BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service	Case 15-G- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 15-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 15-G- ____

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DIRECT TESTIMONY OF WORKFORCE, COMPENSATION AND BENEFITS PANEL

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John C. Norman
Chad A. Scoma

May 20, 2015

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I. INTRODUCTION

A. Witness Qualification and Background

Q. Please state the names of the members on this Workforce, Compensation and Benefits Panel ("Panel").

A. We are Susan K. Greenberg, Sheri A. Lamoureux, John C. Norman, and Chad A. Scoma.

Q. Ms. Greenberg, please state your title and business address.

A. I am the Director of Human Resources - Rewards. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My Curriculum Vitae ("CV") is set forth in Exhibit __ (WCB-1).

Q. Have you previously testified in other proceedings before the New York State Public Service Commission ("PSC" or the "Commission") or any other state or federal regulatory agency or court?

A. No.

Q. Ms. Lamoureux, please state your title and business address.

A. I am the Vice President of Human Resources, Environmental, Health and Safety. My business address is 18 Link Drive, Binghamton, New York 13902.

Q. Please summarize your educational background and work experience.

A. My CV is attached as Exhibit __ (WCB-1).

Q. Have you previously testified in other proceedings before the PSC or any other state or federal regulatory agency or court?

A. No.

Q. Mr. Norman, please state your title and business address.

A. I am the Manager of Insurance and Claims. My business address is 70 Farm View Drive, New Gloucester, Maine 04260.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (WCB-1).

Q. Have you previously testified in other proceedings before the PSC or any other state or federal regulatory agency or court?

A. No.

Q. Mr. Scoma, please state your title and business address.

A. My title is Manager of Human Resources Planning. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit __ (WCB-1).

Q. Have you previously testified in other proceedings before the PSC or any other state or federal regulatory agency or court?

A. No.

Q. Is this Panel sponsoring any exhibits?

A. Yes. This Panel is sponsoring the following exhibits:

1) Exhibit __ (WCB-1) provides the CVs of the witnesses testifying on this Panel;

2) Exhibit __ (WCB-2) provides the projected Rate Year Workforce Levels from

December 31, 2014 Baseline Levels for New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E" and, together with NYSEG, the "Companies");

3) Exhibit __ (WCB-3) provides the December 23, 2014 Letter to the Commission Regarding Staffing Levels;
4) Exhibit __ (WCB-4) provides the Presentations Summarizing the Companies' Compensation Study;
5) Exhibit __ (WCB-5) provides the Presentations Regarding the Companies' Benefits Study;
6) Exhibit __ (WCB-6) provides a Summary of Compensation Study Results;
7) Exhibit __ (WCB-7) provides a Summary of Benefits Study Results;
8) Exhibit __ (WCB-8) is the Derivation of the Customers' Share of Union Variable Compensation Plan;
9) Exhibit __ (WCB-9) is the Derivation of the Customers' Share of Non-Union Non-Executive Variable Compensation Plan;
10) Exhibit __ (WCB-10) is the Derivation of the Customers' Share of Non-Union Senior Leadership Variable Compensation Plan;
11) Exhibit __ (WCB-11) is the Derivation of the Customers' Share of Iberdrola USA Management Corporation ("IUMC") Employee Variable Compensation Plan - Non-Union Non-Executive Plan;

12) Exhibit __ (WCB-12) is the Derivation of the Customers' Share of IUMC Employee Variable Compensation Plan - Non-Union Senior Leadership Plan; and
13) Exhibit __ (WCB-13) provides the Report on Pension, OPEB and 401(k) Projections: 2015-2021 prepared by Aon Hewitt.

B. <u>Purpose of Testimony</u>

Q. What is the overall purpose of the Panel's testimony?

A. The Panel discusses:

1) The Companies' Employee Priority Strategy, general approach to workforce planning and workforce challenges the Companies face;
2) The Companies' workforce projections for the 12-month period from April 1, 2016 to March 31, 2017 ("Rate Year");
3) Our workforce programs, including progression and apprentice programs;
4) Compensation, including an overview of the compensation study and the Companies' proposal with respect to variable compensation;
5) Benefits, including an overview of the benefits study;
6) Retirement benefits, including pensions, 401(k) and other post- employment benefits ("OPEBs");
7) Health care benefits; and
8) Our Workers Compensation program.

Q. Please summarize your overall Rate Year workforce projections for the Companies.

A. As of December 31, 2014, NYSEG had 1,926 employees and RG&E had 848 employees to accomplish the Companies' mission and goals. These figures include 30 individuals formerly employed at Iberdrola Energy Projects ("IEP") who were hired by the Companies in December 2014; 8 at NYSEG and 22 at RG&E. For the Rate Year, we are projecting a slight decrease in total workforce at NYSEG and an increase in total workforce at RG&E. The average Rate Year projected level of employees is 1,891 employees for NYSEG and 877 employees for RG&E (including those individuals formerly employed at IEP who we anticipate will have been hired by the Companies by the end of the Rate Year). Our development of the Companies' projected Rate Year workforce level from the historic period ending December 2014 baseline level is set forth on Exhibit __ (WCB-2).

Q. Was there a significant event at the end of 2014 related to workforce levels at NYSEG and RG&E?

A. Yes. At that time, the Companies started hiring former employees of IEP. As of December 31, 2014, 8 former IEP employees were employed at NYSEG and 22 former IEP employees were employed at RG&E.

On December 23, 2014, Iberdrola USA Networks, Inc. ("IUSA Networks") filed a letter, set forth as Exhibit __ (WCB-3), with the Commission stating that it expected IUSA Networks to hire 60 IEP professionals, with 54 to be employed at the Companies beginning December 2014, and continuing through the first half of 2015. NYSEG, RG&E, Central Maine Power Company and

IUMC are now expecting to hire up to 68 former IEP professionals. During 2015, 7 former IEP employees are expected to join NYSEG and 9 former IEP employees are expected to join RG&E as shown in the table below:

Table 1: Former IEP Employees Expected to Join NYSEG/RG&E

Company	IEP Employees Hired as of 12/31/14	Projected Additional IEP Hires During 2015	Total
NYSEG	8	7	15
RG&E	22	9	31
Total	30	16	46

Q. Does your Rate Year workforce levels forecast include additional resources necessary for the Companies to implement the new Reforming the Energy Vision ("REV") goals being developed by the Commission in Case 14-M-0101?

A. Workforce needs related to REV are evolving. At this point in time, our workforce projections for the Rate Year include two employees specifically related to increases in interconnection activities, as discussed by the Electric Supply and Natural Gas Supply and Expansion Panel. The Companies understand that REV and the Companies' role as the Distributed System Platform Provider will continue to rapidly evolve as the rate cases and the REV proceeding progress. Updates to REV-driven workforce needs will be included in the Companies' Distributed System Implementation Plan to be filed with the Commission in mid-January 2016.

Q. Have the Companies performed any compensation or benefits studies?

A. Yes, outside experts performed both types of studies, which we will address later in our testimony.

C. Our Companies' Employee Priority Strategy

Q. Please provide an overview of the Companies' mission.

A. The Companies are a team of dedicated individuals working as one to deliver value to our customers, employees and shareholders. By providing outstanding customer service and reliability, while holding safety and the environment in high regard, we aspire to be world-class energy companies. A high-functioning and talented workforce is critical to achieving the Companies' mission.

Q. Please explain the Companies' overall human resources framework and philosophy.

A. The Companies utilize an "Employee Priority Strategy" which is based upon three general priorities: 1) attract; 2) develop; and 3) retain excellent employees. The Companies also utilize the slogan "We are a S.M.A.R.T team" with the acronym S.M.A.R.T referring to "Safe, Motivated, Asset, Respected, Talented." The Companies recognize that growing and training people is an investment in one of our most critical assets – our workforce.

Q. Are there additional goals that support the S.M.A.R.T philosophical approach?

A. Yes. These additional goals include: 1) achieving the top quartile in safety metrics within five years; and 2) retaining, developing and attracting an inclusive, globally-focused, high-performing, skilled and engaged workforce. Goals are established at the senior level of the organization and are monitored through key performance indicators on a regular basis.

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Q. What types of challenges do NYSEG and RG&E face in achieving their Employee Priority Strategy?

A. The Companies face many challenges, including competition for quality employees in the marketplace, an aging workforce, rising health care costs, and retention of a trained workforce that can continue the Companies' maintenance of safe and reliable service.

Q. Do the Companies have a continuing responsibility to offer a competitive compensation and benefits package?

A. Yes. We need to offer a competitive compensation and benefits package to retain our high-performing employees. A competitive compensation and benefits package also improves our ability to attract talented and high potential employees from outside the organization.

Q. Are the Companies proposing changes in the Companies' compensation and benefits programs in the Rate Year?

A. Yes. The Companies are making changes in their compensation and benefits package, particularly for Union Employees, where we have introduced and/or anticipate introducing a variable compensation component. The Companies are also requesting recovery of a portion of variable compensation for their Union Employees, Non-Union Non-Executives, and Non-Union Executive and Director-Level Employees in base delivery rates, as we explain later in our testimony.

D. <u>General Approach to Workforce Planning and Workforce Challenges</u>

Q. Do the Companies assess and plan workforce levels a single year at a time?

A. No. We assess and plan workforce levels for the likely needs of the overall business on a multi-year basis. For purposes of this testimony, however, we have focused on the Companies' workforce needs for the Rate Year.

Q. What are some of the challenges the Companies face as a result of the aging demographic of their workforce?

A. Pending retirements are a challenge. Forty-eight percent of NYSEG's employees and 50% of RG&E's current workforce are eligible to retire within five years. Approximately 70% of the Companies' combined workforce is eligible to retire within the next 10 years. Proactively managing this inevitable shift in talent is important and a workforce planning strategy has been implemented.

Q. Please describe how the Companies identify internal successors for high-level and key positions.

A. Succession needs are assessed by a team of executives from across the business. This team performs a talent review that identifies a candidate pool of potential internal successors for critical positions. When a critical position opens up, the succession pool is reviewed for readiness of potential internal candidates. If none are available, the Companies look to external sources to fill the position.

Q. How does succession planning benefit the Companies?

A. The benefits include: 1) allowing potential gaps in succession to be identified quickly and action plans to be developed accordingly; 2) growing talent from within to maintain core competencies; 3) bringing a future focus to leadership development and the success of the organization; and 4) improving retention by motivating "talent" (i.e., our employees) as internal opportunities develop.

Q. Is succession planning done for every position?

A. No. Succession planning is done for high-level and key positions only.

II. WORKFORCE PROJECTIONS

Q. What is the Companies' proposed workforce for the Rate Year?

A. For the Rate Year, the Companies project an average headcount of 1,891.1 for NYSEG (1,407.6 Union/483.5 Non-Union) and an average headcount of 877.3 for RG&E (376.3 Union/500.7 Non-Union). The progression of employee headcounts from the baseline headcounts established on December 31, 2014, to the average headcount levels anticipated for the Rate Year is shown on Exhibit __ (WCB-2) and on the tables below:

Table 2a: NYSEG Rate Year Workforce Projections: 12/31/14 to End of Rate Year

	12/31/14 HEADCOUNT	03/31/16 HEADCOUNT	03/31/17 HEADCOUNT	AVERAGE RATE YEAR HEADCOUNT	12/31/14 to Ave Rate Year STAFFING CHANGE
NYSEG Electric					
Union	1,131.1	1,080.7	1,066.3	1,073.5	(57.6)
Non-Union	343.6	351.2	351.7	351.5	7.9
Total NYSEG Electric	**1,474.7**	**1,431.9**	**1,418.0**	**1,424.9**	**(49.8)**
NYSEG Gas					
Union	330.9	333.6	334.7	334.1	3.3
Non-Union	120.4	130.0	134.0	132.0	11.6
NYSEG Gas Total	**451.3**	**463.6**	**468.8**	**466.2**	**14.9**
NYSEG Total	**1,926.0**	**1,895.5**	**1,886.8**	**1,891.1**	**(34.9)**

Table 2b: RG&E Rate Year Workforce Projections: 12/31/14 to End of Rate Year

	12/31/14 HEADCOUNT	03/31/16 HEADCOUNT	03/31/17 HEADCOUNT	AVERAGE RATE YEAR HEADCOUNT	12/31/14 to Ave Rate Year STAFFING CHANGE
RG&E Electric					
Union	219.2	214.6	211.9	213.3	(5.9)
Non-Union	312.4	326.1	326.1	326.1	13.7
RG&E Electric Total	**531.6**	**540.7**	**538.0**	**539.4**	**7.7**
RG&E Gas					
Union	153.8	161.3	165.3	163.3	9.5
Non-Union	162.6	173.8	175.4	174.6	12.0
RG&E GAS Total	**316.4**	**335.1**	**340.7**	**337.9**	**21.5**
RG&E Total	**848.0**	**875.8**	**878.8**	**877.3**	**29.3**
Total NYSEG & RG&E	**2,774.0**	**2,771.3**	**2,765.5**	**2,768.4**	**(5.6)**

III. WORKFORCE PROGRAMS

A. Progression and Apprentice Programs

Q. What are progression programs and why are they important to the Companies?

A. Progression programs are provided for Union Employees and offer theoretical and practical classroom and on-the-job training to enable Union Employees to "progress" their skills. These programs allow individuals to learn the many aspects of a highly skilled and potentially dangerous occupation in a controlled environment over a designated time period. Our model is to introduce the trainee to the basic concepts of the position and then send the trainee into the field for on-the-job learning under direct supervision. After six months of restricted on-the-job field experience, trainees are brought back to the classroom to review what they have learned and to receive additional training. This six-month rotating process continues for just over three years. Upon completion of the progression program and after passing all exams, employees are considered fully-qualified and may work without direct supervision.

Overall, the program is important because it teaches employees the skills necessary to work safely, knowledgably and independently as they maintain the utility services our customers depend on.

Q. Please identify the number of individuals the Companies plan to hire for the electric and gas apprentice programs during 2015 and during the Rate Year.

A. In 2015, the Companies anticipate hiring 16 electric apprentices, with 10 at NYSEG and six at RG&E. During the Rate Year, we anticipate hiring five apprentices at NYSEG Electric and two apprentices at RG&E Electric. Similarly, in 2015, the Companies anticipate hiring five gas apprentices, with two at NYSEG and three at RG&E. During the Rate Year, we anticipate hiring three apprentices at NYSEG Gas and five apprentices at RG&E Gas. The apprentice program is key to the Companies' strategy in anticipating employee retirements and we plan to continue it beyond the Rate Year.

Q. How are the apprentice positions filled?

A. Apprentice positions for the Companies are normally filled with a combination of internal and external employees. The Companies use a variety of sources for candidates, including students from Monroe Community College, Hudson Valley Community College, and the Southeast Lineman Training School.

IV. COMPENSATION AND BENEFITS STUDIES

Q. Do the Companies view compensation and benefits as part of their overall rewards philosophy?

A. Yes. The Companies' rewards philosophy is to provide compensation and benefits at a median level when measured against appropriate peer groups.

Q. Please describe the compensation and benefits studies performed for the Companies.

A. A benchmark study of the Companies' compensation programs was performed by Towers Watson & Co. ("Towers") and a presentation summarizing the results is provided as Exhibit __ (WCB-4). Aon Hewitt performed a benefits study and presentations on the benefits study are provided as Exhibit __ (WCB-5). Both studies covered Union and Non-Union Employees.

Q. Why did you select Towers to complete the compensation study?

A. Towers is a leading global professional services company whose services include consulting with organizations to determine best practices for compensation design and appropriate position pricing. Each year, Towers conducts robust surveys of the utility industry and general industry which were used in part to conduct our analysis.

Q. What peer groups were used by Towers for the compensation study for comparison purposes?

A. Towers used a broad group of companies which significantly overlaps with the peer group used by Aon Hewitt for the benefits study. Towers performed a benchmark of the Companies' compensation programs against a peer group of utility companies and a peer group of general industry companies. For utility-specific roles, such as engineers and line workers, utility databases were used. For roles where skills can be transferred to other industries, such as Human Resources and Audit, general industry databases were used. For roles where skills cannot be transferred to other industries, only utility databases were used.

Q. Why did you select Aon Hewitt to complete the benefits study?

A. Aon Hewitt is a global leader in human capital consulting and outsourcing solutions. In 1972, it developed the Benefits Index to assist employers in analyzing the competitiveness of benefit programs. Since then, organizations throughout the world have relied on Aon Hewitt for determining benefit values, communicating competitive positions, maintaining internal equity, analyzing plans following a corporate transaction, and modeling plan design alternatives.

Q. What peer groups were used by Aon Hewitt for the benefits study for comparison purposes?

A. Benefits for both Non-Union newly-hired employees and certain long-service employees were compared to both a utility peer group and a general industry peer group. Benefits for Union Employees were compared to a utility peer group only.

The utilities included in the benefits study's peer group included those utilities in the Aon Hewitt database in New York State, Connecticut, Florida, Illinois (Exelon with employees in Pennsylvania), New Jersey, Ohio, Massachusetts, Michigan (CMS Energy with employees in North Carolina), North

Carolina, Pennsylvania, and Virginia. The Aon Hewitt benefits study peer group significantly overlaps with the Towers' peer group database used in the compensation study.

Q. Do the compensation study and the benefits study support the Panel's conclusion that NYSEG's and RG&E's compensation and benefit packages are currently competitive?

A. Yes. NYSEG and RG&E's compensation and benefits packages are within the competitive range for both total pay and total benefits among our respective peer companies. A summary of the compensation study results is shown in Exhibit __ (WCB-6). A summary of the benefits study results is shown in Exhibit __ (WCB-7).

Compensation and benefits for all newly-hired employees are within 10% of utility industry and general industry norms. Benefits for certain Non-Union long-service employees are slightly higher than 110% of general industry norms for new hires, but this is to be expected since: 1) historically, the value of utility benefits exceeded the value of general industry benefits; and 2) it is not unusual to protect long-service workers when changing retirement and certain other benefits.

V. <u>COMPENSATION</u>

A. <u>Compensation Benchmarking Methodology and Study Results</u>

Q. Please describe the compensation benchmarking methodology utilized by the Companies.

A. Towers analyzed the positions shown on the table below.

Table 3: Positions Benchmarked for Compensation Study

	NYSEG	RG&E
Non-Union	134 jobs 87% of Non-Union Employees	132 jobs 80% of Non-Union Employees
Union	28 jobs 61% of Union Employees	22 jobs 45% of Union Employees

Towers collected background information on the Companies, including organizational and business scope measures (such as revenues and employee counts), information outlining the responsibilities and reporting relationships of each covered position, current base salary, target total cash, and target total direct compensation for each employee in a covered position. Towers then identified relevant labor markets for talent, including local/regional organizations, utility energy services organizations, and national organizations comparable in size and scope for executive positions. A geographic differential was applied to national data to reflect the location of the Companies' positions. Within the New York region, all areas were determined to be equivalent to national data except downstate New York, where the cost of labor was deemed to be 8% higher than the national average. Towers used geographic differentials from the Economic Research Institute's Geographer Assessor software. A general industry database was used to benchmark positions with transferrable skills, such as Human Resources and Information Technology. Other positions were benchmarked against the utility/energy services industry only.

Towers selected the appropriate published compensation surveys to use in the compensation study. Each of the Companies' positions included in the survey was matched to the survey benchmark positions on the basis of job duties and responsibilities, organizational relationships, and relevant scope parameters. Where applicable, adjustments were made to the benchmark data to reflect differences in responsibility between the Companies' position and a "typical" market survey benchmark position. For each position, Towers selected and tabulated base pay and analyzed it against the general employee population. Towers next provided an analysis of base pay and variable compensation for the general employee population. Finally, Towers performed an analysis for the executive population which includes base pay, variable compensation, and long-term incentives.

Data was gathered at the 25th, 50th and 75th percentiles of market practice and updated to a common "effective" date of January 1, 2014 using an annual update factor of 3.0%. This represents the average movement in the utility/energy services marketplace for 2013/2014 based on Towers' research. Finally, Towers analyzed the range of market pay for each position based on the survey data and presented comparisons to incumbent pay.

Q. In developing the compensation study, did Towers separate Non-Union Executives from all other Non-Union Employees?

A. Yes.

Q. How did the Companies identify these groups of employees for purposes of the Panel's testimony?

A. For purposes of this testimony, the Panel separated Non-Union Executives and Director-Level Employees ("Senior Leadership") from all other Non-Union Employees.

Q. Why did the Panel choose to separate Non-Union Employees in a different manner than the approach taken by Towers in the compensation study?

A. This was done because specific Director-Level Employees within the Senior Leadership category are eligible for certain benefits at the executive-level. Therefore, the Panel's approach is consistent with the Companies' practice with respect to benefits.

Q. In what range are percentages of median value considered to be competitive compensation?

A. Pay within 10% of median values (i.e., 90% to 110% of median) is considered competitive and reasonable.

Q. Please provide the results of the Towers' compensation analysis for the Non-Executive employee population.

A. Base pay for the Non-Executive population as a percentage of median is shown on the following tables.

Table 4a: Base Pay Compensation Analysis for Non-Executive Population

	Non-Union	**Union**
NYSEG	94.0%	112.5%
RG&E	95.7%	101.2%

Table 4b: Base Pay and Variable Compensation Analysis for Non-Executive Population

On a total cash basis (base plus target bonus), the figures are:

	Non-Union	Union
NYSEG	92.3%	106.7%
RG&E	95.0%	95.4%

Q. What does this data (Tables 4a and 4b) demonstrate with respect to Non-Union Non-Executives?

A. The data demonstrates that our total compensation for Non-Union Non-Executives is below median values but is still competitive.

Q. What does this data demonstrate for Union Employees?

A. For NYSEG Union Employees, who are generally longer tenured, the base pay and total cash pay are above the median and base pay is slightly above the competitive threshold. Total pay is within the competitive range. However, for RG&E Union Employees, base pay is nearly at the median and total cash pay is slightly below median and is within the competitive range.

Q. Please provide the results of the analysis for Senior Leadership.

A. For this group, Towers benchmarked base pay, total cash compensation (base plus variable compensation), and total direct compensation (base plus variable compensation plus long-term incentive plans). The results as a percentage of median are shown on the following table.

Table 5: Compensation Analysis for Senior Leadership

	Base Pay	**Total Cash**	**Total Direct Compensation**
NYSEG	88.9%	84.5%	75.8%
RG&E	93.4%	92.3%	81.6%

Table 5 shows that, for NYSEG, base pay for this group is slightly below the competitive level and drops further below the competitive level when incentives are taken into account. For RG&E, Senior Leadership is paid competitively relative to base pay and variable compensation, but below the competitive level when long-term incentives are taken into account. We are not proposing any changes in Senior Leadership compensation despite the Towers' study results.

B. General Wage Increase and Merit Increases

Q. What are the Companies' anticipated general wage increases for Union Employees in the Rate Year?

A. The general wage increases for Union Employees are determined under the terms of the Companies' collective bargaining agreements. NYSEG Union general wage increases are currently set at 3% per year through the end of the contract, which expires on June 30, 2015. NYSEG is in union contract negotiations and expects that a new contract will be entered into by the end of the 2nd quarter of 2015. For purposes of our testimony, future NYSEG Union wage increases are assumed to follow the pattern set by the RG&E collective bargaining agreement.

NYSEG will update its forecast when a new collective bargaining agreement is achieved.

The general wage increase for the RG&E Union is a combination of a fixed percentage and a variable percentage. For RG&E Union, the fixed and variable percentages included for the Rate Year are 2.50% fixed with a variable increase of 0.333% as of May 29, 2016. The variable portion is based on the assumption that 2/3 of the available variable base is earned. The level of variable base earned depends on meeting certain objectives. We have assumed for purposes of our testimony that the NYSEG Union will be subject to a similar program under the terms of the next NYSEG collective bargaining agreement. For the Rate Year, we have assumed a 2.75% fixed percentage increase and a 0.1667% variable increase as of June 30, 2016, based on 2/3 of the objectives being met. The general wage increase was used as the payroll inflation factor for Union Employees.

Q. What are the Companies' anticipated general wage increases for Non-Union Employees, which the Companies refer to as "merit increases"?

A. For Non-Union Employees, the Companies have utilized an assumption of annual merit increases of 3.5% effective each January 1, starting in January 2016.

C. Variable Compensation

Q. Has the Commission provided guidelines for recovery of variable compensation?

A. Yes. In a June 17, 2011 Order Establishing Rates for Electric Service in Case 10-E-0362 (2010 Orange & Rockland Utilities, Inc. rate case), at pages 38-39, the

Commission adopted a two-prong test allowing recovery for variable compensation where a utility either: 1) demonstrates a very clear affirmation that the incentive costs are designed to return quantifiable or demonstrable benefits to customers in a financial sense or in terms of reliability, environmental impact, or customer service; or 2) demonstrates that the overall compensation provided to those employees, including incentives, is reasonable relative to similarly situated companies. The Commission followed these guidelines in its March 15, 2013 Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal in Case 12-E-0201 (2012 Niagara Mohawk Power Corporation rate case).

Q. Do the Companies provide variable compensation to their employees?

A. Yes, the Companies offer variable compensation to: 1) Union Employees at RG&E (although for purposes of this testimony, we have assumed variable compensation for NYSEG as well); 2) Non-Union Non-Executives; and 3) Non-Union Senior Leadership. IUMC Employees and Executives participate in the two Non-Union plans.

Q. Why is it reasonable for the Companies to provide variable compensation?

A. In order to fulfill the Employee Priority Strategy objective of building and maintaining a high-performing and engaged workforce, we must remain competitive. To remain competitive, our rewards offering should include a variable compensation component. According to a 2014 World at Work survey, “Compensation Programs and Practices,” 87% of companies surveyed provide variable compensation and of these, 82% provide it in the form of annual bonuses.

The survey is based on data collected from over 600 World at Work member organizations from a wide range of industries and varying in size from 100 to 100,000+ employees.

Q. Please describe the variable compensation plan for Union Employees.

A. The RG&E Union variable compensation plan includes three categories of targets which are only at the RG&E level. The targets are all associated with RG&E performance. The target categories are: 1) earnings before interest, taxes, depreciation and amortization ("EBITDA"); 2) Reliability: System Average Interruption Frequency Index, Customer Average Interruption Duration Index, Customer Satisfaction, and Gas Safety (percentage of emergency response within 30 minutes); and 3) Safety: Occupational Safety and Health Administration ("OSHA") injury rate, lost time rate, and preventable motor vehicle incident rate. Of these categories of targets, 2/3 are associated with customers and 1/3 are associated with shareholders. Exhibit __ (WCB-8) illustrates how these awards are earned.

While the NYSEG Union does not currently participate in a variable compensation plan, for purposes of this testimony, we assume that the NYSEG Union will be participating in a similarly structured plan to that of the RG&E Union.

Q. What is the Companies' proposal regarding recovery of variable compensation for Union Employees?

A. As shown on Exhibit __ (WCB-8), the Companies seek recovery of approximately 66% of the variable compensation for RG&E Union Employees. As stated above, we anticipate that the NYSEG Union plan will follow a plan similarly structured to that of the RG&E Union and therefore also seek recovery of approximately 66% of the variable compensation for NYSEG Union Employees.

Q. Please describe the variable compensation plan for Non-Union Non-Executives.

A. The Non-Union Non-Executive variable compensation plan requires objectives to be met at different levels of the organization. The levels of objectives are: Iberdrola, S.A., Iberdrola Group Networks, IUSA Networks and business area. The associated weightings are objectives of Iberdrola, S.A. (10%), Iberdrola Group Networks (10%), IUSA Networks (30%) and business area/individual objectives (50%) as shown in Exhibit __ (WCB-9).

Q. What is the Companies' proposal regarding recovery of variable compensation for Non-Union Non-Executives?

A. As shown on Exhibit __ (WCB-9), the Companies seek recovery of the following percentages of variable compensation for Non-Union Non-Executives: 1) 67% for NYSEG; and 2) 68% for RG&E. As shown on Exhibit__ (WCB-11), the Companies seek recovery of 53% for the share allocated from IUMC.

Q. Please describe the variable compensation plan for Non-Union Senior Leadership.

A. The Companies provide variable compensation to these employees in accordance with the metrics/weights shown on Exhibit__ (WCB-10).

Q. What is the Companies' proposal regarding recovery of variable compensation for Non-Union Senior Leadership?

A. As shown on Exhibit __ (WCB-10), the Companies seek recovery of the following percentages of variable compensation for Non-Union Senior Leadership: 1) 66% for NYSEG; and 2) 56% for RG&E. As shown on Exhibit __ (WCB-12), the Companies seek recovery of 43% for the share allocated from IUMC.

Q. Do the percentages of variable compensation for which the Companies seek recovery have any relationship to the PSC's two-prong test for variable compensation rate recovery?

A. Yes. These percentages have been set at a level that returns quantifiable or demonstrable benefits to customers in a financial sense in terms of reliability, environmental impact, or customer service consistent with the first prong of the two-prong test identified above. Additionally, as shown above in Tables 4a, 4b and 5, overall compensation, including variable compensation, for both Non-Executives and Senior Leadership, is reasonable based on the Towers compensation study, consistent with the second prong of the two-prong test identified above.

Q. How did the Panel calculate the percentage of variable compensation for which the Companies' request recovery?

A. To determine the percentages of variable compensation for which the Companies seek recovery, the Panel looked at metrics used by the Companies to determine the level of variable compensation employees receive. Specific examples of these metrics include:

1) Electric Reliability: SAIFI, CAIDI and miles trimmed;
2) Gas Reliability: Percentage of emergency calls responded to in 30 minutes, leak prone pipe replacement;
3) Customer Service: Maintaining a "Top 5" rating in the Market Strategies International Customer Satisfaction Survey, customer service complaints, calls answered within 30 seconds; and
4) Safety: The Companies track the OSHA incidence rate, the lost time injury rate, the preventable motor vehicle accident rate, safety observations completed and corrective action/preventive action reports filed.

The Panel then reviewed these metrics based on what portion of the metrics is associated with shareholders versus customers. The calculation of these percentages is shown on Exhibit __ (WCB-8) for the RG&E Union plan, Exhibit __ (WCB-9) for the Non-Union Non-Executive plan, and Exhibit __ (WCB-10) for the Non-Union Senior Leadership plan. Exhibits __ (WCB-11) and __ (WCB-12) show the allocation for IUMC Employees for the Non-Union Non-Executive plan and the Non-Union Senior Leadership plan, respectively.

Q. What costs do the Companies project for the Rate Year for each of the Non-Union proposed variable compensation plans?

A. As reflected in more detail in the Revenue Requirements Panel's workpapers, the projected Rate Year costs for the Non-Union variable compensation plans are shown on the table below.

Table 6: Projected Variable Compensation Rate Year Costs

	Non-Union Non-Executive Variable Compensation Plan	Non-Union Senior Leadership Plan
NYSEG	$1,285,000	$444,000
RG&E	$1,316,000	$528,000
IUMC	$913,000	$687,000

VI. BENEFITS

A. Benefits Benchmarking Methodology and Study Results

Q. What specific benefits were benchmarked as part of the Aon Hewitt benefits study?

A. Benefits included in the study cover retirement, death, disability, active health care, retiree health care, and time off with pay. The Aon Hewitt study looked at each benefit individually as well as all benefits in total.

Q. Please describe the Aon Hewitt benefits benchmarking methodology.

A. The benefits survey was done using Aon Hewitt's Benefit Index ("Benefit Index"). This is a tool for comparing the relative worth of one company's benefits to those offered by a peer group. Using its Benefit Index, Aon Hewitt compared the Companies' Union and Non-Union Employee benefits to peer companies by measuring relative value to assess the competitive standing of the Companies' benefits for: 1) new hires relative to the peer group's benefits for new hires; and 2) certain long-service employees relative to the peer group's benefits for new hires. For Union benefits, the comparison done was for new hire benefits only, given the difficulty in changing benefits for incumbent employees. The Union benefits comparison was also based on the utility peer group only, since employees in the Companies' Unions primarily work in utility-specific jobs.

Q. How was Benefit Value established by Aon Hewitt?

A. Benefit Value was established using actuarial techniques to measure the total value a standard population (i.e., assuming the same demographics and salary structure) would derive from the Companies' benefits programs and the benefits programs of each peer company.

Q. What values or percentages of average value are considered to be competitive?

A. Values between 90% and 110% of average value are considered to be competitive.

Q. Please describe the results of the benefits analysis for newly-hired Non-Union Employees as shown in Exhibit __ (WCB-7).

A. The results of the benefits analysis is as follows: 1) Utilities: for NYSEG, the employer value equals 96.2% of the peer group average and for RG&E, the employer value equals 97.3% of the peer group average; 2) General Industry: for NYSEG, the employer value equals 105.2% of the peer group average and for RG&E, the employer value equals 106.4% of the peer group average.

Q. Please describe the group "long-service employees."

A. Certain long-service Non-Union Employees receive benefits no longer available to newly-hired Non-Union Employees. For example, the Companies' Non-Union Employees hired prior to January 1, 2011 receive Company-paid life insurance equal to 1x pay whereas Non-Union Employees hired after that date receive a flat $50,000.

Q. Please describe the results of the benefits study analysis for long-service Non-Union Employees as shown on Exhibit __ (WCB-7).

A. Certain long-service Non-Union Employees with benefit packages that apply to long-service employees only are compared to new hire provisions for the peer groups.

1. Utilities: For NYSEG and RG&E, respectively, the employer value is 98.8% and 99.9% of the peer group average.

2. General Industry: For NYSEG and RG&E, respectively, the employer value is 110.2% and 111.4% of the peer group average which is generally within the competitive range.

Q. Please describe the results of the benefits analysis for newly-hired Union Employees as shown on Exhibit __ (WCB-7).

A. NYSEG's employer value is 103.4% of the peer group average and RG&E's employer value is 98.0% of the peer group average.

Q. What do the results of the benefits study indicate?

A. These results show that both NYSEG and RG&E's benefits are within the competitive range.

VII. RETIREMENT BENEFITS

Q. Please briefly describe the Companies' retirement benefits.

A. The Companies offer defined benefit pension plans, 401(k) savings plans, and OPEBs.

Q. What do the Companies project as the costs for retirement benefits?

A. The Companies utilized the retirement benefits forecast provided by Aon Hewitt. The Revenue Requirements Panel utilized the Companies' actuary's retirement benefits forecast as shown in Exhibit __ (WCB-13) to derive an O&M Rate Year pension amount.

Table 7: Projected Retirement Benefit O&M Costs for the Rate Year

	Pensions	401(k)	OPEBs
NYSEG	$41,796,000	$2,672,000	$1,744,000
RG&E	$12,385,000	$2,011,000	$2,740,000

A. Pension Costs

Q. What do the Companies project for O&M pension costs in the Rate Year?

A. As discussed in the Revenue Requirements Panel testimony, NYSEG projects $41.8 million and RG&E projects $12.4 million for pension costs in the Rate Year.

Q. Please describe steps taken by the Companies to manage pension costs.

A. Prior to 1999, all employees of both Companies were covered by traditional defined benefit ("DB") plans. The Companies subsequently made changes to both DB plans as well as introduced new benefit types, such as cash balance benefits, to help manage pension costs.

For Non-Union Employees, effective January 1, 2002, newly-hired Non-Union Employees were covered under a cash balance benefit instead of final pay benefits. In addition, effective January 1, 2014, all DB plans were closed to newly-hired Non-Union Employees and cash balance accruals were frozen for current employees covered under the cash balance formula. These employees now participate in a defined contribution ("DC") only retirement benefit equal to 6% of pay. As newly-hired employees come into a DC-only environment, plan administrative costs are reduced by eliminating Pension Benefit Guarantee Corporation ("PBGC") premiums and due to the overall lower administrative costs for a DC plan versus a DB plan. In summary, only Non-Union Employees hired prior to January 1, 2002, continue to accrue benefits under traditional DB formulas. All other Non-Union Employees receive ongoing DC benefits only.

For Union Employees, effective January 1, 2001, newly-hired NYSEG Union Employees were covered under a cash balance benefit instead of final pay benefits. In addition, effective October 1, 2009 and July 1, 2010, respectively, RG&E and NYSEG closed their DB plans to all Union hires. Currently, newly-hired Union Employees participate in a DC only retirement benefit equal to 150% match on up to 6% of pay contributed by the employee. In summary, only Union Employees hired prior to October 1, 2009 for RG&E and prior to July 1, 2010 for NYSEG continue to accrue benefits under the DB formulas. All other Union Employees receive ongoing DC benefits only.

Q. Have the Companies taken any additional measures to manage pension costs?

A. In November 2012, we implemented an internal pension benefit calculation system which replaced the need to use an external resource to calculate estimated and final pension benefits. Additionally, in February 2013, we implemented the employee self-service module which eliminated the need to provide employees with comprehensive benefit statements once a year. These two actions reduced the cost of administering the plans. In late 2014, we consolidated benefit payment responsibilities under one vendor, which also resulted in administrative savings. All these savings are captured in the pension reconciliation.

During 2013 and 2014, the Companies offered one-time lump sum payments to all vested terminated pension plan participants and to a limited group of retirees. This action reduces the liability of the pension plan as well as reducing administrative expenses.

Investment management fees are managed during the search and selection process for outside investment firms. Fees are compared against other firms providing the same investment services and are included in the criteria for consideration. In addition, actuarial services are put out to bid every three years, assuring that our cost of service is currently competitive.

Q. Please explain the rationale for the Companies' decision to provide certain benefits through the DC plans rather than through DB plans.

A. The Companies took this approach for two reasons. First, the employer cost related to DC plans is more predictable than the cost related to DB plans. For Non-Union plan participants covered under the cash balance formula, we are able to provide the same benefit through the DC plan while reducing the Companies' exposure to interest rate risk, longevity risk and investment return risk.

Additionally, the shift provides employees with the ability to manage their own retirement funds. This is more attractive to some employees and job candidates. For those who do not want to manage the funds, we offer both a Stable Value alternative and Target Date vehicles.

Second, the administrative costs related to DC plans are significantly less than those associated with DB plans. The most significant of these DB costs are PBGC premiums which are steadily increasing to fund the PBGC's obligations for distressed plan terminations. The flat rate premium per plan participant increased from $33 per year in 2008 to $57 per year in 2015, and for 2016 will be $64, and indexed thereafter. In addition, the variable rate premium applied to any underfunding is escalating each year, from $9 per $1,000 of unfunded vested benefits in 2013 to $24 per $1,000 in 2015. For 2016, the rate will be the 2015 rate indexed, plus $5, and future rates will be indexed. DB plan administrative costs are also generated for required mailings and notices; with respect to DC plans, most of the mailings and many other administrative costs are covered by the agreement in place with the 401(k) administrator.

Q. Please summarize the basis for the pension plan annual expense calculations.

A. The annual expense calculations are completed according to US GAAP and take into account the Commission's July 7, 1993 Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than Pensions in Case 91-M-0890 ("PSC Pension

& OPEB Policy Statement") which dictates that gains and losses be amortized over 10 years.

Q. Please identify the assumptions the Companies used to project DC plan costs.

A. Participation, contribution and salary levels were based on current statistics and the actuarial assumptions used for our pension valuations. The DC specific information is shown in Exhibit __ (WCB-13) as follows: 1) for Salary Increases, see Tables 1 and 2; 2) for Retirement, see Tables 3 and 4; and 3) for Withdrawals, see Tables 5 and 6.

Employee population size was initially projected as level by our consultants, but costs have been adjusted internally to reflect our expected future changes in employee population size.

Q. Please explain the method used to project pension plan costs for the Rate Year.

A. Pension plan costs are projected by our actuaries based on the current economic and demographic assumptions used for the actuarial valuations and reflecting all provisions of the plans as shown on Exhibit __ (WCB-13). However, the assumptions related to the expected return on assets ("EROA") decline over the forecast period to reflect the Companies' plans to continue to remove risk from the pension plans by gradually moving the pension assets to lower risk investments. This will reduce the volatility of plan costs and reduce the plans' exposure to down markets, which generally increase plan costs significantly. Note that the projections do not consider new entrant profiles as the plans are closed to new hires.

Q. Please describe the salary increase assumptions utilized in calculating the pension expense.

A. Aon Hewitt completed an experience study on base pay increases from January 1, 2010 through January 1, 2013, using actual plan census data as of January 1 of each year (2010, 2011, 2012 and 2013). Aon Hewitt analyzed the annual pay increases for participants who were active both in the review year and in the prior year. The salary increase rate recommended by Aon Hewitt, and which is reflected in the projections, differs for Union and Non-Union Employees and varies by age (due to length of service and increases in salary).

Q. Please describe the process used to determine the EROA.

A. The EROA assumption reflects the expected returns for each asset class contained in the pension plans' asset portfolios adjusted for any specific investment characteristics associated with that portfolio. The expected returns are derived on the basis of market conditions at the start of the fiscal (calendar) year. The EROA is based on an economic model used by Aon Hewitt that ensures consistency with regard to economic assumptions such as the discount rate and salary increase assumption.

To derive the expected return for the Companies' pension fund portfolio, the following methodology was followed:

1) Determine the target allocation of the portfolio;
2) Apply an active management premium; and
3) Assess a reduction for administrative expenses.

Q. What is the EROA used over the forecast period?

A. The EROA is 7.5% for 2015; 7.0% for 2016; and 6.9% for 2017.

Q. Why does the EROA decrease over the forecast period?

A. The Companies have proposed a steady de-risking strategy which increases fixed income exposure over the forecast period to protect the funded status of the Companies' pension plans. Increasing exposure to fixed income investments lowers the expected rate of return, because fixed income investments generally return less over the long-term (thirty years). However, increasing exposure to fixed income with the goal of matching liabilities also reduces the volatility of the plan and therefore reduces risk.

Q. How are annual contributions determined?

A. Aon Hewitt actuaries apply rules mandated by the IRS to calculate the funding target and the funding target normal cost in order to determine the minimum required contribution for the plan, as well as the plan's funding percentages. The Companies' approach to funding is to pay the greater of the minimum required contribution or the amount to keep the plan at least 80% funded. The 80% funding level is significant because below that level, certain IRS restrictions are triggered which impact participants in a way not acceptable to the Companies. NYSEG and RG&E can satisfy the contributions determined through the use of any available credit balance or by making cash contributions to the plan. The Companies may increase funding above the level stated above as long as the contributions remain below the maximum tax deductible amount. The expense projections assume the Companies will contribute sufficient amounts to fully fund the plans by 2021.

Q. Please explain the concept of pension de-risking and describe the Companies' plans to de-risk the pension plan.

A. De-risking involves gradually moving assets to fixed income as a pension plan's funded status increases. The fixed income investments are selected by matching the duration of each of the plan's liabilities. This approach moves gradually towards an investment portfolio that moves in sync with asset values, resulting in less volatility in the plan's funded status, and therefore, less volatility in plan expense. Pension de-risking is beneficial and promoted by the Companies because it: 1) best matches assets and liabilities, which improves the security of the promised employee benefits; and 2) it reduces the volatility of both pension expense and contributions from year to year, thus increasing the Companies' ability to plan its annual budgets and cash requirements.

B. <u>401(k)</u>

Q. What do the Companies project for 401(k) costs in the Rate Year?

A. The Companies utilized the 401(k) cost forecast provided by Aon Hewitt. The Revenue Requirements Panel utilized the Company's actuarial 401(k) benefit forecast from Exhibit __ (WCB-13) to determine an O&M Rate Year amount.

Q. Please describe the steps taken by the Companies to manage 401(k) costs.

A. The Companies work with a 401(k) plan administrator and periodically review the administrator's cost and performance.

Q. Please explain why the Companies' 401(k) costs have increased since the Test Year (i.e., the 12 months ended December 31, 2014).

A. The primary reason why the Companies' 401(k) costs have increased is that the Companies have closed their traditional pension plans to new entrants and as a result, as we discussed previously, all new Non-Union Employees receive a 6% of pay employee contribution in addition to the match. All new Union Employees receive a matched contribution of 150% on 6% of pay, which has increased our 401(k) costs.

C. OPEBs

Q. What do the Companies project for OPEB costs in the Rate Year?

A. The Companies utilized the OPEBs cost forecast provided by Aon Hewitt. The Revenue Requirements Panel utilized the Company's actuarial OPEBs forecast from Exhibit __ (WCB-13) to determine an O&M Rate Year amount.

Q. Please summarize the basis for the Companies' annual expense calculations for OPEBs.

A. Like the Companies' calculations for annual pension plan expense, the OPEB calculations are based on the PSC Pension & OPEB Policy Statement, which dictates that gains and losses be amortized over 10 years.

Q. Please provide an overview of the Companies' retiree medical plans.

A. The Companies' retiree health plans provide medical and prescription drug coverage to eligible retirees (based on hire date) and their eligible dependents once they have met certain age and service requirements (retirement after age 55 with 10 years of service or retirement with long-term disability status). Coverage is also provided for surviving dependents in the event that the retiree predeceases them. Under these plans, all retirees and their eligible dependents receive "capped" benefits. That is, the Companies' contribution to each participant is capped at a set amount. All cost increases in excess of this cap are passed along to the retiree or surviving dependent.

The large majority of Medicare-eligible retirees are covered under a Medicare coordinator program, which shifts risk to the individual market with the Companies providing a flat subsidy to retirees each year. The plans do not provide for any future subsidy increases.

Q. Are new employees eligible for these programs?

A. No. Recent changes in the Medicare marketplace provide cost-effective options for future Medicare-eligible retirees. It is our assumption that the individual marketplace for pre-Medicare retirees will evolve over the next several years and be as competitively priced and assessable as the Medicare market is today. This approach is consistent with other utilities as well as with general industry practices.

Q. Please identify the methodology the Companies used to project the costs associated with these benefits.

A. Retiree welfare plan costs are projected by our actuaries based on the current economic and demographic assumptions used for the actuarial valuations and reflecting all provisions of the plans (see Exhibit __ (WCB-13)). This includes calculating and projecting claims' expense, medical trends, general inflation and the applicable level of retiree drug subsidies. The plans are closed and therefore, assumptions related to new-hire profiles are not required.

Q. Have the Companies taken steps to reduce retiree medical costs?

A. Yes. The Companies have taken the following actions:

First, effective for retirements on or after July 1, 2000 for NYSEG Union Employees and on or after March 1, 2002 for NYSEG Non-Union Employees, NYSEG's contribution to the retiree medical plan was capped with retirees paying all increases once the cap is reached. At RG&E, all employees have been capped since prior to the merger with Energy East Corporation in 2002.

Second, effective January 1, 2006, future retirees under the NYSEG plan were no longer reimbursed for Medicare Part B premiums and reimbursement for current retirees was frozen at that time.

Third, the NYSEG plan was closed to newly-hired Union Employees effective January 1, 2010, and the RG&E plan was closed to newly-hired Union Employees effective January 1, 2009. The Companies' retiree welfare plans were closed to newly-hired Non-Union Employees effective January 1, 2011.

Fourth, effective January 1, 2013, the majority of Medicare-eligible retirees was moved to the open market, using a Medicare exchange program with a flat dollar subsidy. The Companies' exposure to medical inflation and annual expense has been significantly reduced due to this change.

Fifth, the current RG&E Union contract, effective June 1, 2013, adopted the open market approach for Medicare-eligible Union retirees who retire during the current contract. As discussed previously, the NYSEG Union contract is under negotiation.

Q. Do the Companies have any assets in place that support retiree medical benefits?

A. Yes. As of December 31, 2014, NYSEG had $89.2 million in a Voluntary Employee Beneficiary Association ("VEBA") asset account. RG&E does not have a VEBA account.

Q. Are the NYSEG VEBA assets declining or increasing?

A. The NYSEG VEBA assets generally move with the market and therefore the level varies over time. However, NYSEG proposes reinstating reimbursements of claims expenses from the VEBA. The Company proposes to utilize the VEBA to pay for 1/2 of each year's benefits and plan expenses.

VIII. HEALTH CARE BENEFITS

A. Projected Costs

Q. What method did the Companies use to project health care benefits?

A. Costs are projected by our health and welfare consultant (Aon Hewitt) using a 36-month average utilization rate plus medical inflation, administrative costs, stop loss and expected fees associated with health care reform. The employee population size was initially projected as level by Aon Hewitt, but costs have been adjusted internally to reflect expected future employee population size.

Q. What is the medical inflation rate the Companies have experienced?

A. Aon Hewitt assumed an underlying medical inflation rate of 7.6%. Health care cost inflation exceeds general inflation due to cost drivers that impact health care but not general inflation. These cost drivers include increased utilization and the growing availability of expensive medical technology and procedures. Additionally, the average age of employees is expected to increase in the short-term. Older employees typically use more medical services and have more serious conditions as they age.

Q. Are the Companies requesting to use a 7.6% inflation rate?

A. No. The Companies understand that the Commission's prior approach to healthcare cost reimbursement is to simply inflate the Companies Test Year expense for these benefits based on the general inflation rate. Accordingly, for purposes of calculating the healthcare cost rate, the Companies used the general inflation rate.

B. <u>Actions to Manage Healthcare Costs</u>

Q. Please identify the actions the Companies have taken to manage health care costs.

A. To ensure that all companies share in covering health care expenses for dependents, a spousal coverage rule was introduced for Non-Union Employees in 2002 under which a spouse working full-time with subsidized coverage available through his/her employer must enroll in that coverage as primary with any coverage under the Companies' plans as secondary. This rule applies to the RG&E Union and the NYSEG Union as well. Additionally, the Companies introduced a smoker surcharge for Non-Union Employees in 2006 as a disincentive for tobacco use.

In 2011, the Companies streamlined their medical plan offerings to Non-Union Employees, eliminating the more expensive options and reducing administrative costs. The Companies also initiated wellness programs to educate employees on health risk factors and to provide resources on how to mitigate these risks, including free biometric screenings and a wellness portal with a specialty vendor, Health Advocate, which provides access to coaching and information on health issues such as diabetes, weight loss and sleep problems.

For 2015, a High Deductible Health Plan with a Health Savings Account feature was implemented. These plans tend to generate lower costs than the PPOs and HMOs we currently offer to employees. Each year we also review best practices with our Pharmacy Benefit Manager to determine ways to encourage utilization of lower cost drugs and utilization of the correct dosing without interfering with the health of our employees and retirees.

Q. What are the Companies' plans for managing health care costs in the future?

A. We will continue to review potential cost-saving measures with the Pharmacy Benefit Manager. The Companies will also continue to look for ways to promote employee health education and employee health.

Q. How will health care reform impact the cost of the medical plans?

A. The Companies anticipate increased enrollment due to the individual coverage mandate. We also anticipate increased costs due to the Transitional Reinsurance Fee, the Patient-Centered Outcomes Research Institute Fee, and the excise tax.

C. Plan Administration Fee Related Expense

Q. Do the Companies incur any costs related to health plan administration?

A. Yes. The plan incurs administrative fees related to administering self-insured coverage. We also utilize a third party administrator to facilitate enrollment, manage life events, COBRA, retiree benefit billing and vendor billing. The cost of these services per active employee is approximately $98 per year.

IX. WORKERS COMPENSATION PROGRAM

Q. What do the Companies project for Workers Compensation costs in the Rate Year?

A. As indicated in the Revenue Requirements Panel's testimony, the Companies' project a Rate Year cost of $2,748,000 for NYSEG and $2,256,000 for RG&E.

Q. Please describe the Workers Compensation Program.

A. The Companies are currently insured through a Workers Compensation Program underwritten by New Hampshire Insurance Company (Chartis), a subsidiary of AIG. The program has a $250,000 per claim deductible.

Q. Are there any additional costs associated with the Workers Compensation program?

A. Yes. There are remaining open "run off" claims with both Liberty Mutual and UMI/Alliance National which previously underwrote the Companies' program.

Q. Please describe how the Companies have managed Workers Compensation costs.

A. We take many steps to provide, promote and instill the message of safety throughout our organization, work environment and work culture. We have many safety related goals tied to our performance objectives at all levels of our organization. Safety reminders are the first order of business at all meetings and gatherings.

We maintain a safety scorecard that is updated and shared with all employees on a weekly basis and we closely monitor and investigate all accidents and injuries and provide notifications of those events electronically throughout our organization as quickly as possible, most often within 24 hours of the occurrence. These notifications serve to not only provide information to our employees regarding accidents and injuries, but also act as reminders of the hazards and lessons learned from each investigation.

We provide training to all employees (including Supervisors, Managers, Directors and Executives) on how to report injuries, how the claim process works and what we expect from all parties in the event of a loss. This includes immediate reporting through an electronic injury reporting system, medical forms for employees to take to their medical care provider that emphasize our willingness to offer light-duty work within the employee’s physical restrictions and, if necessary, employment of independent nurse case managers to work with injured workers, doctors, physical therapists and other medical care providers. We also conduct semi-annual in-person claim reviews with our external claim management service providers (Sedgwick and Liberty Mutual).

Q. Does this complete your testimony at this time?

A. Yes, it does.