, which was \$5.1
13 million. That is probably more indicative of the present
14 manning level. Of course, as Al points out, it may or may not
15 have the right amount of overtime; but I would just extrapo-
16 late \$5.1 million for November and December if I were you.

17 MR. SHILOBOD: Does that include the cost of fringe
18 benefits or not?

19 WITNESS DONOFRIO: No, sir.

20 MR. SHILOBOD: What is the level of fringe benefit
21 costs for Penelec?

22 WITNESS VEROCCHI: These are Met-Ed numbers.

23 MR. SHILOBOD: What is the level of fringe benefit
24 costs for Met-Ed?

25 WITNESS DONOFRIO: Disregarding vacations, holidays

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1 those kinds of fringes, which, of course, as fringes are in
2 payroll, it is approximately 30 percent.

3 MR. SHILOBOD: So that would be approximately
4 \$1.53 million per month if you take a \$5.1 million average
5 cost.

6 What about the costs of materials and supplies for
7 the ten months ending October 31, 1980?

8 WITNESS DONOFRIO: I do not have that number here.

9 MR. SHILOBOD: When there was a decision that
10 \$800,000 to \$1.3 million could be avoided for both companies
11 with respect to materials and supplies, what portion was that
12 of the total expense for both companies?

13 WITNESS DONOFRIO: Approximately 2 percent.

14 MR. SHILOBOD: Do you have the transportation
15 expenses for Met-Ed for the ten months ending on October 31,
16 1980?

17 WITNESS DONOFRIO: Yes.

18 MR. SHILOBOD: What was their level of expenditure?

19 WITNESS DONOFRIO: \$4.3 million for ten months
20 ending 1980.

21 MR. SHILOBOD: How would you classify these
22 miscellaneous expenses, including office space; do you have a
23 comparable expense level for the ten months? I am comparing
24 to your Exhibit No. 8. You have a column, "Miscellaneous
25 Expense, Including Office Space."

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1 WITNESS DONOFRIO: There are various pieces of the
2 miscellaneous, some of them being employee expense accounts,
3 telephone expense, office supplies, training expenses, office
4 equipment, association dues and fees.

5 MR. SHILOBOD: Were all of those factors taken
6 into account in this calculation shown on Exhibit No. 8?

7 WITNESS DONOFRIO: Yes, they were.

8 MR. SHILOBOD: What was the total level of expendi-
9 ture for Met-Ed in this ten months?

10 WITNESS DONOFRIO: I don't have exactly ten months
11 for each one of these, I don't believe, with me.

12 MR. SHILOBOD: Do you have an average monthly
13 expense?

14 WITNESS DONOFRIO: I have 1978, '79, '80 for some
15 data; some for Penelec; some for Met-Ed.

16 MR. SHILOBOD: Could I see what you have?

17 WITNESS DONOFRIO: For which exact expense?

18 MR. SHILOBOD: I'm trying to get some comparison
19 of these \$.2 million to \$.4 million savings for miscellaneous
20 expenses to get some comparison of that figure to the whole
21 for each company.

22 WITNESS DONOFRIO: What we have done here is come
23 up with the annualized expenses for each of these other things
24 and taken that as a relationship of straight time payroll, and
25 come up with an approximate figure of 10 percent. What we are

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1 saying is, again, the same relationships that exist today
2 for 6,000 employees would be the same in proportion to any
3 change, either up or down, in employees; approximately 10
4 percent straight time payroll.

5 MR. SHILOBOD: So you're saying that if we took
6 10 percent of the payroll that Met-Ed had for the ten months,
7 that would approximate the miscellaneous expenses, including
8 office space?

9 WITNESS DONOFRIO: Yes, sir; straight time; yes, sir.

10 MR. SHILOBOD: What is the level of expense for
11 payroll for Penelec for the most recent 12 months that you
12 have?

13 WITNESS DONOFRIO: I have 12 months for 1979 or
14 10 months for 1980.

15 MR. SHILOBOD: Why don't you give me both?

16 WITNESS DONOFRIO: The 12 months for 1979 payroll
17 is \$65.2 million. The straight time payroll for ten months
18 for the year 1980 is \$60.2 million.

19 MR. SHILOBOD: The fringe benefits; do you have
20 those figures on fringe benefits?

21 (Mr. Verrochi and Mr. Donofrio confer.)

22 JUDGE CASEY: He asked if you had figures for
23 fringe benefits, but you answered before it was 30 percent
24 of the payroll figures.

25 Do you have separate figures for the fringe benefits

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1 in those documents?

2 WITNESS DONOFRIO: Mr. Verrochi was pointing out
3 that you asked two different questions for two different
4 companies. For Penelec it is straight time payroll, the
5 numbers, and that is what you received; and for Met-Ed it
6 was total payroll including overtime that you received.

7 MR. SHILOBOD: Do you have a breakdown of how much
8 of that is overtime?

9 WITNESS DONOFRIO: Let me give you the straight
10 time, 12 months ended 1979 for Met-Ed, and that is \$51.4
11 million. That excludes straight time payroll of TMI or
12 employees on Met-Ed payroll charged to TMI.

13 MR. SHILOBOD: That is for what time period?

14 WITNESS DONOFRIO: Twelve months or the year of
15 1979. And for 10 months of the year 1980 it is \$46.0 million.
16 Again, that is straight time payroll, excluding what is
17 chargeable to TMI.

18 MR. SHILOBOD: I am going to Pennsylvania Electric.
19 I believe you gave me the payroll figures; and you're
20 indicating that some of that is overtime. Do you know how
21 much of it is overtime?

22 WITNESS DONOFRIO: I believe I gave you the
23 straight time, \$65.2 million and \$60.2 million.

24 MR. SHILOBOD: And fringe benefits is at 30 percent

25 WITNESS DONOFRIO: Again, this is a range

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1 in the year 1979; and estimated the year 1980, at least for
2 Penelec, that we're using 30 percent. The range is 30.45,
3 27.56 and 32.14. So you can use 30 percent.

4 Again, we're trying to arrive at what the potential
5 or approximate cost savings would be.

6 MR. SHILOBOD: And materials and supplies expenses
7 for Penelec; do you have the figures for those for the most
8 recent 12-month period?

9 WITNESS DONOFRIO: The total 19 M&S per hour budget
10 for this year, for the year 1980, is \$49 million.

11 MR. SHILOBOD: Do you have the miscellaneous expenses
12 including office space, for Penelec?

13 WITNESS DONOFRIO: I do not have office space here.

14 MR. SHILOBOD: Do you have the other miscellaneous
15 expense levels?

16 WITNESS DONOFRIO: Total Penelec employee expenses
17 estimated for 1980 of \$3.2 million.

18 MR. SHILOBOD: Does that include all of the con-
19 siderations that you previously referred to under miscellaneous
20 expense?

21 WITNESS DONOFRIO: No. This is just the first
22 piece of it, the employee expense accounts; this is meals,
23 lodging, et cetera, on employee expense reports.

24 MR. SHILOBOD: Is it an approximation of 10 percent
25 of payroll for Penelec as well as Met-Ed?

1 WITNESS DONOFRIO: Sir, what this is, this comes
2 down to \$1,000 per employee. What we did is we summarized
3 the expenses per employee, summarized that to be \$1,850 a
4 year, and took that as a percentage of straight time payroll
5 per employee; and it came to approximately 10 percent.

6 MR. SHILOBOD: That is for employee expenses, but
7 for the total miscellaneous expenses, it would be approxi-
8 mately 10 percent of the payroll; is that correct?

9 WITNESS DONOFRIO: Straight time payroll; that is
10 correct.

11 MR. SHILOBOD: With this management reorganization
12 there is going to be workloads taken out of the division --
13 I'm speaking of the division reorganization -- there is going
14 to be workloads taken out of the division offices and
15 taken to the corporate offices; is that not correct?

16 WITNESS DONOFRIO: When you say "physical workload" --

17 MR. SHILOBOD: I presume there are going to be
18 certain employees taken out of the division headquarters and
19 taken to corporate headquarters; is that correct?

20 WITNESS DONOFRIO: I wouldn't say it would be body
21 for body; you would pick up one person and move him here
22 and put him down here.

23 MR. SHILOBOD: That is not going to happen?

24 WITNESS DONOFRIO: No.

25 MR. SHILOBOD: There are going to be some functions

1 that will be removed from division headquarters to the
2 corporate headquarters; isn't that true?

3 WITNESS DONOFRIO: The responsibilities, but not
4 exactly the work duties.

5 MR. SHILOBOD: Somebody is going to have to carry
6 out those responsibilities; isn't that correct?

7 WITNESS DONOFRIO: The people within this 1,110
8 level of corporate employees is detailed on that page 72.

9 MR. SHILOBOD: I thought page 72 had to do with
10 management combination rather than division consolidation?

11 WITNESS DONOFRIO: This has to do with the end
12 result of the corporate headquarters based upon a combined
13 management and a division reorganization.

14 MR. SHILOBOD: Does page 72 include the changes
15 resulting from -- page 72 of JARI Exhibit 3; is that for the
16 combination, management combination, and the division
17 reorganization?

18 WITNESS DONOFRIO: The corporate piece of it, due
19 to the management combination and the division reorganization.

20 MR. SHILOBOD: They are separate, are they not?

21 WITNESS DONOFRIO: What is separate?

22 MR. SHILOBOD: The division reorganization could
23 occur without the management combination; isn't that true?

24 WITNESS DONOFRIO: The division reorganization
25 could not occur without the addition of the cost avoidance of

1 50 jobs at Penelec.

2 MR. SHILOBOD: That is not my question. My question
3 was: that the division reorganization could occur without
4 the management combination. The division reorganization could
5 occur without the management combination; isn't that true?

6 WITNESS DONOFRIO: Yes, providing that the
7 division reorganization--a component piece of it is adding
8 50 employees to corporate staff.

9 MR. SHILOBOD: Going to that Exhibit No. 7; for
10 instance, for Penelec division reorganization there is an
11 indication of a reduction of 73 employees. Would the job
12 functions that are otherwise presently being carried out by
13 those 73 employees be assumed by someone else?

14 WITNESS DONOFRIO: By the divisional realignment
15 of the employees there and the combined management corporate
16 staff together, the same work scope would be being done.

17 MR. SHILOBOD: But it would now be being done at
18 corporate headquarters rather than at divisional headquarters;
19 is that correct?

20 WITNESS DONOFRIO: Some of it, yes.

21 MR. SHILOBOD: Does Penelec own all of the property
22 where divisional headquarters are now located for its
23 divisions, or is any of it rented?

24 WITNESS DONOFRIO: Some is owned; some is rented.

25 MR. SHILOBOD: Are those leases long-term leases?

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1 WITNESS DONOFRIO: I believe they are on the
2 nature of 20 years and then renewable. I could get you the
3 exact information if it is necessary.

4 MR. SHILOBOD: And the people that are occupying
5 some of those leaseholds are doing work that would now be
6 handled on the corporate level; isn't that correct? That
7 would now, under the new reorganization, be handled at the
8 corporate level?

9 WITNESS DONOFRIO: Some of what is being done in
10 the districts would now be done at the division level; some
11 of the division level would now be done at the corporate
12 level.

13 MR. SHILOBOD: If Your Honor please, I am not going
14 to follow that line of examination any further. We have some
15 policy questions that I am going to ask that Mr. Messer
16 be allowed to proceed with because they are primarily going
17 to be directed to Mr. Verrochi.

18 JUDGE CASEY: All right. You are not going to be
19 asking Mr. Donofrio questions at the same time?

20 MR. MESSER: I don't expect to.

21 MR. RUSSELL: He is available.

22 JUDGE CASEY: You may proceed.

23 (Witness Donofrio excused.)

24

25

1 Whereupon,

2 WILLIAM A. VERROCHI

3 having previously been duly sworn, testified further as
4 follows:

5 CROSS-EXAMINATION (Continued)

6 BY MR. MESSER:

7 Q Mr. Verrochi, it is my understanding of your
8 testimony given throughout today and yesterday that the
9 divisional reorganization which we have all been discussing
10 that was under consideration at Penelec would proceed
11 regardless of any management combination; is that a fair
12 assumption?

13 A (Witness nodding.)

14 Q You're nodding your head yes.

15 A I'm just trying to think of timing here, Mr. Messer.
16 When you get speculative it is sometimes difficult, but I
17 guess the answer to the question is yes. I think that the
18 benefits to be derived from a divisional reorganization in
19 Penelec would justify doing it whether or not we combine with
20 Met-Ed. I think that would be fair.

21 Q Would the same be true for Metropolitan Edison
22 Company in regard to the planned divisional reorganization
23 that is indicated for that corporation?

24 A I'm not as sure of that for Met-Ed, because I
25 really am not quite as familiar with the Met-Ed organization

1 as I am with Penelec's. I think if we don't combine,
2 certainly Mr. Smith and his associates, Mr. Dieckamp, the
3 acting President, would want to take a hard look at the
4 benefits of reorganization division and corporate headquarters.

5 The reason I say that is because there have been
6 studies made under Mr. Dieckamp's direction to focus on
7 that question; and, of course, the Booz-Allen-Hamilton audit
8 raised that question: how come the three companies have a
9 different organizational set-up in terms of corporate and
10 division organizations?

11 Q Would you say the current organizational structure
12 of Metropolitan Edison Company and Penelec are, to some
13 degree, a function of their developmental history and
14 acquisitions and so on?

15 A I think that is probably the main reason there are
16 differences between the two companies and differences within
17 the companies as a function of geographical location of the
18 divisions and districts; yes.

19 Q The contemplation of the combined management system
20 is to standardize the divisional operation throughout
21 Penelec and Met-Ed, as I understand the facts and the figures
22 that I have seen so far. Would that be a correct assumption
23 or not?

24 A I'm sorry, I really lost the intent of your
25 question. Would you try it once more, please?

j14

1 Q Let me try to focus my thoughts so that you might
2 understand the information that I am trying to make an
3 effort to receive.

4 It seems to me that there are two divisional
5 reorganization plans contemplated, one for Penelec and one for
6 Met-Ed; and that these divisional reorganizational plans
7 are an effort to standardize the organizational structure
8 under the combined management agreement.

9 Is that a fair assumption, or is it not?

10 A If the emphasis is on the words "an attempt or
11 desire" to standardize, I am not sure that that is as
12 important as the desire to create an improved organization
13 system, headquarters and division.

14 The standardization is not as important as the
15 product that would come from the reorganization, the reorgan-
16 ization of the divisions and the supporting and directing
17 staff at system headquarters.

18 I don't mean to get hung up on this, but I'm not
19 sure --

20 Q It just seems to me that if there is going to be a
21 combined management that the flow of information up and down
22 the line and the allocation of responsibilities up and down
23 the system should be fairly similar in order to have --

24 A Similar, yes; identical, no. I guess that is why
25 I am hedging. I don't mean to hedge.

j15

1 Q I don't mean to say standardization in the
2 absolute --

3 A Certainly we would like to have more of a standard
4 approach, of course; and we would hope to achieve it.

5 Q As much as possible you would like to achieve
6 standardization --

7 A Yes.

8 Q -- throughout both companies?

9 A Sure; yes, sir.

10 Q In my reading of the Booz-Allen report I came
11 across several recommendations by Booz-Allen-Hamilton that
12 the impetus for standardization should come from either the
13 GPU or the GPU Service Corporation in regard to the
14 application of standardization procedures for load management
15 forecasts and other sorts of decisions throughout the GPU
16 System. Is that your recollection of what one of the
17 recommendations was?

18 A Yes. One of the functions of the service company
19 is to enhance the process whereby operating companies and
20 functional heads within operating companies are brought
21 together to explore the differences in operating procedures,
22 design standards, material standards, and to address the
23 question: are these differences justified and to what
24 extent should these differences be eliminated so that we can
25 word towards standardization.

1 That effort has been going on for years, before the
2 service company was formed. Certainly, we have done much
3 more toward that end since the service company has been
4 formed. The hard fact of life is that in spite of that
5 effort, there are differences, inherited differences and
6 inherent differences, in the operating companies and in the
7 functions of the operating companies. So the level of
8 standardization achievable and desirable varies depending
9 on what function you're talking about.

10 Q. If we can assume then that there are inherent
11 functional differences among the operating companies, the
12 combined management team would have to deal with those
13 inherent differences, wouldn't it?

14 A. Yes, sir.

15 Q. If we assume that there are significant inherent
16 functional differences within the operational companies, the
17 process of standardization would be curtailed insofar as
18 those functional differences are concerned; isn't that right?

19 A. The process of standardization would have to
20 reflect those differences and the extent to which they
21 are insurmountably unalterable. However, in the area of
22 division operations, I'm satisfied, and I think our key
23 people are satisfied, that the process that is currently
24 underway whereby we're trying to develop a set of criteria
25 which one would apply to what constitutes a division, how big

j17

1 a geographical area and so forth, the lines of responsibility
2 and all of these things, to come up with something that
3 seems to make sense from a criteria point of view -- then
4 the challenge will be to apply those criteria to the
5 existing organizations in Penelec and Met-Ed.

6 I think that that exercise will bring us a lot
7 closer to a standardized approach in handling division
8 affairs than currently exists either at Met-Ed or Penelec.
9 So it is a matter of degree.

10 Q At this point in time, with the distinct entities
11 that exist in Penelec and Met-Ed, there is no real functional
12 reason to have cross standardization, is there?

13 A Only to the extent that the standardized approach
14 is a better way of running divisions, from all considerations;
15 cost, customer service, quality of service, and so forth,
16 budgeting, cost control; all these factors. One would hope
17 that a standardized approach would result in better operation
18 of all the divisions.

19 Q The functional differences between the operating
20 companies are also dependent upon their service areas, aren't
21 they?

22 A Yes.

23 Q And to the extent that the service areas of
24 Penelec and Met-Ed are distinct, certificated service areas,
25 those particular functional differences will not be erased

1 by the combination, will they?

2 JUDGE CASEY: Are you assuming that there are such
3 differences?

4 MR. MESSER: I am.

5 THE WITNESS: If by "functional differences" you're
6 referring to urban versus rural versus suburban and
7 customer density and these considerations, there are
8 differences, even within Penelec, among the divisions. Erie,
9 for example, is a highly urban area and very similar in its
10 make-up and its concentration of people and kinds of
11 facilities to serve these people to some of the Met-Ed
12 divisions, which tends to be that way. About 8 percent of
13 the population and about 8 percent of the area of
14 Pennsylvania is served by Met-Ed; so it is roughly consistent
15 with both size and number of people it is serving, whereas
16 Penelec has about 39 percent of the area of the state, and
17 only about 12 percent of the people. However, there are
18 divisions in Penelec where the concentration of people is
19 much higher.

20 So I think Penelec does cover a spectrum which
21 would include the kind of service area and the kind of
22 problems Met-Ed has. So I would hope that we could develop
23 a standard which would be applicable both to Met-Ed and to
24 Penelec.

25

1 BY MR. MESSER:

2 Q At this point in time you don't have such a
3 standard, do you?

4 A It is well along, however. We have got some pretty
5 good ideas as a result of considerable effort by people in
6 the service company and, more recently, people in our two
7 operating companies have been trying to develop standards,
8 test them, see how they apply; try them out on operating
9 people to see if they can understand and embrace them. We
10 have a pretty good, tentative set of standards which, I
11 think, can be applied relatively easily to the two operating
12 companies.

13 Q Would that then erase all the functional differences
14 based upon the differences in the certificated areas of the
15 two companies?

16 A I guess I don't know what you mean by "functional
17 differences" as it relates to the certificated or franchised
18 areas. Can you elaborate on that a bit, please?

19 Q Well, there are differences, are there not, in the
20 type of customers that are served by Met-Ed and Penelec in
21 proportion to the amount, let's say, of energy sold to the
22 industrial, commercial and consumer classes?

23 A Penelec serves industrial, commercial and residen-
24 tial customers and so does Met-Ed, so I say that we have
25 similar types of customers and similar types of customer needs.

j20

1 Q Similar types of customer areas in terms of
2 territory?

3 A In some respects, yes. Certain parts of
4 Penelec's areas are quite similar to Met-Ed's. Certain are
5 not -- others are not. Towanda is not like--for instance,
6 the northeastern division of Penelec in the Towanda area
7 is not at all like anything Met-Ed has, but the northwestern
8 division is quite similar. The Johnstown division is some-
9 what similar -- the southern division, that is, of Penelec,
10 is similar to the Met-Ed division.

11 Q Now, I have noticed in the exhibits attached to
12 Mr. Donofrio's testimony and, I believe, it was indicated in
13 some other portion of the information that we have received,
14 that as far as the IBEW is concerned, none of their
15 employees will be affected by the merger in terms of a
16 removal of position or firings; is that correct?

17 A Are you talking about Met-Ed?

18 Q And Penelec.

19 A If I look at Mr. Donofrio's Exhibit 7, it talks
20 in terms of --

21 Q Twenty-eight union people.

22 A Yes, ten of which are Penelec's and I think he
23 referred to all of those as being in our eastern division,
24 which is in Altoona, and that is UWA. I don't know -- of the
25 18 people identified here as being members of Met-Ed's union,

1 they would be IBEW. I don't know where they are or what
2 they're doing. Do you, Al, offhand?

3 WITNESS DONOFRIO: The ten in Penelec, as
4 Mr. Verrochi said, is UWUA. I assume that the 18 in Met-Ed
5 are IBEW.

6 WITNESS VEROCCHI: But you don't know what they are
7 now doing?

8 WITNESS DONOFRIO: No. They're in T&D.

9 WITNESS VEROCCHI: They're in T&D, yes, but I don't
10 know what their job functions are.

11 BY MR. MESSER:

12 Q In the management summary of Booz-Allen in regard
13 to Metropolitan Edison -- and I quote at page 3-2 --

14 MR. RUSSELL: Would you show the witness what you
15 have in mind? As a matter of fact, would you let counsel
16 take a look at it?

17 (Document handed to Counsel Russell by Counsel Messer.)

18 BY MR. MESSER:

19 Q Mr. Verrochi, I am handing you the management summary
20 of the Met-Ed Booz-Allen report and ask you to read, please,
21 the last paragraph above the numerals 3-2.

22 (Document handed to witness.)

23 A. Do you want me to read it out loud or just read it?

24 Q. Did you read it?

25 (Witness perusing document.)

1 A Yes, I have read it.

2 Q Do you know what that "14" stands for at the end?

3 A Yes. I believe it stands for the number of people
4 reporting directly to the President of Met-Ed; and that
5 includes division managers, for example.

6 Q It is my understanding of this particular recommen-
7 dation that demands on the Met-Ed President's time as a
8 result of the continuing attention to policy issues as well
9 as operating performance suggests the need to review and
10 reduce, where possible, the President's currently large span
11 of control of 14.

12 A Yes, sir.

13 Q Has that been done?

14 A In Met-Ed now?

15 Q Yes.

16 A I believe it has, to some extent. I believe, but
17 I am not sure, that fewer people are reporting to the
18 senior Vice-President in residence at Reading, Floyd Smith.

19 Q You would take over at least part of Mr. Smith's
20 function as the new President, would you not?

21 A Yes, as shown on the exhibit showing the proposed
22 organization chart; it shows the number of people, and their
23 job titles, who would report to me as President of the com-
24 bined companies. I think you will see that is six officers:
25 three senior Vice-Presidents and three Vice-Presidents. So

1 that span of control would be six instead of a larger
2 number. I think I have more people reporting to me now than
3 six, as a matter of fact.

4 Q Is it also going to be your responsibility to
5 monitor and implement the 10-year Master Plan of GPU?

6 A Through the appropriate Vice-President, yes.

7 Q And that ten-year Master Plan is going to make
8 certain demands upon the operating company in terms of
9 hiring and policing and accommodating the plan, is it not?

10 A Yes, it is.

11 Q And that would have to be accomplished with or
12 without the combination, wouldn't it?

13 A That is true.

14 Q At some point, Mr. Verrochi, economies of scale
15 become infinitesimal, don't they?

16 A That's true.

17 Q In regard to the economies of scale that you are
18 indicating can be accomplished in the Met-Ed and Penelec
19 situations, where would you draw the line as to whether or
20 not you would recommend the management combination based upon
21 economies of scale?

22 A Again, that certainly is a judgment question. I
23 think I have testified, and I think Mr. Dieckamp has testi-
24 fied that Penelec alone and Met-Ed alone are relatively small
25 utility companies in terms of assets, number of employees,

1 number of customers; and even on a combined basis -- again,
2 by those criteria -- Penelec and Met-Ed combined would still
3 not be a giant corporation. We would be small, for example --
4 about the size of, as I think I mentioned before,
5 Pennsylvania Power and Light Company, which is in terms of customers,
6 assets, number of employees, annual revenues, annual sales
7 and total megawatt hours. We would be roughly two-thirds
8 of the size of Philadelphia Electric. So none of us in the
9 GPU System are concerned that we are getting too big for our
10 britches, if you will, if we combine Met-Ed and Penelec.

11 Q You are looking at it in terms of total revenue,
12 isn't that right?

13 A Total revenue, number of employees, number of
14 customers.

15 Q Territory served?

16 A Territory served is a little on the big side,
17 obviously. The combination would serve about 47 percent of
18 the State of Pennsylvania. That is big; there is no question
19 about it. But other electric utility companies in the
20 country serve areas that are as big or bigger, and we know,
21 for example, even in the State of Pennsylvania General
22 Telephone serves quite a large area. So it is do-able.

23 Q We're talking about apples and oranges here now,
24 aren't we --

25 A Well, in electric --

1 Q Well, let me finish my question, Mr. Verrochi.

2 Are you indicating to me that the problems
3 associated with the distribution of telephone communication
4 lines and so on is similar to the function that an electric
5 utility company serves?

6 A I was thinking more of the problem of trying to
7 combine the top managements of companies. There are a lot of
8 electric utility companies and other utility companies that
9 I am familiar with that are able to manage quite a large
10 service area; again, depending upon well-organized and
11 well-controlled divisions who are, in turn, trying to handle
12 a more bite-sized piece of the action through territorial
13 sizes, number of employees, number of customers.

14 Q But you are not intending by your testimony here
15 today to say then -- or to give us any extrapolation of the
16 differences between the utility in Wyoming that may service
17 the entire state versus Penelec or Met-Ed supplying a
18 territory in Pennsylvania, are you?

19 A I was simply trying to be responsive to your
20 question: would the combination of the Met-Ed and Penelec
21 managements and responsibilities result in a product that is
22 too big to handle, that extends beyond the economy of scale;
23 and I think I have tried to indicate to you that, from all
24 of these considerations, it doesn't result in that kind of a
25 problem. It is not going too big to handle. It still will

1 be smaller than many electric utility companies in the
2 country.

3 Q But not in Pennsylvania.

4 A As small as one and smaller than another, in terms
5 of some of the parameters; not all.

6 Q It certainly would be also true that the other
7 utilities in Pennsylvania don't have the same set of issues
8 and priorities and problems facing them as Met-Ed and
9 Penelec; isn't that right?

10 A They don't have quite the financial crunch that
11 Met-Ed is experiencing. And here, again, it is a matter of
12 speculation as to to what extent some of our neighboring
13 utilities both in Pennsylvania and our neighboring utilities
14 in the Pennsylvania-Jersey-Maryland Interchange of
15 which we are a part -- it is a matter of some speculation
16 as to how soon we are going to be running into some
17 financial problems which might be quite similar to what GPU
18 is experiencing.

19 Q Unfortunately, you have TMI and they don't.

20 A Yes, that's true. And from that we have some pretty
21 sizeable financial problems.

22 MR. RUSSELL: It is part of PJM.

23 JUDGE CASEY: That was more of an observation than
24 a question.

25 THE WITNESS: Fine. We have TMI.

1 MR. MESSER: Personally, I sympathize with anyone
2 who has to deal with TMI. It is a problem that has to be
3 dealt with. I think your argument here in this proceeding
4 is how to deal with it.

5 JUDGE CASEY: I think, though, that you kind of
6 promised us that you were going to stick to questions in the
7 policy area; that is the company's policy rather than
8 philosophical discussions about the apparent size of --

9 MR. MESSER: I think that I must have been drawn
10 into it by one of Mr. Verrochi's answers. I'll go back to
11 the issues that I was intending to cover, which I should be
12 finished with very shortly.

13 BY MR. MESSER:

14 Q Mr. Verrochi, I have reviewed some of the informa-
15 tion -- as much as possible -- in the Booz-Allen-Hamilton
16 reports in regard to the Met-Ed and Penelec situation. It is
17 indicated in these reports that the purpose of the examina-
18 tion by Booz-Allen was to take as broad an approach to the
19 functional and management issues of GPU as possible.

20 Was that your understanding of the study that was
21 made or not?

22 A Of the Booz-Allen-Hamilton study?

23 Q Yes.

24 A Yes, sir; that is my understanding.

25 Q This study was not ordered by the Commission, was it?

1 A. No, sir. We contracted for it as the GPU system.

2 Q. Can we properly characterize this as an in-house
3 document?

4 A. It is a matter of public record.

5 MR. RUSSELL: On the face of the matter it is
6 prepared by an outside consultant.

7 JUDGE CASEY: Right. I think you have to put that
8 report in perspective. They paid for it. They were
9 entitled to say what the audit should entail, how much in
10 debt and how broad it had to be; and then they are furnished
11 with a number of recommendations contained within the audit
12 that they are at liberty to implement or they are at liberty
13 to reject. There is no compulsion. To the extent that they
14 have already attempted to do those things, Mr. Verrochi can
15 explain how and under what circumstances.

16 If you see things in your cross-examination that
17 may have been recommended and for some reason or other the
18 company rejected, didn't do those things or delayed imple-
19 menting them for reasons best known to management, then you
20 may raise some questions.

21 Now we have the Theodore Barry and Associates
22 report. And I was about to point out, but I didn't want to
23 interfere with your questioning, that Theodore Barry
24 apparently also adopted the division reorganization scheme.

25 The division reorganization idea or concept

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1 apparently came up in the Booz-Allen-Hamilton report where
2 there was no consideration given to a management combination.

3 In other words, that division reorganization for
4 both operating utilities stood on its own merits. It was
5 something that was devised. You were trying to put it in
6 the context that it was so tied together with the combination
7 management agreement that one could not succeed without the
8 other. I think that there were two independent recommendations
9 or findings.

10 R. MESSER: I think that's right. The purpose of
11 my question, Your Honor, was to indicate that precise point;
12 that, in fact, the divisional reorganizations can proceed
13 independent of any combination.

14 JUDGE CASEY: They can, but they don't have to.
15 This, again, is a management prerogative. However, they are
16 under pressure now, under the circumstances following the
17 accident that these recommendations have been made by a
18 consulting firm who is proceeding under the Commission's
19 auspices; so they had better not dismiss the matter at hand.
20 You had better give them serious consideration. That is the
21 atmosphere or the climate that this thing is in. That is the
22 way it appears to me, at least.

23 I agree, and Mr. Verrochi might agree, that if the
24 division reorganization occurred and there was some similarity
25 or standardization within Met-Ed and Penelec, forgetting about

1 their inherent and inherited difference', would this not
2 make it somewhat easier for the new management combination
3 team to proceed in carrying out their function if they had
4 a similar type of unified division system in both companies?

5 I think that is one of the questions that is
6 raised in the testimony this afternoon.

7 BY MR. MESSER:

8 Q The recommendations that I have read in Booz-Allen
9 are one -- without going into detail or specifics of which
10 they are several -- seem to indicate that there is a need for
11 standardization throughout the GPU System.

12 A Yes, sir.

13 Q And they recognize that that is important in their
14 report, I believe; is that right?

15 A Yes, sir.

16 Q At no time, at least from what I have gone through
17 in the last couple of days, have I seen any recommendation
18 that there should be any management combination among any
19 of the three operating companies; is that correct, sir?

20 A I believe that is probably correct in terms of the
21 Booz-Allen-Hamilton report at the time that it was issued.
22 I forget the date that it was issued.

23 Q I believe the date, again, is May 1978, which is
24 marked on the cover of the report.

25 A Right.

j31

1 Q Wouldn't it be a fair assumption, Mr. Verrochi,
2 to assume that there could be certain standardization pro-
3 jects throughout the entire GPU System which could result in
4 economies of scale without the merger or management
5 combination of any of the related companies?

6 A On that specific issue, the whole effort toward
7 standardization has been going on without exact purpose in
8 mind, and there is no reason why it can't and wouldn't or
9 shouldn't continue to go on whether or not we combine the
10 managements of the two organizations.

11 MR. MESSER: Thank you very much. That's all the
12 questions I have today, Your Honor.

13 Excuse me, Your Honor.

14 (Pause.)

15 BY MR. MESSER:

16 Q One just housekeeping question, Mr. Verrochi, in
17 regard to Exhibit No. 7. Do you have any time frame in which
18 the savings, the total savings as a result of the Penelec and
19 Met-Ed divisional reorganization savings would occur?

20 MR. RUSSELL: Mr. Donofrio, I think, has covered
21 that several times in his testimony this morning.

22 MR. MESSER: That was a different issue and a
23 different question in regard to, I believe, the \$700,000
24 question which, I believe, Mr. Donofrio addressed. I may be
25 mistaken, but in order just to clarify my own stupidity, I

1 would ask the question again.

2 MR. RUSSELL: I would ask Mr. Donofrio if he
3 responded to that.

4 WITNESS DONOFRIO: I did.

5 WITNESS VERROCHI: Did you on the 209 people and
6 the \$8.4 million? Is that what we're talking about?

7 MR. MESSER: Yes, that's right.

8 WITNESS DONOFRIO: What we said on there was that
9 upon completion of the combination management that these
10 would be done through attrition. We have started a little
11 bit already. And by that time, that last 73rd or 136th job
12 was eliminated, we're probably talking a two to three-year
13 time period.

14 MR. MESSER: Thank you.

15 JUDGE CASEY: That apparently completes the
16 testimony for today. Tomorrow we are scheduled to hear from
17 the Commission Administrative Staff witnesses who are the
18 Theodore Barry and Associates consulting team. We will be
19 meeting at 9:00 a.m. And, as I said, I believe that it is
20 in Room 503 in the Finance Building directly across the
21 street from the North Office Building.

22 MR. RUSSELL: May we go off the record just a
23 moment?

24 JUDGE CASEY: Yes.

25 (Discussion off the record.)

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1 JUDGE CASEY: On the record. We will recess until
2 9:00 a.m. tomorrow morning. The hearing is adjourned.

3 (Whereupon, at 4:25 p.m., the hearing was
4 adjourned, to be reconvened at 9:00 a.m. on December 10, 1980
5 in Harrisburg, Pennsylvania.)

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