

**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company, Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**SUPPLEMENTAL RESPONSE TO INFORMATION REQUEST 3.5 FROM
THE PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 3.5:

Provide a full and complete copy of any communication (whether by letter, e-mail or otherwise) and/or other document provided to and/or received from any governmental or regulatory entity related to the Transaction that is not otherwise required to be submitted in connection with this PID Information Request. "Governmental or regulatory entity" includes, but is not limited to, the Pennsylvania Attorney General's Office, the Pennsylvania General Assembly, departments or agencies of the Commonwealth (other than the Pennsylvania Insurance Department), other state insurance departments, the United States Department of Justice, the Federal Trade Commission, other departments or agencies of the United States or any other state, and any political subdivision or other governmental unit.

RESPONSE:

Attached is correspondence or other documents exchanged with the Pennsylvania Office of Attorney General, the United States Department of Justice, members and staff of the Pennsylvania General Assembly, the United States Congress and the United States Senate.

UPE
120 Fifth Avenue
Pittsburgh, PA 15222



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF ATTORNEY GENERAL

August 16, 2011

ANTITRUST SECTION
14th Floor, Strawberry Square
Harrisburg, PA 17120
Tel: (717) 787-4530
Fax: (717) 787-1190

Debra H. Dermody, Esquire
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA, 15222

Barbara T. Sicalides, Esquire
Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799

RE: Proposed Acquisition of West Penn Allegheny Health System by Highmark, Inc.

Dear Debra and Barbara:

Our Office plans to review the proposed acquisition of West Penn Allegheny Health System ("WPAHS") by Highmark, Inc. ("Highmark"). It is our understanding that this acquisition is not HSR reportable. However, this does not preclude a review by the United States Department of Justice ("USDOJ"). Given USDOJ's interest in the Pittsburgh market in recent years, we would like to get any necessary waivers and confidentiality agreements in place as soon as possible.

Enclosed is a draft waiver for your review. Also enclosed is a draft Confidentiality Agreement. We would like to finalize these documents as soon as possible. The Confidentiality Agreement will extend to documents provided voluntarily to our Office outside of any federal process. We anticipate sending both parties voluntary document requests in the near future.

Please let us know if you have any questions.

Sincerely yours,

Jennifer A. Thomson
Deputy Attorney General

JADIII/dmh/Dermody-Sicalides-Highmark-WPAHS.ltr
Enclosures

UPE-0006386

To: Patricia Brink
Director of Civil Enforcement
patricia.brink@usdoj.gov
Director of Operations Antitrust Division
Department of Justice
950 Pennsylvania Avenue
Washington, DC 20530

With respect to the proposed acquisition of West Penn Allegheny Health System by Highmark, Inc., the undersigned attorneys or corporate officers, acting on behalf of the Parties, hereby waive confidentiality protections under the Hart-Scott-Rodino Act, 15 U.S.C. 18a(h), the Antitrust Civil Process Act, 15 U.S.C. §§ 1311 et seq., and any other applicable confidentiality provisions, for the purpose of allowing the United States Department of Justice and the Attorney General of Pennsylvania to share documents, information and analyses.

Signed: _____

Debra H. Dermody, Esquire

Position: Counsel for Highmark, Inc. _____

Telephone: (412) 288-3131 _____

Date: _____

Signed: _____

Barbara T. Sicalides

Position: Counsel for West Penn Allegheny Health System

Telephone: (215) 220-1205 _____

Date: _____

CONFIDENTIALITY AGREEMENT

The Attorney General of the Commonwealth of Pennsylvania, and her deputies, designees and all of their successors (the "Attorney General"), West Penn Allegheny Health System ("WPAHS") and Highmark, Inc. ("Highmark"), through their undersigned counsel, hereby agree to the following protective provisions concerning information, documents, and materials provided voluntarily or otherwise to the Attorney General or the United States Department of Justice ("USDOJ") by WPAHS and Highmark in connection with the Attorney General's review of the proposed acquisition of certain assets of WPAHS by Highmark ("the proposed transaction") under the federal and state antitrust laws.

1. This Confidentiality Agreement ("agreement") is entered into on _____, 2011, between the Attorney General, WPAHS and Highmark.
2. WPAHS and Highmark have agreed voluntarily to produce certain information and documents requested by the Attorney General to assist in her review of the proposed transaction under the federal and state antitrust laws.
3. All information, documents and materials and the substance of their contents provided by WPAHS and Highmark to the Attorney General ("Information") shall be deemed confidential and shall not be further disclosed or revealed by the Attorney General in any manner, either directly or indirectly, to anyone other than USDOJ or duly authorized employees of the Attorney General, except as provided herein.
4. The Attorney General agrees that the Information will be maintained by the Attorney General in confidence and may only be used for its review and possible legal challenge of the proposed transaction under the federal and state antitrust laws.

5. The Attorney General agrees that the Information shall not be disclosed in any manner to any other person outside the Attorney General except employees of USDOJ and experts retained by the Attorney General to assist in its review and possible legal challenge of the proposed transaction under the federal and state antitrust laws. Any such retained expert will be informed of the restrictions imposed by this Agreement and will be requiring to agree in writing to abide by its terms prior to having access to the Information. No expert to whom disclosure is made pursuant to this Agreement shall be permitted to keep copies of any of the Information.

6. The Attorney General will consider and treat the Information as within the exemptions from disclosure provided in the Pennsylvania Right-to-Know Act as set forth at 65 P.S. § 67.708(b)(17) or any other relevant state law.

7. In the event that the Attorney General intends to submit any of the Information to a court as part of a challenge to the legality of the proposed transaction, the Attorney General will give WPAHS and Highmark seven (7) days written notice before such filing to provide WPAHS and Highmark an opportunity to seek an appropriate protective order.

8. In the event that the Attorney General or anyone else in receipt of the information shall receive a written request, subpoena, or court order seeking disclosure of the Information whether under the Pennsylvania Right-to-Know Act or otherwise, the Attorney General shall, as soon as possible upon receipt of such request, subpoena, or court order, notify counsel for WPAHS and Highmark by facsimile or electronic mail of the request, subpoena, or court order and shall provide a copy of the same.

9. At such time as the Information, or any part thereof, is no longer required in connection with the Attorney General's review of the proposed transaction under the federal antitrust laws, all documents and copies thereof shall be promptly returned to counsel for

WPAHS and Highmark or destroyed by the Attorney General at WPAHS's and Highmark's option. Any memoranda, work product, or notes prepared by employees of the Offices of Attorney General or authorized experts which contain information derived from the Information shall be treated as confidential material during the pendency of the review and, if retained thereafter, shall continue to be subject to the terms of this Agreement.

OFFICE OF ATTORNEY GENERAL

WEST PENN ALLEGHENY HEALTH SYSTEM

James A. Donahue, III
Chief Deputy Attorney General
PA Office of Attorney General
Antitrust Section
14th Floor, Strawberry Square
Harrisburg, PA 17120
(717) 787-4530

Barbara T. Sicalides, Esquire
Partner
Pepper Hamilton LLP
3000 Two Logan Square
Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
(215) 981-4783

HIGHMARK

Debra H. Dermody, Esquire
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA, 15222

Document Divider

Dermody, Debra H.

From: Dermody, Debra H.
Sent: Monday, August 29, 2011 2:04 PM
To: 'patricia.brink@usdoj.gov'
Cc: 'Donahue, III, James A.'; 'Sicalides, Barbara'
Subject: Highmark: Waiver for PA AG

Attachments: Signatures - Confidentiality Agreement.pdf

As requested, I am attaching Highmark's executed waiver allowing information sharing between the DOJ and the Pa AG's office with respect to the proposed transaction between Highmark and West Penn Allegheny Health System.



Signatures -
Confidentiality A...

Debra H Dermody
ddermody@reedsmith.com
+1 412 288 3302

Reed Smith LLP
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA 15222-2716
T: +1 412 288 3131
F: +1 412 288 3063
reedsmith.com

To: Patricia Brink
Director of Civil Enforcement
patricia.brink@usdoj.gov
Director of Operations Antitrust Division
Department of Justice
950 Pennsylvania Avenue
Washington, DC 20530

With respect to the proposed acquisition of West Penn Allegheny Health System by Highmark, Inc., the undersigned attorneys or corporate officers, acting on behalf of the Parties, hereby waive confidentiality protections under the Hart-Scott-Rodino Act, 15 U.S.C. 18a(h), the Antitrust Civil Process Act, 15 U.S.C. §§ 1311 et seq., and any other applicable confidentiality provisions, for the purpose of allowing the United States Department of Justice and the Attorney General of Pennsylvania to share documents, information and analyses.

Signed: Debra H. Dermody
Debra H. Dermody, Esquire

Position: Counsel for Highmark, Inc.

Telephone: (412) 288-3131

Date: August 26, 2011

Signed: _____
Barbara T. Sicalides

Position: Counsel for West Penn Allegheny Health System

Telephone: (215) 220-1205

Date: _____

Document Divider

Dermody, Debra H.

From: Dermody, Debra H.
Sent: Monday, August 29, 2011 2:08 PM
To: 'jthomson@attorneygeneral.gov'; 'Donahue, III, James A.'
Cc: 'Sicalides, Barbara'
Subject: Highmark: Confidentiality Agreement

Attachments: Pa. AG Confidentiality Agreement.pdf

Jennifer - I am attaching Highmark's executed Confidentiality Agreement, as you requested. Please let me know if you have any questions. Debra



Pa. AG
Confidentiality Agreeen

Debra H Dermody
ddermody@reedsmith.com
+1 412 288 3302

Reed Smith LLP
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA 15222-2716
T: +1 412 288 3131
F: +1 412 288 3063
reedsmith.com

CONFIDENTIALITY AGREEMENT

The Attorney General of the Commonwealth of Pennsylvania, and her deputies, designees and all of their successors (the "Attorney General"), West Penn Allegheny Health System ("WPAHS") and Highmark, Inc. ("Highmark"), through their undersigned counsel, hereby agree to the following protective provisions concerning information, documents, and materials provided voluntarily or otherwise to the Attorney General or the United States Department of Justice ("USDOJ") by WPAHS and Highmark in connection with the Attorney General's review of the proposed acquisition of certain assets of WPAHS by Highmark ("the proposed transaction") under the federal and state antitrust laws.

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WPAHS and Highmark or destroyed by the Attorney General at WPAHS's and Highmark's option. Any memoranda, work product, or notes prepared by employees of the Offices of Attorney General or authorized experts which contain information derived from the Information shall be treated as confidential material during the pendency of the review and, if retained thereafter, shall continue to be subject to the terms of this Agreement.

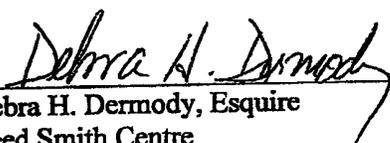
OFFICE OF ATTORNEY GENERAL

WEST PENN ALLEGHENY HEALTH SYSTEM

James A. Donahue, III
Chief Deputy Attorney General
PA Office of Attorney General
Antitrust Section
14th Floor, Strawberry Square
Harrisburg, PA 17120
(717) 787-4530

Barbara T. Sicalides, Esquire
Partner
Pepper Hamilton LLP
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Eighteenth and Arch Streets
Philadelphia, PA 19103-2799
(215) 981-4783

HIGHMARK


Debra H. Dermody, Esquire
Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA, 15222

Document Divider

Dermody, Debra H.

Subject: FW: Highmark/WPAHS Affiliation Agreement
Attachments: Affiliation Agreement UPE, UPE Sub, Etc..pdf
From: Dermody, Debra H.
Sent: Friday, November 04, 2011 9:44 AM
To: 'Donahue, III, James A.'
Subject: Highmark/WPAHS Affiliation Agreement

Jim - As we discussed , I am forwarding an executed version of the Highmark/WPAHS Affiliation Agreement.
Best regards,
Debra

Debra H Dermody
ddermody@reedsmith.com
+1 412 288 3302

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Reed Smith Centre
225 Fifth Avenue
Pittsburgh, PA 15222-2716
T: +1 412 288 3131
F: +1 412 288 3063
reedsmith.com

2/21/2012

UPE-0006408

Document Divider



TO: Honorable Members, Pennsylvania General Assembly

FROM: Michael G. Warfel
Vice President, Government Affairs

DATE: April 19, 2011

SUBJECT: Health Care Provider Update

There have been recent news reports about Highmark, the West Penn Allegheny Health System, and the current status of contract negotiations with UPMC.

Highmark continues to encourage competition among multiple health care delivery systems and broad access and choice for our members to high-quality services. We also support an inclusive hospital network that includes a broad mix of advanced care and community hospitals to meet the medical needs of our members.

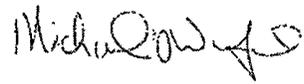
One way to maintain our broad network and still manage benefit costs for our customers is to work with local health care providers to improve the efficiency and quality of our region's health care system. That involves ongoing discussions with hospitals throughout our area – to explore new ways of working collaboratively and as part of ongoing contract negotiations.

To clarify reports you may have heard in the media:

- Highmark considers the West Penn Allegheny Health System (WPAHS) a vital element of the local health care system, but we do not have a deal to affiliate with WPAHS at this time.
- Highmark is currently in contract discussions with a number of hospitals in the region, including UPMC Health System. Contrary to some media reports, under the terms of our current agreement with UPMC, Highmark members will continue to have access to UPMC hospitals services through June 30, 2013. Our contract discussions with UPMC continue with the goal of finalizing an agreement that will preserve provider choice and broad access to UPMC for our members into the future.
- Highmark payment arrangement with hospitals must reflect the need to maintain comprehensive and affordable health benefit programs for our customers, while providing fair reimbursements to hospitals so they can provide appropriate medical care to our members.

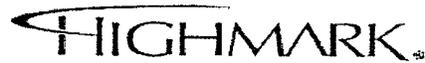
We'll keep you informed about the results of any contract negotiations or other hospital discussions as progress occurs. If you have any specific questions, feel free to contact me at (717) 302-3979.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael G. Warfel". The signature is written in a cursive style with a large initial "M" and a stylized "W".

Michael G. Warfel
Vice President, Government Affairs

Document Divider



TO: Honorable Members, United States Senate and House of Representatives

FROM: Michael G. Warfel
Vice President, Government Affairs

DATE: April 21, 2011

SUBJECT: Health Care Provider Update

There have been recent news reports about Highmark, the West Penn Allegheny Health System, and the current status of contract negotiations with UPMC.

Highmark continues to encourage competition among multiple health care delivery systems and broad access and choice for our members to high-quality services. We also support an inclusive hospital network that includes a broad mix of advanced care and community hospitals to meet the medical needs of our members.

One way to maintain our broad network and still manage benefit costs for our customers is to work with local health care providers to improve the efficiency and quality of our region's health care system. That involves ongoing discussions with hospitals throughout our area – to explore new ways of working collaboratively and as part of ongoing contract negotiations.

To clarify reports you may have heard in the media:

- Highmark considers the West Penn Allegheny Health System (WPAHS) a vital element of the local health care system, but we do not have a deal to affiliate with WPAHS at this time.
- Highmark is currently in contract discussions with a number of hospitals in the region, including UPMC Health System. Contrary to some media reports, under the terms of our current agreement with UPMC, Highmark members will continue to have access to UPMC hospitals services through June 30, 2013. Our contract discussions with UPMC continue with the goal of finalizing an agreement that will preserve provider choice and broad access to UPMC for our members into the future.
- Highmark payment arrangement with hospitals must reflect the need to maintain comprehensive and affordable health benefit programs for our customers, while providing fair reimbursements to hospitals so they can provide appropriate medical care to our members.

We'll keep you informed about the results of any contract negotiations or other hospital discussions as progress occurs. If you have any specific questions, feel free to contact me at (717) 302-3979.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael G. Warfel". The signature is written in a cursive style with a large initial "M" and a stylized "W".

Michael G. Warfel
Vice President, Government Affairs

Document Divider



The Honorable Mark Critz
United States House of Representatives
647 Main Street, Suite 401
Johnstown, PA 15901

May 10, 2011

Dear Representative Critz:

I am writing to request a meeting with you in your district office to discuss Highmark's relationships with hospital systems in western Pennsylvania and the potential significant impact the changing landscape could have on your constituents.

Attending on behalf of Highmark would be Dave O'Brien, Executive Vice-President of Government Services and External Affairs and Manda Sanders, Senior Government Affairs Representative.

Thank you in advance for your attention to this request. Please have your scheduler contact Manda Sanders at 412-544-8030 or manda.sanders@highmark.com to arrange a mutually convenient time.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Q. O'Brien".

Vice President, Government Affairs

Document Divider

Stuart, Alyson B

From: Stuart, Alyson B on behalf of Warfel, Michael G
Sent: Tuesday, June 28, 2011 10:24 AM
To: 'jscarnati@pasen.gov'; 'dpileggi@pasen.gov'; 'costa@pasenate.com';
'dwhite@pasen.gov'; 'vance@pasen.gov'; 'Fontana@pasenate.com';
'tsolobay@pasenate.com'; 'brewster@pasenate.com'; 'ferlo@pasenate.com';
'shsmith@pahousegop.com'; 'mturzai@pahousegop.com'; 'fdermody@pahouse.net';
'nmicozzi@pahousegop.com'; 'tdeluca@pahouse.net'; 'mbaker@pahousegop.com';
'jmarkose@pahouse.net'; 'jwheatley@pahouse.net'; 'bneuman@pahouse.net';
'mechevar@pahouse.net'; 'info@voterichfitzgerald.com'; 'executive@allegHENYcounty.us';
'mconsedine@state.pa.us'; 'tshamash@state.pa.us'; 'patty.alberth@mail.house.gov'
Subject: [unsecure] Highmark and West Penn Allegheny Health System Announce Plans to Pursue Affiliation
Attachments: Highmark WPAHS Announcement News Release REVISED doc - June 2011 (2).doc

We are contacting you regarding an announcement today pertaining to Highmark and the West Penn Allegheny Health System. Please see the attached document for additional information.

If you have any questions or would like to discuss this further, please contact me.

Michael G. Warfel
Vice President, Government Affairs
717-302-3979

Highmark Media Contact: Michael Weinstein
412-544-7903
michael.weinstein@highmark.com

WPAHS Media Contact: Dan Laurent
412-807-8103
dlaurent@wpahs.org

Highmark and West Penn Allegheny Health System Announce Plans to Pursue Affiliation

Affiliation will assure Western Pennsylvania consumers availability of provider choice for high-quality care

PITTSBURGH (June 28, 2011) – Highmark Inc. and the West Penn Allegheny Health System (WPAHS) today announced their intentions to pursue an affiliation aimed at maintaining the health system as a high-quality choice for health care services to millions of Western Pennsylvanians.

As part of the initial arrangement, Highmark is immediately providing a \$50 million grant to the WPAHS, enabling the health system to sustain and strengthen its West Penn and Forbes Regional hospitals while assuring the continued delivery of quality medical services by the entire system. Highmark is making a total financial commitment of up to \$475 million over four years, including \$75 million to fund scholarships for students attending medical schools affiliated with WPAHS, and to support other health professional education programs.

The management and boards of directors of Highmark and WPAHS will continue discussions in the weeks ahead with the goal of finalizing a definitive agreement.

“Today is an important first step to ensuring the continued viability of the West Penn Allegheny Health System and a choice of health care services in our region,” said Kenneth R. Melani, M.D., Highmark’s president and chief executive officer.

-More-

"For generations, the residents of our community and physicians have had broad choices in the health care marketplace," Dr. Melani said. "For consumers, we want to preserve their choices. For physicians and other health care providers, we want to ensure multiple patient referral options. This affiliation will help preserve those very options. In addition, the \$75 million that we will be contributing for scholarships for medical school students and other educational programs will go a long way in addressing the shortage of physicians in the region, and help us retain highly trained doctors to serve our community."

"West Penn Allegheny has been recognized nationally for its leading doctors and nurses who provide high-quality, personalized care; however, there is no doubt that we have lacked the capital necessary to deliver on our full potential," said David L. McClenahan, West Penn Allegheny's chairman of the board. "We share a common goal with Highmark to focus on the patient experience, improve health care and ensure choice for both those seeking care and those seeking employment in the health care sector in our region. We look forward to finalizing our affiliation agreement in the weeks ahead."

McClenahan also announced a transition in the West Penn Allegheny leadership, stating, "Dr. Christopher Olivia will be leaving his role as President and CEO on June 28, 2011. He will be consulting with Highmark and assisting Dr. Melani in connection with the conclusion of this transaction and other strategic issues."

"Dr. Chris Olivia has been a valuable change agent for West Penn Allegheny. Since he arrived in 2008, Chris has been steadfast in his belief about a bright future for the System. He has led the organization through some difficult changes while laying groundwork for exciting developments such as the medical school partnership with Temple University School of Medicine," said McClenahan. "The board and the entire West Penn Allegheny Health System are grateful for Chris' vision and leadership that has brought us to this remarkable announcement." He also announced that Dianne Dismukes has been named Interim President and CEO of WPAHS.

The proposed affiliation of Highmark and the West Penn Allegheny Health System is the first step in a broader Highmark effort to develop alternative health care options that offer high-quality care at a lower price and more coordinated and patient-driven delivery of medical care.

"It is critical to the economic and financial health of the community that Western Pennsylvanians have a choice of health care providers and that we preserve strong and valuable community institutions like the West Penn Allegheny Health System," Dr. Melani said.

About Highmark Inc.

Highmark Inc., based in Pittsburgh, is an independent licensee of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield plans. Highmark serves 4.8 million members in Pennsylvania and West Virginia through the company's health care benefits business and is one of the largest Blue plans in the nation. Highmark has 19,500 employees across the country. For more than 70 years, Highmark's commitment to the community has consistently been among the company's highest priorities as it strives to positively impact the communities where we do business. For more information, visit www.highmark.com.

Highmark Inc. is an independent licensee of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield Plans. For more information, visit www.highmark.com.

About West Penn Allegheny Health System

West Penn Allegheny Health System (WPAHS) is a physician-led healthcare organization based in Pittsburgh, Pa. Recognized as a healthcare quality and personalized service leader in its market, the organization's sole purpose is to improve the health of people in the Western Pennsylvania region. West Penn Allegheny Health System's specialty programs continually receive national and international recognition – particularly in the areas of Bone and Joint, Cardiovascular, Neurosciences and Oncology, which make up the organization's four Institutes of Excellence. The System offers 46 graduate medical programs, two nursing schools, and will host the first undergraduate medical school class of the Temple University School of Medicine at West Penn Allegheny Health System in 2013. WPAHS is also home to the Allegheny-Singer Research Institute, which sponsors interdisciplinary programs to understand, treat and prevent human diseases. The System is comprised of five hospitals, including Allegheny General Hospital on the North Side, West Penn Hospital in Bloomfield, Allegheny Valley Hospital in Natrona Heights, Canonsburg General Hospital in Canonsburg, and Forbes Regional Hospital in Monroeville.

Highmark Media Contact: Michael Weinstein
412-544-7903
michael.weinstein@highmark.com

WPAHS Media Contact: Dan Laurent
412-807-8103
dlaurent@wpahs.org

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Affiliation will assure Western Pennsylvania consumers availability of provider choice for high-quality care

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"Today is an important first step to ensuring the continued viability of the West Penn Allegheny Health System and a choice of health care services in our region," said Kenneth R. Melani, M.D., Highmark's president and chief executive officer.

-More-

Document Divider

July 11, 2001

The Honorable Anthony M. DeLuca
PA House of Representatives, Member
115 Irvis Office Building
P.O. Box 202032
Harrisburg, PA 17120-2032

Dear Representative DeLuca:

Tony

I am writing in response to your letter to Dr. Ken Melani dated June 28, 2011 regarding Highmark's recently announced intention to pursue an affiliation with West Penn Allegheny Health System and the ongoing situation regarding Highmark's provider contracts with the UPMC Health System.

In your letter, you highlight Highmark's focus on "choice" of providers for western Pennsylvanians and that you want to ensure that consumers continue to have choices. We could not agree with you more on that point. You go on to express concern that "individuals presently under the care of providers at UPMC may potentially lose their "choice" if Highmark no longer continues to contract with UPMC."

Let me be very clear on this point – Highmark does NOT want to limit choices for consumers in western Pennsylvania. The fact is that Highmark has and continues to seek to negotiate new contract terms with UPMC in order to maintain provider choice. The community clearly expects us to preserve their access to important community hospitals and physician services and our goal has always been to reach an agreement that assures access to UPMC for our members. It is UPMC that is flatly refusing to negotiate with Highmark and it is UPMC that is restricting "choice" for millions in Western Pennsylvania.

Because of Highmark's efforts to preserve choice, UPMC broke off talks and refuses to negotiate, claiming that it cannot contract with a competitor. This line of reasoning rings hollow -- we have been competing with UPMC, which is both a health delivery system and a health insurance company -- for nearly a decade. The truth is that despite UPMC's claim that they support competition, they walked away from negotiations with Highmark.

By refusing to negotiate with Highmark, UPMC is threatening to limit access for millions of people to a number of important UPMC facilities that are viewed as critical community

institutions, including Magee-Women's Hospital, Hillman Cancer Center and Western Psychiatric Institute. These institutions were built and have been supported by taxpayer grants, local philanthropy and premium dollars with the intention to serve all members of the community.

I want to be clear that Highmark continues to look for common ground and a reasonable contract with UPMC. Our region deserves the security that comes with knowing that Western Pennsylvanians can choose among multiple viable health care systems, independent hospitals, physicians and other health care providers that deliver high-quality medical care at reasonable, affordable costs.

As a community leader and consumer advocate, I strongly encourage you to urge UPMC to get back to the negotiating table with Highmark and put the community and their patients' interest first.

We will continue to keep you informed on this important issue as developments unfold.

Sincerely,

A handwritten signature in black ink, appearing to read "David O'Brien", written in a cursive style.

David O'Brien
Executive Vice President, Government Services & External Affairs

Document Divider



Kenneth R. Melani, M.D.
President and
Chief Executive Officer

September 20, 2011

The Honorable Donald White
Chairman
Banking and Insurance Committee
Senate Box 203041
The State Capitol
Harrisburg, PA 17120-3041

Dear Chairman White:

Thank you for the opportunity in your letter dated September 12, 2011 to address the critical competitive issues arising in the Western Pennsylvania healthcare marketplace, including the importance of Highmark's planned affiliation with the West Penn Allegheny Health System (West Penn) in advance of the Senate Banking & Insurance Committee's upcoming hearings on September 22, 2011.

You have asked that I address the likely competitive effects of (1) Highmark's planned affiliation with West Penn and (2) UPMC's recent announcement that it is terminating a number of its hospital and physician contracts with Highmark, such that it would not offer Highmark subscribers in-network access to those facilities, post-termination. In addressing those topics, I will also address the four specific subtopics you listed with regard to the West Penn affiliation.

Competitive Effects of the Highmark-West Penn Affiliation

The Current State Of The Healthcare Provider Marketplace

Highmark proposes to affiliate with West Penn as a critical step in addressing a growing and serious problem, the accumulation and improper exercise of excessive market power by the UPMC healthcare conglomerate. Over a number of years, and in particular in the last decade, the UPMC conglomerate has grown dramatically, to the point where it is now not merely the dominant healthcare provider, but the only viable, full-service healthcare provider serving the entire Western Pennsylvania area. UPMC has achieved and maintained this position through a variety of means, including the acquisition of several hospitals and physician practice groups, the imposition of extremely restrictive non-compete clauses in its physician contracts and aggregating staffing services otherwise rendered by surrounding community providers. UPMC has also utilized its captive health insurance subsidiary, UPMC Health Plan (UPMCHP), as a means to encourage doctors and patients to work with UPMC to the exclusion of other healthcare providers, including West Penn. As a result of its efforts, UPMC has gained an extremely high market share in a number of areas, including critical specialty areas such as oncology/hematology, neurology, obstetrics and pediatrics.

As a result, it is not surprising that the CEO of UPMC, Jeffrey Romoff, recently admitted in testimony before House Insurance Committee that UPMC is a monopolist in this marketplace. UPMC has also become increasingly aggressive in exercising its market power. We at Highmark have experienced this first hand. UPMC has steadily complained to Highmark that the reimbursement rates Highmark pays are too low (despite the facts that UPMC already receives the highest reimbursement rates of any provider in the Western Pennsylvania area, and that healthcare costs in Western Pennsylvania are much higher than in comparable demographic areas, such as Cleveland, St. Louis and Kansas City). In the current contract negotiations with Highmark, UPMC demanded a dramatic increase in all reimbursements, across the entire UPMC system, including portions of the system that were not up for renegotiation. The demand sought an increase in payments to UPMC in excess of \$400 million – *for a single year*. That represents a 40% increase in the reimbursement rates for UPMC's commercial (that is, non-Medicare) business with Highmark subscribers. UPMC presented this demand as non-negotiable, a clear demonstration of UPMC's market power in the healthcare provider market. If Highmark agreed to UPMC's demanded increase as the four commercial carriers did, it would have no option but to increase dramatically the rates charged to Highmark subscribers, because healthcare provider costs are by far the largest component of health insurance premium costs (approximately 90%).

Beyond the reimbursement rates themselves, UPMC's dominant position has led to other inefficiencies that inevitably push up health insurance premiums for all consumers, including overinvestment in unnecessary physical assets and automatically steering patients toward more expensive sites of service without providing lower cost options and information about them.

The Benefits of the Proposed Highmark-West Penn Affiliation

Given UPMC's admitted monopoly position as the dominant healthcare provider in the area, and with the high barriers to entry by new competitors (including the high capital costs and extensive regulatory burdens), there are limited options to reduce healthcare (and, thus, health insurance) costs. The situation has reached the point where only development of an independent, lower cost, viable competing healthcare provider network can hope to combat UPMC's unilateral control over healthcare costs.¹

Highmark's affiliation with West Penn is a critical step in developing true competition, and placing constraints on UPMC's power over pricing, in the healthcare market. Highmark intends

¹ I am aware that UPMC has recently executed contracts with the for-profit insurers Aetna, Cigna, United Healthcare and Healthamerica. But the addition of those insurers cannot drive down health insurance premiums unless something forces a decline in the largest component of premium costs. More insurers competing for the business of a single dominant health care provider will only lead to higher reimbursement rates to UPMC, not lower insurance premiums to subscribers. Only competition from a viable alternative healthcare provider network can lead to lower health insurance premiums.

to develop a viable, full-service healthcare provider network that will provide Western Pennsylvania consumers with a lower-cost, high-quality alternative to the UPMC hegemony. The affiliation with West Penn will allow West Penn to develop into the cornerstone of that alternative network, which we envision will also entail affiliations and partnerships of varying types with other community and rural hospitals and independent physicians. At the same time, the affiliation will provide a much-needed infusion of financial support to the West Penn facilities. In large part due to aggressive tactics employed by UPMC – including raiding of physicians, restrictive covenants in physician contracts, disparagement of West Penn, and building of competing facilities in an effort to divert patient flow from West Penn facilities – West Penn has faced significant financial pressure in recent years. Without the financial strength that Highmark contributes to the affiliation, it is at best far from certain whether West Penn could develop into a sufficiently strong competitor of UPMC to constrain its present market power and help bring lower healthcare costs to the region. Affiliation with Highmark should allow West Penn to develop into an important component of just such a competitive alternative.

With more than one viable network providing quality healthcare on a regional basis, Western Pennsylvania consumers will see lower healthcare premiums than they can hope to achieve with UPMC as the admitted monopoly healthcare provider. As the monopoly healthcare provider, UPMC also enjoys unfair bargaining power relative to physicians practicing in the area. Development of a viable, region-wide competing provider network based on the West Penn system will introduce greater competitive benefits from the perspective of physicians as well as consumers.

All of that is why UPMC so strongly disparages this affiliation and why, despite public pronouncements that it does not oppose the affiliation, UPMC behind the scenes continues to lobby members of this legislature against the affiliation and attempts to “punish” Highmark because of its efforts to bolster the West Penn system.

Access to West Penn

You have asked whether the Highmark-West Penn affiliation will “provide preferential access to West Penn for Highmark as compared to other insurers.” The answer is no. Unlike UPMC (which excludes the West Penn system from UPMCHP), we commit to negotiating in good faith contracts to provide in-network access to any and all insurers, including UPMCHP as well as the for-profit insurers with whom UPMC has recently contracted. This stands in marked contrast to UPMC which has announced its termination of its contract with Highmark, and its refusal even to negotiate with Highmark regarding any contract terms, in express retaliation for Highmark’s decision to help keep West Penn a potential competitive provider of healthcare services – indeed, UPMC announced this termination upon learning of Highmark’s discussing an affiliation with West Penn, long before an affiliation agreement was reached.

Rates at West Penn

You have also asked whether the Highmark-West Penn affiliation will “provide preferential rates from West Penn to Highmark as compared to other insurers.” The answer, again, is no. We of course would not compel that all insurers accept the same pricing, nor would we communicate one insurer’s pricing proposals to another insurer. We commit to negotiating reimbursements with all insurers on an arms-length basis.

Incentives to Utilize West Penn

You have also asked whether the Highmark-West Penn affiliation will “result in incentives for patients to utilize West Penn as compared to other providers.” Once again, the answer is no. As I described above, one of the dysfunctional features of the current healthcare market in Western Pennsylvania is UPMC’s predisposition toward higher cost, less efficient treatment alternatives. We envision developing the competing network built around West Penn to be a more efficient, lower-cost network. Unlike UPMC through UPMCHP and its contracts with other commercial carriers, we do not intend to steer patients toward West Penn facilities over any other facilities, including those in the UPMC system. But (1) UPMC has announced its intention to make it uneconomical for Highmark subscribers to access most UPMC facilities and facilities, by refusing to negotiate in-network pricing and (2) we intend to provide Highmark subscribers with accurate information about the cost of their various treatment options (in light of increasing subscriber financial cost sharing responsibility for health care services), so they may make fully informed decisions, weighing costs and benefits of various alternatives as part of the decision making process. This, again, stands in marked contrast to UPMC, which creates very strong financial incentives for subscribers in the UPMCHS to utilize only UPMC facilities and doctors.

Disclosure of Insurers’ Information to Highmark

Highmark anticipates that the insurance and provider sides of the new system would have firewalls in place to prevent any inappropriate sharing of information. Thus, Highmark will not have access to contract and reimbursement terms between the West Penn system and other insurers.

Anticompetitive Effects of the UPMC Contract Terminations

UPMC is aware that West Penn stands as the only potential challenger to its admitted monopoly. It also knows that a West Penn-Highmark affiliation greatly enhances the prospects that a viable competitive alternative to its monopoly will develop. UPMC made abundantly clear that Highmark’s decision to affiliate with West Penn – indeed, Highmark’s decision even to negotiate with West Penn regarding a possible affiliation – triggered UPMC’s unilateral decision to terminate those hospital and physician contracts that it could.

No one can say with absolute certainty today what the precise level of anticompetitive effects from the proposed contract terminations will be. That is because the terminations have not yet taken effect, and Highmark and UPMC disagree about when any terminations would affect Highmark subscribers. UPMC apparently believes that it can terminate eight hospitals contracts effective June 30, 2012, and terminate a number of physician agreements effective the same time. Highmark believes the parties' contracts are clear that, even if UPMC did so, UPMC would still have to provide access to all its affiliated hospitals and physicians at in-network rates for an additional year, through June 30, 2013. As you are aware from testimony at prior hearings, the Pennsylvania Insurance Department is also investigating whether to employ its statutory power to suspend any terminations of the hospital contracts which could extend the operative period up to an additional 9 months.

If UPMC carries through on its threats, terminates the announced contracts, and denies in-network access to Highmark subscribers at those facilities, the anticompetitive effects will be immediate and profound, adversely affecting consumers, employers, doctors, West Penn and Highmark:

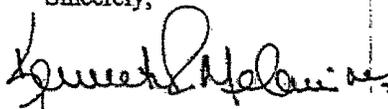
- Consumers who decide to switch their health insurance from Highmark to one of the for-profit insurers, or UPMCHP, will almost certainly see their premiums increase, likely quite dramatically. That is because while Highmark refused to pay the exorbitant reimbursement increases that UPMC demanded, it appears that the for-profit insurers have agreed to pay those rates, which UPMC euphemistically refers to as "market" rates. Those consumers who may have been intending to switch to Highmark from another insurer, but decline to do so as a result of UPMC's announced terminations, would suffer the same adverse price effects.
- Consumers will face uncertainty about their access to UPMC doctors and facilities. UPMC is not merely exploiting but aggressively promoting this uncertainty through its improper and fear-mongering "Keep Your Doctor" advertising campaign. UPMC has tried to convey a number of false messages as part of this campaign, including that consumers at present no longer have access to UPMC doctors and facilities, and that only the for-profit insurers offer any access to those UPMC affiliates.
- Consumers will also face a substantial reduction in choice; at the present time, consumers who are Highmark subscribers know that they can choose treatment from a broad range of doctors including those affiliated with both the West Penn and UPMC systems. UPMC's threatened terminations would cut off those Highmark subscribers' access, on economically feasible terms, to a large number of physicians. At the same time, we expect that UPMC has insisted that the for-profit insurers agree to terms that would not allow them to create incentives for subscribers to take advantage of more efficient providers such as West Penn (given that UPMC was insisting on such terms in negotiations with Highmark). This would also reduce choice while increasing costs to consumers.

- Doctors outside the UPMC monopoly, and in particular those affiliated with West Penn, will similarly find that they face more limited options when choosing treatments for their patients.
- Employers will face precisely the same quandaries as consumers: reduction in choice; uncertainty as to coverage; and the potential for higher out-of-pocket costs, to the extent the employers subsidize health insurance costs for some or all of their employees.
- UPMC's termination of the Highmark contracts will also increase the risk that West Penn will lose some of its affiliated physicians. Some doctors, for example, may be concerned about lack of referral access to other facilities and doctors at in-network rates as a result of UPMC's closed network approach. We also expect that UPMC will attempt to poach doctors and physician groups from West Penn, further increasing UPMC's market power.
- To the extent that UPMC succeeds in driving subscribers from Highmark to UPMCHP, West Penn would see a decrease in its utilization and revenues, since UPMCHP does not provide in-network access to West Penn-affiliated doctors and facilities. To the extent that the UPMC contracts contain most-favored-nation provisions or other incentives designed to drive traffic to UPMC, those provisions would also cause a decrease in West Penn's revenues.
- Highmark, of course, is a major intended target of the anticompetitive effects of the threatened mergers. UPMC intends to cause a dramatic decline in Highmark's subscriber ranks and revenues by cutting off in-network access to a large portion of the UPMC network, and by misleading consumers and employers to believe that the terminations will be broader and will take effect sooner than the contracts in reality permit.

The longer UPMC provides in-network access to its publicly-funded, ostensibly non-profit network, the greater the prospects that the Highmark-West Penn affiliation will quickly achieve its goal of introducing greater competition to the market for healthcare services in Western Pennsylvania.

Chairman White, thank you again for the opportunity to address these important issues. We urge you to take appropriate action to bring competition to the healthcare market in Western Pennsylvania, including supporting approval of the Highmark-West Penn affiliation.

Sincerely,



Kenneth R. Melani, M.D.
CEO & President

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Englert, Gregory P

REP. DOYLE

From: Englert, Gregory P
Sent: Monday, October 31, 2011 1:23 PM
To: Roehrenbeck, Jean
Subject: RE: Random Question

FYI - Hospital agreement is being signed today so it is a done deal now.

From: Roehrenbeck, Jean [<mailto:Jean.Roehrenbeck@mail.house.gov>]
Sent: Thursday, October 27, 2011 4:30 PM
To: Englert, Gregory P
Subject: RE: Random Question

I thought I'd at least try! ☺

From: Englert, Gregory P [<mailto:gregory.englert@highmark.com>]
Sent: Thursday, October 27, 2011 4:29 PM
To: Roehrenbeck, Jean
Subject: RE: Random Question

No we wouldn't be able to give out information about a customer without their consent, sorry. That might even be a HIPAA violation.

-----Original Message-----

From: Roehrenbeck, Jean [Jean.Roehrenbeck@mail.house.gov]
Sent: Thursday, October 27, 2011 02:54 PM Eastern Standard Time
To: Englert, Gregory P
Subject: RE: Random Question

I don't suppose you can give me details about the specific plan a particular employer offers?

Jean Roehrenbeck
Legislative Director
Rep. Mike Doyle (PA-14)
401 Cannon HOB
Washington, DC 20515
P: 202.225.2135
F: 202.225.3084
Jean.Roehrenbeck@mail.house.gov

From: Englert, Gregory P [<mailto:gregory.englert@highmark.com>]
Sent: Thursday, October 27, 2011 2:53 PM
To: Roehrenbeck, Jean
Subject: RE: Random Question

The vast majority of our enrollees get their coverage through group plans sponsored by employers and unions. The benefits in each plan are determined by the plan sponsor so that is not up to us and likely all over the map. As you might imagine, larger employers tend to have more generous benefit packages.

I'll check on our offerings in the individual market, although last I saw only about 10 percent of the insured population buys coverage in the individual market. Since the individual has to bear the full cost of these plans, consumers in that market tend to emphasize affordability and catastrophic protection over robust levels of benefits.

-----Original Message-----

From: Roehrenbeck, Jean [Jean.Roehrenbeck@mail.house.gov]
Sent: Wednesday, October 26, 2011 03:27 PM Eastern Standard Time
To: Englert, Gregory P
Subject: Random Question

Hey Greg,

I have an extremely odd question for you – I apologize in advance but it is all for the greater good.

Do any highmark plans specifically NOT cover contraception? If so, can you tell me when that plan was established (alternatively, if it has been around in perpetuity)?

Really appreciate the help.

Jean

Jean Roehrenbeck
Legislative Director
Rep. Mike Doyle (PA-14)
401 Cannon HOB
Washington, DC 20515
P: 202.225.2135
F: 202.225.3084
Jean.Roehrenbeck@mail.house.gov

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SEN. CASEY

Englert, Gregory P

From: Englert, Gregory P
Sent: Monday, October 31, 2011 1:22 PM
To: Mueller, Gillian (Casey)
Subject: RE: MA

Any time Wednesday afternoon I can drop off the 2012 MA info?

Did you guys ever do a Dear Colleague on the OEP bill?

The hospital deal was signed today so it is a done deal now.

From: Mueller, Gillian (Casey) [mailto:Gillian_Mueller@casey.senate.gov]
Sent: Tuesday, October 18, 2011 8:38 AM
To: Englert, Gregory P
Subject: RE: MA

Hi Greg,

Sorry for not getting back to you. My boss decided to go to a hearing today and had to pull a lot of stuff together yesterday for him. Happy to meet later this week if you're going to be around. I'm out next week. Thanks. Gillian.

=====
Gillian Mueller
Legislative Assistant
Senator Robert P. Casey, Jr.
393 Russell Senate Office Building
Washington, DC 20510
202-224-6324

=====
Sign up [here](#) to receive Senator Casey's newsletter.

From: Englert, Gregory P [<mailto:gregory.englert@highmark.com>]
Sent: Friday, October 14, 2011 11:34 AM
To: Mueller, Gillian (Casey)
Subject: MA

If you have any time Monday afternoon I can stop by to go over our 2012 MA changes. Shouldn't take long.

This e-mail and any attachments to it are confidential and are intended solely for use of the individual or entity to whom they are addressed. If you have received this e-mail in error, please notify the sender immediately and then delete it. If you are not the intended recipient, you must not keep, use, disclose, copy or distribute this e-mail without the author's prior permission. The views expressed in this e-mail message do not necessarily represent the views of Highmark Inc., its subsidiaries, or affiliates.

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Stuart, Alyson B

From: Warfel, Michael G
To: bbarbin@pahouse.net; kbenning@pahousegop.com; mbrooks@pahousegop.com; fburns@pahouse.net; mcauser@pahousegop.com; jchristi@pahousegop.com; sconklin@pahouse.net; pcosta@pahouse.net; dcosta@pahouse.net; mechevar@pahouse.net; pdaley@pahouse.net; ddeasy@pahouse.net; tdeluca@pahouse.net; fdermody@pahouse.net; RepBillDeWeese@pahouse.net; gdunbar@pahousegop.com; bellis@pahousegop.com; eevankov@pahousegop.com; jevans@pahousegop.com; ffabrizi@pahouse.net; mfleck@pahousegop.com; dfrankel@pahouse.net; mgabler@pahousegop.com; rgeist@pahousegop.com; cgeorge@pahouse.net; mgergely@pahouse.net; jgibbons@pahouse.net; ghaluska@pahouse.net; tharhai@pahouse.net; pharkins@pahouse.net; dhess@pahousegop.com; jhornama@pahouse.net; shutchin@pahousegop.com; bkortz@pahouse.net; nkotik@pahouse.net; tkrieger@pahousegop.com; dkula@pahouse.net; mlongiet@pahouse.net; jmaher@pahousegop.com; tmahoney@pahouse.net; jmarkose@pahouse.net; jmarshal@pahousegop.com; rmatzie@pahouse.net; dmetcalf@pahousegop.com; cmetzgar@pahousegop.com; mmustio@pahousegop.com; bneuman@pahouse.net; doberlan@pahousegop.com; jpetrarc@pahouse.net; jpreston@pahouse.net; jpyle@pahousegop.com; klrapp@pahousegop.com; aravenst@pahouse.net; hreadsha@pahouse.net; dreed@pahousegop.com; mreese@pahousegop.com; broae@pahousegop.com; rsaccone@pahousegop.com; csainato@pahouse.net; mhsmith@pahouse.net; shsmith@pahousegop.com; csonney@pahousegop.com; jstern@pahousegop.com; rstevens@pahousegop.com; mturzai@pahousegop.com; rvulakov@pahousegop.com; cwagner@pahouse.net; jwheatley@pahouse.net; jwhite@pahouse.net; brewster@pasenate.com; jcorman@pasen.gov; costa@pasenate.com; jearll@pasen.gov; jeichelberger@pasen.gov; ferlo@pasenate.com; Fontana@pasenate.com; rkasunic@pasenate.com; jorie@pasen.gov; jpippy@pasen.gov; rrobbins@pasen.gov; jscarnati@pasen.gov; tsolobay@pasenate.com; evogel@pasen.gov; kward@pasen.gov; mwhite@pasen.gov; dwhite@pasen.gov; wozniak@pasenate.com
Cc: rca@stevenslee.com; djb@stevenslee.com; rglench@paonline.com; robert.jubelirer@obermayer.com; john.giannelli@obermayer.com; mike@longnyquist.com; chris@longnyquist.com; todd@longnyquist.com; rgmerek@ggrgov.ocm
Subject: Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation
Attachments: HM-WPAHS Definitive Agreement Release J10-31.docx

Date: November 1, 2011
To: Members, Pennsylvania General Assembly
From: Michael G. Warfel, Vice President, Government Affairs
Subject: Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation

Today officials from Highmark Inc. and the West Penn Allegheny Health System, Inc. (WPAHS) announced that their boards of directors have approved a definitive agreement to build a new integrated health system in western Pennsylvania, which will soon be filed with the Pennsylvania Insurance Department (PID.) In addition to the PID, the transaction must be reviewed by the Pennsylvania Attorney General and the Internal Revenue Service. We look forward to a thorough and timely review of the filing.

In addition to announcing the affiliation agreement and next steps, new management was introduced at WPAHS. A press release offering more details is attached for your information.

If you should have any questions, please feel free to contact my office at 717.302.3979.

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Highmark

Date: November 1, 2011
To: Members, United States Senate
From: Michael G. Warfel, Vice President, Government Affairs
Subject: Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation

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If you should have any questions, please feel free to contact my office at 717.302.3979.

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Highmark

Date: November 1, 2011
To: Members, United States House of Representatives
From: Michael G. Warfel, Vice President, Government Affairs
Subject: Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation

Today officials from Highmark Inc. and the West Penn Allegheny Health System, Inc. (WPAHS) announced that their boards of directors have approved a definitive agreement to build a new integrated health system in western Pennsylvania, which will soon be filed with the Pennsylvania Insurance Department (PID.) In addition to the PID, the transaction must be reviewed by the Pennsylvania Attorney General and the Internal Revenue Service. We look forward to a thorough and timely review of the filing.

In addition to announcing the affiliation agreement and next steps, new management was introduced at WPAHS. A press release offering more details is attached for your information.

If you should have any questions, please feel free to contact my office at 717.302.3979.

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Highmark Media Contact: Michael Weinstein
412-544-7903
michael.weinstein@highmark.com

WPAHS Media Contact: Dan Laurent
412-807-8103
dlaurent@wpahs.org

Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation; Announce New Management and Detailed Next Steps

Affiliation agreement to be filed with the Pennsylvania Insurance Department; Highmark, WPAHS expect thorough, timely regulatory reviews

PITTSBURGH (November 1, 2011) – Officials from Highmark Inc. and the West Penn Allegheny Health System, Inc. (WPAHS) today announced another important milestone in their plans to build a new integrated health system that will deliver value, choices and high-quality health care services to the Western Pennsylvania community.

The two organizations announced that their boards of directors have approved a definitive agreement, which will soon be filed with the Pennsylvania Insurance Department (PID). In addition to the PID, the transaction must be reviewed by the Pennsylvania Attorney General and the Internal Revenue Service.

“This transaction is critical to ensuring the continued vitality of the West Penn Allegheny Health System and maintaining provider choice in our community,” said Kenneth R. Melani, M.D., Highmark’s president and chief executive officer. “In recent weeks, we’ve been working very closely with the staff at West Penn Allegheny to finalize a definitive agreement. We’ve made significant progress to get to this point, but there is much to be done that cannot be accomplished until the affiliation is approved. For the benefit of the community, we hope the review and approval process is thorough and timely.”

-More-

"Our anticipated partnership with Highmark has energized our medical staff and employees," said Jack Isherwood, chairman of the board of WPAHS. "Since the initial announcement on June 28, this transaction has continued to move steadily forward because both organizations share a commitment to making quality health care services available and affordable for the communities that we serve. We believe this partnership will create a highly efficient and lower-cost health care system, expand access to additional clinical services for patients and enhance medical education and training for physicians and other health care professionals."

As part of today's announcement, Mr. Isherwood introduced Keith T. Ghezzi, M.D. as the interim chief executive officer of WPAHS. Dr. Ghezzi is a Managing Director with Alvarez & Marsal Healthcare Industry Group in Washington, D.C. He specializes in operational and financial turnarounds, performance improvement and interim management. His primary areas of focus include health systems, large hospitals and physician group practices.

"I am proud to be joining the West Penn Allegheny Health System and a team of healthcare professionals that are highly-regarded for their commitment to excellent patient care. Their passion for delivering quality care has been palpable as I have spent time with physicians and staff throughout the system in recent months. I am also enthusiastic about working with our new partners, Highmark, to transform the healthcare delivery system in western Pennsylvania."

Dr. Ghezzi announced today that one of his first tasks will be to fulfill the commitment of Highmark and WPAHS to reinstate essential services and reopen the emergency department at West Penn Hospital, and to bolster other acute care services, along with making upgrades to other WPAHS hospitals.

-More-

As part of the affiliation agreement announced in June, Highmark provided WPAHS with an initial grant of \$50 million to sustain and strengthen West Penn and Forbes Regional hospitals. Highmark has made a total financial commitment of up to \$475 million – including \$75 million to fund scholarships for students attending medical schools affiliated with WPAHS, and to support other health professional education programs.

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About Highmark Inc.

Highmark Inc., based in Pittsburgh, is an independent licensee of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield plans. Highmark serves 4.8 million members in Pennsylvania and West Virginia through the company's health care benefits business and is one of the largest Blue plans in the nation. Highmark has 19,500 employees across the country. For more than 70 years, Highmark's commitment to the community has consistently been among the company's highest priorities as it strives to positively impact the communities where we do business. For more information, visit www.highmark.com.

About West Penn Allegheny Health System, Inc.

West Penn Allegheny Health System is a physician-led healthcare organization based in Pittsburgh, Pa. Recognized as a healthcare quality and personalized service leader in its market, the organization's sole purpose is to improve the health of people in the Western Pennsylvania region. West Penn Allegheny Health System's specialty programs continually receive national and international recognition – particularly in the areas of Bone and Joint, Cardiovascular, Neurosciences and Oncology, which make up the organization's four Institutes of Excellence.

The System is comprised of five hospitals, including Allegheny General Hospital on the North Side, West Penn Hospital in Bloomfield, Allegheny Valley Hospital in Natrona Heights, Canonsburg General Hospital in Canonsburg, Forbes Regional Hospital in Monroeville and a nearly 700-person multi-specialty physician group practice. For more information, visit www.wpahs.org.

Englert, Gregory P

From: Englert, Gregory P
Sent: Wednesday, November 02, 2011 8:46 PM
To: Englert, Gregory P
Subject: Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation
Attachments: HM-WPAHS Definitive Agreement Release J10-31.docx

FYI - Yesterday, officials from Highmark Inc. and the West Penn Allegheny Health System, Inc. (WPAHS) announced that their boards of directors have approved a definitive agreement to build a new integrated health system in western Pennsylvania, which will soon be filed with the Pennsylvania Insurance Department (PID.) In addition to the PID, the transaction must be reviewed by the Pennsylvania Attorney General and the Internal Revenue Service. We look forward to a thorough and timely review of the filing.

In addition to announcing the affiliation agreement and next steps, new management was introduced at WPAHS. A press release offering more details is attached for your information.

Please let me know if you have any questions.

SEN. CASEY

SEN. TOOMEY

REP. KELLY

REP. ALTUSRE

REP. MURPHY

REP. SILVSTER

REP. DOYLE

REP. CRITZ

Highmark Media Contact: Michael Weinstein
412-544-7903
michael.weinstein@highmark.com

WPAHS Media Contact: Dan Laurent
412-807-8103
dlaurent@wpahs.org

Highmark, West Penn Allegheny Boards Approve Definitive Agreement on Affiliation; Announce New Management and Detailed Next Steps

Affiliation agreement to be filed with the Pennsylvania Insurance Department; Highmark, WPAHS expect thorough, timely regulatory reviews

PITTSBURGH (November 1, 2011) – Officials from Highmark Inc. and the West Penn Allegheny Health System, Inc. (WPAHS) today announced another important milestone in their plans to build a new integrated health system that will deliver value, choices and high-quality health care services to the Western Pennsylvania community.

The two organizations announced that their boards of directors have approved a definitive agreement, which will soon be filed with the Pennsylvania Insurance Department (PID). In addition to the PID, the transaction must be reviewed by the Pennsylvania Attorney General and the Internal Revenue Service.

“This transaction is critical to ensuring the continued vitality of the West Penn Allegheny Health System and maintaining provider choice in our community,” said Kenneth R. Melani, M.D., Highmark’s president and chief executive officer. “In recent weeks, we’ve been working very closely with the staff at West Penn Allegheny to finalize a definitive agreement. We’ve made significant progress to get to this point, but there is much to be done that cannot be accomplished until the affiliation is approved. For the benefit of the community, we hope the review and approval process is thorough and timely.”

-More-

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As part of the affiliation agreement announced in June, Highmark provided WPAHS with an initial grant of \$50 million to sustain and strengthen West Penn and Forbes Regional hospitals. Highmark has made a total financial commitment of up to \$475 million – including \$75 million to fund scholarships for students attending medical schools affiliated with WPAHS, and to support other health professional education programs.

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About Highmark Inc.

Highmark Inc., based in Pittsburgh, is an independent licensee of the Blue Cross and Blue Shield Association, an association of independent Blue Cross and Blue Shield plans. Highmark serves 4.8 million members in Pennsylvania and West Virginia through the company's health care benefits business and is one of the largest Blue plans in the nation. Highmark has 19,500 employees across the country. For more than 70 years, Highmark's commitment to the community has consistently been among the company's highest priorities as it strives to positively impact the communities where we do business. For more information, visit www.highmark.com.

About West Penn Allegheny Health System, Inc.

West Penn Allegheny Health System is a physician-led healthcare organization based in Pittsburgh, Pa. Recognized as a healthcare quality and personalized service leader in its market, the organization's sole purpose is to improve the health of people in the Western Pennsylvania region. West Penn Allegheny Health System's specialty programs continually receive national and international recognition – particularly in the areas of Bone and Joint, Cardiovascular, Neurosciences and Oncology, which make up the organization's four Institutes of Excellence.

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The System is comprised of five hospitals, including Allegheny General Hospital on the North Side, West Penn Hospital in Bloomfield, Allegheny Valley Hospital in Natrona Heights, Canonsburg General Hospital in Canonsburg, Forbes Regional Hospital in Monroeville and a nearly 700-person multi-specialty physician group practice. For more information, visit www.wpahs.org.

Document Divider

DeMark, Belinda E

From: Rick Campbell <RCampbell@mwlaw.com>
Sent: Thursday, November 10, 2011 4:24 PM
To: Janice Hemmelgarn
Subject: Thank You

Janice:

Thank you for scheduling a meeting with the Commissioner and others at the WVOIC on Monday, November 21 at 1:30 PM. Attending from Mountain State will be Fred Earley, and from Highmark will be Ed Bittner.

The purpose of the meeting is to give the WVOIC a "heads-up" on a Form A filing that Highmark and Mountain State will be submitting to the WVOIC in the next few weeks. The Form A concerns a proposed affiliation between Highmark and West Penn Allegheny Health System, Inc., a Pennsylvania nonprofit corporation, that operates several hospitals and related organizations in Pennsylvania. The proposed affiliation is the subject of a Form A filing submitted to the PA DOI on November 7, 2011.

I appreciate your courtesy in working with me on this matter.

Rick

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**HIGHMARK BLUE CROSS BLUE SHIELD WEST VIRGINIA (“HIGHMARK WV”)
WEST VIRGINIA OFFICES OF THE INSURANCE COMMISSIONER (“WVOIC”)**

**Pre-Filing Meeting – Agenda
November 21, 2011**

Attendees:

WVOIC: Mike Riley, Insurance Commissioner
Bill Kenny, Deputy Insurance Commissioner
Leah Cooper, Director – Financial Conditions
Andrew Pauley, Associate Counsel, Attorney, Supervisor – Compliance and Enforcement
Greg Elam, Associate Counsel – Fraud Prosecution

Highmark WV and Highmark Inc.:

Fred Earley, President of Highmark WV
Chad McIntosh, Legal Counsel and Corporate Secretary of Highmark WV
Ed Bittner, Counsel, Highmark Inc.
Rick Campbell, Mitchell Williams

I. Purpose of Meeting

To apprise the WVOIC and to obtain the Department’s input on a change of control filing related to an Affiliation Agreement between Highmark Inc. (“Highmark”) and West Penn Allegheny Health System, Inc. (“WPAHS”) pursuant to which Highmark and WPAHS will establish a new integrated health system that preserves Highmark’s control over its insurance operations and WPAHS’s federal income tax-exempt status (“Affiliation Agreement”).

II. Overview of the Parties

A. HIGHMARK BCBSWV

- West Virginia’s largest health insurance carrier serving all 55 counties in the state. The Company has approximately 875 employees and provides or administers coverage to more than 585,000 individuals.
- An independent licensee of the Blue Cross Blue Shield Association and an affiliate of Highmark

B. Highmark Inc.

- An independent licensee of the Blue Cross Blue Shield Association, based in Pittsburgh, which serves 4.8 million members
- The current ultimate parent company of Highmark WV

C. West Penn Allegheny Health System

- A physician-led healthcare organization, based in Pittsburgh, comprised of five hospitals and a nearly 700-person multi-specialty physician group practice
- Will become affiliated with Highmark as a result of the Affiliation Agreement

D. UPE

- Nonprofit parent company of Highmark and WPAHS following the close of the Affiliation Agreement
- Formed on October 20, 2011 by filing Articles of Incorporation with the Pennsylvania Department of State
- Requested approval from IRS for 501(c)(3) status

III. Overview of the Proposed Affiliation Agreement

A. Affiliation Agreement

- At closing under the Affiliation Agreement, UPE will become the sole corporate member within a new class of membership that will be established in Highmark.
- UPE will hold all rights in this new class of corporate membership in Highmark which will be created and exist in addition to the current class of Highmark members which consists of members of the Board of Directors of Highmark.
- Highmark will maintain its Board of Directors which will continue to have significant control over operations. UPE will also hold certain reserved powers with respect to Highmark. All initial Directors of UPE will be drawn from the Directors of Highmark.
- UPE will also become the sole corporate member of a new nonprofit subsidiary of UPE, UPE Provider Sub. UPE Provider Sub will become the sole member of WPAHS which, in turn, is the parent company of various entities in the WPAHS health system of hospitals and other healthcare providers. UPE and UPE Provider Sub will each have certain reserved powers in WPAHS and a majority of the Board of WPAHS will be appointed by UPE Provider Sub.

- The Affiliation Agreement and its exhibits and schedules will be submitted to the WVOIC as a part of a Form A Statement.

B. Highmark Funding Commitment

- Under the terms of the Affiliation Agreement, Highmark has agreed to provide funding to WPAHS in an aggregate amount not to exceed \$400 million over a three-year period.
- In addition, Highmark will establish a \$75 million endowment to fund scholarships for students attending medical schools affiliated with WPAHS and to support other health professional education programs.

C. Financing of the Transaction

- Highmark will pay 100% of the funding commitment in cash with cash on hand, with no financing contingency.
- No pledge of Highmark WV assets in connection with the Affiliation Agreement

D. Required Regulatory Approvals and Notices

- Pennsylvania Insurance Department
- Pennsylvania Attorney General
- Pennsylvania Court of Common Pleas/Orphans' Court Division, for approval of hospital changes of control
- Internal Revenue Service
- WVOIC
- Other state insurance departments

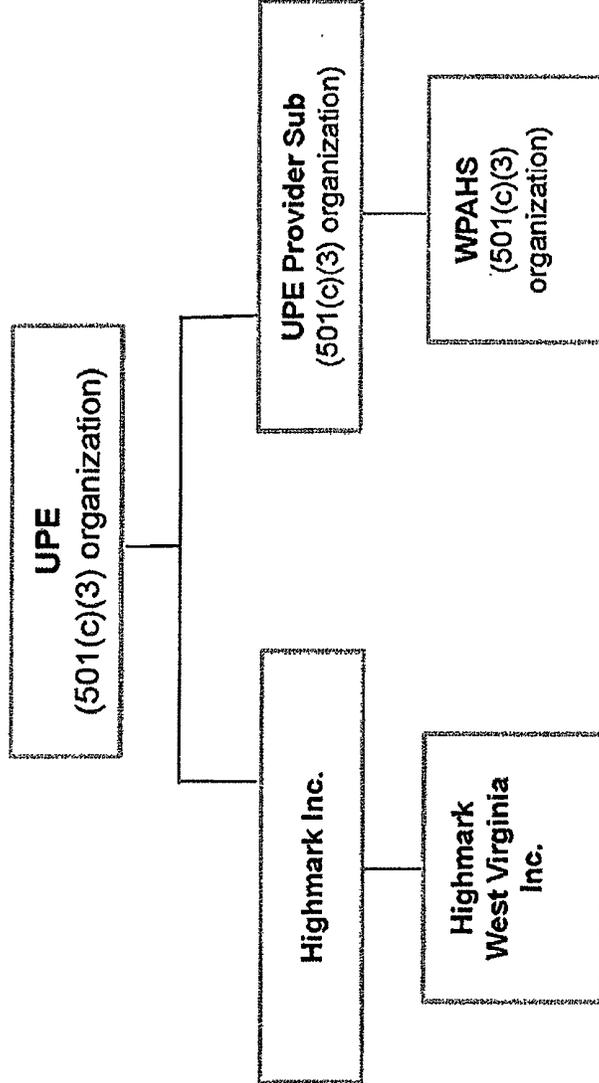
E. No material changes to Highmark WV as a result of the Affiliation Agreement

- The proposed affiliation will have no financial impact on Highmark WV, and none of UPE, UPE Provider Sub, Highmark or Highmark WV will assume or become liable for any WPAHS debts, obligations or liabilities. In other words, WPAHS will retain all of its debts, obligations and liabilities.
- Highmark WV will not enter into any new administrative services agreements in connection with the Affiliation Agreement.
- No change in Highmark WV officers, directors or staff as a result of the Affiliation Agreement.

- Highmark WV will continue to maintain its offices and books and records in West Virginia.

IV. Next Steps, Questions and Discussion

Proposed Corporate Structure



Confidential and proprietary

DeMark, Belinda E

From: Rick Campbell <RCampbell@mwlaw.com>
Sent: Tuesday, January 10, 2012 2:01 PM
To: 'Andrew Pauley'; 'Greg A Elam'
Subject: RE: Highmark Form A Regarding WPAHS Affiliation [IWOV-MWDOCS.FID848719]

Andrew and Greg:

Thank you for the responses.

We will prepare the cover letter and filing for submission this week.

I look forward to working with you on this matter.

Rick

MITCHELL | WILLIAMS

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From: Andrew Pauley [mailto:Andrew.Pauley@wvinsurance.gov]
Sent: Tuesday, January 10, 2012 8:48 AM
To: Greg A Elam; Rick Campbell
Subject: RE: Highmark Form A Regarding WPAHS Affiliation [IWOV-MWDOCS.FID848719]

Rick,

Happy New Year to you and your family also! I agree with Greg on handling in normal course. Thanks for notice however.

Best regards,

Andrew

Andrew R. Pauley, Associate Counsel, APIR
Atty. Supervisor - Compliance & Enforcement
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From: Greg A Elam
Sent: Tuesday, January 10, 2012 9:33 AM

To: Rick Campbell; Andrew Pauley; Greg Elam
Subject: RE: Highmark Form A Regarding WPAHS Affiliation [IWOV-MWDOCS.FID848719]

Rick:

Good to hear from you. There is no reason to reference me in the filing. Just file as normal, we will be involved in review in normal course.

Gregory A. Elam
Associate General Counsel
Legal Division
Offices of the Insurance Commissioner
State of West Virginia
One Players Club Drive
Charleston, WV 25305-0540
(304) 558-1966 ext. 1158
(304) 558-5239 (fax)
Greg.A.Elam@wv.gov

From: Rick Campbell [<mailto:RCampbell@mwlaw.com>]
Sent: Monday, January 09, 2012 4:52 PM
To: Andrew Pauley ; Greg Elam
Subject: Highmark Form A Regarding WPAHS Affiliation [IWOV-MWDOCS.FID848719]

Andrew and Greg:

Happy New year! I hope you and your families enjoyed a nice holiday.

I am writing to follow-up on our meeting of November 21, 2011, regarding the filing of a Form A concerning the affiliation of Highmark and West Penn Allegheny Health System, Inc. ("WPHAS"). As we discussed, the affiliation will result in a new Ultimate Controlling Person for Highmark Blue Cross Blue Shield of West Virginia ("Highmark West Virginia"). Other than a new ultimate controlling person, there are no other changes planned for Highmark West Virginia.

The Form A should be ready for submission this week, and I am plan to file three copies with the WVOIC. The cover letter will be addressed to Commissioner Riley, and I am seeking your guidance on whether I should place an "Attention" line on the cover letter to one or both of you. Please let me know your thoughts on this matter.

As always, you may count on me to cooperate with the WVOIC in its review of this matter in every way possible. Thank you for your courtesy in working with us on this matter.

Rick

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