STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: INVESTIGATION OF NARRAGANSETT BAY COMMISSION'S NON-UNION PENSION PLAN	: : :	**DOCKET NO. 3651**

REPORT AND ORDER

Background and Genesis of the New Defined Benefit Plan

This docket was opened by a majority of the Public Utilities Commission ("Commission") on December 2, 2004 because of their concern over the necessity and cost for a new defined benefit pension program for non-union workers at Narragansett Bay Commission ("NBC").

At the May 2004 NBC Board meeting, Chairman Mesolella stated that he directed the staff to explore retirement plan options to address the inequity of the defined contribution retirement plan for non-union staff as compared to the defined benefit plan for union employees[1]. (Transcript of NBC Board Meeting of 5/12/04 at page 26.) By state statute, NBC's union employees are in the State of Rhode Island's Retirement Plan, and have the same benefits, contribution rate and provisions as provided to State employees. Chairman Mesolella also noted that NBC had reviewed the option of changing the non-union pension plan a few times prior (in the late 1980s and in 1997), but no action was taken at those times.

At the November 17, 2004 NBC Board meeting, the Personnel Sub-Committee endorsed the proposed Defined Benefit Plan. In the absence of the Sub-Committee Chairman, Mr. Mesolella chaired the meeting of the Personnel Sub-Committee, and it was adopted on that same day by the full Board. Transcripts of both meetings indicate that the presentations were short. The need for non-union employee parity with the union employees was emphasized.

[1] It is interesting to note that NBC claims it changed the non-union pension plan to provide some degree of parity with the pension plan for its union staff. The union staff of NBC is required by state law to be in the state pension system. However, it should be noted that for fiscal years 2002 through 2004, NBC's defined contribution of 10 percent of salary for its non-union employees was higher than the contribution to the pension of its union employees. During these years, the union pension contribution ranged from 5.59 percent to 9.60 percent of payroll. Furthermore, non-union employees were not required to make any contribution to their retirement plan while union staff was required to contribute 8.75 percent of their wages to state pension system. In fiscal year 2005 the pension contribution for union employees went above 10 percent to 11.51 percent of payroll. Also, it was in the middle of fiscal year 2005 that NBC management, which is composed of non-union employees, recommended changing the non-union pension plan to transform it to include a defined benefit pension. Docket No. 3483: NBC Data Responses to the Division, Request 17 (1/13/03) and Docket No. 3592, Div. Ex. 3 (NBC Data Response 1-8).

General Provisions of the Defined Benefit Plan

The new Plan provides a defined benefit at retirement if an employee works at least seven years. Past service accrued before adoption of the Plan would count towards vesting as long as an employee worked for at least one day during the time period that the new plan was effective. A brief, general summary of the Plan benefits:

- Provides up to 30% of pay at age 65; benefit accrues at 1% per year up to a maximum of 30 years.
- Allows early retirement at 62 with 20 years of service; benefits reduced 5% per year for each year prior to normal retirement age.
- Vesting after 7 years.
- Employees cannot receive pension benefits until their 5th anniversary of joining the plan—therefore, no benefits will be paid to any participant until February 2010 at the earliest.
- Employees need participate in the plan for only one day in order to receive an accrued retirement benefit.
- No cost of living adjustments on retirement benefit.

Funding Provisions for the Plan

In a November 8, 2004 memo to the NBC Board, which provided supporting information on the proposed Defined Benefit Plan, the Director of Administration and Finance, Karen Giebink, stated that, "thoughtful plan design will work to achieve an important retirement plan objective of no increase in NBC's overall contributions to the non-union retirement plans." As it was an important objective of management that a new Defined Benefit Plan not increase NBC's cost of funding retirement benefits, the staff proposal recommended that NBC's contribution to the non-union employees' Defined Contribution Plan be reduced from 10% of pay to 5% of pay. Also, employees would be required to contribute 5% of wages towards the cost of the Defined Benefit Plan. The chart below illustrates the funding for NBC's non-union retirement plans before and after the adoption of the Defined Benefit Plan:

	Former Retirement Plan		Current Plans	
	Employee	Employer	Employee	Employer
Defined Contribution	0%	10%	0%	5%
Defined Benefit	0%	0%	5%	5%
Total	0%	10%	5%	10%

It should be noted that the "cost" of the plan, which has an obligation to pay a defined benefit amount, varies because of the performance of invested Plan assets and inclusion of employees who may be given credit for service not covered by plan funding. The cost to employees for participation is limited to 5%; the excess, however, is an expense to NBC.

The NBC Board's resolution authorizing the Defined Benefit Plan also provided the following mandate for funding:

> RESOLVED, that not later than 90 days after the end of each of its fiscal years hereafter, the NBC shall contribute to the Plan for each such fiscal year not less than the amount recommended by the Plan's actuarial consultant and that the Director of Administration and Finance is authorized and directed to pay such contribution to the Trustee of the Plan in cash and to designate to the Trustee the fiscal year for which such contribution is made;

[See NBC Resolution 2004:33 passed on November 17, 2004 authorizing the new non-union defined benefit plan.]

Shifting of the Funding Risk for Plan

As NBC's Defined Benefit Plan requires employees to contribute 5% of pay, and the total anticipated funding requirements may exceed 10% of covered payroll, NBC is responsible for the difference between the actual cost of the Plan (the minimum required contribution as determined by NBC's plan actuary) less any amounts contributed by employees which are capped at 5%. Hence, the funding of the Plan requires NBC to assume the risk associated with providing adequate funding for Plan benefits. The adoption of the Plan has shifted the risk of funding the non-union plan to NBC as the employer.

The Non-union Defined Benefit Pension Plan ("Plan") became effective at February 1, 2005. It is a calendar year plan that requires mandatory participation by all new non-union employees. When initially offered, NBC's non-union employees had the option of joining the Plan, and 100 out of 117 eligible employees joined.

The Plan provides the 100 non-union employees who joined the Plan with credit for past service. This feature created an immediate unfunded liability of approximately $3.2 million.[2] NBC has decided to fund this unfunded liability over a period of 30 years. The 100 employees opting to belong to the Defined Benefit Plan were not directly assessed any cost associated with the unfunded liability related to their past service credit.

The annual expense or cost to NBC for providing the Defined Benefit Plan is determined by an actuary who calculates a minimum required contribution consisting of the current year's normal cost and an additional amount for the amortization of the unfunded past service liability. Based on a 30-year amortization period for the unfunded liability, the cost or the minimum required contribution for the initial 2005 plan year was determined to be $681,441, including the expected employee contribution. The amortization amount for the past unfunded liability was $400,337 and the 2005 year cost accrual was $281,104.

The actual contributions to the Plan for 2005 were $726,897. NBC paid $456,820 into the Plan and employees' contributions, at the rate of 5% of wages, provided $270,077. First-year funding exceeded first year cost by $45,456.[3] For 2006, the Plan actuary determined the cost or minimum required contribution was to be $607,581; this also included an amortization amount of $400,337 for the past unfunded liability. The actual contributions to the Plan for 2006 were $691,261. NBC paid $397,119 into the Plan and employees' contributions, at the rate of 5% of wages, provided $294,142. Funding for 2006 exceed the required minimum contribution by $83,680.[4]

NBC's funding for the non-union pension plans in each of the first two years of the Defined Benefit Plan reflects an amount based on 10% of <u>budgeted</u> non-union salaries and wages. The Defined Contribution Plan funding was 5% of actual wages, and the remainder of the budgeted amount was paid into the Defined Benefit Plan.

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[2] Response to Commission Data Request 1-10. <u>See</u> the 'Plan Specifications' presented in the response of March 18, 2005 to various Commission data requests by Abacus Consultant, Inc., NBC's pension consultant

[3] Cost and contributions information from Defined Benefit Plan's 2005 Actuarial Report. Commission Data Request 7-5. <u>See</u> attached Schedule I.

[4] Cost and contributions information from Defined Benefit Plan's 2006 Actuarial Report. Commission Data Request 1-12 in Docket 3797. <u>See</u> attached Schedule I

COMMISSION FINDINGS

Risk

The new Defined Benefit Plan places the risk and expense of adequately funding the current and future Plan benefits on NBC as the employer. This risk is inherent in any defined benefit plan inasmuch as the nature of the plan is to define the benefits earned from incremental service periods. The risk with a defined contribution plan rests with the employee. The amounts currently calculated as necessary to meet the funding of future benefit payments can change significantly. Funding can be impacted by: (1) the Plan's investments not having adequate earnings as projected; (2) losses on the market value of invested Plan assets; (3) the actual experience of employees receiving retirement benefits; (4) the potential for increased under funding if additional benefits are provided within the Plan—i.e. a cost of living adjustment, or increased retirement benefits beyond the 30% limit; (5) accepting new employees into the plan and vesting them without having funded their service.

In response to a Commission information request that asked if NBC staff researched the trend for pension plans to be either defined benefit or defined contribution, NBC responded to Commission Data Request 1-2:

> "NBC staff researched the characteristics and issues surrounding both types of retirement plans. It is interesting to note the General Treasurer Tavares recently addressed the issues that the State Retirement Plan is facing at a meeting of Government Finance Officers Association. He set forth that the future trend of government retirement plans would be a hybrid plan with both a defined contribution and a defined benefit component such that employees would have a baseline fixed income supplemented with a defined contribution plan and the plans would be affordable for the employer."

When the State's General Treasurer predicted a trend in the public sector towards a hybrid approach, it is unlikely that he intended to present to government finance officials a proposal that defined benefit plans should be added to defined contribution plans. The more likely intent of his remarks was that governments begin to offer defined contribution plans in lieu of the costly defined benefit plans now in place.

Interestingly, whereas an estimated 90% of public employees have a defined benefit plan[5], only approximately 20% of employees in the private sector have

[5] Per Census Bureau, noted in article in Business Week Magazine, June 13, 2005; also, cited in article in Time Magazine, October 31, 2005.

defined benefit plans[6]. In fact, this has caused the public sector to rethink its retirement benefit plans. The expected trend is to go to defined contribution plans, and not in the opposite direction as NBC has gone. We note the following public sector actions within our State over the past two years:

- In 2005, the State of Rhode Island reduced retirement benefits of non-vested employees in the defined benefit plans for teachers and state employees, as well as the employees in the state pension system such as NBC's union employees.[7]
- In 2007, the mayor of Providence proposed that the city close its defined benefit pension plan to new workers and establish a defined contribution plan for new employees. This proposal is currently being considered by the city council.[8]
- In 2007, the Rhode Island Auditor General issued a report on the 'Status of Pension Plans Administered by Rhode Island Municipalities". In this report, the Auditor General recommends that municipalities "consider defined <u>contribution</u> plans for new hires rather than defined <u>benefit</u> plans to control municipal retirement plan costs."[9]

<u>Unfunded Pension Liability for Past Service Cost and Double Compensation</u>

The Plan created an unfunded liability of approximately $3.2 million by crediting past service of the 100 vested employees who elected to join the Plan.[10] Employees opting to join the Defined Benefit Plan were not directly assessed the cost associated with the unfunded liability related to their past service credits.[11] All of NBC's non-union employees had been provided a retirement plan entirely funded by NBC for past years of service. It was a defined contribution plan whereby NBC would provide each employee's retirement fund with a fixed percent of the salary paid to each employee. Over recent years, the contribution had been 10% of salary. Employees were not required to make any payment to the defined contribution plan to receive the full 10% contribution from NBC.

[6] Per article in Time Magazine, October 31, 2005.
[7] P.L. 2005 ch.117, art.7.
[8] Daniel Barbarisi, "Officials consider major revamp of pension system", Providence Journal (4/6/07).
[9] <u>See</u> page 27 of the Rhode Island Auditor General's report entitled "Status of Pension Plans Administered by Rhode Island Municipalities, July 2007".
[10] Response to Commission Data Request 1-10. <u>See</u> the 'Plan Specifications' presented in the response of March 18, 2005 to various Commission requests by Abacus Consultant, Inc., NBC's pension consultant.
[11] In fact, under the Plan design, an employee with 7 years of prior service must work only one day after the Plan's effective date to be eligible to collect retirement benefits at age 65, or a reduced benefit at age 62. No benefits will be paid before 2010. In this instance, or in any similar situation, the cost to fund such an employee's benefit is essentially born entirely by NBC, as the employee's contribution is negligible. This is a result of the Plan design that does not require employees to contribute to the cost of past service credits. [Response to Division Data Request 1-5.]

The addition of a defined benefit plan for past service provides a second retirement plan for the same prior period of service; neither plan required an employee contribution. (The new Defined Benefit Plan requires a 5% employee contribution on wages paid only after the adoption of the Plan—i.e. from 2005 forward.) This results in 100 non-union employees having two retirement plans for service accruals before 2005. This could be deemed excessive or double compensation for the same years of service because each non-union employee received a NBC contribution to their defined contribution plan in each of the prior years employed.

The requirement to fund the past service liability for the Defined Benefit Plan results in charging current and future ratepayers for pension credits earned from past years of service. Current and future ratepayers are not paying the true current period cost of service for NBC during the thirty-year amortization period (2005 through 2034) for paying off the unfunded liability. These ratepayers are being assessed a cost related to a prior period cost that was not previously funded. The first year cost (minimum required contribution) of the Plan was $681,441, of which $400,337 was the cost associated with the first year's funding of the past service liability.[12]

The result of using a 30-year amortization period is that future NBC ratepayers, receiving none of the past service from these employees (as they will have retired), will still be paying for the retirement benefits.[13] This could be considered an inappropriate matching of utility cost and revenues from a traditional ratemaking point of view, and retroactive ratemaking. Some utility commissions have disallowed the recovery of unfunded pension liabilities in rates on the grounds that these costs are related to prior service.[14]

Cost and Funding

Furthermore, it was a stated goal in establishing the Plan to not increase the total cost for the retirement benefits associated with the non-union employees. [Memo of Karen Giebink and Paul Pinault dated November 8, 2004; memo from Paul Pinault to Executive Committee of the NBC Board dated September 16, 2005.] To meet this goal, NBC adopted a plan design that would fund the past

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[12] NBC response of August 9, 2006 to Commission request 7-5.

[13] However, if the amortization period were aligned with the average remaining working period for non-union employees (approximately 15 years), this would have increased the 2005 amortization amount by 43%, from about $400,00 to approximately $570,000, and increased the recognized annual expense and funding requirement.

[14] See In re Chesapeake & Potomac Tel. Co., 57 PUR 3rd 1 (DC 1964), and In re Peoples Gas System Inc. 1 PUR 4th (FL 1973).

service cost liability over 30 years. This is well beyond the estimated remaining working period of these employees who have an average age of 48. NBC represents that this recovery period for past service cost is appropriate, stating in response to Commission Data Request 4-3: "A 30-year amortization period for funding this component of the plan cost is reasonable given that the average age of the group is 48 with an average life expectancy of 35 years." Further, in response to Commission Data Request 4-4, NBC stated: "With respect to the use of a 15-year amortization period, it should be noted that a 30-year schedule is more appropriate given the average age of the group and the nature of the funding of the plan."

In spite of NBC using a long 30-year amortization period for the funding of past service costs, it appears that the goal of keeping the cost of the non-union retirement plans at 10% of actual wages has already failed. A comparison of the cost of the non-union pension plans for 2005 and 2006 shows that NBC contributed approximately $200,000 more to the non-union pension plans than NBC would have contributed under the Defined Contribution Plan in effect prior to 2005.

Using information received from NBC's consultant, the Commission's consultant, Deloitte Consulting LLP, developed a report which shows that the projected total costs for the first year of the Defined Benefit and Defined Contribution Plans would amount to 11.2% of actual wages. However, based on the information in the Commission's consultant's report and the actual contribution data from the 2005 report prepared by NBC's actuary, NBC's contributions to non-union retirement plans in 2005 was 12.2% of wages paid, this is about 22% greater than what NBC would have contributed under its former plan. This amounted to an additional cost to NBC in 2005 of $138,582.[15]

Similarly, using the actual contribution data from the 2006 report prepared by NBC's actuary and responses to Commission data requests, NBC's contributions to non-union retirement plans in 2006 totaled $730,444 and were approximately 11% of wages. This is about 10% more than NBC's would have contributed under its former plan. This amounts to an additional cost to NBC of $63,794.[16]

Ten percent of budgeted wages has little to do with the actual cost of the Plan as determined annually by the actuary. During the first two years of the Defined Benefit Plan, NBC's contribution to the two non-union pension plans

[15] See attached Schedule II.
[16] See attached Schedule III.

exceeded by approximately $200,000 the funding level that NBC would have incurred under its non-union pension plan in effect prior to 2005.[17] Furthermore, there are additional administrative costs associated with the Defined Benefit Plan. In responses to Commission information requests, NBC estimated these costs for administration, trustee, and audit fees to be about $13,000 to $14,000 each year.[18]

NBC has rebutted the calculation of 11.2% (see response to Commission data request of August 5, 2005), specifically noting that, "[t]he employer cost percentage should be calculated based upon the budgeted non-union salaries and wages not the annual compensation for the group". NBC's position is illogical and inconsistent with NBC's prior practice.[19] The cost is what it is, and should be measured in terms of a percentage of the actual payroll if it is to be compared to NBC's non-union plan that was in effect prior to 2005. To summarize the facts:

- For the former non-union Defined Contribution Plan, the cost was 10% of <u>actual</u> wages paid.
- For the initial year of NBC's adoption of a Defined Benefit Plan, the cost of non-union retirement plans was 12.2% of actual wages.
- In the initial year of the Defined Benefit Plan, total pension costs incurred by NBC for the non-union pension plans were $138,582, or 22%, higher than what NBC would have incurred without adoption of the Defined Benefit Plan.
- For the second year of NBC's Defined Benefit Plan, the cost of non-union retirement plans was 11% of actual wages. The total pension cost for non-union plans for non-union plans was $63,794 higher than what NBC would have incurred without adoption of the Defined Benefit Plan.

Ten percent was the cost and funding to NBC for its non-union Defined Contribution Plan prior to 2005.[20] The ten percent was based on <u>actual wages</u> paid to its non–union employees.[21] In fact, total contributions to both of the non-union

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[17] <u>See</u> attached Schedule IV.

[18] Response to Commission Data Request 2-10.

[19] As noted previously, in the past, the 10 percent contributed to the non-union defined contribution plan was based on 10 percent of actual wages and salaries, and not budgeted wages and salaries. In response to a Commission data request, NBC stated that "the non-union plan is a defined contribution plan and NBC makes a contribution once a year to eligible participants based upon a pre-established percentage that is applied to wages earned during the plan year". Docket No. 3483, PUC Ex. 2 (Data Response 3) (5/7/04).

[20] In Docket No. 3483: NBC Ex. 1 (Edge direct testimony), Schedule WEE-7, NBC Data Response to the Div., Response 17 (1/13/03), and in Docket No. 3592: NBC Ex. 1 (Edge direct testimony), Schedule WEE-5.

[21] In the past, it appears that the 10 percent contributed to the non-union defined contribution plan was based on 10 percent of actual wages and salaries, and not budgeted wages and salaries. In response to a Commission data request, NBC stated that "the non-union plan is a defined contribution plan and NBC makes a contribution once a year to eligible participants based upon a pre-established percentage that is applied to wages earned during the plan year". Docket No. 3483, PUC Ex. 2 (Data Response 3) (5/7/04).

employee retirement plans did exceed 10% of wages paid during the initial years of the Plan.[22] This results in the combination Defined Benefit Plan and Defined Contribution Plan for non-union employees being more costly to NBC than the prior Defined Contribution Plan. This occurs because the total amount budgeted for wages generally is not fully paid to employees as a result of vacancies, job turnover, and personnel position changes.

The Commission did question aspects of the Plan which resulted in certain changes that made some impact on minimizing costs:

- The Commission requested that NBC defer implementation of the new Defined Benefit Plan to allow time for the Commission to review the cost of the Plan. NBC did defer implementation—but only by one month in early 2005.
- As initially proposed, NBC would provide a full year (12 months) of credited service to the pension plan for the five-month period ending June 30, 2005. As the proposed Plan did not hold employees responsible for funding prior service time which they accrued under the Plan, it would seem that if employees (and NBC) contributed for only 5 months of the initial Plan year, and received an additional full year of credited service, this would further increase the unfunded liability. Subsequently, at its April 2005 Board meeting, the NBC Board changed the Plan year from a fiscal year ending June 30, 2005 to the calendar year ending December 2005. This resulted in 11 months of contributions from the employees and NBC, and the crediting of a full service year.

While this Commission does not manage NBC, the Commission is obligated to maintain the reasonableness of rates and avoid including excessive costs in utility rates. NBC could request the Commission to impose incremental costs on NBC's ratepayers at some point in the future to pay for its new pension plan. However, in NBC's 2007 rate docket (Docket No. 3797), Mr. Walter Edge, the witness for NBC, stated that the "non-union pension is calculated in the same manner as NBC's prior dockets at 10% of non-union salaries".[23] As a result, NBC's currently approved rates in Docket 3797 reflect funding for its non-union pensions that utilizes the same method that would have been utilized to set the funding level for the prior 10% Defined Contribution Plan.[24] NBC has indicated

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[22] See pages 9-12 of this report.

[23] Docket No. 3797, Edge's direct testimony, p. 16.

[24] Since the Plan prohibits any retirement benefit payments for five years, Plan assets will be allowed to accumulate. This aspect of the Plan may allow NBC to avoid, for the next few years, seeking a rate increase in non-union pension, which would be higher than 10 percent of non-union salaries.

"there is no additional cost to ratepayers included in this filing".[25] However, it should be noted that when NBC contributes to its non-union pension plan more than 10 percent of the actual salaries of its non-union employees, these funds are not available to be utilized by NBC for the benefit of ratepayers in other ways, but instead are used to compensate NBC non-union employees for prior years of service. As NBC contributes 10 percent of budgeted non-union salaries rather than 10 percent of actual non-union salaries into the non-union pension funds, this contribution will invariably result in a larger contribution than what NBC would have contributed under its former Defined Contribution Plan. This extra funding is an additional cost to ratepayers.

Audits of the Defined Benefit Plan –Untimely Reports

NBC has now completed three years under its newly created Defined Benefit Plan—calendar years 2005, 2006 and 2007. The Commission has requested copies of the audit reports for each of the first two plan years ending December 31. [Commission Data Request 5-6 in Docket 3651 and Commission Data Request 1-13 in Docket 3797.] It was not until October 31, 2007 that NBC filed with the Commission its calendar year 2005 audit report, and to date, the 2006 audit report has not been completed and filed with the Commission.

The NBC Board should make certain that the audits are completed on a timelier basis and filed with the Board and made public by a date certain. We would recommend that such audits are completed no later than three months after the end of the calendar year.

Board Oversight

No board members, including Personnel Committee members who recommended adoption of the Defined Benefit Plan, received any data on the new Plan or on preliminary drafts on the plan design prior to receiving the Board mailing dated November 8, 2004.[26] This mailing was the basis for consideration and adoption of the Defined Benefit Plan at the November 17th Board Meeting, and not subject to any discussion prior to approval on November 17th.

NBC's pension consultant, Abacus Consulting, had prepared two preliminary outlines on the new pension plan: (1) "Adding a New Defined Benefit Plan to the NBC Retirement Program—Considerations and Design"; and

[25] Docket No. 3797 NBC Response to PUC 2-17.

[26] Response to Commission Data Request 2-3. See also pages 189-90 of transcript of January 10, 2005 Technical Session.

(2) "Adding a New Defined Benefit Plan to the NBC Retirement Program—Considerations and Design—Follow-up". [Provided in response to Commission request 1-8.] At the January 10, 2005 PUC Technical Session, Mr. Chin of Abacus Consulting testified that he did not discuss any of his plan designs or the plan actuarial valuation with any members of the Board before the November 17th NBC Board meeting. The only information that NBC Board members had received on the proposed new Plan from the time the NBC Chairman noted to the Board in May that he had directed the NBC staff to look into a new defined benefit plan were:

- Comments at the June Board meeting that the plan was still being worked on to be considered in the future;
- Comments by the Chairman at the September 29, 2004 Board meeting, stating, "[w]e are still evaluating options for our Non-Union Employees Retirement Program."

[See responses to Commission data requests 1-3, 2-3, 2-4, and 2-5.]

Reporting

The NBC is directed to file with the Commission information related to its non-union employee pension plans and the cost of administration of the Plans. This reporting will allow the Commission to be informed timely of changes in the financial condition of the Defined Benefit Pension Plan, the ratepayers' cost to fund and administer the Plan, and changes in Plan benefits that ultimately may increase costs to ratepayers. The information that NBC will be required to file with the Commission is enumerated below.

NBC shall file the following data within 60 days of the end of the calendar year:

1. The annual calendar year contributions made by NBC and by its employees to the non-union Defined Benefit Plan, listed separately.
2. The annual calendar year contributions made by NBC to the non-union Defined Contribution Plan.
3. Any changes made to the Defined Benefit Plan in the past year.
4. Any changes to the Defined Benefit Plan that NBC may be considering or that its actuary or consultants may have recommended to NBC.
5. The total wages paid to non-union employees for the calendar year.
6. The costs that NBC incurred for administration of its Defined Benefit Plan for the most recent calendar year; this would include:
   a. Actuary's cost.
   b. Audit cost.
   c. Consulting cost for legal and other services related to the plan.

d. Trustee's cost.
e. Other costs.

NBC shall file the following data within 90 days of the end of the calendar year:

1. The annual report from NBC's actuary on the Defined Benefit Plan.
2. The annual audit report on the Defined Benefit Plan.
3. The actuary's estimated cost of the Defined Benefit Plan for the prospective/ current calendar year—if the actuary makes such an estimate for NBC. (Since the NBC Board passed a resolution directing that the amount recommended by the Plan's actuarial consultant be funded, it is anticipated that such an estimate would be made known to NBC early in the calendar year.)

Accordingly, it is
(19178) ORDERED:

1. The Narragansett Bay Commission shall file with the Commission the reports and data as directed within this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON AUGUST 16, 2007. WRITTEN ORDER ISSUED JANUARY 17, 2008.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner*

Mary Bray, Commissioner

*Commissioner Holbrook concurs in part and dissents in part with this Report and Order.

Commissioner Holbrook, concurring and dissenting,

Docket No. 3651 was opened in December 2004, to investigate the reasonableness, prudence and necessity of Narragansett Bay Commission's ("NBC") approval of a new defined benefit pension plan for non-union employees (the "Plan"). Between December 2004 and August 2007, the Commission held two public hearings with NBC management and its pension consultant. Discussions focused on the design of and need for the new plan as well as its cost to ratepayers. The Commission submitted a number of data requests to NBC during this period and obtained pension consulting services from Deloitte Consulting LLC ("Deloitte"). Although I concur with the single resolution for reporting requirements that was approved by the Public Utilities Commission ("Commission") at its Open Meeting on August 16, 2007, I believe considerably more could have been done to protect the interests of ratepayers regarding NBC's current and future utilization of a defined benefit pension plan as an employee benefit.

INTRODUCTION

The single approved resolution requires NBC to file plan information with the Commission on a routine and timely basis regarding its non-union pension plan. This is a step forward. The plan actuary's annual reports for calendar years ending December 31, 2005 and December 31, 2006 were not provided to the Commission until August, 2006 and May 2007 respectively. The audited report for the year ending December 31, 2005, dated June 1, 2006, was not received by the Commission until October, 2007. The report for 2006, although requested, has not yet been received. Required information in the future will include any proposed changes to the plan, reports from the plan's actuary and auditor, data concerning income and expenses, consulting fees, funding information and information concerning the performance of plan assets, as well as the compensation levels of its non-union employees. This information will allow the Commission to be better informed about the plan's administration, cost, proposed modifications and estimated versus actual performance.

Docket No. 3651 was scheduled to be discussed by the Commission at its Open Meeting on August 16, 2007. Unfortunately the Commission's Chairman attempted to stifle discussion by stating that a discussion of the findings of the investigation would be inappropriate, inasmuch as NBC was not before the Commission requesting funding. Subsequently, during the Open Meeting, he left because he refused to discuss the matter. He then returned and indicated he would oppose any resolutions being adopted and then finally agreed to reporting requirements on NBC for its non-union pension plan. I do not agree with the Chairman's strange behavior or his erroneous position. The docket would not have been opened in the first place unless two Commissioners had enough interest and concern to open it. In fact, at the Open Meeting in August 2007, two Commissioners were at least interested in discussing the matter. I would think that after three years, and much effort expended on the investigation, there would have been enough interest to find out what the investigation revealed. This was apparently not the case as far as the Chairman was concerned.

The Commission has a well defined responsibility by statute to identify financial excesses involved in the operation of regulated utilities. Specifically, the Rhode Island Supreme Court has indicated that the Commission has the authority to and the obligation to disallow, in certain instances, pension enhancements or gifts in the form of pension benefits.[27] I would think such excesses should be addressed and corrected sooner, rather than later. I believe that NBC's adoption of the new plan for non-union employees in 2004 was unnecessary and overly generous. No evidence was presented to the Commission during the investigation to indicate that non-union employee terminations were abnormally high and justified providing a second pension plan for non-union employees.

All participating non-union employees were given credit gratuitously for their years of past service, in spite of the fact that NBC in the past had routinely awarded annual contributions to their pension program, without any required contribution from them. This "bonus" created an initial unfunded liability of $3.2 million, to be funded prospectively by ratepayers. Other alternatives, to the extent they were necessary at all, were available with less cost and with no exposure of plan assets to market risk. They should have been considered by NBC's Board.

The findings of the investigation should have been discussed at the Open Meeting. Discussion could have resulted in issues being identified and regulatory policy being implemented regarding pension enhancements. The Commission's failure to periodically identify issues and be proactive allows utilities to commit to expensive and possibly irreversible obligations that the ratepayers may have difficulty funding. If we do not serve to put utilities on notice through a docket such as this, when will such matters be addressed? If we ignore policies which can result in added costs to ratepayers, there will be no incentive for the utilities to manage their finances in a manner that is efficient and at the least cost to ratepayers. Then the Commission will be left to address these added costs when it could be more difficult to control them. Maybe others do not believe that timing

[27] Order No. 19062, p. 27. *Town of New Shoreham v. RI Public Utilities Commission*, 464 A.2d 730, 737 (R.I. 1983).

matters, but I believe it does matter in order to protect ratepayers from financial excesses imposed on them by Boards and management of a regulated utility.

The media has brought a great deal of attention over the past several years to tremendous funding shortfalls in the state employee retirement system, $4.9 billion at last report, and some $1.6 billion in defined benefit pension programs operated by municipalities for their own municipal employees.[28] I suspect that if more independent oversight had been exercised over those programs, early on, the devastating shortages that exist today would not exist.

The Commission does have limited authority to order a regulated utility to modify or eliminate particular spending programs, other than to deny requests for funding. Utilities, however, may decide to continue spending on those programs, even though the Commission may have denied or reduced funding allowances for them. Higher than projected sales revenues or a reduction of spending on other budgeted items can sometimes provide funding for these disallowed items. To deal with this type of situation, perhaps the Commission could seek legislation that would authorize it to order regulated utilities to modify or discontinue spending on specified programs deemed by it to be unnecessary or wasteful. Such authority could very well cause utilities to seek a ruling from the Commission prior to committing to expensive, unnecessary programs, before a utility creates an obligation that would be difficult to reverse, in particular those items which create large unfunded liabilities.

Fortunately, there are some safeguards which currently exist in statute. Once the Commission puts a utility on notice and cuts funding for programs, it would be unwise for the utility to continue to pursue such programs to the detriment of quality of service, given the Commission and Division powers set forth in R.I.G.L. § 39-4-1 et seq. and other statutes to ensure service to ratepayers is not denigrated due to the poor fiscal decisions of a utility. Therefore, some protection still exists for ratepayers through powers granted to the Commission and Division through such statutes.

DANGERS AND ERRORS IN NBC'S NON-UNION PENSION PLAN

Issues involved in the process of NBC management developing and approving the plan lead me to believe that the best interests of NBC's ratepayers were not addressed by NBC's Board and management. I believe that several basic rules of process were disregarded by NBC along the way. They are as follows:

[28] Actuarial Evaluation of the State of Rhode Island Employee Retirement System as of June 30, 2006 and the Auditor General's Report

1) Due Diligence and Conflict of Interest

While I recognize that the plan was subject to Board review and therefore, on the surface, appeared to undergo independent scrutiny, such scrutiny was cursory, at best and therefore, in my opinion, did not rise to the level of responsible due diligence by the Board. I believe it was inappropriate for the Board to assign responsibility for developing a new pension plan, for over 100 employees, to members of management who would be beneficiaries of their own recommendations. Management was empowered to develop its own pension plan. There was no participation or oversight by the Board. The project could have taken the form of assigning responsibility for design of the plan to the Personnel Committee, or alternatively, to have an ad-hoc committee of the Board monitor the project assigned to management.

Communication to the Board about management's findings and recommendations consisted of a memorandum to Board members, dated November 8, 2004.[29] The memorandum outlined the proposed plan in summary form. The Personnel Committee meeting, chaired by NBC's Board Chair in the absence of its own Chair, unanimously approved the new plan following a presentation during a portion of its 29 minute meeting on November 17, 2004. NBC's Board approved the plan later the same morning following a brief 20 to 25 minute presentation and 3 questions by just 2 commissioners. The plan consultant testified at the Commission's technical session that he did not specifically review any aspects of the plan with any Board members prior to the Board meeting when the plan was approved. I am concerned as to how thoroughly Board members understood the considerable exposure of the proposed plan to the risk of not achieving projections re performance of plan assets, and exposure to controlling costs to be absorbed by ratepayers.

2) Risks in Investment of Plan Assets

Probably the most dangerous feature of a defined benefit pension plan is the obligation of the employer to provide and maintain resources sufficient to meet promised pension benefits. If plan investments become inadequate to meet pension obligations because of market losses, if yields on plan assets are lower than estimated, or if expenses are higher than expected, the employer must make additional contributions to the plan to cover the shortfall. Funding by NBC's plan participants is capped at 5.0% of compensation. Additional funding requirements are the responsibility of NBC. By comparison, the defined contribution plan that has been available to NBC non-union employees for a number of years required

[29] Response to Commission Data Request 2-3. See also pages 189-90 of transcript of January 10, 2005 Technical Session.

NBC to make an annual contribution to employee accounts just once. Each employee, rather than NBC, realizes the gain or absorbs the loss on whatever investments he or she selected. By instituting this new plan, NBC awarded a more expensive form of retirement benefit to employees and assumed exposure to the risk of loss of plan assets, without any benefit to NBC, at a time when it was clear that employers have been shying away from defined benefit plans. It is very difficult, if not impossible, to understand how this decision benefits ratepayers.

3) Double Compensating Employees

Prior to adoption of this new plan, non-union employees were receiving contributions to their defined contribution pension plan from NBC equal to ten percent of salaries. The new plan vested participating employees for past service, and immediately created an unfunded liability of $3.2 million. The first year cost of the new plan in 2005 was $681,441; $400,337 of that cost was attributable to vesting for past service. The second year cost in 2006 was $607,581, with $400,337 attributable to past service.[30]

Vesting employees for past service at a cost of $3.2 million compensates them a second time for their service. All of the employees were fairly compensated at the time of their employment. They would have sought employment elsewhere or protested if they were under-compensated. Vesting for past service is unfair to current and future ratepayers who will now be charged a second time for services already compensated. This is why some state utility commissions have disallowed these types of actions.[31] This plan only benefits long term employees of NBC, some of whom were part of NBC's management.

4) Retroactive Ratemaking

Associated with the concept of double compensation, NBC appears to have violated the basic ratemaking principle prohibiting "retroactive ratemaking" by causing the $3.2 million cost of vesting employees <u>for past service</u> to be borne prospectively, by ratepayers who will receive no current or prospective benefit from the additional cost. In my opinion, this is exactly what the Supreme Court was referring to when it noted that "gifts to executives and employees disguised as

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[30] Schedule I attached to majority Order; See also, Commission Data Requests 7-5 and 1-12.

[31] Order No. 19062, p. 27 *citing, See In re: Chesapeake & Potomac Tel. Co. 57 PUR 3rd 1 (D.C. 1964) and In re: Peoples Gas System, Inc.* 1 PUR 4th (FL 1973). Furthermore, the R.I. Supreme Court has ruled on at least two occasions that the pension expenses of a utility may be disallowed from rates. On one occasion, the Court upheld the Commission when it disallowed an increase in rates for a supplemental executive retirement plan which was designed to "enhance the pension benefits" of certain executives for prior years of service. *Providence Gas Co. v. Malachowski,* 656 A.2d 949, 951-952 (R.I. 1995). On another occasion, the Court reversed this Commission for failing to disallow a rate increase due in part to a utility pension expense because the court determined that the pension payment to management constituted a "gift". *Town of New Shoreham v. PUC*, 464 A.2d 730, 737 (R.I. 1983).

pension payments are not recognized as proper operating expenses."[32] Furthermore, this is the same type of activity for which the Commission disallowed funding in 1993. In that case, the Supreme Court stated:

> The PUC denied [the Supplemental Executive Retirement Plan] because, in its judgment, the evidence presented by the company on SERP showed that it does not directly benefit ratepayers:
>
> > What the SERP benefit does is send a message...that the Company will, for pension benefit purposes, act as if they have been employed by the Company for most of their productive employment years, when in fact they have not. If that is something the shareholders desire to have the Company do, that is their business. We do not feel, however, that this is an economic burden that can reasonably be placed on the shoulders of the ratepayers.
>
> We (the Court) agree.[33]

Although the NBC method of funding the new pension plan is consistent with the old ratemaking method, clearly ratepayers are still paying for past service through future rates and thus, such funding could be construed as retroactive ratemaking. As noted in a recent rate order, it is clear the Commission could have disallowed such funding, but did not do so because "the overall non-union pension cost was calculated, for purposes of setting rates, in the same manner as when NBC only had a defined contribution plan for its non-union employees."[34]

5) Claims that Pension Costs Will Not Increase

Prior to NBC's approval of the plan on November 17, 2004, NBC's Chairman noted in his remarks to the Personnel Committee that he believed alleged differences between union and non-union pension plan benefits would be substantially reduced by adopting the proposed plan at no additional cost. The representation was that the new plan would not cause NBC to incur any additional cost above the current 10% of payroll cost. In addition, NBC's Director of Administration & Finance stated in a November 8, 2004 memo to NBC's Commissioners that "thoughtful plan design will work to achieve an important retirement plan objective of no increase in NBC's overall contributions to the non-union retirement plans".[35]

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[32] *Town of New Shoreham v. PUC*, 464 A.2d 730, 737 (R.I. 1983).
[33] *Providence Gas Co. v. Malachowski,* 656 A.2d 949, 951-952 (R.I. 1995).
[34] Order No. 19062, p. 27.
[35] Memo from Karen Giebink and Paul Pinault dated November 8, 2004.

Based on two years of the plan's operation, these representations made to Board members regarding cost have not been achieved. In fact, the cost of the non-union retirement program for the two years ending December 31, 2006 exceeded what would have been the cost of the previous defined contribution plan by $202,376. The excess was $138,582 or 21.8 percent in 2005, and $63,794 or 9.6 percent in 2006.[36]

In addition, actual NBC contributions to the plan for the two-year period have exceeded minimum funding requirements by $129,136.[37] I question why NBC, which filed and continues to file for repeated rate increases, appears to have excess cash to the point where it can actually overfund the plan. There is an additional concern that the administrative cost of NBC's pension program will increase because of the need to hire pension consultants, an actuary, and others necessary to administer the plan's operation.

6) Establishing the Plan Was Counter to Current Trends

NBC appears to have overlooked the trend of employers moving away from adopting defined benefit pension plans for employees because of the risk and expense of promising a level of plan benefits. Media reporting on government and private pension programs over the past several years has painted a bleak picture, both nationally and locally, of failures caused by poor investment performance, unaffordable benefit packages, and an inability or reluctance by sponsors to adequately fund their plans. For instance, a recent article described the status of the Pension Benefit Guaranty Corporation, the federal agency that insures private pensions in the event of failure, as having a negative net worth of some twenty-three billion dollars. Not surprisingly, just 20 percent of private sector employees have defined benefit pension plans.

Even public sector employers in Rhode Island are attempting to switch from defined benefit to defined contribution plans. For instance, the mayor of the City of Providence recently announced his intention of switching the city's pension plan for new employees from a defined benefit plan to a defined contribution plan because of the unaffordable nature of the current plan which is $700 million under-funded.[38] Also, Speaker of the House William Murphy has expressed support for requiring new state employees to be in a defined contribution plan.

Based on these facts one must question why NBC would have had any reason to think its adoption of a defined benefit pension plan would be immune

[36] Schedules II and III attached to majority Order.
[37] Schedule I attached to majority Order.
[38] Steve Peoples, "R.I. ranks 2nd to last in pension financing", Providence Journal (12/23/07)

from the poor experience of so many similar plans that have proven to be financial nightmares. One must question why NBC felt the need to buck the trend of moving towards defined contribution plans rather than away as NBC did in this instance. The most likely reason was to benefit the long-term employees managing NBC. This is not an appropriate reason. Also, it is contrary to a prior declaration by the Commission that "it would be unreasonable and inefficient for the employees of non-investor owned utilities to enjoy compensation that is more generous than what is received by a utility's ratepayers, a large majority of whom are in the private sector."[39]

7) Necessity

There was no evidence, such as abnormally high employee turnover, suggesting the need for a change in the pension plan, or any real benefit accruing to NBC or its ratepayers for enhancing the plan to justify the need to adopt a defined benefit pension plan for non-union employees. Furthermore, just 20 percent of private sector employees have defined benefit pension plans. In general, the non-union talent pool for which NBC is competing is not being offered defined benefit plans, but defined contribution plans. Thus, there was no business necessity for having non-union employees be given a defined benefit plan. It appears that adding a defined benefit plan was only necessary to help increase the compensation of long-term employees in NBC's management.

8) Defined Benefit Plans are Subject to Enhancement and Abuse

Experience suggests that what starts out allegedly as an affordable program often evolves into a financial disaster – witness the state of Rhode Island's employee retirement system, which is $4.9 billion under-funded, or the $1.6 billion shortfall in defined benefit pension plans for those Rhode Island municipalities that poorly administer their own plans. Shortfalls such as these may be attributable to a number of reasons such as: (a) erroneously under-funding the annual funding requirement calculated by actuaries, (b) crediting personnel with extra years of service to encourage early retirement without funding the additional burden placed on the fund, (c) being overly optimistic when estimating the yield on investment of plan assets or the rate of increase in compensation subject to pension benefits, and (d) enhancing benefits retroactively without making additional contributions to fund the added liability. Oversights related to pension funds can be made by public officials resulting in funding problems or excessive pensions to the beneficiaries of these pension plans. It is possible that at a future date the Board of NBC may experience similar problems due to short-term funding dilemmas or to enhanced benefits unduly rewarding beneficiaries of the non-union pension plan.

[39] Order No. 18124, p. 11.

9) 30 year vs. 15 year amortization of past service liability

NBC plans to amortize the $3.2 million liability for past service over 30 years in spite of the high likelihood that original participating employees will retire over a much shorter period. The proper amortization period should be based on the remaining number of years each of the original 100 participants will serve to retirement. By using 30 rather than 15 years, the cost and funding of the liability appears substantially lower than it should otherwise be. Adopting an unrealistic 30-year amortization period to write off the $3,200,000 unfunded liability, merely to make the cost of the plan appear to not exceed the pledge of management to level fund the program (the representation that it would be no more expensive than the "old" defined contribution plan cannot be justified) will cause ratepayers to pay the unfunded liability long after the employees responsible for it have left their employment with NBC. As stated earlier, this is a reason why state utility commissions disallow from rates the funding of these types of unfunded liabilities. As noted by the majority of the Commission, even with this unrealistic amortization, the costs have been in excess of the old plan.

CONCLUSION

Defined benefit pension plans are a generous form of compensation and are much sought after by employees. These non-portable plans are increasingly recognized as unaffordable, and as having an unacceptable degree of risk to the employer who guarantees retirees a specific level of future pension payments. Plans are often subject to intentional or unintentional abuse by decision makers who lack the skill set to understand and challenge the cost and administration of proposals presented to them. Benefits offered by plans in the public sector in Rhode Island have reached the point of being a disgrace, imposing a huge financial burden on the public, who will be forced to pay for them.

R.I.G.L. 39-1-1 addresses the responsibility of the Commission to provide just and reasonable rates and charges for regulated utility services and supplies. I believe that approval of the plan by NBC's Board of Commissioners was unnecessary, and I believe the Commission is remiss for having let the adoption of a defined benefit pension plan for non-union employees pass by without taking the opportunity to express its concern with the issues noted above.

Regulators should make every effort to prevent costly abuse and mismanagement brought about through any number of reasons. The most effective way to do this in the first place is to prevent these plans from being established or enhanced. The Commission should promulgate regulations for utilities to address this particular facet of employee compensation. Specifically, a regulation should be adopted which makes it clear that any request for additional funding from ratepayers for a new defined benefit plan, or an enhancement to an existing defined benefit plan, will be disallowed. Unfortunately, this proposal was not adopted.

Admittedly, the regulation, if adopted, would have applied only to plans created or enhanced at the discretion of, or with the explicit consent of, a utility's board, but it would have been a start. It would certainly have been consistent with the simple fact that fewer and fewer private sector workers have defined benefit plans and the current in Rhode Island to bring the public sector pension plans in line with the private sector. I suspect a majority of ratepayers who work in the private sector find it unacceptable to have ratepayers foot the bill for the excesses found in defined benefit plans when less expensive alternatives could have been explored. I am also concerned that the failure to suggest that these plans are not acceptable will result in future enhancements, such as increasing the 30% factor for pensions to a higher level or adding a cost of living adjustment ("COLA") feature to the plan, at even greater unjustified ratepayer expense. However, only time will tell.

Robert B. Holbrook, Commissioner

Schedule I

Narragansett Bay Commission
Funding of the Defined Benefit Plan

2005 Cost and Funding of the Defined Benefit Plan:

Cost as determined by NBC's actuary:

Unfunded Liability	$ 400,337		
2005 Cost	281,104		
Total Cost		$ 681,441	

Funded by:

NBC	$ 456,820		
Employees	270,077		
Total funding by NBC and employees		$ 726,897	
Excess funding in 2005			**$ 45,456**

2006 Cost and Funding of the Defined Benefit Plan:

Cost as determined by NBC's actuary:

Unfunded Liability	$ 400,337		
2006 Cost	207,244		
Total Cost		$ 607,581	

Funded by:

NBC	$ 397,119		
Employees	294,142		
Total funding by NBC and employees		$ 691,261	
Excess funding in 2006			**$ 83,680**

Total Excess Funding in 2005 & 2006 for the Defined Benefit Plan **$ 129,136**

Schedule II

2005 INCREMENTAL COST OF NON-UNION PENSIONS COMPARED TO THE DEFINED CONTRIBUTION PLAN IN EFFECT PRIOR TO 2005

NBC's cost for Defined Contribution Plan-- $ 318,238 **

NBC's contribution for Defined Benefit Plan -- $ 456,820 {per Actuary's Report)

NBC's total non-union pension costs in 2005 $ 775,058 *

NBC cost at 10% of actual salaries $ 636,476 {10% of $6,364,758**

Additional cost to NBC with both pension plans **$ 138,582**

* NBC's pension costs for non-union employees as a percentage of wages:

$775,058 / $6,364,758 = 12.2%

Incremental cost of pensions in 2005 with both pension plans:

$138,582 / $636,476 = 21.8%

** Data from report of Deloitte, Consulting LLP transmitted to NBC on September 19, 2006.

Schedule III

2006 INCREMENTAL COST OF NON-UNION PENSIONS COMPARED TO THE DEFINED CONTRIBUTION PLAN IN EFFECT PRIOR TO 2005

NBC's cost for Defined Contribution Plan-- $ 333,325 {Per response to Commission request 1-9

NBC's contribution for Defined Benefit Plan -- $ 397,119 {per Actuary's Report)

NBC's total non-union pension costs in 2006 $ 730,444 *

NBC cost at 10% of actual salaries $ 666,650 {10% of $6,666,500**

Additional cost to NBC with both pension plans $ 63,794

* NBC's pension costs as a percentage of wages:

$730,444 / $6,666,500 = 10.96%

Incremental cost of pensions in 2006 with both pension plans:

$63,794 / $666,650 = 9.6%

** In response to Commission data request 1-6, NBC stated that it did not separately 'track' union and non-union wages on a calendar year basis. Therefore, *the non-union wage amount was calculated* based on the amount of contributions NBC made to the non-union defined contribution plan for calendar year 2006. The response to Commission data request 1-9 in Docket 3797 stated that NBC contributed $333,325 to the non-union defined contribution retirement plan in calendar year 2006. As NBC contributes 5% of non-union wages to this plan, the 2006 non-union wages were calculated to be **$6,666,500**. [$333,325 / .05 = $6,666,500]

Schedule IV

Narragansett Bay Commission
Cost of Funding Non-union Plans Compared to Defined Contribution Plan

	2005	2006	2-Year Total
Non-union wages	$ 6,364,758	$ 6,666,500	$ 13,031,258
10% of wages *	$ 636,476	$ 666,650	$ 1,303,126
Non-union pension expense **	$ 775,058	$ 730,444	$ 1,505,502
Additional cost to ratepayers for the two non-union plans compared to the cost of the single Defined Contribution Plan			$ 202,376

* Under the Defined Contribution Plan in effect before 2005, NBC's cost was a contribution equal to 10% of non-union wages.

** The pension expense amounts were taken from NBC's Actuary's Reports and from responses to Commission data requests; see Schedules I & II.