# CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

**DIRECT TESTIMONY OF**

**COMPENSATION/BENEFITS PANEL - GAS**

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Q. Would the members of the Compensation and Benefits Panel ("Panel") please state their names and business addresses?

A. Hector J. Reyes, and my business address is 4 Irving Place, New York, New York 10003. John de la Bastide, and my business address is 4 Irving Place, New York, New York 10003. Roselyn Feinsod, and my business address is 199 Water Street, New York, New York 10038. Virginia Fischetti, and my business address is 45 Glover Avenue, Norwalk, Connecticut 06850.

Q. Mr. Reyes, by whom are you employed and in what capacity?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") as Director of Benefits.

Q. How long have you been employed by Con Edison?

A. I have been employed by Con Edison for 36 years.

Q. Please describe your educational background and work experience.

A. I graduated from Fordham University with a Bachelor of Science degree in Accounting in 1976. In 1982, I earned a Master of Science degree in Taxation from Pace University. I joined Con Edison in 1976 as a Staff Accountant in Corporate Accounting. Between 1979 and 1981, I was promoted to different supervisory positions.
in Corporate Accounting. In 1983, I was promoted to Assistant Manager, Accounting Research and Procedures. In 1988, I was promoted to the position of Manager, Retirement and Insurance Benefits, and in 1989, I was promoted to the position of Manager of Employee Benefits. In September 1999, I was promoted to the position of Director of Benefits and Compensation. In July 2011, my title was changed to Director of Benefits.

Q. Please generally describe your current responsibilities.

A. My responsibilities as Director of Benefits include the development, implementation, communication, and administration of the Company’s employee benefits programs.

Q. Do you belong to any professional societies or organizations?

A. Yes. I am a member of the Board of Directors of the Northeast Business Group on Health (“NEBGH”). NEBGH is a not-for-profit coalition of over 150 health plan sponsors and health-related organizations the mission of which is to find practical solutions to contemporary health care issues in the New York metropolitan area.
Q. Have you previously submitted testimony on behalf of the Company before the New York Public Service Commission ("Commission")?

A. Yes. I have submitted testimony or testified in a number of Con Edison electric, gas, and steam rate cases as well as in an electric rate case for Orange and Rockland Utilities, Inc. ("O&R").

Q. Mr. de la Bastide, by whom are you employed and in what capacity?

A. I am employed by Con Edison as the Director of Compensation.

Q. Please describe your educational background.

A. I graduated from Hofstra University in 1985 with a Bachelor of Business Administration in Accounting.

Q. Please describe your work experience.

A. I have been employed by Con Edison for 26 years. Between 1986 and 1996, I was promoted to various supervisory positions in Corporate Accounting. In 1998, I was promoted to the position of Section Manager, Employee Benefits. In 2001, I was promoted to Department Manager, Financial Forecasting, in Corporate Accounting and have held various positions as Department Manager in Corporate Accounting and Electric...
Operations. I assumed the position of Department Manager, Benefits and Compensation, in March 2007. In June 2011, I was promoted to Director of Compensation.

Q. Please generally describe your current responsibilities.

A. My current responsibilities as Director of Compensation include administration of the compensation plans for non-officer management employees, officers of Con Edison, as well as members of the Company’s Board of Directors ("Board").

Q. Ms. Feinsod, by whom are you employed and in what capacity?

A. I am a Senior Partner and East Region Practice Leader for Retirement for Aon Hewitt. I have worked with utilities such as Ameren Corporation, GPU, Inc., and PPL Corporation, in addition to Con Edison.

Q. What is Aon Hewitt?

A. Aon Hewitt is a global market leader in human resources consulting and outsourcing with 29,000 employees serving more than 20,000 clients. More information on Aon Hewitt is available at aonhewitt.com.

Q. Please summarize your educational and professional background.
A. I am a graduate of the College of Insurance with a Bachelor of Science in Actuarial Science. Before joining Aon Hewitt, I was a Principal and a senior workforce strategy and retirement plan consultant to large global clients at Towers Watson, formerly Towers Perrin. At Aon Hewitt, I am the Retirement Regional Leader for the East Region and a consultant to clients on compensation, benefits, and retirement issues. I specialize in workforce and total rewards strategy, mergers and acquisitions, and all aspects of retirement valuation and administration consulting. I have over 20 years of experience in consulting, having spent eight years with Towers Perrin and ten years with PricewaterhouseCoopers LLP prior to joining Aon Hewitt.

Q. Do you belong to any professional societies or organizations?

A. I am a Fellow of the Society of Actuaries, and I have spoken at numerous professional conferences including World at Work, The Conference Board, The American Gas Association, and the Harvard School of Continuing Public Health.
Q. Ms. Fischetti, by whom are you employed and in what capacity?

A. I am a Partner and East Region Practice Leader for Executive Compensation for Aon Hewitt. I have worked with utilities such as Constellation Energy Group, Inc., Public Service Electric and Gas Company, NRG Energy Services, and Iberdrola USA in addition to Con Edison.

Q. Please summarize your educational and professional background.

A. I am a graduate of Amherst College with a Bachelor of Arts degree in Economics. I also have a MBA, Finance and International Business, from New York University’s Stern School of Business. Prior to joining Hewitt Associates (now Aon Hewitt) in 1997, I worked as a benefit and compensation consultant for Watson Wyatt (now Towers Watson) in New York. At Aon Hewitt, my work includes the benchmarking of total compensation, the design and implementation of compensation strategies and philosophies, pay structures, short-, mid-, and long-term variable pay programs, and severance and change-in-control benefits.
Q. Are you affiliated with any professional societies or organizations?

A. Yes. I am a member of The Conference Board, a global, independent business membership and research association working in the public interest. In addition, I have spoken to Society for Human Resource Management (“SHRM”) audiences on the topic of compensation and have had a cover article appear in the World of Work Journal (4th quarter, 2005).

PURPOSE OF TESTIMONY

Q. What is the purpose of the Panel’s testimony?

A. The Panel’s testimony demonstrates that the Company is implementing many changes to its benefits and compensation plans for its employees. With these changes, the Company reallocated components of the compensation/benefit structure so as to continue to offer a market-competitive benefits package that attracts and retains those employees the Company requires to provide customers with safe and reliable service. At the same time, these changes will help the Company to manage long-range costs like those related to pensions and health care. For example, the Company projects that the change to a Cash Balance pension
formula for new hires for Local 1-2 (“Local 1-2”) of the Utility Workers Union of American over the next 30 years will save approximately $1 billion. In addition to the Cash Balance change, the Company projects the annual savings attributable to other pension and retirement benefits changes to be approximately $80 million. This testimony examines the overall level of employee “Benefits” and “Compensation” reflected in the revenue requirements of the Company’s contemporaneous electric, gas, and steam base rate filings and demonstrates that the Company’s level of benefits and compensation in aggregate is market competitive. The costs of the Company’s benefits and compensation plans constitute reasonable business expenses that should be recoverable in rates for the reasons discussed below. Benefits include retirement, active and retiree health, vacation, life insurance, and disability benefits. Compensation includes base salary, the variable component of management pay, and long-term equity grants. The Panel will address (1) a comprehensive review that was recently conducted, with the assistance of Aon Hewitt, of the Company’s total benefits and compensation package (“Review”) for non-officer
management employees; (2) non-officer management, officer, and Board of Director compensation; (3) the Company's new four-year labor contract ("Labor Contract") with Local 1-2; and (4) employee benefits costs.

Q. What was the purpose of the Review?

A. The purpose of the Review was to assess the competitiveness of the Company’s total benefits and compensation package for non-officer management employees. The Panel describes below the Review process, methodology, and results. Based on the Review, changes to the Company’s benefit and compensation plans have been announced to management employees to be effective January 1, 2013. Generally, consistent with the Company’s cultural imperative of reinforcing cost management consciousness, these changes will result in long-term savings primarily associated with limiting future obligations for pension and other retirement benefits.

Q. In conducting the Review, did the Company evaluate its benefits and compensation package as compared to those offered by other companies?
A. Yes. Consistent with Commission policy and typical market practice, in assessing the overall competitiveness and reasonableness of Con Edison’s benefits and compensation package, the Review compared the Company’s package to those offered by peer groups of similarly situated companies.

Q. Were the peer companies limited to utility companies?
A. No, the Company evaluated both utility and New York metropolitan general industry companies.

Q. What were the Review’s overall findings with respect to the peer group analysis?
A. As will be explained below, the Review found that the Company’s benefit programs and direct compensation, as well as the combined benefits and compensation package value, are competitive both with respect to utility peers and New York metropolitan general industry companies. While competitive, the Company’s benefits and compensation programs, however, are below both the utility peers and New York metropolitan general industry companies.

Q. Is the Company making changes to its benefits and compensation plans in response to the Review?
A. Yes, as discussed in more detail later in the Panel’s testimony, the Company implemented various changes for management employees to better align the benefit programs and compensation with the peer groups and competitive practices, while also continuing to attract and retain the type of employees who are critical to the Company’s ability to provide safe and reliable service to customers.

Q. Please describe the modifications to which you refer.

A. The Company is making several changes to pensions and other retirement benefits. For employees under age 50 on January 1, 2013, who are covered by the Final Average Pay (“FAP”) pension formula, there will be two changes for pension benefits earned after January 1, 2013:

- The early retirement age when employees can receive an unreduced pension will increase to age 60 from 55; and
- A charge will be assessed for the spousal survivor benefit if the employee selects the Joint and Survivor (“J&S”) annuity.

Q. Were there any changes to other retirement benefits?
A. Yes, the Company changed retiree health and retiree life insurance benefits for employees retiring on or after January 1, 2013.

Q. Please describe these changes.

A. The Company changed the cost sharing for retiree health for employees covered under the Cash Balance pension formula so that these employees will pay the full cost of retiree health coverage if they elect coverage upon retiring.

Q. Please describe the changes made to retiree life insurance.

A. As of January 1, 2013, the current retiree life insurance benefit of $50,000 will be reduced to $25,000 for employees age 50 or older when they retire. Employees under age 50 on January 1, 2013, will not be eligible for retiree life insurance when they retire after 2012.

Q. Is the Company implementing any other changes as a result of the Review?

A. Yes, the Company introduced three new health care options and is implementing changes to the management sick pay policy. Each of these health care options is designed to make employees more aware of health care...
CONMPENSATION/BENEFITS PANEL - GAS

costs. The Company is also sponsoring wellness programs to help employees better understand their health status and to encourage employees who smoke to quit. In addition, a new sick pay policy, designed to be consistent with market practices and described in detail below, was implemented January 1, 2013.

Q. Were there any modifications made that offset these cost reduction changes?

A. Yes. As part of our effort to align benefits with our peers, the Company also made the following changes:

- The Company match to the Thrift Savings 401(k) Plan will increase for employees covered by the Cash Balance pension formula;
- The vacation allowance schedule will be revised to allow employees to reach the maximum number of vacation days earlier in their career;
- Employees will be provided flexibility to designate four corporate holidays as floating holidays;
- The Company will increase the variable component of management pay by approximately one percent of total cash compensation.
Q. Does the Panel address non-officer management compensation?

A. Yes. The Review concluded that management direct compensation -- or the sum of base salary, the variable component of management pay, and long-term equity grants -- is below both the median of the Company’s utility peers and the New York metropolitan general industry companies. Direct compensation is eight percent below the utility peer median and eight percent below the New York metropolitan general industry peer median. Total cash compensation (base salary and the variable component) is six percent below the utility peer median and six percent below the New York metropolitan peer median. As a result, the Company will implement new annual targets for the variable component of non-officer management pay in a manner consistent with the Commission’s requirements. The variable component of non-officer management pay will comprise approximately seven percent (from approximately six percent) of total cash compensation, the receipt of which is directly contingent upon the achievement of pre-defined performance measures that
have significant emphasis on providing safe, reliable, and cost-effective service to our customers.

Q. Does the rate request include compensation for officers and members of the Board?

A. The rate request reflects only some elements of compensation for officers and members of the Board.

Q. Please explain.

A. The Panel will describe elements of the Company’s compensation program for the Company’s officers, including base salary, annual variable pay awards, and long-term equity grants. In addition, we will describe the compensation for members of the Board, who are not employees of the Company. Their compensation includes an annual retainer, meeting fees, and a long-term equity grant. Such compensation constitutes a reasonable and necessary business expense the Company must incur to meet its obligation to attract and retain qualified leaders to direct and oversee the safe and reliable operations of the Company.

Q. Why is the Company not seeking recovery of all elements of management, officer, and Board compensation?

A. To limit the contested issues in the contemporaneous rate filings, the Company is electing not to seek
recovery of the long-term equity grants provided to
non-officer management employees, the long-term equity
grants, and variable pay awards provided to the
Company’s officers, or the long-term equity grants
provided to members of the Board. The Company may seek
to recover all or parts of these other elements of
compensation in future proceedings.

Q. Please address the Labor Contract.

A. The Labor Contract reflects the Company’s principles to
provide benefits and compensation that will continue to
attract and retain qualified employees and that will
reflect the needs of all stakeholders – employees,
customers, and regulators – and support the long-term
sustainability of the Company. As discussed in more
detail below, the Labor Contract is cost-effective and
competitive, and will result in long-term savings
primarily associated with the change to a Cash Balance
pension formula for Local 1-2 employees hired on or
after July 1, 2012.

Q. Does the Panel address employee benefit expenses?

A. Yes, this testimony explains the forecast of employee
benefit expenses based on historic costs and escalation
of existing programs. The testimony also addresses
recent program changes that the Company will implement for management employees, as well as the changes resulting from the Labor Contract. Health costs shown in the exhibits are net of participant out-of-pocket payments such as co-payments and deductibles that are paid to providers for medical services. The testimony also reflects the Company’s wellness efforts and plan design changes that mitigate plan cost increases. The Company’s employee benefit expenses net of capitalization are estimated to increase approximately $24.9 million or 16 percent from the historic test year (i.e., twelve months ended June 30, 2012) (“Historic Year”) to the rate year (i.e., twelve months ending September 30, 2014) (“Rate Year”). Unless specifically indicated otherwise, the allocation among electric, gas, and steam was performed in accordance with the process discussed by the Accounting Panel.

Q. What other cost mitigation actions with respect to Post Employment Benefits other than Pensions (“OPEBs”) has the Company taken?

A. Recent actions to mitigate OPEB expenses include taking advantage of the tax savings the Patient Protection and Affordable Care Act (“PPACA”) generated related to
Medicare-eligible retirees’ prescription drug benefits. The plan known as an Employer Group Waiver Plan (“EGWP”) will replace the Medicare Part D Retiree Drug Subsidy (“RDS”) the Company currently receives. As described below, the EGWP program offers significantly more subsidies and reimbursements than available under the RDS program.

Q. Has the Company taken any other actions to mitigate OPEB costs?
A. Yes. Effective January 1, 2013, the cost sharing for life insurance benefits for current retirees will be increased as described below.

COMPREHENSIVE REVIEW OF BENEFITS AND COMPENSATION

INTRODUCTION

Q. Has the Commission articulated criteria to determine whether the costs associated with a utility’s benefits and compensation plans should be recoverable in rates?
A. Yes. In the most recent O&R electric base rate case (Case 11-E-0408), the Commission stated that a utility should demonstrate the overall competitiveness and reasonableness of its total benefits and compensation package by including a comparison with a peer group.
1 comprised of similarly situated companies, including
2 both utilities and general industry.
3 Q. Has the Company compared its total benefits and
4 compensation package with those of a peer group
5 comprised of similarly situated companies?
6 A. Yes. Con Edison hired Aon Hewitt to conduct a
7 comprehensive review of its total benefits and
8 compensation package and to recommend appropriate
9 prospective modifications. Aon Hewitt was selected
10 because it is an industry leader in this type of review
11 and has the experience, survey data, and tools needed
12 to analyze the competitiveness of various benefit and
13 compensation plans. It is a common market-practice for
14 a large employer to periodically assess the
15 competitiveness of its total benefits and compensation
16 package and to make appropriate prospective
17 modifications.
18
19 REVIEW METHODOLOGY
20 Q. Please provide an overview of the general approach of
21 the Review.
22 A. The Review compared Con Edison’s non-officer management
23 employee benefit designs and annual benefits and
compensation package values to external benchmark data for the following components:

- Employee benefits (both program designs and annualized program dollar values);
- Base salary levels;
- Variable pay; and
- Long-term equity grants.

Q. Please describe the peer companies that were used to analyze the competitiveness and reasonableness of the Company’s benefits plan designs and annual benefit and compensation package values.

A. Two peer groups were used for comparison purposes: (1) a utility peer group ("Utility Peer Group") of 16 companies and (2) a New York metropolitan general industry peer group ("New York Metropolitan Peer Group") of 15 companies. The list of members of the two peer groups is provided in Exhibit ___ (AH C/BP – 1).

Q. Was the exhibit prepared by you or under your direct supervision?

Q. Yes.

Q. Describe the utility companies.
Sixteen utility peer companies were used in the benefit design analysis. Aon Hewitt’s standard approach for benefits benchmarking is to use approximately 15 companies for the analysis including relevant peers that participate in the Benefit Index database, as described below. This peer group is used to assess the competitive standing of benefit plan and compensation plan value and was expanded to include additional utility companies.

Q. Please describe the New York Metropolitan Peer Group.

A. The New York Metropolitan Peer Group used in the benefit design and compensation analysis included 15 New York metropolitan general industry companies. The New York metropolitan companies were selected using the following criteria: large, general industry employers (more than 10,000 employees); significant number of employees in the New York metropolitan area; and a workforce that includes a mix of salaried and hourly employees.

Q. What is the difference between the benefit design analysis and benefit value analysis?

A. The benefit design analysis compared the design features of the benefit programs at Con Edison to the
design features of the benefit programs at the peer companies. This type of analysis assumes compensation levels at Con Edison and the peer companies are the same. The benefit value analysis takes into account the compensation levels at Con Edison and the compensation levels at the peer companies when comparing benefit programs.

Q. Why are both types of analysis provided?

A. The benefit design analysis provides an assessment of the program features such as retirement plan benefit accrual formulas, thrift saving plan company match percentages, the definition of covered pay, and the medical and dental insurance features such as deductibles and co-insurance. The benefit value analysis provides an assessment of the annualized dollar value of the benefit programs, by position, taking into account the differences in compensation levels at Con Edison and the peer companies. For example, a thrift savings plan company match percentage may be identical at two companies (i.e., five percent of pay). But if an employee at Company A earns more pay than an employee at Company B in the same position, then the value of the thrift savings plan company match
to the employee at Company A will be higher. Providing both a benefit design analysis and a benefit value analysis allows for an understanding of:

- Benefit program design features relative to peers; and
- How compensation levels impact benefit values.

Q. Please describe the process used to assess the benefit designs of the benefit programs of the Company and its peer companies.

A. The benchmarking of employee benefits design was done using Aon Hewitt’s Benefit Index® (“Benefit Index”). The Benefit Index is a premier tool for comparing the relative worth of one company’s benefits programs to those offered by a group of other companies. It has been used by companies since the 1970’s to make such assessments.

Q. How were the benefit competitiveness assessments made?

A. Benefit Index results are reached using a very specific process. Actuarial techniques are used to measure the total value a representative population of employees would derive from Con Edison's benefits program and the benefits programs of each of the peer companies. All
retirement income, death, disability, health care, and
paid time-off benefits offered to employees are
included, such as vacation and paid holidays. This
actuarial analysis reflects the benefits that each
program would be expected to pay during a year or the
present value of the benefits employees would be
expected to earn during a year but receive in the
future. The same employee population and assumptions
are used when measuring the values for each of the
programs. This standardization verifies that the
differences are attributable to plan designs not pay
levels. The impact of pay level differences is
assessed in the benefit value analysis of the Review.
Finally, the benefit design features of Con Edison's
benefit programs were compared to the average for the
peer companies programs to arrive at a relative benefit
design result reported by the Benefit Index.

Q. What is a Benefit Index benefit design result?
A. A Benefit Index benefit design result of 100.0 would be
assigned if Con Edison's benefits exactly equaled the
average of the benefits offered by the peer companies.
Generally, differences are not considered significant
or material until they exceed 10 percent (i.e., less
than 90.0 or greater than 110.0 as compared to Con Edison).

Q. What benefit programs are included?

A. The benefits included the following programs to which an annualized value was attributed:

- **All Post-retirement Benefits:** Post-retirement benefits reviewed included pension, thrift saving (401(k) plan), retiree health, hospital, medical, vision care, prescription drug, and life insurance;

- **All Pre-retirement Benefits:** Pre-retirement benefits reviewed included hospital, medical, dental, hearing, and vision, and sick/short- and long-term disability; and

- **Paid vacation and holidays.**

Q. Is the Panel sponsoring an exhibit in connection with the Benefit Index results used in this analysis?

A. Yes. Please see the exhibit entitled “BENEFIT INDEX RESULTS.”

Q. Was this exhibit prepared by you or under your direct supervision?

A. Yes.
Q. Please explain the information set forth in EXHIBIT ___ (AH C/BP – 2).

A. This exhibit summarizes the details of the results of the Benefit Index analysis of the plans before and after the redesign, effective January 1, 2013. The exhibit includes comparisons both to the Utility Peer Group and the New York Metropolitan Peer Group.

In aggregate, the benefit plans before changes had a Benefit Index design score of 95.8 and after the score changed to 92.6 when compared to the Utility Peer Group. The scores that increased reflect plans that were improved, such as thrift savings and vacation, offset by plans that were cut back, such as retiree health care. The score that decreased was specifically in the health care section, which was primarily due to the significant increase to employee contributions for the 2012 health care coverage. The reduction to the score was not related directly to the plan redesign.

The exhibit also shows the scores when compared to the New York Metropolitan Peer Group. The companies in the New York Metropolitan Peer Group have lower value benefit plans so scores are higher. In aggregate, the benefit plans before changes had a Benefit Index design
score of 104.9, and after the changes, the score dropped to 101.4 when compared to the New York Metropolitan Peer Group.

Q. How was the compensation competitiveness assessment made?

A. The compensation competitiveness assessment included base salary, annual variable pay (at target), and long-term equity grants for Con Edison and for the matched positions. The annualized value of each pay component is included in the analysis (e.g., annual base salary).

Q. How did Aon Hewitt combine the Benefit Index results with the compensation benchmarking to develop the total benefits and compensation package value?

A. Aon Hewitt followed a standard methodology in keeping with industry practice. First, Aon Hewitt determined which positions at Con Edison matched positions among the utility and New York Metropolitan Peer Groups, based on responsibilities, for which data is available. Next, Aon Hewitt compared the benefit and compensation data for each of these positions at Con Edison to the benefit and compensation data for the same positions among the Utility Peer Group. Finally, Aon Hewitt aggregated these results to evaluate Con Edison’s
overall competitive position relative to the Utility
and New York Metropolitan Peer Groups median.

Q. Why did Aon Hewitt compare Con Edison total benefits
and compensation to the median, but compared the Con
Edison benefit designs to the average for the Benefit
Index?

A. Median and average are both reasonable methods to make
observations in a data analysis, and either may be used
when doing a total benefits and compensation analysis.
However, the use of median is industry practice in
total benefits and compensation studies because the
median normalizes a data sample by placing equal
emphasis on each observation, thereby mitigating the
influence of extreme outlier values, if any.
In benefit design reviews, the need to mitigate for
extreme outliers is less important (program designs,
not pay levels, are being examined). Therefore, it is
a standard practice to use market average or market
typical design when analyzing program design features.

Q. If the analysis were based on the average instead of
the median in the total benefits and compensation
study, would the results have been materially
different?
A. No. The Utility Peer Group and the New York Metropolitan Peer Group results are substantially similar using both market reference points. Using the median, Con Edison’s total direct compensation was eight percent below the median of the expanded utility peer group, described below. Using the average, Con Edison’s total direct compensation was nine percent below the expanded utility peer group average. For the New York Metropolitan Peer Group the results using the median and the average were the same. Con Edison’s total direct compensation was eight percent below the median and eight percent below the average of the New York Metropolitan Peer Group.

Q. What utility companies were used to assess the competitiveness of Con Edison’s total benefits and compensation package value?

A. As noted above, the Utility Peer Group used in the benefits design benchmarking consisted of 16 utilities. The total direct compensation positional analysis was based on the original group of 16 utilities plus 23 additional utility companies (“Expanded Utility Peer Group”) to provide a larger database of positions.
Q. How were the utility peers selected (both the original 16 utility peers and as well as the Expanded Utility Peer Group)?

A. Pursuant to industry practice, in constructing a peer group for benchmarking purposes, the most important factors to consider are (1) whether these companies are competitors with Con Edison for attracting and retaining employees with similar types of skill sets required for the work functions, and (2) whether the operations of these companies in aggregate are similar to Con Edison in terms of size and scope.

Q. Did Aon Hewitt conduct this analysis for a general industry group of companies?

A. Yes. As discussed above, Aon Hewitt also analyzed benefits design and total direct compensation relative to a group of 15 New York metropolitan companies from general industry.

Q. Please clarify whether the comprehensive review included one peer group comprised of both utilities and general industry companies or two peer groups, one comprised of utilities and the other of New York metropolitan companies.
A. Because the benefits and compensation package for utilities is at times different than for general industry, the comprehensive review looked at the benchmarking data comparisons on a segmented basis using two peer groups. Generally, utilities provide less direct compensation and a higher level of benefits specifically with regard to post-retirement benefits while general industry companies provided higher levels of direct compensation and lower levels of post-retirement benefits.

Q. Were all peer companies in the Utility Peer Group and the New York Metropolitan Peer Group used for both benefits and compensation benchmarking?

A. Generally, yes. The Benefit Index study of benefit program design was done using the Utility Peer Group and the New York Metropolitan Peer Group, as discussed above. The total benefits and compensation analysis expanded the Utility Peer Group to include an additional 23 utilities (listed in Exhibit AH C/BP - 1) to achieve a greater level of position matching among peer companies. The New York Metropolitan Peer Group was used for both the Benefit Index study of benefits design and the total direct compensation analysis.
Q. Why were the utility peer groups not identical for the total benefits and compensation analysis and the Benefit Index study of benefit program designs?

A. There were two Aon Hewitt Databases used in the analysis (Benefit Index and Total Compensation Measurement) and one Towers Watson survey (the 2010 Energy Services survey). The utility companies participating in each database and the Towers Watson survey were slightly different, but the vast majority, i.e., 15 of the companies, were the same in the two utility peer groups. Therefore, they were substantially similar. National Grid (Keyspan) was included in the Benefit Index study but not the direct compensation or total benefits and compensation analysis because National Grid (Keyspan) did not participate in the Aon Hewitt database nor the Towers Watson survey.

Q. Why did the total benefits and compensation analysis expand the Utility Peer Group to include an additional 23 utilities?

A. Total benefits and compensation benchmarking requires “position matching,” which refers to how well the responsibilities and level of the positions at Con
Edison compared with the positions included in the survey data by the peer companies. Certain positions at Con Edison were not well represented among the Utility Peer Group. As a result, the total benefits and compensation benchmarking was done using the Expanded Utility Peer Group to include survey data, by position, available within the Aon Hewitt Database and the Towers Watson survey data. The addition of several utilities bolstered the study and enhanced the study’s position matching. As noted below, Aon Hewitt was able to analyze nearly 30 percent of the Con Edison non-officer management employees using the Expanded Utility Peer Group.

Q. Was the peer group data adjusted in any other way?

A. Yes. The peer group compensation data was collected in 2010. Accordingly, the peer group compensation data was adjusted to 2011 by an annual rate of 2.6 percent so that Con Edison’s compensation levels as of 2011 would be timing neutral. This rate is consistent with the findings from the Aon Hewitt 2011-2012 U.S. Salary Increase Survey, which shows energy services companies had 2.6 percent merit increase budgets on average for 2011. These findings were based on survey responses
from 82 electric/gas companies who participated in the survey.

Q. Was the survey data adjusted for geography?
A. No. It is a common industry practice to use national compensation data for analyzing management level roles. Moreover, given Con Edison’s metropolitan New York location, a location with a significantly higher than national cost of labor, a geographic adjustment would have further reduced Con Edison’s non-officer management benefits and compensation relative to the peer group data used in this analysis.

Q. How many non-officer management employees were included in the compensation analysis?
A. To provide a robust representation of the Company’s non-officer management employee base Aon Hewitt compared approximately 30 percent of the Con Edison non-officer management employees (i.e., nearly 1,400 employees) across the Company’s pay structure to the utility peer companies.

Q. Is 30 percent coverage sufficient to draw valid conclusions from this analysis?
A. Yes. The positions included in the analysis covered several functional areas: Central Operations, Electric
Operations, Finance, Accounting, Customer Operations, Human Resources, Engineering, Gas Operations, and Legal, among others, and all of the non-officer management salary bands at Con Edison: 1L/1H, 2L/2H, 3L/3H, and 4L/4H. Across the band levels, the lowest sample size covered 25 percent of the employees in the band (i.e., for bands 1H and 3L), and the highest sample size was 80 percent of the employees in the band (i.e., for band 1L). The results of the analysis, therefore, are representative of Con Edison’s pay positioning across the entire employee population.

Q. How does the average base salary for the entire Company population compare to the average base salary for the employees included in the utility peer analysis?

A. The average base salary for the total non-officer management employee population is $109,836 (at the time of the study) and the average for the nearly 1,400 employees included in the Expanded Utility Peer Group analysis is $111,901. This indicates that the non-officer management employees included in the study are compensated similarly to the entire Con Edison non-officer management population, which further
substantiates the validity of the analysis and the conclusions drawn from the findings.

Q. How many Con Edison non-officer management employees were included in the New York Metropolitan Peer Group analysis?

A. Aon Hewitt was able to analyze three percent (154 employees) of the Con Edison non-officer management employees using the New York Metropolitan Peer Group. Because this peer group is relatively small (15 companies) and because many of Con Edison’s employees are in jobs that are utility-industry-specific, the number of matching roles was somewhat limited. A minimum of five peer companies must match a position in order for the market data to be reportable. This is a wide-spread standard among compensation survey publishers.

Q. Given that the analysis included only three percent of Con Edison’s non-officer management employees, are those findings valid?

A. The New York Metropolitan Peer Group analysis was conducted primarily to respond to the Commission’s guidance from the O&R rate case and secondarily to substantiate the findings from the Expanded Utility
Peer Group analysis. Because the findings from both analyses are similar, Aon Hewitt found the New York Metropolitan Peer Group analysis to further support the Expanded Utility Peer Group analysis.

Q. Which companies does Con Edison compete with for management positions?

A. Con Edison competes with a range of employers for talent. For positions like engineering, operating supervisors, or business leadership, previous experience in the utility industry is required or preferred. Other types of management positions in areas such as finance or human resources do not require utility industry experience.

Q. Does Con Edison have information on the prior employers of its new hires?

A. Yes. Con Edison reviewed the prior employers of recent hires for the period from July 2011 to June 2012. In analyzing the 201 prior employers, the largest single source of employees was Con Edison contractors. The largest industry category was utility, which was the source of approximately 20 percent of the new hires. The second largest employer cluster was eight percent from various municipal and state employers, such as the
New York City Police Department, the Metropolitan Transit Authority, and the New York City Department of Environmental Protection. The balance of new hires was from a variety of metropolitan New York companies, generally with one or two hires from any given company. The companies were from a wide variety of industries, including health care and telecommunications. The same analysis was performed for data from the period January 2007 to June 2011. The results were similar, with 19 percent of new employees coming from the utility industry and seven percent from municipal and state employers.

Q. Why does this analysis begin in January 2007?
A. At that point, the Company began use of electronic employment applications, so that the information is readily available.

Q. Does the Company maintain information as to employers of departing employees?
A. The Company has not historically gathered that information. Moreover, the Company’s experience has been that the majority of departing employees are retiring from the Company.
Q. Is the Panel sponsoring an exhibit in connection with the titles of the employees included in the review?

A. Yes. Please see the exhibit entitled “Employees included in Comprehensive Review.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/BP – 3a and 3b)

Q. Please explain the information set forth in EXHIBIT ___ (AH C/BP – 3a and 3b).

A. This exhibit identifies the Con Edison employee positions included in the comprehensive review by pay band. Exhibit ___ (AH C/BP – 3a) shows the Expanded Utility Peer Group analysis and Exhibit ___ (AH C/BP – 3b) shows the New York Metropolitan Peer Group analysis. Each exhibit includes the following information:

- Grade/band;
- Con Edison title;
- Data source (Aon Hewitt Database or TW Database);
- Benchmark title;
- Con Edison benefits and compensation: base salary, total cash compensation, total direct compensation, total benefit value, and total benefits and compensation;
• Market benefits and compensation: base salary, total cash compensation, total direct compensation, total benefit value, and total benefits and compensation at the 50th percentile (median) and average; and

• Variance for each Con Edison position of Con Edison’s compensation to market using the average and the median.

Q. In previous rate proceedings Staff has suggested that the information from the United States Department of Labor, Bureau of Labor Statistics (“BLS”) should be used for comparison purposes. Is it appropriate to use BLS information for purposes of evaluating the Company’s benefits and compensation?

A. No. Aon Hewitt has used the BLS Survey previously for other companies on an extremely limited basis. The BLS Survey tends to focus more on hourly-paid employees and smaller employers, which would not be a reasonable comparison to the non-officer management Con Edison population that was the subject of this assessment.
FINDINGS BEFORE IMPLEMENTATION OF CHANGES

Q. What did Aon Hewitt’s analysis indicate when comparing Con Edison to the Expanded Utility Peer Group and New York Metropolitan Peer Group?

A. In the aggregate, Aon Hewitt found Con Edison’s non-officer management total benefits and compensation package value to be “market competitive.” Con Edison’s total package is eight percent below the Expanded Utility Peer Group median and four percent below the New York Metropolitan Peer Group median. This is low but considered to be within a market competitive range of plus or minus ten percent in aggregate. Direct compensation was eight percent below the Expanded Utility Peer Group median and eight percent below the New York Metropolitan Peer Group median. Employee benefit values were below the Expanded Utility Peer Group median (i.e., five percent below median) but above the New York Metropolitan Peer Group median (i.e., eleven percent above median). Generally, the utilities provide less direct compensation and a higher level of benefits, particularly with regard to post-retirement benefits, while general industry companies
provide higher levels of direct compensation and lower
levels of post-retirement benefits.

Q. Is the Panel sponsoring an exhibit in connection with
the results of the Aon Hewitt analysis?
A. Yes. Please see the exhibit entitled “SUMMARY OF TOTAL
BENEFITS AND COMPENSATION REVIEW FINDINGS.”
MARK FOR IDENTIFICATION AS EXHIBIT ____ (AH C/BP – 4)

Q. Was this exhibit prepared by you or under your direct
supervision?
A. Yes.

Q. Please explain the information set forth in EXHIBIT ___
(AH C/BP – 4).
A. This exhibit identifies the aggregate results, relative
to both the average and the median, of the Review Aon
Hewitt performed using the Expanded Utility Peer Group
and the New York Metropolitan Peer Group by each
component of pay discussed above: Base Salary, Total
Cash Compensation (sum of Base Salary and the variable
component of management pay), Total Direct Compensation
(sum of Total Cash Compensation and long-term equity
grants), Total Benefit Value (the estimated value of
employee benefits), and Total Benefits and Compensation
Q. Please provide a summary of the Expanded Utility Peer Group and New York Metropolitan Peer Group analysis findings with respect to the benefit value.

A. In aggregate, as described above, the value of Con Edison’s benefits is six percent below the Expanded Utility Peer Group average and eleven percent above the New York Metropolitan Peer Group average.

Q. Please provide a summary of the Expanded Utility Peer Group total benefits and compensation analysis.

A. In aggregate, as provided above, the Con Edison total benefits and compensation value for non-officer management employees is eight percent below the Expanded Utility Peer Group median (and nine percent below the average) and four percent below the New York Metropolitan Peer Group median (and four percent below the average).

CHANGES FOLLOWING THE REVIEW

Q. What factors influenced the changes that Con Edison made as a result of the Review?

A. Con Edison reviewed benchmark data in addition to conducting employee surveys and focus group sessions
with Company officers and non-officer management employees. A set of guiding principles was also developed as part of the Review in order to evaluate recommended program changes. This entire process was designed and conducted in furtherance of the Company’s openness, fairness, and trust cultural imperative.

Q. Please describe these guiding principles.

A. These principles were developed through interviews with senior management, employee feedback, and market practices in collaboration with Aon Hewitt. The principles are (1) to develop a benefits and compensation package that is competitive with the median of peers; (2) to attract and retain employees with programs that are valued and understood by the workforce; (3) to incent the right employee behaviors by providing programs that recognize and reward high performance; (4) to consider financial impact on the Company’s stakeholders – employees, customers, regulators, and shareholders; (5) to provide consistent programs across Consolidated Edison Inc. in order to promote career opportunities and cross training; and (6) to encourage employee engagement and shared responsibility.
Q. How did the Company determine whether the changes that were implemented effective January 1, 2013, are competitive?

A. As described above, Aon Hewitt first identified the competitive standing of the Company's employee benefit and compensation package value levels and designs of the then current (2011) benefit and compensation plan offerings. Within a comprehensive review of benefits and compensation, it is important to measure the competitive positioning of each element as well as the aggregate. By reviewing the individual components, any trade-offs that may have been made among the elements (i.e., lower competitive positioning on one component offset by higher competitive positioning on another) can be better understood and evaluated.

Q. Have these changes been communicated to employees?

A. Yes, the Company has communicated the changes via Postmasters, numerous presentations at staff meetings, WebExes available on the Company’s intranet, Total Rewards web site available on the Company’s intranet, and brochures mailed to employees’ homes.

Q. Is the Panel sponsoring an exhibit in connection with employees’ communications?
A. Yes. Please see the exhibit entitled “EMPLOYEES’ COMMUNICATION,” which includes copies of the brochures that were mailed to employees’ homes.

Q. Was this exhibit prepared by you or under your direct supervision?

A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT ____ (C/BP - 1)

Q. Does this include all the brochures scheduled to be distributed to employees announcing the benefit and compensation changes resulting from the comprehensive review?

A. Yes.

Q. Based on the findings of the Review, what changes will the Company make?

A. As discussed in more detail below, the Company will increase the variable component of management pay targets by band. This will provide targets that are slightly more consistent with the peer companies. This change results in a moderate increase in the target variable components opportunities at Con Edison from the current level of approximately six percent of total cash compensation to approximately seven percent of total cash compensation. While this change improves
Con Edison’s market competitive positioning slightly, Con Edison’s variable component of management pay levels will continue to be well below both the Expanded Utility Peer Group and New York Metropolitan Peer Group median. The Expanded Utility Peer Group variable pay component in terms of percent of total cash compensation is nearly 14 percent.

Q. Is the Panel sponsoring an exhibit in connection with the variable component targets?

A. Yes. Please see the exhibit entitled CON EDISON ANNUAL VARIABLE PERFORMANCE-BASED COMPONENT OF MANAGEMENT COMPENSATION,” which includes the current and revised Con Edison targets compared with the average and the 50th percentile (median) of the utility targets.

Q. Was this exhibit prepared by you or under your direct supervision?

A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT ____ (AH C/BP – 5)

Q. Please continue.

A. The Company is making changes to its retirement plans. Generally, our benchmarking found that the Utility Peer Group provided a larger portion of overall benefits in the form of post-retirement benefits than those
provided by the New York Metropolitan Peer Group. Benchmarking also found that while the Cash Balance Plan is consistent with the Utility Peer Group average, the Thrift Savings 401(k) Plan is below the Utility Peer Group average, and the FAP plan is above the Utility Peer Group average. Cash Balance participants include all new non-officer management employees hired since 2001. The combined retirement package for Cash Balance Plan participants, (i.e., combination of Cash Balance and Thrift Savings 401(k) Plan) is below the Utility Peer Group average. The combined retirement package for FAP Plan participants (i.e., combination of FAP Plan and Thrift Saving 401(k) Plan) is above the Utility Peer Group average). Therefore, the Company adopted the following changes, effective January 1, 2013:

i) Cash Balance Plan formula participants will receive an increased match if they participate in the Thrift Savings 401(k) Plan, with the maximum match increasing from three percent to six percent. This change brings Con Edison’s 401(k) program for these
participants more in line with the average value provided by the Utility Peer Group.

ii) As described below, Con Edison will reduce the early retirement subsidy for the FAP Plan and implement a charge for the FAP Plan’s 50 percent Joint & Survivor annuity option for employees under age 50 as of January 1, 2013. This change will impact approximately 1,390 non-officer management employees. The results of these reductions to the FAP Plan formula are that the retirement benefit is now closer to the Utility Peer Group average for non-grandfathered participants. Based on Aon Hewitt’s consulting experience, stabilizing benefits for employees who are close to retirement (i.e., age 50 or above) is consistent with market practice used by other employers when changing their retirement benefit plans.

Q. Please continue.

A. The Company has revised its vacation schedule to bring the amount of vacation available to employees more in line with the vacation provided by the Utility Peer Group. Specifically, the Company adjusted its thresholds for earning vacation time. For example,
employees with three years of service will be eligible for 13 vacation days instead of 11 vacation days; employees with four years of service will be eligible for 14 vacation days instead of 12 vacation days. However, employees with five through ten years of service will be eligible for 15 vacation days instead of 16 vacation days. Employees with 20 or more years of service will be eligible for the maximum vacation allowance of 25 days. Prior to the change, employees needed 25 years of service to reach the maximum vacation allowance. In addition, four of the current eleven Company holidays will become floating holidays that may be used at any time throughout the year, subject to operational requirements. This is consistent with the Utility Peer Group and the New York Metropolitan Peer Group practice to provide greater flexibility for time off.

Q. Is the Company taking action to offset the cost increases associated with the above changes?

A. Yes. The Company will implement the following changes:
1) **Health Care plan changes**

   i) **Active Employee Healthcare:** As described above, the Company offered three new medical plan options to its management and Local 1-2 employees in the fall 2012 enrollment for coverage, effective January 1, 2013. The new options are:

   - **Open Access Plus ("OAP") - Co-pay Plan.** This plan has the highest employee payroll contributions but has the lowest deductible and the employee pays less when healthcare services are used. The plan is a mix of a flat dollar co-pay for some services and co-insurance for others.

   - **OAP - Co-insurance Plan.** This plan has the mid-level of employee payroll contributions when compared to the Co-pay or High-Deductible option. After the employee meets the annual deductible, this option has a flat 10 percent co-insurance rate for all expenses. The plan pays 90 percent after reaching the deductible and the employee pays 10 percent of expenses up to an annual out-of-pocket limit.

   - **OAP - High-Deductible Health Plan with a Health Savings Account ("HSA").** This option offers the
lowest employee payroll contributions of the options, but the highest deductible. It also features an HSA that allows employees to save pre-tax money for health care expenses, which can be used annually or anytime in the future. The Company also helps fund the HSA.

Wellness surcharges and credits were also introduced. During the fall 2012 open enrollment, employees had the opportunity to earn health-care coverage contribution credits if they choose to complete a health assessment or get a basic medical screening. Employees who use tobacco will pay more for their health care coverage unless they enroll in a tobacco-cessation program. Participating in these activities is voluntary. The details are discussed in the communications entitled “Focus on Wellness” and “Focus on Health.” See Exhibit ___ (C/BP-1). These changes are designed to provide employees with additional choices to manage their health care, help them better understand the cost of health care, and provide incentives to use more efficient health care protocols. In doing so, and consistent with its cultural imperative of openness, fairness, and trust,
the Company is being open and honest with its employees in conveying that the business landscape is changing and that “business as usual” is not a viable Company strategy for the future. The ultimate outcome of these changes to plan options and wellness incentives will depend on employee behaviors and will take a number of years to evaluate the impact of the changes. Employees will have a range of options that are more consistent with other companies in the Utility Peer Group and the New York Metropolitan Peer Group to balance payroll contributions with out-of-pocket costs when employees use health care services.

ii) **Retiree Healthcare:** No changes have been made for management employees in the FAP Plan. The FAP plan reflects market practice of sharing the cost with retirees for those companies that provide this benefit and have a limit on what the company’s cost will be. Access to Retiree Medical coverage will continue for management participants in the Cash Balance Pension Plan, but they will be required to pay the full cost if they select this benefit in retirement. This change brings Con Edison
2) Other changes

i) **Retiree Life Insurance:** The Company has reduced the retiree life insurance benefit. Starting on January 1, 2013, Con Edison management employees who retire and who are age 50 or older, will receive a $25,000 (instead of $50,000) Company-paid retiree life insurance benefit; employees under age 50 as of January 1, 2013, who retire after 2012 will not receive Company-paid retiree life insurance. This change brings the retiree life insurance benefit more in line with the Utility Peer Group average.

ii) **Sick/Short-/Long-Term Disability:**

**Sick Days:** Up to ten days per year (no carryover; after an absence of more than five consecutive days an employee may become eligible for Short-Term Disability based on a determination by a third-party claims administrator).
Short-Term Disability (Absences longer than five consecutive workdays of sick absence, lasting up to 25 weeks): Weeks 2 through 6: 100 percent of pay; Weeks 7 through 11: 90 percent of pay; Weeks 12 through 26: 80 percent of pay.

Long-Term Disability (Absences longer than 26 weeks): Weeks 27+: Income based on Long-Term Disability benefit election. The revised Sick Pay and Short-Term Disability benefits have been calibrated to be around the average for the Utility Peer Group.

Q. Please summarize the findings of the competitiveness of Con Edison’s total benefits and compensation programs for non-officer management employees after the changes implemented pursuant to the Review.

A. With regard to total benefits and compensation for non-officer management employees, after the changes to benefits and variable pay, Con Edison is seven percent below the Expanded Utility Peer Group median. This is considered within market median competitive range of +/-ten percent, but is still at risk of falling below market competitive levels primarily due to significant
shortfalls in the variable component of management pay
and long-term equity grants.

With regard to health benefits for active
employees, the planned modifications will result in
values further below the Utility Peer Group average.
With regard to retirement benefits, the Cash Balance
Plan formula in place for new hires since 2001 is
aligned with the Utility Peer Group average. The
grandfathered FAP Plan formula is a driver of cost in
both the near- and long-term, and an above-average
benefit, but with the changes, features that are above
the Utility Peer Group average are further limited to a
group that is above age 50 as of January 1, 2013. The
Thrift Savings 401(k) Plan match is currently
significantly below the Utility Peer Group average.
The Thrift Savings 401(k) Plan is being changed for the
Cash Balance Plan formula participants so that the
total retirement benefit will be consistent with the
Utility Peer Group average. The retiree medical plan
is currently above the Utility Peer Group average.
Going forward, employees covered by the Cash Balance
pension formula will continue to be eligible for
retiree medical but will pay the full cost for the
coverage. Employer-provided sick/short-/long-term
disability benefits are being modified to be more in
line with the Utility Peer Group average. Con Edison’s
vacation and holiday schedule is at the Utility Peer
Group average; changes will provide additional employee
flexibility in terms of scheduling time off.

Q. Did Aon Hewitt summarize the competitive positioning of
the Company benefits after the changes described above?
A. Yes, see Exhibit ___ (AH C/BP – 2). This exhibit
summarizes the results of the Benefit Index analysis of
the plans before and after the redesign.

Q. Is the Panel sponsoring an exhibit in connection with
the results of Aon Hewitt’s analysis that incorporates
the benefit and variable pay design changes?
A. Yes. Please see the exhibit entitled “SUMMARY OF TOTAL
COMPENSATION REVIEW – POST VARIABLE PAY AND BENEFIT
DESIGN CHANGES.”

Q. Was this exhibit prepared by you or under your direct
supervision?
A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT ____ (AH C/BP – 6)

Q. Please explain the information set forth in EXHIBIT ____
(AH C/BP – 6).
A. This exhibit identifies the aggregate results of the pay level review Aon Hewitt performed by component of pay, taking into account the impact of the benefit design and variable component changes described above. After the changes to benefits and variable component of management pay, Con Edison’s total benefits and compensation package value is seven percent below the Expanded Utility Peer Group median.

Q. Overall, are Con Edison’s proposed benefits and compensation changes supported by peer company practices?

A. Yes. The changes to Con Edison’s benefit and compensation programs will help bring both the total benefits and compensation package value and benefit program design more in line with competitive practices. However, Con Edison will continue to be well below the Expanded Utility Peer Group and the New York Metropolitan Peer Group in variable pay and long-term equity grants, despite the proposed changes. Total direct compensation (i.e., base salary, the variable component of management pay, plus long-term equity grants) is within the market competitive range (i.e., seven percent below the Expanded Utility Peer Group
median). Employee benefit values are also in line with the market competitive range (i.e., six percent below the Expanded Utility Peer Group median.

Q. Please summarize your findings.

A. In summary, the results demonstrate that the costs of the total benefits program and compensation, including the variable component of non-officer management base pay, are appropriate business expenses incurred so that the Company can meet its obligation to provide safe and reliable utility service to its customers. Accordingly, aside from the costs of long-term equity grants (which have not been included in order to narrow the matters at issue in the contemporaneous rate filings, although the Company reserves its right to seek recovery in future rate filings), the Company has included the costs of these programs in the electric, gas, and steam revenue requirements.

NON-OFFICER COMPENSATION

Q. Please describe any changes to non-officer management compensation.

A. The Review concluded that the Company’s benefits and compensation package, particularly the percentage of the variable component of management base pay is low
compared with the Expanded Utility Peer Group and the New York Metropolitan Peer Group. As a result, the Company has implemented new annual targets for the variable component of non-officer management pay in a manner that complies with the Commission’s requirements. Specifically, the variable component of non-officer management pay will comprise approximately seven percent of total cash compensation, the receipt of which is specifically contingent upon the achievement of pre-defined performance measures that have significant emphasis on providing safe, reliable, and cost-effective service to our customers.

Q. Does the base compensation for Con Edison’s non-officer management employees include both base salary and a variable pay component?

A. Yes.

Q. Is Con Edison unusual in its inclusion of a variable pay component as part of base compensation?

A. No. Tying a portion of employees’ base compensation to performance has become commonplace both in American business generally and for public utilities as well.

Q. Please continue.
A. The variable pay component of base compensation in the Company’s plan is earned only if the Company reaches pre-set performance goals that are directly linked to specific measurable standards consistent with the Company’s goal of providing safe and reliable service to its customers. These performance goals encompass reliability, safety, and customer service performance indicators, operating and capital budgets, timely completion of high priority capital and operating projects and programs, and adjusted net income. The specific performance goals are tracked on a calendar year basis and must be met anew each year.

Q. Please continue.

A. In its rate order in Con Edison’s 2009 electric base rate case, Case 08-E-0539 (“2009 Electric Order”), the Commission commented on the Company’s plan for the variable component of management pay as it was then organized. The Commission particularly focused on the test for net income and criticized the plan as being too heavily based on financial parameters to the detriment of customers. The Commission stated that the net income “hurdle” would cause managers to focus on that goal rather than achieving operating goals. The
Commission also observed that should the Company fail to meet the net income threshold, the costs of the variable component of management pay in rates would inure entirely to investors.

Q. Has the Commission subsequently addressed its standards for recovery of the variable component of management pay?

A. Yes, the Commission has addressed this topic in several recent O&R rate case related orders. In its Order Denying Petitions for Rehearing and/or Clarification issued on November 21, 2011, in Case 10-E-0362 (p. 6) the Commission stated:

The second point we wanted to emphasize is that it is not necessary to maintain an artificial distinction between compensation in the form of traditional pay and benefits and compensation that is incentive based. As we have stated previously, we recognize that variable compensation and incentive plans are common management tools aimed at encouraging performance improvements that can lead to more competitive operations. Consequently, if a utility can demonstrate that total compensation including incentive compensation for a class of employees is reasonable, with a comparable total compensation study of similarly situated companies being the preferred methodology, our concern about the relationship of incentive plan objectives to ratepayer interests is substantially diminished. As long as the plan does not promote employee behavior that would be contrary to ratepayer interests or Commission policies, the fact that it may contain financial, budgetary or other goals
that benefit shareholders as well as ratepayers will not, by itself, be grounds for disallowing funding in rates, even if the relative benefits are unquantified.

Q. Did the Liberty Audit address the variable component of management pay?

A. Yes. The Audit recommended increasing the amount of “stretch” in the Company’s goals as well as reducing emphasis on operating expenses, introducing consideration of capital expenditure performance, and increasing the weighting for operating performance measures.

Q. Please summarize the plan as it then existed.

A. The fund available for distribution in 2009 was established based on three weighted factors: adjusted net income (50 percent), performance indicators (30 percent), and operating budget (20 percent). In order for any of the variable component to be distributed to employees, at least 90 percent of the net income goal had to be met.

Q. Did the Company implement changes to the variable component of its management pay in the wake of the Commission’s directives and the Liberty Audit?

A. Yes. The Company’s current variable component a weighting with significantly greater emphasis on
performance indicators (50 percent), a focus on the capital budget (15 percent), a reduction in the weighting for the operating budget (15 percent), and an adjusted net income target with a weighting that is less than half of its prior weighting (20 percent). Both the Operating and Capital Budgets do not simply measure performance against budgets; they also measure timely and cost-effective completion of specified programs and projects. Moreover, there is no minimum percentage of the net income target that must be achieved in order for there to be a distribution of the variable component of management pay to employees. The following chart sets forth the changes in the weighting of factors comprising the Company’s variable component of management pay:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Performance Indicators</td>
<td>30%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Operating Budget</td>
<td>20%</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Capital Budget</td>
<td></td>
<td></td>
<td>15%</td>
</tr>
<tr>
<td>Adjusted Net Income</td>
<td>50%</td>
<td>25%</td>
<td>20%</td>
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<tr>
<td>Total</td>
<td>100%</td>
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</table>

Q. How did the Company implement these changes?
A. The Company responded to the Commission’s guidance and the Liberty Audit recommendations by reviewing management compensation programs, benchmark data and targets, evaluating measures to drive efficiency and productivity, and addressing cost management. In view of the scope of the review, the changes were implemented in two phases. The first change was implemented on January 1, 2010, and the remaining changes were implemented on January 1, 2011.

Q. Please describe the 2010 changes.

A. The Company acted first to increase its emphasis on goals related to safety, reliability, customers’ satisfaction, and operating performance. The Company did this by revising the weighting of the factors for setting the fund for the variable component of management pay as follows: reliability, safety, and customer service performance indicators increased from 30 percent to 50 percent; the operating budget goal increased from 20 percent to 25 percent; and adjusted net income decreased from 50 percent to 25 percent. The Company also eliminated achieving a minimum percentage for the net income target as a threshold.
requirement for distribution of the variable component of management pay.

Q. What changes were implemented in 2011?

A. The Company added meeting the Capital Budget as a goal. This new goal further aligns management compensation with cost-conscious stewardship of the funds customers provide for investment in the infrastructure necessary for the delivery of safe and reliable utility service. This new goal also is consistent with the Company’s cultural imperative of reinforcing cost management consciousness. The weighting of the Operating Budget goal was decreased from 25 percent to 15 percent to reflect the addition of the Capital Budget goal that was itself assigned the weighting of 15 percent.

Beyond the addition of the Capital Budget goal and the corresponding weighting adjustment to the Operating Budget goal, the Company modified its approach to achieving a budget goal. Specifically, the Company decided to measure success in meeting the budget target and completing specified projects and programs necessary for the safe and reliable operation of the utility in a cost-effective, timely manner. In other words, simply meeting a budget target alone would no
longer be sufficient for purposes of the variable component of management pay. These goals can only be achieved for purposes of the variable component of management pay by timely completing projects and/or programs within budget.

Q. How is this measured?

A. In order to measure how well the identified key projects and programs are managed in terms of schedule and cost, the Company introduced the use of modifiers. The modifiers for programs are designed to measure both unit costs and units completed; the modifiers for projects measure both cost and meeting milestones. A manager is assigned to each project and program and is responsible for monitoring and tracking expenditures versus budget and completing the work on schedule.

Q. How many projects and programs were identified to be measured for the Capital Budget?

A. The Company identified 25 projects and programs. These projects and programs include major capital projects and ongoing capital programs that make up a significant portion of the capital budget.

Q. Is the Panel sponsoring an exhibit in connection with capital projects and programs?
1 A. Yes. Please see the exhibit entitled “CAPITAL BUDGET MODIFIERS.”
2
3 Q. Was this exhibit prepared by you or under your direct supervision?
4 A. Yes.
5
6 MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP - 2)
7 Q. Did the Company modify its approach to achieving the Operating Budget goal?
8 A. Yes, the Company took a similar approach as with the Capital Budget goal and identified 12 programs to be measured for the Operating Budget.
9
10 Q. Is the Panel sponsoring an exhibit in connection with operating budget programs?
11 A. Yes. Please see the exhibit entitled “OPERATING BUDGET MODIFIERS.”
12
13 Q. Was this exhibit prepared by you or under your direct supervision?
14 A. Yes.
15
16 MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP - 3)
17 Q. Did the Company expand the number of operating Performance Indicators for the variable component of management pay?
A. Yes, for the Performance Indicators goal, the Company added two additional indicators – Electric Reliability Performance Measure and Meters Read on Cycle – to the 12 existing indicators (i.e., Safety Index, Electric Network Availability, Electric Non-Network System Availability, Respond to Gas Odor Complaints Within 30 Minutes, Workable Gas Leaks Year-End Backlog, Steam System – Normal Pressure Operations, Generation Stations – Forced Outages, PSC Complaints, Customers Calls Answered, Customer Satisfaction Surveys, Environmental Index, and Employee Development Index), effective January 1, 2011. The Electric Reliability Performance Measure target will not be met if a Network or Non-Network penalty related to duration or frequency of service outage occurs; and Meters Read on Cycle target measures the percentage of gas and electric meters that are read on their regularly scheduled reading cycle.

Q. Is the Panel sponsoring an exhibit in connection with the performance indicators?

A. Yes. Please see the exhibit entitled “2012 PERFORMANCE INDICATORS.”
Q. Was this exhibit prepared by you or under your direct supervision?

A. Yes.

Q. Please address the adjusted net income target.

A. The weighting of the adjusted net income target was reduced from 50 percent (in 2009) to 20 percent, effective January 1, 2011. Maintaining a net income goal as a small component of the variable component of management pay recognizes that management employees’ compensation should not be independent of the Company’s financial performance and that maintaining the Company’s financial viability benefits customers by enabling the Company to secure market funding at a cost-effective rate.

At the same time, the net income target does not in any way interfere with or otherwise reduce or negate the incentives for management employees to achieve the operational performance and capital and operation and maintenance budget targets, which comprise 80 percent of the variable component of management pay. We would again note that the Company has eliminated the provision that required a minimum percentage of the net
income target to be met in order for there to be any
distribution of the variable component of management
pay to non-officer management employees.

Q. How does the variable component of management pay
benefit customers?

A. This plan is structured so that non-officer management
employees must contribute to the Company’s achieving
specific, objective performance goals that directly
benefit customers in order to earn their full base
compensation. This compensation structure benefits the
Company’s customers, particularly as compared to a base
salary-only structure. Full payment of market-
competitive compensation is contingent upon the
employees collectively and individually achieving a
comprehensive, defined set of goals that will have
immediate and long-term benefits to customers. And if
these goals are not fully achieved, and the full amount
of the variable component recoverable from customers is
not paid out, the Company proposes to credit customers
with all unpaid amounts.

Q. How does the Company monitor the achievement of its
goals?
A. The Company’s goals are defined and quantifiable. Progress toward the Company’s goals is updated each month after the results have been reviewed by senior management. The status of the goals is available to employees via the Company’s intranet site. The variable component of management pay is structured so as to focus the time and attention of management employees on goals that the Commission has identified as customer-oriented: safety, reliability, customer service, environmental protection, and cost management. This includes goals within the Performance Indicators category as well as the modified Operating Budget goal and the new Capital Budget goal, which are contingent upon timely completion of projects and programs critical to the Company’s provision of safe and reliable service.

Q. Please continue.

A. A sound plan for the variable component of management pay is necessarily a combination of targets that encourage employees to meet customer-related goals in a cost-effective manner. These factors are inherently interdependent and important to the Company’s customers. Operational performance undertaken subject
to budgetary considerations inevitably results in costs to customers lower than they would otherwise be. Conversely, a single-minded focus on meeting budgets, without an equal focus on prudent business management, can result in unsatisfactory customer service.

Q. After reviewing the Commission’s guidance, the Company retained Net Income as a goal. Please explain.

A. The Company acknowledges that the Commission has considered the Net Income factor to be a financial goal that the Commission views differently from the measures included in the Performance Indicator category. But the Company respectfully submits that the Commission should evaluate the Company’s variable component of management pay in its totality. As discussed above, the Net Income component comprises only 20 percent of the variable component, and achievement of the Net Income target is no longer a prerequisite for employees to be awarded any of the variable component. Moreover, while achieving a Net Income goal may not convey customer benefit as directly as achieving, for example, the Performance Indicators, the Company submits that demonstrating the ability to consistently achieve a Net Income goal benefits customers, because it connotes
efficient Company operations that will redound to customer benefit over the long term and also enables the Company to finance its operations at a reasonable cost.

Q. Can performance indicators that address goals of safety, reliability, and customer service be readily measured by dollars?

A. Generally, no; however, as to the Operating Budget and Capital Budget goals, the Company believes that "quantifiable benefits" to customers are embedded in the target budgets. That is, the budgets underlying these goals reflect efficiencies built into the Company’s operating and capital budgets as a result of the Company’s comprehensive efforts to implement a cost management cultural imperative established as part of the Company’s implementation of the Liberty Audit. By the Company’s having achieved the Operating and Capital Budget goals, customers will benefit from the timely completion of the identified projects and programs; from any efficiencies achieved in capital expenditures through the currently-effective downward-only capital reconciliation mechanism; and, on a longer term basis,
from any efficiencies saved in executing both capital and operating projects and programs.

Q. What happens if the goals for the amount of the variable component of management pay allowed in rates are not achieved?

A. If those goals are not fully achieved, and the full amount of variable pay recoverable from customers is not paid out, the Company proposes to credit customers with the difference.

COMPENSATION PROGRAM FOR OFFICERS

Q. What are the elements of the Company’s compensation program for its officers?

A. The Company’s compensation program for its officers is comprised of three elements: base salary, a variable component, and long-term equity grants.

Q. Please describe the Company’s officer compensation philosophy.

A. The Company’s philosophy is the same for officers as it is for non-officer management employees -- to provide base salary, a variable component, and long-term equity grants that are competitive with the median levels of officer compensation provided by a peer group of comparable companies.
Q. Please describe how the Company establishes compensation levels for officers.

A. The Management Development and Compensation Committee of the Company’s Board (“MDC Committee”) establishes, reviews, and administers the Company’s officer compensation program. The MDC Committee has retained Mercer as an independent compensation consultant, to provide it with information, analyses, and recommendations regarding officer compensation. The MDC Committee uses an industry peer group of 19 publicly-traded utility companies of comparable size and scope to the Company for purposes of providing benchmark information on officer compensation levels. This peer group is also used to measure relative total shareholder returns for vesting one half of the equity grants. Similar to the Review, Mercer expanded its analysis to include survey data (the Mercer Database and the Towers Watson survey) for officer “position matching” to benchmark responsibility and level of the officer positions at Con Edison.

Q. Is the officer peer group the same as the utility peer companies used for non-officer Review?
1 A. The groups are not identical but, 13 of the 19
2 companies included in the officer peer group were
3 included in the Review. The six remaining companies
4 had insufficient data for non-officer positions and
5 therefore were not included in the Utility Peer Group
6 for non-officer management employees.
7 Q. Is the Panel sponsoring an exhibit entitled “ANALYTICAL
8 FRAMEWORK – PEER GROUP.”
9 A. Yes.
10 MARK FOR IDENTIFICATION AS EXHIBIT __ (C/BP - 5)
11 Q. What does this Exhibit show?
12 A. This material, prepared by Mercer, shows the 19 utility
13 companies used by the MDC Committee in comparing and
14 evaluating the Company’s officer compensation program.
15 Q. Is the Company seeking to recover all three elements of
16 officer compensation, i.e., base salary, the variable
17 component, and long-term equity grants, in the
18 contemporaneous rate filings?
19 A. No. The Company has elected not to seek recovery of
20 the variable component and equity grants provided to the
21 Company’s officers, even though the costs of these two
22 elements of officer compensation are reasonable and
23 necessary business expenses the Company must incur to
attract and retain officers to manage its operations and provide safe and reliable service to its customers. The Company specifically reserves the right to seek recovery of these costs in future rate filings. However, the Panel will demonstrate that all three components are competitive with the median levels of officer compensation provided by the proxy peer companies as determined by Mercer.

Q. Is the Panel sponsoring an exhibit entitled “MARKET ASSESSMENT – TOP EXECUTIVES BASE SALARY ($000)” and “MARKET ASSESSMENT – OTHER EXECUTIVES BASE SALARY ($000)”?

A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP - 6)

Q. What does this exhibit show?

A. This material, also prepared by Mercer, compares the Company’s base officer compensation to the base compensation of officers holding equivalent positions at the peer group of companies.

Q. How does the Company’s officer base compensation compare to the base compensation of officers holding equivalent positions at the peer group of companies?
A. Mercer reviewed and benchmarked the Company’s officer base salary. When compared with the base compensation levels reported in proxies for the peer group of companies for the top five highest paid officers, base salary is deemed to be competitive with the median levels. As set forth in the exhibit, as to the remaining officers, base compensation was also found to approximate the median level with some positions above and some below the median range.

Q. How does the Company’s officers Total Cash Compensation (“TCC”), defined as base salary plus a variable component, compare with the TCC of officers holding equivalent positions at the peer group of companies?

A. Mercer concluded that overall target TCC for Con Edison is competitive with the market median.

Q. Is the Panel sponsoring an exhibit entitled “MARKET ASSESSMENT - TOP EXECUTIVES TARGET TCC ($000)” and “MARKET ASSESSMENT - OTHER EXECUTIVES TARGET TCC ($000)”?

A. Yes.

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP - 7)

Q. What does this exhibit show?
A. This material, also prepared by Mercer, compares the Company’s officer TCC to the TCC of officers holding equivalent positions at the peer group of companies and indicates that the Company’s TCC is competitive with the market median.

Q. How does the Company’s officers Total Direct Compensation (“TDC”), defined as TCC plus long-term equity grants, compare with the TDC of officers holding equivalent positions at the peer group of companies?

A. Mercer concluded that overall target TDC for Con Edison is competitive with the market median.

Q. Is the Panel sponsoring an exhibit entitled “MARKET ASSESSMENT – TOP EXECUTIVES TARGET TDC ($000)” and “MARKET ASSESSMENT – OTHER EXECUTIVES TARGET TDC ($000)”?

A. Yes. MARK FOR IDENTIFICATION AS EXHIBIT __ (C/BP - 8)

Q. What does this exhibit show?

A. This material, also prepared by Mercer, compares the Company’s officer TDC to the TDC of officers holding equivalent positions at the peer group of companies. Mercer has concluded that based on survey data from Mercer discussed above, base salary, the variable
component, and long-term equity grants for officers are competitive with the median of the market and therefore represent a reasonable business cost.

DIRECTORS’ COMPENSATION

Q. Please explain the compensation package for members of the Company’s Board.

A. Compensation for members of the Board, who are not employees of the Company, includes annual retainers, meeting fees, and an annual long-term equity grant.

Q. Please describe how you establish compensation levels for Board members?

A. The Corporate Governance and Nominating Committee (the “Committee”) of the Board establishes and approves the Board’s compensation program. The Committee has also retained Mercer to provide information, analyses, and recommendations regarding director compensation. The Committee directs Mercer to: (1) assist the Committee by providing competitive market information on the design of the director compensation program; (2) advise the Committee on the design of the director compensation program and also provide advice on the administration of the program, and (3) inform the
Committee on director compensation trends among the
Company’s compensation peer group and broader industry.
Q. Can you describe the current level of annual retainers,
meeting fees, and equity grants?
A. Yes. Each non-employee member of the Board receives an
annual retainer of $90,000, and the Lead Director
(i.e., the liaison between the Company’s Chief
Executive Officer and the independent, non-executive
directors) receives an additional annual retainer of
$35,000. The Chairs of the Environment, Health, and
Safety; Finance; and Operations Oversight and Planning
Committees each receive an additional annual retainer
of $5,000. The Chairs of the Corporate Governance and
Nominating Committee and Management Development and
Compensation Committee each receive an additional
annual retainer of $10,000. The Audit Committee Chair
receives an additional annual retainer of $20,000, and
each Audit Committee member receives an additional
annual retainer of $10,000 and a fee of $2,000 for each
meeting of the Audit Committee attended. Members of
the other Committees of the Board receive a fee of
$1,500 for each meeting of a Committee attended. The
Acting Chair of any Board Committee, at meetings where
the regular Chair is absent, is paid an additional
meeting fee of $200 for any Committee meeting at which
he or she presides. Each director is also allocated an
annual equity grant of $105,000 of deferred stock units
following their election at the annual stockholders
meeting. The annual long-term equity grants are
required to be deferred until the director’s
termination of service from the Board.

Q. Is the Company seeking recovery of all three elements
in these three rate requests?

A. No. In the contemporaneous rate filings, in order to
limit the number of matters at issue, the Company has
elected not to seek recovery of the annual long-term
equity grants or dividend equivalents associated with
previously deferred stock units provided to Board
members, even though the annual long-term equity grants
are part of their basic compensation package and are a
reasonable cost of attracting and retaining qualified
directors. The Company reserves the right to revisit
this issue in future rate filings. Mercer found that
total Director compensation is aligned with the median
levels of both the 19 company peer group and a general
industry (i.e., $10-$15 billion total market
capitalization) group.

LABOR CONTRACT

Q. What portion of the Company’s work force is unionized?
A. Approximately 60 percent of the Company’s 13,200
employees are members of either Local 1-2 or the
International Brotherhood of Electrical Workers Local 3
(“Local 3”). The total benefits and compensation for
these workers are determined by collective bargaining.

Q. Has the Company recently concluded negotiation of the
Labor Contract with Local 1-2?
A. Yes. The previous contract expired on June 30, 2012,
and was followed by a work stoppage for 26 days before
a tentative agreement was reached. On August 15, 2012,
Local 1-2 ratified the Labor Contract.

Q. Please describe the principal changes negotiated in the
Labor Contract.
A. The major changes negotiated in the Labor Contract
relate to wages, health care coverage, and retirement
benefits.

Q. Please describe the wage increases included in the
Labor Contract.
A. The following wage increases will be granted to each eligible employee who is on the active weekly payroll on the effective date of such increase.

- **Effective July 26, 2012**, a 1.50 percent general wage increase for all regular employees and a 0.5 percent merit increase for all regular employees whose records have in all respects been satisfactory.

- **Effective June 30, 2013**, a 2.00 percent general wage increase for all regular employees and a 0.5 percent merit increase for all regular employees whose records have in all respects been satisfactory.

- **Effective June 29, 2014**, a 2.50 percent general wage increase for all regular employees and a 0.5 percent merit increase for all regular employees whose records have in all respects been satisfactory.

- **Effective June 28, 2015**, a 2.50 percent general wage increase for all regular employees and a 0.5 percent merit increase for all regular employees whose records have in all respects been satisfactory.
Q. How does the Company determine whether an employee qualifies as an employee whose records have “in all respects been satisfactory”?

A. Such qualification, which triggers the merit portion of a Local 1-2 employee’s annual increase, is based on the employee’s performance evaluation. Supervisors are provided guidance each performance cycle specifically indicating causes for a merit denial, such as a suspension during the rating period, an unsatisfactory rating on any performance factor, or a marginal rating on three or more performance factors. Such employees are also advised that concurrence by Human Resources is required on all denials for consistency.

Q. Did the Labor Contract include any lump-sum payments?

A. Yes, a lump-sum payment in the amount of $1,200 was made to each regular employee in August 2012 upon the ratification of the Labor Contract by Local 1-2’s membership. Effective June 30, 2013, a lump-sum payment in the amount of $600 will be granted to each regular weekly employee. The Company is not seeking recovery of these payments in the rate request because the payments occur after the Historic Year and prior to the Rate Year.
Q. Please describe the changes to the Local 1-2 employees’ health care coverage.

A. Beginning in 2013, Local 1-2 employees will be offered new hospital, medical, and prescription drug coverage. These changes are designed to slow down health care cost increases and to help employees become more conscious of health care costs. Employees will have a range of options, as discussed below, that are more consistent with other companies in both the Utility Peer Group and the New York Metropolitan Peer Group, to balance payroll contributions with out-of-pocket costs when employees use health care services. New wellness initiatives will be available to encourage employees and their families to live a healthy lifestyle and help manage health care costs. The new options were offered in the fall 2012 enrollment for coverage effective January 1, 2013. The new medical options will be very similar to those described above being offered to management employees.

Q. Will the new medical plan options moderate future healthcare cost increases?

A. Yes. Over the past four years Local 1-2 health care costs have increased at an annual average rate of 13
percent. Cigna, the Company’s hospital and medical carrier, forecasts that the plan design changes negotiated as part of the Labor Contract are expected to decrease the forecasted future health care cost trend by approximately three percent annually. With the plan-design changes included in the new choices (i.e., increases in co-payments, deductibles, and out-of-pocket limits) and wellness initiatives, we are seeking to elevate employee awareness of health care costs and the importance of staying healthy, which should contribute to slowing the increasing health care cost trend and lower future costs for our customers.

Q. Please discuss the changes in the amounts that Local 1-2 employees contribute toward health care coverage.

A Effective January 1, 2013, Local 1-2 employees’ contributions toward hospital, medical, prescription drug, and dental coverage will increase from the current maximum of $38 per week for individual coverage and $64 per week for family coverage to $46 and $76 per week for individual and family coverage, respectively. By the end of the Labor Contract (for calendar year 2016), the maximum employee contributions will be $55
and $94 per week for individual and family coverage, respectively.

Q. Are there situations in which employees can contribute less?

A. Yes, Local 1-2 employees may contribute less for health care coverage depending on the coverage level they choose. The maximum rates stated above are for the Co-pay Plan. This plan most closely resembles the current hospital, medical, and prescription drug coverage, which generally provides employees with the lowest out-of-pocket cost at the point of service, i.e., when they incur a claim. This level of health care coverage also requires the highest level of employee payroll contributions per paycheck. While the other two options (Co-insurance Plan and High-Deductible Health Plan) will have lower employee payroll contributions per paycheck, these plans will also require the employee to pay a higher out-of-pocket cost at the point of service. These two options are designed to make employees more aware of actual health care costs and incent them to use cost-efficient service providers. For example, in a co-insurance type plan, an employee who goes to his/her primary care physician
for an office visit will be required to pay (after meeting the deductible) twenty percent of the cost of the office visit. Therefore, if the cost of an in-network primary care physician office visit is $200 while the comparable out-of-network physician fee is $350, the employee has a choice to pay $40 for an in-network service or $70 for selecting an out-of-network provider. The same ten percent co-pay applies if an employee visits a “specialist.” The plan that allows employees the greatest flexibility in managing their health care costs is the High-Deductible Health Plan with an HSA.

Q. Are there other factors that may lower an employee’s contributions?

A. Yes, as part of the Labor Contract, we included maximum rates for employee contributions under the above options which can be lower depending on the direction plan costs take in the future. To the extent that health care cost increase at a lower-than-expected rate, due to revised plan designs and employee utilization changes, employees will share in these savings by contributing amounts through payroll deductions that are less than the maximum rates set
forth in the Labor Contract. Because the Company is self-insured, reducing the health care cost trend also lowers the Company’s contribution toward health care coverage, thereby resulting in lower costs for our customers in the future.

Q. Please briefly describe the High-Deductible Health Plan with an HSA.

A. As was the case with the OAP – High-Deductible Health Plan with an HSA for management employees discussed earlier in this testimony, a High-Deductible Health Plan with an HSA available to Local 1-2 will have the lowest employee payroll contributions per paycheck but higher out-of-pocket costs when employees receive medical care other than preventive services. Generally, healthy employees who are willing to take additional financial risk by more actively managing their health-care expenses will benefit from lower employee contributions. In addition, a High-Deductible Health Plan provides some tax savings with an HSA.

Q. What are the annual deductibles, out-of-pocket limits, and co-insurance level for the High-Deductible Health Plan?
A. The High-Deductible Health Plan will cover hospital, medical, and prescription drug charges all subject to the following deductibles, out-of-pocket limits, and co-insurance. Employees who elect this coverage will be required to pay all hospital, medical, and prescription drug charges, except for in-network preventive care, up to $1,250 for individuals or $2,500 for family coverage. Once the deductible is met, the plan will pay 80 percent of additional healthcare costs, and the employees will be responsible for the remaining 20 percent of the costs. The annual out-of-pocket limit, for an individual is $3,000 or $6,000 for family coverage. Once the employee reaches the out-of-pocket limit the plan covers additional health care costs at 100 percent. If an employee chooses to use out-of-network providers the deductible and out-of-pocket limits increase and the co-insurance (i.e., the portion employees pay) increases to 40 percent. The out-of-network deductible is increased to $2,500 for individuals or $5,000 for family coverage, and the annual out-of-pocket limit for an individual is $6,000 or $12,000 for family coverage.

Q. What are the advantages of an HSA?
A. As noted previously, to help employees pay for increased out-of-pocket medical expenses, employees can contribute on a pre-tax basis to an HSA. One of the advantages of an HSA is that the balance rolls over from year to year. Therefore, employees will have a choice when they incur health care expenses: pay the expense out-of-pocket (to let the money in their HSA grow tax-free) or use their HSA to pay for some or all of their eligible expenses.

Q. Will the Company contribute to employees’ HSAs?

A. Yes, to encourage employees to enroll in this new plan the Company will contribute $750 annually for individual coverage, or $1,500 for family coverage, to the employee’s HSA. In addition, employees can contribute on a pre-tax basis in 2013 an additional $2,500 for individual coverage or $4,950 for family coverage. Total (Company and employee) pre-tax contributions will be subject to Internal Revenue Code limits each year.

Q. What retirement benefits were changed as part of the Labor Contract?

A. Local 1-2 employees hired on or after July 1, 2012, will be covered under a Cash Balance pension formula
and will receive a higher Company match on their participating contributions to the Thrift Savings 401(k) Plan. The Company match on participating contributions to the Thrift Savings 401(k) Plan is unchanged for employees covered by the FAP pension formula.

Q. Does the change to a Cash Balance formula reduce costs?
A. Yes. Because this charge will only apply to employees hired on or after July 1, 2012, the short-term savings initially will be modest but will increase over time. Depending on the number of new hires, Buck Consultants, the Company’s actuary, estimates an annual reduction in pension expense of approximately $3.5 million on a total Local 1-2 basis. Over the next 30 years, the change to a Cash Balance formula for new hires is estimated to save our customers close to one billion dollars. This is a significant change and completes the Company’s goals of moving all future hires—management and union employees—to a Cash Balance pension formula. The Cash Balance pension formula went into effect for management employees hired after January 1, 2001, and for Local 3 employees hired after January 1, 2010.
Q. Please explain how the Company matching contribution to the Thrift Savings 401(k) Plan works for Local 1-2 employees.

A. For Local 1-2 employees covered by the FAP pension formula, the Plan is unchanged for each employee who elects to make Participating Contributions for a payroll period. The Company will contribute an amount equal to 50 percent of the Participating Contributions made by the employee for such payroll period, matching first pre-tax contributions and then after-tax contributions. Beginning with the first payroll period on or after January 1, 2013, the maximum “Participating Contributions” that will receive a Company match that may be elected by an employee will be increased as follows:

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<th>To</th>
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<tr>
<td>January 1, 2014</td>
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<td>January 1, 2016</td>
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Beginning with the first payroll period on or after January 1, 2013, the Company will contribute, on behalf
of each employee who is covered under the Cash Balance pension formula and who elects to make Participating Contributions for a payroll period, an amount equal to 100 percent of the Participating Contributions made by the employee for such payroll period, matching first Pre-Tax Contributions and then After-Tax Contributions.

Q. What is the cost impact of this increase in the Company match to the Thrift Savings 401(k) Plan for new employees who are covered by the Cash Balance pension formula?

A. The Company estimates that the increase in the matching contribution from 50 percent to 100 percent for new Local 1-2 employees hired on or after July 1, 2012, covered by the Cash Balance pension formula will be approximately $330,000 per year, which partially offsets the significant pension savings discussed above.

EMPLOYEE EXPENSES

Q. Did the Panel prepare the exhibits entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., ADMINISTRATIVE AND GENERAL EXPENSES - MAJOR ACCOUNT GROUP 49, EMPLOYEE WELFARE EXPENSES - PSC ACCOUNT 926.2”?
A. Yes, the Panel prepared three exhibits with this title, one each for electric, gas, and steam.

Q. Were these exhibits prepared by you or under your direction?

A. Yes.

MARK FOR IDENTIFICATION AS ELECTRIC EXHIBIT ___ (C/BP - 9)

MARK FOR IDENTIFICATION AS GAS EXHIBIT ___ (C B/P - 10)

MARK FOR IDENTIFICATION AS STEAM EXHIBIT ___ (C B/P - 11)

Q. What do each of these exhibits show?

A. Page 1 of each exhibit is a summary of the Company’s forecast of employee benefit expenses for the Rate Year, based on costs incurred in the Historic Year. Lines 1 through 19 show costs for the Company’s employee benefit programs, and lines 20 to 24 show health care costs net of employee payroll contributions for health care benefits. These expenses include the changes discussed above. Total employee welfare expenses are shown on line 25. Total employee benefit expenses, net of capitalized amount, is a summary of projected health care costs and employee deductions for the Rate Year.
Q. Please describe the methods used for escalating employee benefit costs.

A. Three different methods are used to escalate Historic Year costs to the Rate Year costs. First, a labor escalation factor of 6.43 percent is used to escalate employee benefit costs that are a function of salaries and wages. For example, the Thrift Saving 401(k) Plan provides a Company match to management employees for a portion of their plan contributions; this is escalated using the labor escalation factor. Second, a non-labor escalation factor of 4.96 percent is used to escalate employee benefit costs that are unrelated to salaries and wages, such as plan management costs (i.e., benefits and actuarial consulting services). The Accounting Panel discusses the basis for and development of these labor and non-labor escalation factors. Third, health care costs were projected utilizing the 2012 actual costs for the first six months and estimating the claims for the second six months of 2012. Then 2012 projected costs were escalated based on expected premium increases for 2013 and 2014, determined in consultation with the Company’s various health care vendors (i.e., Cigna for...
hospital/medical costs, CVS/Caremark for prescription
drug costs, MetLife for dental costs, and the various
Health Management Organizations (“HMOs”) for our HMO
offerings) to estimate the 2014 health care costs. For
the Company’s managed care plans with HMOs, the 2013
projections were developed by applying the 2013 premium
rates provided by each of the HMO carriers and
escalated to 2014 based on estimates developed with
each HMO vendor.

Q. Does the employee benefit expenses projection include
any program changes?
A. Yes. The health care costs reflect the new
hospital/medical and prescription drug plan designs
resulting from the Review for management employees and
the Labor Contract for Local 1-2 employees, as
discussed above.

HEALTH INSURANCE COSTS

Q. Is the Panel sponsoring an exhibit in connection with
employee benefit expenses?
A. Yes. Exhibits ___ (C/BP – 9); ___ (C/BP – 10), and ___
(C/BP – 11) show the employee benefit expenses for each
service.

-100-
Q. Please explain the increase for health insurance shown on line 24, page 1 of each exhibit.

A. Line 24 shows the cost increases as follows: $38.2 million electric; $7.9 million gas; $2.5 million steam for health insurance less employee payroll contributions. Projections for 2013 and 2014 were developed using the Company’s claim history and projections of premium cost changes provided by our various health care vendors (i.e., Cigna for hospital/medical costs, CVS/Caremark for prescription drug costs, MetLife for dental costs, and the various HMOs for our HMO offerings). Historic year costs for benefits administration are escalated using the non-labor escalation factor. The electric, gas, and steam allocation factor of 78.7 percent, 16.2 percent, and 5.1 percent, respectively, were applied to total projected health care costs and long-term disability costs to arrive at the Rate Year forecast for each service.

Q. Please discuss the Company’s proposed escalators for health care expenses.

A. Con Edison recommends using the plan-specific escalators developed by the health care plan providers,
rather than the GDP deflator. For example, Cigna has analyzed our hospital, medical, and vision care experience and participant demographics against its book of business and projects that expenses will increase by 10.9 percent. For prescription drug costs, we worked with CVS/Caremark and developed an estimated increase of 6.0 percent based on claims experience, and MetLife estimates that dental costs will increase by 6.0 percent. These escalation factors provide a more accurate indicator of future increases to the Company’s health care costs, that have been historically well in excess of the GDP.

Q. In recent rate cases, Con Edison has used the GDP deflator for this expense. Please explain the change here.

A. Con Edison did accept using the GDP deflator in the Company’s last electric base rate case (Case 09-E-0428), as well as the Company’s last gas and steam base rate cases (Case 09-G-0795 and 09-S-0794), consistent with current Commission practice, for purposes of these filings. However, the Company specifically stated in these filings that a health care escalator reflecting plan costs, experience, and demographics developed by
our health care providers was the sounder approach for this expense. Moreover, the Company stated that use of the GDP deflator should not be construed as a waiver of the Company’s right to recommend a different escalation factor in a future rate filing.

Q. Is the Company proposing a change with respect to the proper escalation for health care costs?

A. Yes.

Q. Please explain why.

A. The use of the GDP deflator is not the appropriate factor to measure the increase to health care costs. In reviewing and analyzing the disparity between increases in the GDP deflator and the Company’s actual health care costs, it has become apparent that such disparity is being driven by fundamentally different forces. Increases in the GDP deflator are being driven largely by inflation-related increases in the unit costs of various products. In contrast, increases in health care costs are being driven by increased utilization of medical procedures (and often very expensive medical procedures at that), as well as the availability of new medical procedures, treatments, and devices. Given this fundamental dichotomy, use of the
GDP deflator alone fails to recognize the primary reason these costs are escalating and is therefore simply not the proper methodology to measure the increase in health care costs. If the GDP deflator were to be used, the health care cost projections would understate health care costs for the Rate Year.

Therefore, to develop a more accurate estimate of the increase in health care costs, we need to adjust historic year expenses by recognizing other factors such as changes in utilization of services and procedures and employee demographics, as well as volume and mix of health care services. For example, Cigna estimates that the Company’s health care costs will continue to increase significantly as the age of the covered population (management and union) grows. Cigna estimates that the average cost increase attributed to an aging population has added another one percent to four percent to plan costs because of additional plan utilization and the treatment of more serious conditions. For the nine months ending September 30, 2012, the average cost per employee over age 50 increased by 19 percent.
Q. Are there other reasons why health care cost increases are not directly tied to general inflation?

A. Yes. Cigna reports that the Company’s health care costs have increased significantly over the past two calendar years due to more employees and dependents with chronic illnesses, which have required more intense health care, more tests, more procedures, and longer hospital stays. For example, hospital admissions have increased by 13 percent, and the average length of stay has grown by almost a half day. These increases have driven up hospital costs by more than $8.0 million (i.e., 27.5 percent) for the twelve months ended May 31, 2012.

Q. Has the Company experienced actual health care costs increases above general inflation?

A. Yes. The Company has experienced actual health care cost increases averaging 13 percent annually over the last three calendar years, which have been far greater than GDP increases of under two percent over the same period.

Q. Are there other factors that impact the future cost of providing health care?
A. Yes. Legislative and regulatory changes have had and will continue to impact the cost of providing health care.

Q. Does the Company’s projection for health care costs include changes to the health plans as a result of the federal Affordable Health Care Act (“AHCA”)?

A. Yes. The financial impact of the AHCA to the Company’s health care costs assumes that there will not be changes to this legislation during the Rate Year. We note that the Company has already absorbed additional costs in connection with this legislation, such as extending health care coverage to all dependent children up to age 26. Prior to the change in law, coverage for a dependent child ended when the child reached age 19, if not a full-time student, or age 25, if a full-time student. The additional costs of extending health care to dependent children to age 26 beyond the previous plan limits have grown to $2.8 million. In the area of preventive care, also due to the AHCA, the Company is absorbing costs for providing additional preventive health services at no cost to employees, which previously required some level of cost sharing by employees. The Company will pick up
additional health care costs for providing preventive care at no cost to union employees who are members of Local 1-2 starting in January 2013.

Q. What is the impact on health care expenses of using the GDP deflator for projecting health care expenses instead of using a health care projection rate which factors in the different health care cost drivers?

A. Using the GDP deflator to project health care costs instead of a projection rate that factors in the cost drivers noted above results in a significant understatement of health care expenses that should be recovered as a reasonable business expense. For example, a comparison of the last four years actual growth in health care expenses to an increase solely based on GDP in each of those years results in an understatement of actual health care costs ranging from a low of $9.1 million in 2009 to a high of $24.4 million in 2011.

OTHER MEASURES TAKEN TO MITIGATE COST INCREASES

Q. What actions has the Company taken to mitigate health and welfare costs?

A. The Company has taken numerous steps to contain and mitigate these costs. The Company is placing an
increasing emphasis on promoting healthy behavior to mitigate health care costs in the future. For the open enrollment for the 2013 plan year, management employees were asked to participate in some wellness initiatives. Cigna, our hospital/medical insurance carrier, collected health information from employees to assess the general health of our employee population and recommend future wellness programs and incentives that encourage employees to participate in health improvement activities. Employees were offered a monetary incentive to complete a health assessment, which is a tool Cigna uses to obtain baseline health information as well as to provide employees with insight into their health status and an action plan to address any potential health risks. Management employees receive an incentive of $5.00 per pay period, and Local 1-2 members receive an incentive of $2.00 per pay period for completing the health assessment. In addition, management employees receive an incentive of $5.00 per pay period if they take a basic medical screening that includes blood pressure, cholesterol, blood sugar, and body mass index, all of which are essential for identifying potential health issues. Our
2013 wellness initiative will include a surcharge for tobacco usage (for management employees), which has a direct correlation to increased health risks leading to higher medical costs. Employees who voluntarily identify themselves as tobacco users will be required to make an additional $240 payroll contribution toward health their care coverage each year. An employee who is a tobacco user can avoid the additional health care contribution by enrolling in a tobacco cessation program.

Q. Do the Company’s health care carriers offer any other programs to employees to assist them in adopting a healthy lifestyle?

A. Yes. Cigna offers a Health Advisor Program that is designed to facilitate healthy behavior and promote the achievement of health-related goals for at-risk individuals. Cigna also offers Well Aware Disease Management Programs to address various health conditions including heart disease, asthma, diabetes, and lower back pain. These programs are developed in accordance with recognized subject matter experts, the American Heart Association, the American Academy of Allergy, Asthma and Immunology, the American Diabetes
As Association, and others. Currently, Cigna is engaged with over 1,700 covered employees who are being actively managed with programs for asthma, diabetes, lower back pain, and other conditions. These programs are available to all employees and their dependents.

Q. Does Cigna offer programs to all employees and dependents to assist with their lifestyle choices that should help in controlling health care costs?

A. Yes. Cigna offers programs called Healthy Steps to Weight Loss and Stress Management Program. Both programs are designed to encourage lifestyle choices that will benefit the health of our employees and dependents. Since January 2011, Cigna has engaged a total of 123 individuals in these programs. The cost of these programs is included in the administrative fees.

Q. What other actions has the Company taken to manage health care costs?

A. The Company works with Cigna to find ways to encourage employees and their dependents to take a greater role in managing their health care expenditures. For example, if an employee or dependent needs durable medical equipment and prosthetic devices, pre-
notification to the insurance carrier is required in order to be covered under the plan. Treatment plans are required by the claims administrator for physical and occupational therapy, speech therapy, and services performed for diagnosis or treatment of dislocations, subluxations, or misalignment of the vertebrae before such programs may begin. The Company has introduced a co-payment for emergency room visits to discourage employees from using the emergency room for routine medical treatments.

Q. Does CVS Caremark, the administrator of the Company’s prescription drug plans, offer any programs to assist employees to better manage their prescription drug costs?

A. Yes. For those employees or dependents with chronic and genetic disorders, there is a separate Special Pharmacy program, administered by the CVS Caremark, which uses biotech-injectable and oral medications to help them live longer, healthier lives. The Specialty Pharmacy program treats numerous health conditions including: Crohn’s disease, cystic fibrosis, macular degeneration, multiple sclerosis, pulmonary disease, and other health conditions. The Specialty Pharmacy
not only provides the patient with medications, but
also provides proactive pharmacy care management
services. When a patient is enrolled in the Specialty
Pharmacy program, a pharmacist/nurse-led Care Team is
assigned to each patient. A dedicated group of
clinical experts helps to manage the patient’s
condition effectively; provides early intervention;
reviews dosing and medication schedules; trouble-shoots
injection-related issues; discusses side effects with
the patient; and supplies educational information. The
pharmacists are available 24 hours a day, 365 days a
year for emergency consultations. All medications are
delivered promptly in temperature-controlled secure
packing. With the medication, the patient receives any
required ancillary supplies such as needles, syringes,
alcohol swabs, and guidance on disposal of items. The
Special Pharmacy Program also coordinates care with the
doctor and health plan. In addition, CVS Caremark
offers a Specialty Guideline Management Program in
coordination with the Specialty Pharmacy Program. This
program builds upon the Specialty Pharmacy Program by
offering a more rigorous review of each specialty
referral. The criteria for the program are developed
using evidence-based medical standards that are continually updated based on the most recent medically accepted guidelines. The program works with communications between CVS Caremark and the patient’s physician. If the physician decides to change therapy, Caremark telephones the patient to assist with better management of the new medication. For example, for patients who take Enbrel (TNF inhibitors), as a safety precaution, CVS Caremark assesses whether the patient has been tested for being a carrier of tuberculosis (with a skin test) because those medications contain a warning for patients with TB. CVS Caremark will also periodically assess the patient’s exposure to medication to ensure its continued effectiveness and to determine whether there is a need to change to a different drug.

Q. Can you provide any other examples of how the program would work?

A. Yes. Votrient is prescribed for advanced renal cell carcinoma (kidney cancer) or for advanced soft tissue sarcoma (cancer that starts in soft tissue such as muscle). Though the FDA approved this medicine for the above uses, in clinical trials there have been
instances of severe and fatal liver toxicity. As a safety measure, CVS Caremark coordinates with the employee’s physician to confirm that the liver function is being monitored.

Q. What are the other advantages of the Specialty Pharmacy Program?

A. Besides the above individual attention and review of the prescriptions of each employee/dependent, CVS Caremark discounts the drugs dispensed through the specialty pharmacy which reduce the employees’ and the Company’s costs.

Q. Are there any other programs available through CVS Caremark?

A. Yes. We work with CVS Caremark to help educate employees and their dependents to be better consumers. Employees are encouraged to use generic drugs where possible in order to mitigate plan costs as well as lower their own out-of-pocket costs by being a better consumer at the point of purchase. CVS Caremark prepares a report for each employee and dependent utilizing the program and highlights their expenditures and opportunities for savings. This report, sent at least once a year to the employee and dependents,
contains information on how the employee could achieve savings on future prescriptions by using the more efficient and less expensive mail order program or switching from a more expensive brand name drug to a less expensive generic substitute, when available.

Q. Does the Company offer employees any programs to encourage healthy behaviors?

A. Nutrition education services are available to employees. Healthy food choices help employees better manage their weight and chronic health conditions such as diabetes and heart disease. In addition, Work Home Wellness counseling is available to all employees to help them manage stress and other mental and nervous conditions. For the last several years, the Company has been providing employees with free flu shots. In 2011, the number of employees who received a flu shot was 2,858. During calendar year 2012, 2,499 employees received flu shots.

Q. Are there any other steps that the Company is taking to mitigate health care costs?

A. Yes. The Company conducts periodic audits of the health and welfare plans to confirm the correct processing of claims and determine that the claims are
processed in accordance with the plan design for each of the health care options. As an example, the 2011 Cigna claims are currently being audited. Upon completion of the audit, if there were any overpayments to health care providers, the Company will recover those overpayments. In addition, the Company continues to annually review its cost-sharing arrangement with employees to maintain a reasonable and competitive cost sharing level with employees.

Q. Does the Company self-insure its health care benefits programs?

A. Yes. With the assistance of Aon Hewitt, Cigna, CVS Caremark, and MetLife, the Company calculates an amount of money to set aside annually to compensate for its employees’ health care claims. The Company contracts with Cigna, CVS Caremark, and MetLife for claims processing and other administrative services.

Q. Is self-insuring the most cost-efficient way for the Company to administer its health care benefits programs?

A. Yes. As long as the aggregate claim costs are predictable and measurable, self-insurance is less costly than purchasing insurance that provides similar
coverage from a commercial insurance company. The Company is in the position to self-insure its health care benefit programs because claims costs in the aggregate are generally predictable and measurable and we have a large enough employee and dependent population to be able to estimate the amount that needs to be set aside to pay for future claims. In return for assuming the risk of setting aside enough funds to pay the actual claims costs, the Company achieves cost savings through the elimination of the carrying costs that commercial insurers pass on to their insurance consumers, such as premium taxes, risk charges, as well as the additional administrative costs associated with fiduciary responsibility. For example, based on a price quote obtained from Cigna for the current hospital and medical plan, the fully insured cost for 2012 would be $15.3 million higher than self-insuring. For 2013, fully insuring the hospital and medical plan would cost $17.2 million more than our self-insured estimate.

OTHER EMPLOYEE BENEFITS

Q. What changes is the Company making to its Thrift Savings 401(k) Plan?
A. As described above, as part of the Review, we found that retirement benefits (i.e., pension and Thrift Savings 401(k) Plan) for employees covered under the Cash Balance pension formula are not competitive, and are below market compared with the Utility Peer Group of companies. As a result, for management employees under the Cash Balance pension formula who participate in the Thrift Savings 401(k) Plan, the Company match is being increased from three percent to a maximum of six percent starting in 2013. The Company will match 100 percent of the first four percent of an employee’s contributions plus an additional 50 percent of the next four percent of an employee’s contributions. For the Local 1-2 new hires who are now under the Cash Balance pension formula, the Company will match 100 percent of their participating contributions up to a maximum of $1.33 per hour in 2013 and $1.37 per hour in 2014. These changes are intended to increase an employee’s retirement income and bring retirement benefits closer to the Utility Peer Group average, as well as raise employees’ consciousness that they have a shared responsibility to plan for retirement.

Q. How does this change impact employee benefit costs?
A. The Company estimates that the increased match to participants in the Cash Balance pension formula will be $6.3 million in total for the Rate Year.

Q. Are any changes being made to the Group Life Insurance program for the Rate Year?

A. No. The Company-paid group life insurance benefit is one times annual base salary for management employees and a flat $50,000 for union employees who are members of either Local 1-2 or Local 3.

Q. What is the projected group life insurance benefit cost for Rate Year?

A. The projected group life insurance benefit cost is approximately $2.5 million. The projection was made by multiplying the base salary for management employees by the premium rates. A labor escalation factor of 6.43 percent is then applied to the total cost. The projection for union employees is developed by taking the $50,000 benefit times the number of employees. The premium rates are then applied to the estimated coverage. The total cost is then escalated using the non-labor escalation factor of 4.96 percent.

Q. Please explain the normalization for the group life insurance.
A. The actual group life insurance costs for the Historic Year include a deficit payment to MetLife because claims costs exceeded premiums collected during the preceding plan year. At the end of each calendar year, MetLife prepares a reconciliation of group life insurance premiums paid as compared to actual claims experience, plus administrative expenses. Depending on the number of claims paid, a dividend may be due to the Company, or the Company may be assessed additional charges to cover the amount by which claim costs exceeded the premium paid. The normalization reflects the fact that the claim costs exceeded the premium paid to MetLife in the Historic Year.

POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Q. Please describe the Company’s OPEB programs.

A. The Company’s OPEB programs are comprised of the Retiree Health Program, which includes major medical, hospitalization, vision, and pharmaceutical benefits. The Company also offers a limited retiree term life insurance program.

Q. What is the status of the Company’s OPEB plans?

A. Starting with the Retiree Health Program, CECONY offers retirees who have 75 points (calculated by adding age
and years of service, with each year equaling one point, to equal 75 points) at the time they retire from employment, and their eligible dependents, a voluntary contributory Retiree Health Program. The Retiree Health Program offers enrolled retirees different coverage options including several HMOs, a prescription drug plan and comprehensive hospital, medical, and vision care plans with a network of participating providers. Once a retiree or covered dependent becomes eligible for Medicare, the Retiree Health Program coordinates his or her health care expenses with Medicare. For Medicare-eligible retirees, Medicare is the primary payer of hospital and medical claims, and the Retiree Health Program is the secondary payer. Under the prescription drug plan, once a retiree and covered dependent become eligible for Medicare Part D, retirees may continue their coverage under the Retiree Health Program or enroll in the Medicare program for their prescription drug coverage. The Company also provides certain retired management employees both retiree term life insurance benefits of $50,000 at no cost to the retiree as well as a contributory supplemental group term life insurance benefit. Upon
retirement, retired union employees may also purchase supplemental group term life insurance benefits. Currently, retiring union employees may purchase up to $30,000 of coverage in units of $10,000. The cost of the contributory portion of the supplemental retiree life insurance program is partially subsidized by the Company.

Q. What steps has the Company taken to manage or mitigate OPEB costs related to the retiree life insurance program?

A. As described above, for the retiree life insurance program, the $50,000 Company-paid life insurance benefit will be eliminated for management employees who are under age 50 as of January 1, 2013. For management employees age 50 or older as of January 1, 2013, and retiring January 1, 2013, or later, the $50,000 life insurance benefit will be reduced to $25,000. For retirees currently purchasing life insurance benefits, the Company has announced that rate increases will be phased in over a period of five years to eliminate the Company subsidy. Premium rate increases have been announced for 2013 and subsequent increases will depend on future claims experience.
Q. What savings does the Company expect to realize as a result of the changes to the retiree life insurance program?

A. The Company expects that the change to the Company provided retiree life insurance benefits (i.e., reducing the $50,000 to $25,000 for employees age 50 or older as of January 1, 2013, and eliminating the $50,000 benefit for employees under age 50 as of that date, who retire on or after January 1, 2013) will reduce annual expense by $7.2 million.

Q. What steps has the Company taken to manage or mitigate OPEB costs related to the Retiree Health Program?

A. For the Retiree Health Program discussed above, the Company implemented a cost-sharing formula in 2008. Under the cost-sharing formula, the Company’s contribution toward program costs is limited to its contribution in the preceding year plus inflation as measured by the change in the Consumer Price Index (“CPI”). Contributions for retirees increase if Retiree Health Program cost increases are above CPI. Effective January 1, 2013, the Company’s subsidy under the cost-sharing formula will be eliminated for management employees retiring under the Cash Balance
pension formula. Employees under the Cash Balance pension formula who meet the eligibility requirements and enroll in the Retiree Health Program will be responsible for paying the full cost of Retiree Health coverage offered through the Company.

Q. What other steps has the Company taken to manage or mitigate OPEB costs related to the Retiree Health Program?

A. The Company currently receives a federal tax-free subsidy under the retiree drug subsidy (“RDS”) program for providing retiree prescription drug coverage that equals or exceeds the actuarial value of standard prescription drug coverage provided under the Medicare Part D program to its Medicare eligible retirees. The RDS subsidy offsets Retiree Health Program OPEB costs. Under health care reform, the tax-free status of the RDS subsidy to employers was eliminated effective January 1, 2013, and the Company is in the process of implementing an alternative program referred to as the Employer Group Waiver Plan (“EGWP”) for Medicare-eligible retirees which will produce greater OPEB cost savings than the direct RDS subsidy.

Q. What is an EGWP?
A. An EGWP is a Medicare Part D plan regulated by the Centers for Medicare and Medicaid Services that will supplement the retiree prescription drug benefits currently offered to retirees who are Medicare-eligible effective January 1, 2013. Under the EGWP, the Company foregoes receiving the RDS subsidy and instead our pharmacy benefits manager, CVS Caremark, contracts directly with the government prescription drug program. CVS Caremark will handle all administration and federal interactions and collect the RDS subsidy for our retiree drug plan.

Q. Why does the EGWP have a financial advantage for the Company over receiving the direct RDS subsidy?

A. As noted above, under health care reform, the favorable tax treatment extended to employers for RDS will be eliminated January 1, 2013, which will increase OPEB costs attributed to the loss of tax savings. Employers with an EGWP retiree drug plan will experience savings under the Coverage Gap Discount Program, which was passed as part of health care reform. For employers providing prescription drug benefits through an EGWP, the Coverage Gap Discount, the direct subsidies,
and the catastrophic reinsurance payments exceed the prior RDS program.

Q. What savings does the Company expect to realize as a result of the change to EGWP?

A. The Company expects that the change from the direct RDS subsidy program to the EGWP will reduce plan obligations by approximately $300 million and annual expense by $40 million.

Q. Were there any initiatives with respect to OPEB that were considered and rejected?

A. No.

PENSION PROGRAM

Q. Please describe the Company’s pension program.

A. Originally, the Con Edison Retirement Plan was a defined benefit pension plan that provided vested employees with pension benefits under different formulas, depending on their date of hire. Over time, however, the Con Edison Retirement Plan has changed. Management employees hired on or before January 1, 2001; union employees who are members of Local 3 hired on or before January 1, 2010; and union employees who are members of Local 1-2 hired on or before July 1, 2012, are covered under a traditional FAP pension
formula based on an employee’s Final Average Pay, which is the highest consecutive four years in the last ten years of service. Employees may qualify for an unreduced early retirement benefit at age 55 if they have at least 30 years of service. Employees with less than 30 years of service may retire at age 55 with a slight reduction to their pension of 7.5 percent if they have at least 75 points. Pension benefits for employees retiring before age 55 are actuarially reduced.

Q. What steps has the Company taken to manage or mitigate pension costs?

A. The Company has amended the Retirement Plan to reduce future liabilities and annual costs by prospectively changing to a Cash Balance pension formula for newly hired employees. Management employees hired on or after January 1, 2001; union employees who are members of Local 3 hired on or after January 1, 2010; and union employees who are members of Local 1-2 hired on or after July 1, 2012, are now all covered under a Cash Balance pension formula instead of the FAP formula. Employees covered by the Cash Balance formula will earn a pension benefit over a 30-year career that is less
costly than the benefit earned under a traditional FAP pension formula because of a lower benefit accrual rate as well as the elimination of a cost of living adjustment and subsidies for early retirement, and a 50 percent J&S annuity provided to married employees.

Q. What other actions has the Company taken to manage or mitigate pension costs?

A. For management employees under the FAP pension formula who are under age 50 as of January 1, 2013, there will be two changes that will reduce future pension liabilities and annual pension costs. The first change increases the age at which employees can elect to receive an unreduced early retirement benefit from age 55 to age 60. Instead of receiving an unreduced or slightly reduced pension at age 55, employees will be subject to a five percent per year reduction from age 60 to age 55. For example, an employee would be subject to a 25 percent reduction of a portion of his/her pension if he/she elects to retire at age 55 (five percent multiplied by five years). The second change applies to retiring married employees who will now be charged for a portion of the cost of the 50 percent J&S annuity on his/her pension that accrues
after January 1, 2013. Currently, married employees are not charged for this benefit, the cost for which has been fully subsidized by the Company. Both pension changes apply to prospective benefits earned from January 1, 2013, until retirement.

Q. What savings does the Company expect to realize as a result of changing Local 1-2 employees hired on or after July 1, 2012, from the FAP pension formula to a Cash Balance pension formula?

A. The Company expects that changing to a Cash Balance pension formula for union employees will initially result in some savings as new employees are hired. Larger savings are expected in the distant future as the population of employees under the Cash Balance pension formula grows. For example, we project that from 2013 to 2022, the reduction in pension liabilities will be approximately $200 million resulting in cost savings that grow from $3 million to $48 million per year over the same period, depending on the number of Local 1-2 employees hired and retained during this ten-year period.

Q. What savings does the Company expect to realize as a result of changing the early retirement age and
charging for the 50 percent J&S benefit for management employees under the FAP pension formula who are under age 50 as of January 1, 2013?

A. As a result of these two changes, we project that the reduction in pension liabilities for the period of 2013 to 2022 will be approximately $71 million. We expect that cost savings attributed to increasing the early retirement age from age 55 to age 60 will range from $4 million to $6 million per year, and another $2 million per year savings will result from charging married employees for a portion of the 50 percent J&S benefit.

Q. Does this conclude your testimony?

A. Yes.