

ORANGE AND ROCKLAND UTILITIES, INC.  
WITNESS Hector J. Reyes - UPDATE AND REBUTTAL TESTIMONY  
COMPENSATION AND BENEFITS PANEL

1 Q. Please state your name and title.

2 A. Hector J. Reyes, Director of Benefits

3 Q. Have you previously submitted testimony in this proceeding?

4 A. Yes. I was a member of the Compensation and Benefits Panel  
5 that submitted direct testimony on behalf of Orange and  
6 Rockland Utilities, Inc. as part of the Company's January  
7 2018 initial base rate filing.

8 Q. What is the purpose of your rebuttal testimony?

9 A. I am rebutting the testimony of Jerry Shang, Public  
10 Utilities Auditor II, submitted on behalf of the Staff of  
11 the Department of Public Service, related to the forecast  
12 of employee health insurance expenses.

13 Q. Please explain the reason for your rebuttal testimony.

14 A. Mr. Shang states that health care costs are not unique  
15 business costs that are beyond the Company's control;  
16 rather, they are normal business elements that can be  
17 effectively managed by the Company. Mr. Shang further  
18 states that the GDP inflation index reflects a basket of  
19 goods and services including health care services and  
20 therefore it is reasonable to use the GDP deflator to  
21 escalate health care costs. These statements are not

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1 accurate and fail to recognize that managing health care  
2 cost is different than managing other business expenses.  
3 Health care spending patterns and attributes are in fact  
4 unique and are driven by many factors that are beyond the  
5 control of the Company.

6 Q. Has the Company taken steps to manage its health care  
7 costs?

8 A. Yes. As indicated in the Compensation and Benefits  
9 Panel's direct testimony, the Company has taken numerous  
10 steps to mitigate cost increases including the introduction  
11 of consumer-driven high-deductible health plans to change  
12 employee behavior toward being better consumers of health  
13 care services. The Company has implemented wellness  
14 initiatives to promote a culture of health and to motivate  
15 employees toward healthy lifestyles and behaviors. The  
16 Company works with its health care vendors to steer  
17 employees to use cost-efficient services, medications, and  
18 providers. Establishing a culture of health and improving  
19 employees' wellbeing is expected to mitigate future cost  
20 increases. Finally, the Company maintains a reasonable

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1 cost sharing with its employees to mitigate the impact of  
2 cost increases on the Company.

3 Q. Please continue.

4 A. While these cost management efforts help mitigate cost  
5 increases to the Company, costs continue to grow at a pace  
6 faster than general inflation. Contrary to Mr. Shang's  
7 statement, there are many factors driving up health care  
8 cost that are beyond the Company's control.

9 Q. Please describe these factors.

10 A. Factors such as advances in medicine and technology  
11 have resulted in expensive new treatments. Health issues  
12 such as obesity and diabetes have resulted in higher  
13 utilization and costs that are ongoing and unpredictable.  
14 American Diabetes Association research indicates that the  
15 percentage of the population with diagnosed diabetes  
16 continues to rise and that people with diagnosed diabetes,  
17 on average, have medical expenditures approximately 2.3  
18 times higher than what expenditures would be in the absence  
19 of diabetes.

20 Q. Are there other factors?

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1 A. Yes. We have also seen and will continue to see new  
2 pressure on cost attributed to federal and state mandates  
3 that impose significant changes on health care plans and  
4 contribute to cost increases above general inflation and  
5 not captured in the GDP deflator. Most recently, the new  
6 federal tax law repealed the tax penalty for people who can  
7 afford coverage but do not purchase it. This change is  
8 expected to increase the uninsured population and result in  
9 uncompensated care for providers which will be passed on to  
10 employer plans. Further, since the GDP deflator measures  
11 the change in price of goods and services purchased, it  
12 does not capture the significant costs associated with  
13 treating other catastrophic illness and disease. For  
14 example, treating a cancer patient requires long-term and  
15 expensive treatment plans but a GDP deflator only captures  
16 the price increase related to the treatment, not the cost  
17 of more expensive medical services, facilities and  
18 prescription drugs. Another factor driving health care  
19 cost but not captured by the GDP deflator is attributed to  
20 health plan consolidations and vertical integration of  
21 health-related entities. As a result of these

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1 consolidations and reorganizations, certain hospital and  
2 medical providers now control a larger share of the market  
3 and have driven significant cost increases for services  
4 provided under the health care plans. Fundamentally, using  
5 the GDP deflator does not provide a meaningful and precise  
6 measure of health care cost drivers over time. The mix of  
7 goods and services used to deliver health care continues to  
8 dramatically change and has been a major contributor to the  
9 growth of health care as an industry.

10 Q. Does the Company's actual experience with health care costs  
11 indicate that the use of the general inflation index for  
12 health care costs is inappropriate in this case?

13 A. Yes. As indicated in the Compensation and Benefits Panel's  
14 direct testimony, the Company has experienced actual health  
15 care cost premium increases above the GDP deflator,  
16 averaging 7.0 percent annually from 2013 to 2017. Recent  
17 plan changes are expected to bend the health care cost  
18 trend to approximately 6.5 percent per year from the  
19 historic test year (*i.e.*, October 1, 2016 through September  
20 30, 2017) through the end of the third Rate Year (*i.e.*,

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1 calendar year 2021) which is above the GDP deflator  
2 suggested by Mr. Shang for use in projecting future costs.

3 Q. Is there an additional basis for using a health care  
4 inflation factor provided by insurance carriers rather than  
5 a general inflation factor to project health care costs?

6 A. Yes, numerous surveys and trends support the carriers'  
7 health care inflation projections and show that health care  
8 costs are increasing year to year at levels greater than  
9 general inflation. National surveys prepared by benefits  
10 consultants and an employer health care coalition such as  
11 PWC, Mercer, and Willis Towers Watson report that year  
12 after year, health care costs have seen increases above and  
13 beyond the general inflation level and this upward trend is  
14 not expected to end any time soon. Based on these surveys,  
15 the use of a general inflation index does not result in a  
16 reasonably accurate estimate of the costs, understates the  
17 probable increase in health care costs and therefore,  
18 understates the Company's revenue requirement.

19 Q. Do you have any other comments with respect to Mr. Shang's  
20 testimony on the correct health care cost deflator?

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- 1 A. Yes. Mr. Shang's description of the Public Service  
2 Commission's rulings seems to suggest that the issue has  
3 been addressed and permanently settled. My understanding,  
4 however, is that the Commission may reconsider policy  
5 issues as circumstances warrant as in, for example, the  
6 Reforming the Energy Vision Proceeding (Case 14-M-0101).  
7 As described in the Company's Compensation and Benefits  
8 Panel's direct testimony, the Company urges the Commission  
9 to recognize that a general deflator index does not  
10 accurately estimate health care costs, such that the  
11 Company's revenue requirements are undervalued. In fact,  
12 Mr. Shang accepts that health care cost do rise above GDP  
13 as demonstrated in his testimony and exhibits which use the  
14 historic test year health costs that have increased above  
15 the GDP inflation rate he suggests be used in developing  
16 the Company's future rate year costs.
- 17 Q. Does this conclude your rebuttal and update testimony?
- 18 A. Yes, it does.