CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DIRECT TESTIMONY OF

COMPENSATION/BENEFITS PANEL - ELECTRIC

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

A. Richard Bagwell, and my business address is 4 Irving Place, New York, New York 10003. 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. Bagwell, 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 Vice President of Human Resources.

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

A. I have been employed by Con Edison for 41 years.

Q. Please briefly outline your educational and business experience.

A. I graduated from Pace University with a BBA in Accounting in 1981. I received an MBA in Finance from Iona College in l989. I have participated in Executive Management Programs at the Wharton Business School of the University of Pennsylvania and the Darden Graduate School of the University of Virginia. I became a Certified Internal Auditor in l995, a Certified Professional Environmental Auditor in 1999, and received a HR Director's Certification from Cornell University in 2011.

I joined Con Edison in 1973 as a General Utility Mechanic and moved into management through the Management Intern Program, now known as the Gold Associates program. I joined Auditing in 1984 and became the Audit Manager in 1993. In 1998, I was promoted to Brooklyn/Queens Overhead Construction Manager. In 2001, I was promoted to Deputy Corporate Ombudsman. In 2004, I was promoted to Director of the Learning Center. In 2009, I was promoted to Director of Human Resources—Employee and Labor Relations. In August 2014, I was promoted to my current position.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DIRECT TESTIMONY OF

COMPENSATION/BENEFITS PANEL - ELECTRIC

Q. Please generally describe your current responsibilities.

A. My responsibilities as Vice President of Human Resources include Benefits, Compensation, Human Resource Support, Employee and Labor Relations, and Occupational Health. Specifically, my responsibilities include developing human resources policies and programs for the Company; negotiating and administering labor agreements and overseeing human resource compliance with federal, state, and municipal regulations (*e.g.,* FMLA, ERISA, HIPPA); directing the preparation of information requested or required for compliance; establishing wage and salary structure pay policies; implementing cost containment strategies for health benefit programs; negotiating administrative fees with health insurance carriers; recommending alternate benefit administrators and plan changes; managing a $16 million operating and maintenance budget; managing a staff of over 100 professionals; and developing, implementing, and monitoring all aspects of the Company’s executive compensation.

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

A. Yes, I belong to the Regional Utility Group, the Institute of Internal Auditors, and the Society of Human Resource Management.

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

A. I am employed by Con Edison as Director of Benefits.

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

A. I have been employed by Con Edison for 38 years.

Q. Please briefly outline your educational and business experience.

A. I graduated from Fordham University with a Bachelor of Science degree in Accounting in l976. In l982, I earned a Master of Science degree in Taxation from Pace University. I joined Con Edison in l976 as a Staff Accountant in Corporate Accounting. Between l979 and l981, I was promoted to different supervisory positions in Corporate Accounting. In l983, I was promoted to Assistant Manager, Accounting Research and Procedures. In l988, I was promoted to the position of Manager, Retirement and Insurance Benefits, and in l989, I was promoted to the position of Manager of Employee Benefits. In September l999, 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.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DIRECT TESTIMONY OF

COMPENSATION/BENEFITS PANEL - ELECTRIC

Q. Have you previously submitted testimony on behalf of the Company before the New York Public Service Commission (“Commission”)?

A. Yes. I testified in the last Con Edison electric, gas, and steam rate cases as well as in other Con Edison rate cases. I also filed testimony in the current electric and gas 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 and work experience.

A. I graduated from Hofstra University in l985 with a Bachelor of Business Administration in Accounting. I have been employed by Con Edison for 28 years. Between l986 and l996, I was promoted to various supervisory positions in Corporate Accounting. In l998, 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 Con Edison Board of Directors (“Board”).

Q. Have you previously submitted testimony on behalf of the Company before the Commission?

A. Yes. I testified in the last Con Edison electric, gas, and steam rate cases as well as in other Con Edison rate cases. I also filed testimony in the current electric and gas rate case for O&R.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DIRECT TESTIMONY OF

COMPENSATION/BENEFITS PANEL - ELECTRIC

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 the PPL Corporation, in addition to Con Edison and O&R.

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?

Q. 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. Have you previously submitted testimony on behalf of the Company before the Commission?

A. Yes. I testified in the Con Edison electric, gas, and steam rate cases and have filed testimony in the current electric and gas rate case for O&R.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

DIRECT TESTIMONY OF

COMPENSATION/BENEFITS PANEL - ELECTRIC

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 and O&R.

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 an MBA, Finance and International Business, from the New York University Stern School of Business. Prior to joining Hewitt Associates (now Aon Hewitt) in l997, 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 management audiences of the Society for Human Resource on the topic of compensation and published the cover article in the World of Work Journal (4th quarter, 2005).

Q. Have you previously submitted testimony on behalf of the Company before the Commission?

A. Yes. I testified in the Con Edison electric, gas, and steam rate cases and have filed testimony in the current electric and gas rate case for O&R.

PURPOSE OF TESTIMONY

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

A. The Panel’s testimony demonstrates that the Company provides market-competitive benefits and compensation designed to attract and retain those employees the

Company requires to provide customers with safe and reliable service. The Company continues to proactively manage long-term liabilities like those related to pensions and retiree health care.

This direct testimony examines the overall level of employee “Benefit” and “Compensation” reflected in the revenue requirement of this filing and demonstrates that the Company’s level of benefits and compensation in aggregate is market-competitive and meets the Commission’s standards for assessing the overall competitiveness and reasonableness of such expenditures. The costs of the Company’s benefits and compensation plans constitute reasonable business expenses that should be recovered in rates for the reasons discussed below. Benefits include retirement, active employee 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) the comprehensive review that the Company conducted, with the assistance of Aon Hewitt, of the Company's Total Benefits and Compensation package for management employees, including both non-officer management employees and officers of the Company; (2) Board of Director compensation; and (3) the 2013 contractual agreement with the International Brotherhood of Electrical Workers Local 3 ("Local 3").

Q. What was the purpose of the Review?

A. The purpose of the Review was to assess the market competitiveness of the Company's Total Benefits and Compensation package for management employees of the Company. The Panel describes below the Review process, methodology, and results.

Q. In conducting the Review, did the Company evaluate its benefits and compensation package as compared to those offered by similarly situated companies?

A. Yes. Consistent with Commission policy and typical market practice, in assessing the overall competitiveness and reasonableness of the Company's benefits and compensation package, the Review compared the Company's package to those offered by a peer group of similarly situated companies.

Q. Were the peer companies limited to utility companies?

A. No. As recommended by the Commission, the Company evaluated Total Benefits and Compensation relative to a blended peer group including both utility and non-utility, New York metropolitan general industry companies ("Blended Peer Group").

Q. What were the Review's overall findings with respect to the peer group analysis?

A. As explained below, the Review found that the Company's benefit programs and compensation for its management employees, as well as the combined benefits and compensation package value, are within a +/- ten percent range that is considered "competitive" with respect to the Blended Peer Group. In fact, the Company's combined benefits and compensation package is below the median of the Blended Peer Group.

Q. Did the Company make changes to its benefits and compensation plans in response to the Review?

A. No. The Company had implemented significant benefit and compensation changes for management employees effective January 1, 2013. The changes at that time were made to better align the benefit programs and compensation with competitive peer group company 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. Since January 1, 2013, the Company has not implemented any additional major compensation or benefit program changes.

Q. Since the changes implemented in January 1, 2013, has the Company conducted a follow-up review to determine whether its overall Total Benefits and Compensation remains reasonable and competitive relative to similarly situated companies?

A. Yes. In 2014, the Company conducted a review (“Review”) comparing its total benefit and compensation programs to the Blended Peer Group.

Q. Did the Review include the Supplemental Retirement Income Plan (“SRIP”) benefit provided to Company management employees?

A. Yes. The Review included all benefit and compensation programs provided to non-officer and officer management employees. The SRIP provides management employees upon retirement with the portion of their earned pension benefit that is above the federal tax law limitation applicable to the Company’s tax qualified Retirement Plan. The SRIP formulas for active employees are the same as the pension formulas of the Retirement Plan but make up for pension benefits that have been earned but could not be paid under the Retirement Plan due to plan provisions or Internal Revenue Service (“IRS”) limits imposed on the accrual and payment of pension benefits under tax qualified pension plans.

Q. Does the rate request include recovery for the cost of the SRIP as part of the retirement expense?

A. Yes. And we note that the SRIP costs also include funding costs related to SRIP retirement benefits earned and still payable to former employees.

Q. Are the SRIP benefits consistent with the Blended Peer Group’s programs?

A. Yes. As part of the Review, the Company looked at the SRIP programs provided for current employees for the 50 companies in the Blended Peer Group. Forty-four of the 50 companies provide SRIP-type benefits. Providing SRIP benefits is consistent with the Blended Peer practices and services to maintain the Company’s retirement benefit at a competitive level with the Blended Peer Group. Please see the table below for a summary of the SRIP benefit prevalence for the Blended Peer Group. Almost 90 percent of the peer companies provide a SRIP benefit and it is market practice to also include in their SRIP arrangement the various prior pension formulas that were used to determine the SRIP benefit earned by the peer company’s former employees. The Company found that as a general rule, once SRIP benefits are earned, they are not modified.

The focus of the Review and competitive features is for retirement benefits offered to new hires.

Summary of SRIP Type Benefits

50 Blended Peer companies – General Industry and Utility

Maintain a SRIP Type Benefit	*General Industry*	*Utility*	*Total*
Yes	21	23	44
No	4	2	6
Total	25	25	50

Q. Does the rate request include compensation for officers of the Company?

A. The rate request reflects only some elements of compensation for officers. The Company’s compensation program for the Company’s officers includes base salary, annual variable pay awards, long-term equity grants and benefits. 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. Based on the Review conducted by Aon Hewitt, Company officers' Total Benefits and Compensation are approximately seven percent below the median. In order to limit the contested issues in this filing, the Company is electing not to seek recovery of the long-term equity grants and annual variable pay awards provided to the Company's officers. The Company may seek to recover all or part of these elements of compensation in future proceedings.

Q. Does the rate request include compensation for members of the Con Edison Board who are not employees of the Company?

A. Yes. As to members of the Board who are not employees of the Company, the Company is seeking to recover in rates Board compensation, which 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. Do current electric rates reflect Board compensation?

A. Only partially. Current rates reflect annual retainers and meeting fees only. In its last contemporaneous rate filing for electric, gas, and steam, the Company did not seek recovery of annual long-term equity grants in order to limit the number of matters at issue. The Company indicated in that filing that it reserved the right to revisit recovery of this element of non-employee Board compensation in future rate proceedings. The Company is seeking rate recovery in this case for the reasons discussed below.

Q. Please address the Local 3 Contract.

A. The Company concluded a new contract with Local 3 (which represents approximately 300 members) with a term from June 30, 2013 through June 24, 2017. As described in greater detail below, in addition to a 12.28 percent wage increase over four years of which 6.1 percent is merit-based, the contract provides for new in-network hospital/medical deductibles, co-insurance, annual out-of-pocket limits, and emergency room co-payments, increases to out-of-network medical deductibles, annual out-of-pocket limits and co-insurance, and implemented an optional Defined Contribution Pension Plan for new hires.

Q. Does the Panel address employee benefit expenses?

A. Yes. This direct testimony explains the forecast of employee benefit expenses based on historic costs and escalation of existing programs. This direct testimony also addresses program changes that the Company has implemented for management employees and the 2013 Contract with Local 3. 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. This direct testimony also reflects the Company’s wellness efforts and plan design changes that are expected to mitigate future plan cost increases. The Company’s employee benefit expenses net of capitalization are estimated to increase approximately 13.5 percent from the

Historic Year to the Rate Year or 5.8 percent per year compounded annually.

Q. With respect to Post-Employment Benefits Other Than Pensions (“OPEB”), what cost mitigation actions has the Company taken?

A. Recent actions to mitigate OPEB expenses include taking advantage of the tax savings of the Patient Protection and Affordable Care Act (“PPACA”) related to Medicare-eligible retirees’ prescription drug benefits. The plan known as an Employer Group Waiver Plan (“EGWP”) replaced the Medicare part D Retiree Drug Subsidy (“RDS”) the Company had received. As described below, the EGWP program offers significantly more subsidies and reimbursements than available under the RDS program. In addition, effective January 1, 2013, those management employees who participate under the Cash Balance Pension Plan formula are responsible for paying for the full costs of retiree health coverage if they are eligible and elect such coverage when they retire.

Q. Has the Commission articulated criteria to determine whether the costs associated with a utility’s benefits and compensation plans should be recovered in rates?

A. Yes. In the Commission’s rate order, dated February 21, 2014, in the immediately preceding Con Edison rate cases (Case 13-E-0030, 13-G-0031, 13-S-0032) (“Con Edison Rate Cases”), the Commission indicated 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 comprised of similarly situated companies, including both utilities and general industry. In its rate order for United Water New York, Inc., dated June 26, 2014, in Case 13-W-0295, the Commission reaffirmed that to obtain recovery of variable pay, a company must demonstrate that the overall compensation, including the variable pay component, is reasonable relative to similarly situated companies.

Q. Has the Commission addressed any other criteria with respect to evaluating recovery of costs associated with a utility’s benefit and compensation package?

A. Yes. In its rate order in the Con Edison Rate Cases, the Commission noted with approval Con Edison's willingness to conduct its comparative compensation/benefits study to achieve at least a 50 percent matching of positions in a blended peer group of utilities and New York metropolitan employers.

Q. Has the Company compared its Total Benefits and Compensation package with those of a peer group comprised of similarly situated companies?

A. Yes. Con Edison retained Aon Hewitt to conduct a comprehensive review of its Total Benefits and Compensation package, *i.e.*, the Review as described above. Aon Hewitt was selected because it is an industry leader in this type of review and has the experience, survey data, and tools needed to analyze the competitiveness of various benefit and compensation plans.

REVIEW METHODOLOGY

Q. Please provide an overview of the general approach of the Review.

A. The Review compared Con Edison’s management employee benefits and compensation package values to external benchmark data for the following components:

- Employee benefits (including pre- and post-retirement benefits and SRIP);
- Base salary;
- Variable pay; and
- Long-term equity grants.

Q. What is included in the employee benefits value analysis?

A. The employee benefits value analysis compared the value of design features (*e.g.*, health plan co-payments, deductibles, and co-insurance) of the benefits programs at Con Edison to the value of design features of the benefits programs at the members of the Blended Peer Group.

Q. Please continue.

A. The benefit design value analysis also includes an assessment of the program features that are based on salary (*e.g.*, pension benefit accrual formulas, thrift savings plan company match percentages, and the definition of covered pay). Then the annual design value (on a salary equivalent basis) at Con Edison is measured against the annual value of the peer companies' benefit designs to compare how compensation –based benefit programs affect the total value of the benefits packages included in the comparison. If, for example, 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 (*i.e.*, five percent of pay) to the employee at Company A will be higher. The employee benefit analysis performed in this manner allows for a more accurate comparison of benefit packages.

Q. Please describe the process used to assess the benefit designs of the benefits 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 l970's to make such assessments.

Q. How were benefit design competitiveness assessments made?

A. Benefit Index results are reached using a very specific process. Actuarial techniques 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 design value analysis of the Review. Finally, the benefit design features of Con Edison’s benefits program 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 package value offered by the peer companies. Generally, differences in the overall benefit package value are not considered significant or material until they exceed ten percent (*i.e.*, less than 90.0 or greater than 110.0 as compared to Con Edison). A Benefit Index benefit design result within this range would be viewed as “competitive.”

Q. Which benefits programs are included?

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

- **All Post-retirement Benefits**: Post-retirement benefits reviewed included pension, Thrift Savings 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. Please describe the peer companies that were used in the Review to analyze the competitiveness and reasonableness of the Company’s non-officer management benefit plan designs and annual benefit and compensation package values.

A. A Blended Peer Group of 50 companies was used for comparison purposes, including 25 utility peers and 25 New York metropolitan general industries peers. The list of members of the peer group is provided in Exhibit ___ (AH C/BP – 1).

MARK FOR INDENTIFICATION AS EXHIBIT ___ (AH C/BP – 1)

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

A. Yes.

Q. Please describe the Blended Peer Group.

A. The 25 utility peer companies have similar operations to Con Edison and have employees with similar experience and skills in the utility industry as Con Edison. The 25 New York Metropolitan General Industry peers include general industry companies with headquarters located in the New York metropolitan area (*i.e.*, New York, New Jersey, and Connecticut), and that have a significant number of both salaried and hourly employees in the New York metropolitan area. These companies have similar operations to Con Edison in its non-utility-specific areas such as finance, information technology, human resources, and legal. Together this group of 50 companies is representative of the labor market for non-officer management employees at Con Edison. It also reflects a sample that has available data for both compensation and benefit benchmarking based on survey participation.

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."

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/BP– 2)

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 current Con Edison benefit plan designs, including a comparison to the Blended Peer Group.

In aggregate, the Con Edison benefit plan is within a +/- ten percent range (*i.e.*, between 90 and 110) that is considered "competitive" with respect to the Blended Peer Group with a Benefit Index design score of 97.9.

Q. Did the Panel also analyze the competitiveness and reasonableness of the Company's non-officer management compensation components?

A. Yes.

Q. How was the compensation competitiveness assessment made?

A. The compensation competitiveness assessment included a comparison of base salary, annual variable pay (at target), and long-term equity grants for Con Edison non-officer management positions and for the Blended Peer Group 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 consistent with industry practice. First, Aon Hewitt determined which positions at Con Edison matched positions among the Blended Peer Group, based on a comparison of functional responsibilities, job duties, and organizational level for which data is available from the survey sources. 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 Blended Peer Group. Finally, Aon Hewitt aggregated these results to evaluate Con Edison's overall competitive position relative to the Blended Peer Group 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 performing a Total Benefits and Compensation analysis. However, the use of median is an 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, program design elements exhibit much less variation than pay levels. Therefore, it is a standard industry 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 result have been materially different?

A. No. The Blended Peer Group results are substantially similar using either market reference points. Using the median, Con Edison's Total Benefits and Compensation was 6.8 percent below the Blended Peer Group median (or 93.2 percent of the median). Using the average, Con Edison Total Benefits and Compensation was 8.6 percent below the Blended Peer Group average (or 91.4 percent of the average).

Q. Which companies were used to assess the competitiveness of Con Edison's Total Benefits and Compensation package value?

A. The Blended Peer Group was used in the Review for both the benefits design benchmarking and the Total Benefits and Compensation positional analysis.

Q. What data sources were used for the Review?

A. Three data sources were used, all using the same Blended Peer Group: (1) the Aon Hewitt Benefit Index Database; (2) the Aon Hewitt Total Compensation Measurement Database; and (3) the Towers Watson Compensation Survey.

Q. Was the compensation survey data adjusted for geography?

A. Yes. It is a common industry practice to use national compensation data for analyzing non-officer management level roles. However, given Con Edison’s metropolitan New York location, a location with a significantly higher than national cost of labor, a geographic adjustment was applied to the national data (*i.e.*, those utility members of the Blended Peer Group located outside the New York metropolitan area) to account for this cost of labor difference relative to the Blended Peer Group data used in the Review.

Q. How many non-officer management positions and employees were included in the Review Total Benefits and Compensation positional analysis?

A. To provide a robust representation of the Company’s non-officer management employee base Aon Hewitt compared approximately 62 percent of the Con Edison non-officer management employees (*i.e.*, over 3,000 employees) across the Company’s pay structure to the Blended Peer Group companies.

Q. Is 62 percent coverage sufficient to draw valid conclusions from the Review?

A. Yes. The positions included in the analysis covered several functional areas: Central Operations, Electric Operations, Finance, Accounting, Customer Operations, Human Resources, Engineering, Information Resources, Gas Operations, Steam 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. The results of the analysis, therefore, are representative of Con Edison’s pay positioning across the entire non-officer management employee population.

Q. Why were some Con Edison non-officer management positions excluded from the Review?

A. In performing the positional analysis, benchmark jobs were identified for nearly 98 percent of Con Edison's non-officer management employees. Of the 98 percent "benchmark" jobs, there was sufficient Blended Peer Group data to provide analysis for 62 percent of Con Edison's non-officer management employees. For the remaining benchmark jobs, there was not sufficient data reported by the Blended Peer Group companies to the compensation survey sources to include the position in the Review. The United States Department of Justice safe harbor guidelines indicate the need for a minimum of five data points with no more than 20 percent of the sample from any single peer company. If fewer data points were available for a benchmark position, it was excluded from the Review.

Q. Is the Panel sponsoring an exhibit in connection with the positions included in the Review?

A. Yes. Please see the exhibit entitled "CENSUS."

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

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 – 3).

A. This exhibit lists all non-officer management positions at Con Edison, and whether the position was included in the Review. Positions were excluded for one of the following reasons:

- "Insufficient Benchmark Data (less than five comparator matches)" indicates the Con Edison position is a benchmark position but there was not sufficient Blended Peer Group data to include the position; or
- "Non-Benchmark Job" indicates the Con Edison position is not similar to any survey benchmark positions in terms of functional responsibilities, job duties, and/or organizational level.

Q. Is the Panel sponsoring an exhibit in connection with the competitive positioning of Total Benefits and Compensation of Con Edison non-officer management positions benchmarked as part of the Review?

A. Yes. Please see the exhibit entitled "TOTAL BENEFITS AND COMPENSATION RESULTS."

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 Con Edison employee positions included in the comprehensive review as compared to the Blended Peer Group. This exhibit includes the following information:

- Band;
- Con Edison title, section, and department;
- Benchmark title;
- Con Edison Total Benefits and Compensation;

- Market Total Benefits and Compensation at the 50th percentile (median) and average; and
- Variance for each Con Edison position to market using the average and the median.

Q. What did Aon Hewitt's analysis indicate when comparing Con Edison to the Blended 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 Benefits and Compensation was 6.8 percent below the Blended Peer Group median (or 93.2 percent of the median). Using the average, Con Edison Total Benefits and Compensation was 8.6 percent below the Blended Peer Group average (or 91.4 percent of the average). This is low but considered to be within a market competitive range of plus or minus ten percent in aggregate.

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 RESULTS."

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

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 – 5).

A. This exhibit identifies the aggregate results, relative to both the average and the median of the Review Aon Hewitt performed using the Blended Peer Group by each component of Total Benefits and Compensation discussed above:

- Base Salary;
- Target Cash Compensation (sum of Base Salary and the variable component of management pay);
- Total Direct Compensation (sum of Target Cash Compensation and long-term equity grants);
- Total Benefit Value (estimated annual value of employee benefits); and
- Total Benefits and Compensation (sum of total Direct Compensation and Total Benefit Value).

Q. Please provide a summary of the Blended Peer Group analysis findings with respect to the annual variable pay.

A. The Con Edison variable component of management pay lags the market. As a percentage of total cash compensation Con Edison’s variable pay represents seven percent. The median for the Blended Peer Group is approximately 11 percent and almost 12 percent of the average.

Q. Is the Panel sponsoring an exhibit in connection with the findings regarding the variable component of management pay?

A. Yes. Please see the exhibit entitled “ANNUAL VARIABLE PERFORMANCE-BASED PAY COMPARISONS.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/B – 6)

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/B – 6).

A. This exhibit identifies the Con Edison Band, and the annual variable component of management pay opportunity for employees in each Band compared with the market range of target variable pay among the Blended Peer Group companies at equivalent Band levels.

Q. Please provide a summary of the Blended Peer Group Total Benefits and Compensation analysis.

A. In aggregate, as discussed above, the Con Edison Total Benefits and Compensation value for non-officer management employees is 6.8 percent below the Blended Peer Group median and 8.6 percent below the Blended Peer Group average.

Q. Based on the findings of the Review, what changes has the Company made?

A. Other than some minor changes to health plan deductibles and copayments, the Company plans no significant changes to its compensation and benefits program at this time.

Q. Please summarize your findings.

A. In summary, the results of the Review demonstrate that the costs of the total benefits program and compensation, including the variable component of non-officer management base pay, and SRIP, are appropriately incurred business expenses so that the Company can meet its obligation to provide safe and reliable utility service to its customers. Accordingly, the Company has included the costs of these programs in the electric revenue requirements.

NON-OFFICER COMPENSATION

Q. Please describe the Company's overall compensation philosophy.

A. The philosophy of the Company is to provide compensation that is competitive with the median levels of compensation provided by a peer group of similarly situated companies. This approach to setting compensation levels permits the Company to be reasonably competitive in the labor market and to be able to attract, and fairly compensate, employees important to the success of the Company. In targeting the median levels for compensation measured against a market competitive norm, the Company has taken a conservative, low-cost approach, which benefits its 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 is determined by the achievement of 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 customers. These performance goals encompass reliability, safety, 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. Has the Commission 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. Please describe the variable pay component of the Company's non-officer management compensation.

A. The variable pay component of base compensation in the Company's plan is earned only if and to the extent 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 on a cost-effective basis. These performance goals are tracked on a calendar year basis and must be met anew each year.

Q. Please describe how the variable pay component of the Company's non-officer management compensation works.

A. The "Target Fund" for the variable pay component is determined by multiplying the base salary of all eligible employees as of December 31 by their respective target percentage. The Target percentage for each band level is shown in Exhibit AH C/B – 6.

Q. Can the Target Fund be adjusted?

A. Yes, the Target fund can be adjusted up or down based on the actual performance results compared with the pre-set performance goals for that year.

Q. Please continue.

A. The Target Fund available for distribution is established based on four weighted components: performance indicators (50 percent), operating budget (15 percent), capital budget (15 percent), and net income (20 percent). A sliding scale of 0 percent to 120 percent is applied to each component based on actual outcomes. The actual amount to be distributed each year is determined by multiplying the Target Fund by the actual performance results for four performance criteria components. Variable pay amounts awarded will vary between employees based on the target percentage for his or her position, the results of additional performance indicators specifically assigned to his or her organization and an assessment of their individual performance. An Eligible Employee with an “unsatisfactory” performance rating will not qualify for variable pay. For each eligible employee, 60 percent of the award will be based on achieving specific organization performance criteria, and the remaining 40 percent is based on individual performance.

Q. How was the amount of variable pay included in the revenue requirement calculated?

A. The amount of variable pay included is set by the Target Fund level. This amount expressed as a percentage of total cash compensation represents seven percent. As indicated below, the median for the blended peer group is approximately 11 percent and almost 12 percent of the average.

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

A. If the goals are not fully achieved, and the Target Fund amount of variable pay recoverable from customers is not paid out, consistent with the Company’s current electric rate plan, the Company proposes to credit customers with the difference.

Q. Does the Company have a plan document that describes the variable pay plan?

A. Yes.

Q. Is the Panel sponsoring an exhibit describing the Company's variable pay plan?

A. Yes. Please see the exhibit entitled "Management Variable Pay Plan."

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/B – 1)

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

A. Yes.

Q. Please describe the performance indicator goals.

A. The performance indicator goals for 2014 address reliability of the electric system, responsiveness to customer calls, customer satisfaction surveys, a storm performance index, safety, the environment, and response to Commission complaints. The Company's variable component of management pay reflects the Company's focus on delivering to its customers safe and reliable utility service in a cost-effective manner. These performance goals send the proper signals so that employees focus on providing the highest levels of customer service while remaining focused on seeking cost savings and efficiencies. When Company employees are within or under budgets that are reflective of productivity and/or cost savings initiatives, customers receive the tangible benefit of lower costs for the provision of service in the long term.

Q. Is the Panel sponsoring an exhibit listing the Company’s performance indicators?

A. Yes. Please see the exhibit entitled “2014 Performance Indicators.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/B – 2)

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

A. Yes.

Q. How do customers benefit from the attainment of these performance goals?

A. These goals are established to enhance particular areas of customer service, safety, and reliability, as well as employee development, environmental stewardship, and completion of system enhancements and capital projects. Seven of the 14 performance indicator goals are tied directly to specific Commission established targets. These include: electric reliability network and non-network outages in terms of length and number of outages; customer calls answered within 30 seconds; limiting the customer complaints directed to the Commission; achieving customer satisfaction survey targets; responding to gas odor complaints within 30 minutes and managing gas leak backlogs; and meeting storm performance targets. To the extent that such goals are achieved, customers benefit directly. The Company’s concern for customer satisfaction and providing a high level of service and overall safety is demonstrated in linking the variable component of management compensation to particular goals. For example, service reliability is demonstrated in setting the Frequency of Outages goal and the Restoration Time goal. Managing calls answered, processing of customer service applications, and keeping appointments demonstrate concern for customer service and satisfaction. Other examples of direct customer benefits from the attainment of these goals include the Storm Scorecard goal, which measures the Company's efficiency in managing storm situations and is aimed at quick restoration of customer utility service during storms. Our Employee Development and Safety indices result in a capable, well-trained staff who aim to not only protect the work force and the public but could lead to reduced insurance costs as accident incident rates are reduced. The Environmental Index is intended to motivate a rigorous focus on environmental compliance and continuous improvement of the Company's environmental stewardship.

Q. How do customers benefit from the attainment of the Operating Budget and Net Income goals?

A. Customers benefit both directly and indirectly when the Operating Budget and Net Income goals are achieved. Customers derive benefits from achieving the net income levels that attest to the Company's financial strength and stability. Con Edison competes for capital in a capital-intensive industry. A company that attains rigorous financial and operating budget goals will ultimately benefit its customers. 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 lower costs to customers than they would be otherwise. Conversely, a single-minded focus on meeting budgets, without a focus also on prudent business management, can result in unsatisfactory customer service.

Q. How does the Company measure its operating and capital budget performance?

A. Our performance related to the operating and capital budget targets is measured in terms of total spend compared with how well certain identified key projects and programs are managed in terms of schedule and cost. The Company uses "modifiers" that are designed to measure both unit costs and units completed. The modifiers for capital 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. These modifiers also demonstrate the Company's internal controls and cost tracking detail that is used to manage our overall operating and capital budgets.

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?

A. Yes. Please see the exhibit entitled "CAPITAL BUDGET MODIFIERS."

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP – 3)

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

A. Yes.

Q. How many programs were identified to be measured for the Operating Budget?

A. The Company identified 12 programs to be measured for the Operating Budget.

Q. Is the Panel sponsoring an exhibit in connection with operating budget programs?

A. Yes. Please see the exhibit entitled “OPERATING BUDGET MODIFIERS.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (C/BP – 4)

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

A. Yes.

Q. Turning to another aspect of compensation, please describe equity grants for non-officer management employees.

A. Equity grants are awarded to management employees contributing to the future success and growth of the

Company. The Management Development and Compensation Committee of the Company’s Board of Directors (“MDC Committee”), the administrator of the equity grant program, authorized granting equity awards in the form of performance based restricted stock (“PBRS”) to non-officer management employees in bands 3 and 4, and time-based restricted stock (“TBRS”) to management employees in bands 1 and 2. The equity grants provide the right to receive one share of Con Edison common stock (or a cash payment equal to the fair market value of one share of Con Edison common stock) for each stock unit granted, subject to the satisfaction of certain pre-established long-term performance objectives.

Q. How are equity grants determined for non-officer management employees?

A. Non-officer management employees are eligible to receive PBRS and TBRS equity grants. It has been the Company’s practice to limit equity grants to approximately 20 percent to 25 percent of the total number of non-officer management employees based on recommendations from their Senior Officer and an assessment of each recommended employee's past performance and potential to contribute to the Company's future success.

Q. How and when are PBRS distributed?

A. The PBRS are distributed after completing a three-year performance cycle, but the number of shares distributed on the payout year is based on a numerical formula and depends on the achievement of certain performance criteria. The following performance indicators will determine the number of shares (or cash equivalent) actually distributed at the end of each performance cycle: fifty percent of PBRS granted to non-officer management employees in bands 3 and 4 is linked to performance as measured by the Variable Pay Plan for non-officer management employees. As previously mentioned, the Variable Pay Plan is determined by achieving pre-established 14 performance indicators, operating budget, capital budget, and net income. The number of shares distributed will be determined by multiplying the three-year average of the Variable Pay Plan performance achieved by the number of shares linked to this performance indicator. For example, if the Variable Pay Plan average payout for the prior three year period is 95 percent, then 95 percent of the PBRS grants linked to this indicator will be distributed.

The other fifty percent of the PBRS awarded to non-officer management employees is linked to Con Edison's performance using a Total Shareholder Return ("TSR") indicator. TSR is the incremental value an equity investor receives (change in stock price plus dividends received) by holding one share of a company's common stock over a period of time. In determining the number of shares to be distributed, the following guidelines will apply based on how well Con Edison's TSR compares with the TSR for the compensation peer group over a three-year performance period:

Con Edison’s TSR Percentile Ranking	Percent of Shares Distributed
75^{th} or greater	150%
70^{th}	140%
65^{th}	130%
60^{th}	120%
55^{th}	110%
50^{th}	100%
45^{th}	85%
40^{th}	70%
35^{th}	55%
30^{th}	40%
25^{th}	25%
Below 25^{th}	0%

For example, 100 percent of the PBRS linked to this performance indicator will be distributed if the Con Edison’s TSR during the performance period ranks in the 50^{th} percentile when compared to the TSR for the compensation peer group.

Q. What companies are included in the compensation peer group to determine the TSR results?

A. The compensation peer group is listed in the Company's annual proxy statement. It includes: Ameren Corporation, American Electric Power Company, Inc., CenterPoint Energy, Inc., Dominion Resources Inc., DTE Energy Company, Duke Energy Corporation, Edison International, Entergy Corporation, Exelon Corporation, FirstEnergy Corp., NextEra Energy, Inc., NiSource, Inc., Pepco Holdings, Inc., PG&E Corporation, PPL Corporation, Sempra Energy, The Southern Company, and Xcel Energy Inc.

Q. How and when are TBRS distributed?

A. The TBRS are distributed after completing a three-year vesting cycle. For example, management employees in bands 1 and 2 awarded TBRS in April of 2012 would receive a payout of 100 percent of these shares in March 2015.

Q. Why should the Company be permitted to recover the costs of equity grants?

A. Equity grants are part of an overall total compensation package for non-officer management employees that is below the median compensation levels compared with the Blended Peer Group. The form of compensation, in this case equity grants as opposed to cash, should not influence the recoverability of compensation cost. The Company provides equity grants to non-officer management employees to promote employee behavior to drive the future success of the Company and to retain quality employees critical to achieve this success. Payouts are made only after the consistent demonstration of achieving performance indicators over a period of time, as measured by the three-year average of the Variable Pay Plan. Equity grants are component of the overall compensation and benefits package for non-officer management employees and are a necessary and reasonable business expense incurred by the Company in order to attract the talented employees necessary to provide safe and reliable service.

COMPENSATION PROGRAM FOR OFFICERS

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

A. The Company’s compensation package for its officers includes market-competitive benefits and compensation designed to attract and retain qualified officers to manage its operations and provide safe and reliable service to customers.

Q. Please describe the elements of the Company’s officer compensation program.

A. The elements of the Company’s compensation program are the same for officers as they are for non-officer management employees – base salary, a variable pay 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 established compensation levels for officers.

A. The 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 publicly-traded utility companies of comparable size and scope to the Company for purposes of providing benchmark information on officer compensation levels. This compensation peer group is also used to measure relative total shareholder returns for vesting one half of the equity grants. The companies included in the compensation peer group are listed above. 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. Were Company officers included in the Review conducted by Aon Hewitt?

A. Yes, while officers compensation is established and approved by the MDC Committee as described above, Aon Hewitt was instructed to include officers as part of the external benchmarking of Total Benefits and Compensation as part of the Review.

Q. Are Aon Hewitt's benchmark findings consistent with the information prepared by Mercer for the MDC Committee?

A. Yes. Mercer's analysis focuses on officers' base salary, variable pay, and long-term equity grants commonly referred to as "Total Direct Compensation." In addition, Mercer's benchmarking is specific to the utility industry. Aon Hewitt was able to compare the Company's officers' Total Direct Compensation with the Total Direct Compensation of the utilities included in the Blended Peer Group. Both the Mercer analysis and Aon Hewitt findings indicate the Company officers' Total Direct Compensation to be in line with the median of the utility industry.

Q. Was the same Blended Peer Group used to conduct the Review of officers' benefits and compensation that was use for the non-officer Review?

A. The peer groups are not identical. Based on the survey data available for officers, 37 of the 50 companies included in the non-officer Blended Peer Group also provided survey data related to officer benefits and compensation. Thirteen companies did not provide compensation data to the survey sources and therefore were not included in the Peer Group for Company officers.

Q. Was sufficient data available among the 37 companies that made up the subset of the Blended Peer Group to conduct the officer portion of the Review?

A. Yes.

Q. Is the Panel sponsoring an exhibit in connection with the 37 companies used in the officers Review?

A. Yes. Please see the exhibit entitled “Officer Peer Group.”

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

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

A. Yes.

Q. How many officer management positions were included in the Review of Total Benefits and Compensation?

A. Thirty-six of the Company’s forty-three officers were included in the Review or approximately 84 percent of the Con Edison officer management employees.

Q. Is 84 percent coverage sufficient to draw valid conclusions from the Review?

A. Yes. The officers included in the analysis included the President and Chief Executive Officer, President, Chief Financial Officer, General Counsel, and senior officers (Senior Vice Presidents) and officers (Vice Presidents)covering several functional areas: Electric Operations, Gas Operations, Finance, Accounting, Customer Operations, Human Resources, Engineering, Information Resources, and Legal. The results of the analysis, therefore, are representative of Con Edison’s pay positioning across the entire officer management employee population.

Q. Why were some Con Edison officer management positions excluded from the Review?

A. There was not sufficient data reported by the Officer Peer Group companies to the compensation survey sources to include the position in the Review.

Q. Is the Panel sponsoring an exhibit in connection with the positions included in the Review?

A. Yes. Please see the exhibit entitled “OFFICER CENSUS.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/BP – 8)

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 – 8).

A. This exhibit lists all officer management positions at Con Edison, and whether the position was included in the Review. Positions were excluded for one of the following reasons:

- “Insufficient Benchmark Data (less than five comparator matches)” indicates the Con Edison position is a benchmark position but there was not sufficient Officer Peer Group data to include the position; or
- “Non-Benchmark Job” indicates the Con Edison position is not similar to any survey benchmark positions in terms of functional

responsibilities, job duties, and/or organizational level.

Q. Is the Panel sponsoring an exhibit in connection with the competitive positioning of Total Benefits and Compensation of Con Edison officer positions benchmarked as part of the Review?

A. Yes. Please see the exhibit entitled "TOTAL BENEFITS AND COMPENSATION RESULTS - OFFICERS."

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/BP – 9)

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 – 9).

A. This exhibit identifies the Con Edison officer positions included in the Review as compared to the Officers Peer Group. This exhibit includes the following information:

- Title;
- Benchmark title;
- Con Edison Total Benefits and Compensation;

- Market Total Benefits and Compensation at the 50th percentile (median) and average; and
- Variance for each Con Edison position to market using the average and the median.

Q. What did Aon Hewitt's analysis indicate when comparing Con Edison to the Officer Peer Group?

A. In the aggregate, Aon Hewitt found Con Edison's officer management Total Benefits and Compensation package value to be "market competitive." Con Edison's Total Benefits and Compensation were seven percent below the Officers Peer Group median (or 93 percent of the median). Using the average, Con Edison Total Benefits and Compensation was 17 percent below the Officers Peer Group average (or 83 percent of the average). The median is low but considered to be within a market competitive range of plus or minus ten percent in aggregate. The average is below a market competitive range of plus or minus ten percent in aggregate because several of the comparison companies had significantly higher short-term and long-term incentives than the median skewing the average.

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 RESULTS - OFFICERS.”

MARK FOR IDENTIFICATION AS EXHIBIT ___ (AH C/BP – 10)

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 – 10).

A. This exhibit identifies the aggregate results, relative to both the average and the median of the Review Aon Hewitt performed using the Officer Peer Group by each component of Total Benefits and Compensation discussed above:

- Base Salary;
- Target Cash Compensation (sum of Base Salary and the variable component of management pay);
- Total Direct Compensation (sum of Target Cash Compensation and long-term equity grants);

- Total Benefit Value (estimated annual value of employee benefits including non-qualified benefits such as SRIP); and
- Total Benefits and Compensation (sum of total Direct Compensation and Total Benefit Value).

Q. Is the Company seeking to recover all elements of officer benefits and compensation, *i.e.*, base salary, the variable pay component, and long-term equity grants, in this rate filing?

A. No. As noted above, the Company has elected not to seek recovery of the variable pay component and equity grants provided to the Company's officers, even though the cost of these two elements of officer compensation are reasonable and necessary business expenses the Company must incur to attract and retain officers to manage its operations and provide safe and reliable service to customers. The Company reserves the right to seek recovery of these costs in future rate filings. The Review demonstrates that all overall benefits and compensation are competitive with the median levels of officer compensation provided by the

Officers Peer Group of companies, that is, seven percent below median as determined by the Aon Hewitt Review. Therefore, officer benefits and compensation costs, excluding variable pay and long-term equity grants cost recovery, represent a reasonable business expense that should be fully recoverable.

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 annual long-term equity grants.

Q. Please describe how the Company establishes 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 and administration of the director compensation program, and (3) inform the Committee on director compensation trends among the Company's compensation peer group and broader industry.

Q. Please describe the current level of annual retainers, meeting fees, and equity grants.

A. 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 Chair of the Management Development and Compensation Committee receives an additional annual retainer of $15,000. The Chairs of the Environment, Health, and Safety; Finance; Operations Oversight and Planning Committees each receive an additional annual retainer of $5,000. The Chair of the Corporate Governance and Nominating Committee receives an additional annual retainer of $10,000. The Audit

Committee Chair receives an additional annual retainer of $25,000 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 $120,000 of deferred stock units following their election at the annual stockholders meeting. The annual long-term equity grants are automatically deferred until the director’s termination of service from the Board. Mercer conducts an assessment of non-employee Board of Director compensation every two years with the Committee to align Directors’ compensation with market levels.

Q. Is the Company currently recovering all three elements in its rates?

A. No. In its 2013 rate filing, the Company elected not to seek recovery of the annual long-term equity grants provided to Board members in order to limit the number of matters at issue in that case. In not seeking recovery, however, the Company specifically reserved the right to seek recovery in future rate filings.

Q. Is the Company proposing in this filing to recover equity grants in the Rate Year?

A. Yes.

Q. Please explain why.

A. Mercer found that the Company's total Directors' compensation is aligned with the median levels of both the Company compensation peer group and a general industry (*i.e.*, $10-$15 billion total market capitalization) group. Accordingly, the Commission should find that the Company's elements of Directors' compensation, including equity grants, (i) are a reasonable cost of attracting and retaining qualified directors, (ii) are commonly included in board of directors' compensation plans, (iii) represent a market-based compensation package, and (iv) are therefore a legitimate cost of doing business that

LABOR CONTRACT

Q. What portion of the Company’s workforce is unionized?

A. Approximately 60 percent of the Company’s 13,200 employees are members of either Local 1-2 (“Local 1-2”) of the Utility Workers Union of American or 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 3?

A. Yes. The previous contract expired on June 30, 2013. Following negotiations, an agreement was reached and ratified by Local 3.

Q. Please describe the principal changes negotiated in the Labor Contract.

A. The new contract addresses wages, pension, thrift savings, and employee health care benefits. Beginning with wages, the contract provides general increases and merit increases as follows: (1) on June 30, 2013, a 1.5 percent general increase and a 1.5 percent merit increase, (2) on June 29, 2014, a 1.5 percent general increase and a 1.5 percent merit increase, (3) on June 28, 2015, a 1.5 percent general increase and a 1.5 percent merit increase, and (4) on June 26, 2016, a 1.375 percent general increase and a 1.375 percent merit increase. The Company grants merit increases to those union employees whose records during the performance period have in all respects been satisfactory.

Q. Please continue with pensions.

A. The contract provides for implementing a new defined contribution pension choice under the Thrift Savings Plan for new hires. The contract also provides for a pension choice period that allows current employees covered under the Retirement Plan Cash Balance pension formula the opportunity to change the pension plan under which they can earn their prospective pension benefits to the new defined contribution pension formula. The pension formula for the new defined contribution plan is the same Cash Balance pension formula found under the Retirement Plan. Pension benefits earned under the new defined contribution plan will be deposited by the Company into the Thrift Savings Plan instead of the Retirement Plan. The employee directs the investment of the Company contribution. Newly hired employees will be able to choose between the new defined contribution pension formula or the cash balance formula. Current employees covered under the Cash Balance formula will have the choice to change to the new defined contribution formula until December 31, 2015.

Q. Please describe the new defined contribution pension formula.

A. The new defined contribution pension formula provides employees with a pension benefit based on compensation credits that are transferred to the employee’s Thrift Savings 401(k) Plan account each quarter. The crediting rates for compensation credits are the same as the Cash Balance compensation crediting rates which are based on the employee’s age and years of service and can range from a minimum of four percent to a maximum of seven percent as shown in the following table:

Points (Age Plus Service	Percent of Compensation	Plus	Percent of Compensation that exceeds Social Security Wage Base
Under 35	4.00%		4.00%
35 – 49	5.00%		4.00%
50 – 64	6.00%		4.00%
Over 64	7.00%		4.00%

For example, the quarterly compensation crediting rate for an employee who is age 25 with five years of service would be four percent of the employee’s pension earnings during the quarter.

Q. Does the change to the defined contribution pension formula reduce costs?

A. Yes. The new defined contribution pension formula is expected to cost less than the Cash Balance pension formula. Although the compensation crediting rates are the same under both plans, the Cash Balance pension formula provides for automatic interest credits each quarter ranging from a minimum of three percent to a maximum of nine percent depending on the 30-year U.S. Treasury's rates in effect for the interest crediting period. Interest credits are not included in the new defined contribution formula. Instead, employees are responsible for directing the investments of the Company compensation credits transferred to their Thrift Savings 401(k) Plan account in the same manner they direct the investments in their Thrift Savings 401(k) Plan account balance. The return employees earn on their account balance will depend on the performance of the investment option(s) selected. As a result, employees assume the risks and costs associated with long-term investing instead of the Company. Initially, the Company will see modest short-term savings related to those employees electing to earn pension benefits under the new defined contribution plan that will increase over time as more employees select this benefit.

Q. Were other aspects of pensions addressed?

A. Yes. Employees hired before June 26, 2005, and covered under the Final Average Pay pension formula will be charged for the 50 percent Joint and Survivor benefit based on the employee's age and spouse's age at retirement.

Q. Please address the Thrift Savings Plan.

A. Participating employee contributions matched by the Company increase by $0.04 per hour in each year of the contract. The Company match for employees under the Final Average Pay formula remains at 50 percent. The Company match for cash balance employees increased to 75 percent, effective January 1, 2014. Finally, the Company match for employees who select the new defined contribution pension formula will be 100 percent effective January 1, 2014.

Q. Does the contract address health benefits?

A. Yes. The contract includes plan design changes that are consistent with those of management and Local 1-2 employees and also provides a Health Savings account with a high-deductible option.

Q. Please describe the changes to the Local 3 employees' health care coverage.

A. Beginning January 1, 2014, Local 3 employees were offered new hospital, medical, and prescription drug plans. These changes were designed to align health care benefits with market practices, moderate health care cost increases, and 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 the Blended 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 2013 enrollment for coverage effective January 1, 2014. The new medical options are consistent with those described above being offered to management employees and under the Local 1-2 contract.

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

A. Yes. Over the past four years Local 3 health care costs have increased at an average annual rate of over nine 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 increases to closer to six percent. 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, the Company is 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 3 employees contribute toward health care coverage.

A. Effective January 1, 2015, Local 3 employees' contributions toward hospital, medical, prescription drug, and dental coverage increased from a maximum of $51 per week for individual coverage and $91 per week for family coverage to $59 for individual coverage and $100 per week for family coverage. By the end of the Labor Contract (for calendar year 2017), the maximum employee contributions will be $72 for individual coverage and $115 per week for family coverage.

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

A. Yes, Local 3 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 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 help employees become more aware of actual health care costs and incent the employees to use the cost-efficient services and providers made available under each health care option. 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) ten percent of the cost of the office visit. Therefore, if the cost of an in-network primary care physician office visit is $250 while the comparable out-of-network physician fee is $400, the employee has a choice to pay $25 for an in-network service or $100 (the out-of-network co-insurance percent is 25 percent) for selecting an out-of-network provider. The same ten percent co-pay applies if an employee visits an in network “specialist.” The plan that allows employees the greatest flexibility in managing their health care costs is the High-Deductible Health Plan with a Health Savings Account (“HSA”). To continue to moderate cost increases, the Labor Contract provides for additional plan design changes which increase the co-payments, deductibles, co-insurance percent, and annual out-of-pocket limits in 2017.

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

A. Yes, as part of the Labor Contract, the Company included maximum rates for employee contributions under the above options. Depending on the plan an employee selects and the direction plan costs take in the future, actual employee contributions can be lower than the maximum. To the extent that health care costs 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. Reducing the health care cost trend helps to mitigate future premium increases which lowers the Company's contribution toward health care coverage and results in lower costs for our customers.

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

A. Consistent with the Open Access Plus – High-Deductible Health Plan with an HSA for management employees, a

High-Deductible Health Plan with an HSA available to Local 3 employees will have the lowest employee payroll contributions per paycheck but higher out-of-pocket costs when employees receive medical care and services. Generally, healthy employees who actively manage their health care expenses will benefit from lower employee payroll contributions. In addition, a High-Deductible Health Plan provides employees with some tax savings with an HSA.

Q. What are the annual deductibles, out-of-pocket limits, and co-insurance levels 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 $1,300 for individuals or $2,600 for family in network 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. The annual out-of-pocket limit for in-network services, 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, employees may elect to pay for increased out-of-pocket medical expenses under the High Deductible Health Plan by contributing pre-tax dollars to an HSA. One of the advantages of an HSA is that the unused 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 use pre-tax dollars 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 2015 an additional $2,600 for individual coverage or $5,150 for family coverage. Total (Company and employee) pre-tax contributions will be subject to Internal Revenue Code limits each year.

EMPLOYEE EXPENSES

Q. Did the Panel prepare the exhibit entitled “CONSOLIDATED EDISON COMPANY OF NEW YORK, INC., ADMINISTRATIVE AND GENERAL EXPENSES –EMPLOYEE WELFARE EXPENSES”?

A. Yes. The Panel prepared the exhibit.

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

A. Yes.

MARK FOR IDENTICIATION AS EXHIBIT ___ (C/BP –5)

Q. What does this exhibit show?

A. Page 1 of the 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 18 show costs for the Company's employee benefit programs, and lines 19-24 show health care costs net of employee payroll contributions for health care benefits. These expenses include the changes discussed above for Local 3. 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 4.76 percent is used to escalate employee benefit costs that are a function of salaries and wages. For example, the Thrift Savings 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 4.33 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 2014 actual costs that were escalated based on expected premium increases for 2015 and 2016, 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 2016 health care costs.

For the Company's managed care plans with HMOs, the 2016 projections were developed by applying the 2015 premium rates provided by each of the HMO carriers and escalated to 2016 based on estimates developed with each HMO vendor.

Q. Does the employee benefit expenses projection include any program changes?

A. Yes. The plan design and employee contribution changes described above are included in the projection of costs for 2016.

HEALTH INSURANCE COSTS

Q. Is the Panel sponsoring an exhibit in connection with employee benefit expenses?

A. Yes. Exhibit ___ (C/BP-5) shows the employee benefit expense.

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

A. Line 24 shows the cost increase as $26.0 million for health insurance less employee payroll contributions or a six percent per year increase from the historical year to the rate year. Projections for 2016 were developed using the Company's claim history and projections of premium cost changes provided by our various health care vendors described above. Historic Year costs for benefits administration are escalated using the non-labor escalation factor.

Q. Is the Company proposing to escalate health care expenses by the GDP deflator?

A. No. 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 seven percent per year. For prescription drug costs, the Company worked with CVS/Caremark and developed an estimated increase of six percent per year based on claims experience, and MetLife estimates that dental costs will increase by three percent per year. 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 but in line with health care inflation trends found in the Northeast section of the country.

Q. Please explain why the GDP deflator should not be used for the escalation of health care costs.

A. 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 the increase in the GDP deflator and the Company's actual health care costs, it is 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 driven by increased utilization of medical procedures and high-cost specialty prescription drugs which are very expensive, as well as the availability of new high-cost medical procedures, treatments, and devices.

A general inflation factor does not reflect the factors that drive health care costs. A general inflation factor, such as the CPI, based on the cost of goods, services, and labor that affect all sectors of the economy measures the average price change over time for a constant-quality, constant-quantity market basket of goods and services but fails to include the changes in the size and age structure of the population that affect the number of people using health care services. A general inflation factor may capture medical price inflation, *i.e.*, increases in the cost of providing a unit of care above and beyond inflation in the general economy, but not the increase attributed to the type of care, technology used, and services per unit of care delivered. For example, a hospitalization in 2014 might involve more tests, more procedures, more supplies, and use of different technology for the same condition than in 2004 or the use of new treatments for previously untreatable terminal conditions. Unlike costs in the rest of the economy, for example, laptop computers or household appliances, newer technologies in health care, like an MRI rather than an x-ray, are usually more expensive.

The increase in use of newer technology is not captured in a general inflation factor.

Q. Please continue.

A. A large portion of the increased spending for prescription drugs is attributed to an increase in utilization for high-cost specialty drugs (such as SOVALDI which is used for the treatment of hepatitis C and costs more than $1,000 per day for a twelve-week treatment plan). In 2014, specialty drugs accounted for 25 percent of the Company’s drug costs. The growth in use of specialty drugs is not isolated to the Company’s drug plan and is expected to increase in the future. In its ninth annual Health Research Institute (“HRI”) Medical Costs Trend report (June 2014), PricewaterhouseCooper estimates that United States specialty drug spending will quadruple by 2020. Increases of this nature and magnitude are definitely not captured when using GDP. Given this fundamental dichotomy, the use of the GDP deflator alone fails to recognize the primary reason these costs are escalating and is therefore not the proper methodology to measure the increase in health care costs. Use of the GDP deflator will serve to arbitrarily and improperly understate the Company's health care costs for the Rate Year.

Therefore, to develop a more accurate estimate of the increase in health care costs, the Company urges the Commission 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. This is a similar approach to that taken by actuaries who determine the premium rates for policies purchased from the Company's insurance providers. For example, based on the wellness, age, and past experience of the Company's employee and dependent population, Cigna estimates that the Company's health care costs will continue to increase significantly as the age of the covered population grows even though the Company has made significant plan changes to mitigate future costs increase.

Q. Are there other factors that impact the future cost of providing health care?

A. Yes. Legislative and regulatory changes have impacted, 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 Patient Protection and Affordable Care Act (“PPACA”)?

A. Yes. The financial impact of the PPACA to the Company’s health care costs assumes that there will be no changes to this legislation during the Rate Year. 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 and providing participants with preventive services that must be fully paid for by the Company. Prior to the change in law, coverage for a dependent child ended when a child reached age 19, unless the child was a full-time student in which case coverage would end at age 25. The additional costs of extending health care to dependent children to age 26 beyond the previous plan limits have grown to more than $1 million per year. In the area of preventive care, also due to the PPACA, the Company is absorbing the premium costs for providing additional preventive health services at no cost to employees or dependents, which previously required some level of cost sharing by employees. For 2015, health care plans must place a limit on participants' annual out-of-pocket costs and include office visit and emergency room co-payments toward their annual out-of-pocket limit. This change will increase plan costs as office visits and emergency room co-payments are currently not credited to participants' out-of-pocket limits. As a result, employees will reach their out-of-pocket maximums more quickly and the plan is required to pay all eligible expenses above the annual out-of-pocket maximum, which serves to increase the costs paid by the Company by almost $1 million per year. PPACA taxes and other fees that did not exist prior to 2013 have added an additional $1 million annually to the cost of health care plans.

Q. Are there any other provisions of the PPACA that add costs to the Company's health care plans?

A. Yes. In 2018, the PPACA imposes an excise tax on health care providers and employers who offer "Cadillac" health care plans. The excise tax is commonly referred to as the Cadillac Tax.

Q. Please describe the Cadillac Tax.

A. The Cadillac tax will be imposed on insurance companies and employers, if self-insured, offering health care plans that exceed cost thresholds established by the federal government. For each participant enrolled in a Cadillac health plan, the imposed excise tax is equal to 40 percent of the gross premium dollars above the threshold. The PPACA established the thresholds for 2018 are $10,200 for individual plans and $27,500 for family plans. These threshold amounts are scheduled to be increased by CPI plus one percent in 2019 and then increased by CPI only starting 2020.

Q. What is the expected financial impact to the Company?

A. Based upon current plan offerings and projected costs, the expected 2018 financial impact on health care costs for the active employees is an increase of $15.1 million ($11.9 million electric).

Q. What is the Company's strategy regarding the proposed Cadillac Tax?

A. The Company will continue to look for ways to manage health care costs and promote efficient use of health care benefits to mitigate future increases. The Company is also monitoring legislative activities as some provisions of health care reform have already been delayed and could potentially change. In addition, the Company will continue benchmarking the approaches and strategies of other companies and utility peer groups. Finally, the Company is developing an aggressive employee communication plan to explain the potential cost impact to the Company and employees and also encourage employees to write to Congress concerning this additional tax burden.

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

A. Yes. The Company has experienced actual health care cost premium increases averaging more than 11 percent annually over four calendar years (*i.e.*, 2009 to 2012) preceding the health care plan changes noted above. Since making the health care plan changes, the growth in health care spending has slowed to less than eight percent per year and estimated to increase by only six percent per year from 2014 to the rate year. Although the changes have helped to mitigate health care cost increases, the lower rate of increase is still far greater than GDP increases of two percent over the same period and expected to increase in the near future. The following chart compares the Company's health care cost increase with GDP inflation rate from 2009 to 2014:

Year	GDP Increases	Company Health Plan Increases
2009	(2.8)%	6.9%
2010	2.5%	16.8%
2011	1.6%	15.7%
2012	2.3%	7.4%
2013	2.2%	8.6%
2014	1.4%	7.2%

Q. Should health care cost increases be based on a general inflation pool?

A. No. Health care costs represent a significant cost element which cannot be expected to increase in the same manner as general inflation. Simply applying a general escalation factor does not recognize that a significant portion of the projected increase is due to changes in health care coverage laws, the demographics of those covered by the Company’s benefit plan, the types of services used, and the increased usage of benefits by employees covered by the plan, among other factors, which support a higher expected rate of growth for this cost element. Therefore, tying health care costs increases to the general inflation pool serves as an improper partial disallowance of a legitimate operating cost.

Q. To summarize, 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 projected rate that factors in the cost drivers described 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 six 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 annual health care costs ranging from a low of $10.7 million to as high as $25.4 million.

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 2015 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 recommended future wellness programs and incentives to encourage employees to participate in health improvement activities. Employees and their enrolled spouses were offered a monetary incentive to complete a health assessment. This is a tool that Cigna uses to obtain baseline health information as well as to provide employees and their spouses 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 for completing their own health assessment and another $5.00 per pay period credit if their spouse completes the health assessment. Under the respective Labor Contracts Local 1-2 members receive an incentive of $3.00 per pay period for completing the health assessment and can receive an additional $2.00 per pay period if their spouse completes a separate health assessment. Local 3 members receive an incentive of $2.00 per pay period for completing the health assessment and another $2.00 per pay period if their spouse completes 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. Management employees will receive another $5.00 per pay period incentive if their enrolled spouse takes a medical screening. The Labor Contract with Local 3 also provides for an incentive of $2.00 per pay period if the employee participates in a basic medical screening and another $2.00 per pay period if the employee’s spouse takes a basic medical screening.

Q. Please continue.

A. The Company’s 2015 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 or who do not complete the tobacco usage question during open enrollment will be required to make an additional $240 payroll contribution toward their health 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 Association, and others.

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 has identified employees for weight loss, stress management, and other wellness activities and 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 employees and dependents. These programs are available to all employees and their dependents. The cost of these programs is included in the Cigna 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 program 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 Specialty Pharmacy Program, administered by CVS/Caremark, which manages the dispensing and use of high-cost specialty drugs. The Specialty Pharmacy not only provides the patient with medications, but also provides proactive pharmacy care management services to manage the patient's condition effectively; provides early intervention; reviews dosing and medical schedules; trouble-shoots injection-related issues; discusses side effects with the patient; and supplies educational information. The Specialty Pharmacy Program also coordinates care with the doctor and health plan. In addition, CVS/Caremark offers a Specialty Guideline Management Program. This program builds upon the Specialty Pharmacy Program by offering a more vigorous 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, CVS/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 verify its continued effectiveness and to determine whether there is a need to change to a different drug.

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

A. Yes. The Company works 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 to lower their own out-of-pocket costs by being a better consumer at the point of purchase.

Q. Does the Company offer employees any programs to encourage healthier behavior?

A. Yes. 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 2014, the number of employees who received a flu shot was 3,037.

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. For example, the 2010 and 2011 Cigna claims were audited and the 2012 and 2013 claims are currently being audited for the Cigna hospital and medical plans, MetLife dental plan, and CVS/Caremark prescription drug plan. Upon completion of the audit, if there are 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 the 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 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 2014 would have been $17.5 million higher than self-insuring. For 2013 the fully insured costs would also have been $17.5 million higher than self-insuring. For 2012, fully insuring the hospital and medical plan would have cost $15.7 million more than self-insuring.

Q. What changes did the Company make to its Thrift Savings 401(k) Plan for 2014?

A. The Company has not made, and is not planning to make, any further changes to the Thrift Savings 401(k) Plan based on the findings of the Review in 2014.

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 the Rate Year?

A. The projected group life insurance benefit cost is approximately $2.2 million. The projection was made by multiplying the base salary for management employees by the premium rates. An annual salary increase of 2.25 percent was 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.

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 of close to $500,000 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. In the last four of five years, the Company was assessed an additional charge. The normalization reflects the fact that the claim costs exceeded the premium paid to MetLife.

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 $25,000 at no cost to the retiree as well as a contributory supplemental group term life insurance benefit. Upon retirement, retired union employee 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 of January 1, 2013, for the retiree life insurance program, the $50,000 Company-paid life insurance benefit was eliminated for management employees who are under age 50. For management employees age 50 or older as of January 1, 2013, and retiring January 1, 2013, or after, the $50,000 life insurance benefit has been 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 2014 and subsequent increases will depend on future claims experience.

Q. What savings does the Company expect to realize as a result from the changes to the retiree life 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 expenses by $8.2 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 costs increase 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 employees 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 REFORM

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 pensions that accrue 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 this 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 for a portion of the 50 percent J&S benefit.

Q. Does that conclude your testimony?

A. Yes, it does.