

HECTOR J. REYES - STEAM

- 1 Q. Please state your name and business address.
- 2 A. My name is Hector J. Reyes. My business address is 4
3 Irving Place, New York, NY 10003.
- 4 Q. By whom are you employed and in what capacity?
- 5 A. I am employed by Consolidated Edison Company of New
6 York, Inc. ("Con Edison" or the "Company") as Director
7 of Benefits and Compensation.
- 8 Q. How long have you been employed by Con Edison?
- 9 A. I have been employed by Con Edison for 33 years.
- 10 Q. Please describe your educational background.
- 11 A. I graduated from Fordham University with a Bachelor of
12 Science degree in Accounting in 1976. In 1982, I
13 earned a Master of Science degree in Taxation from Pace
14 University.
- 15 Q. Please describe your work experience.
- 16 A. I joined Con Edison in 1976 as a Staff Accountant in
17 Corporate Accounting. Between 1979 and 1981, I was
18 promoted to different supervisory positions in
19 Corporate Accounting. In 1983, I was promoted to
20 Assistant Manager, Accounting Research and Procedures.
21 In 1988, I was promoted to the position of Manager,
22 Retirement and Insurance Benefits and in 1989, I was
23 promoted to the position of Manager of Employee

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- 1 Benefits. In September 1999, I was promoted to
2 Director of Benefits and Compensation.
- 3 Q. Please generally describe your current
4 responsibilities.
- 5 A. My responsibilities as Director of Benefits and
6 Compensation include the development, implementation,
7 communication, and administration of the Company's
8 employee benefit and compensation programs.
- 9 Q. Do you belong to any professional societies or
10 organizations?
- 11 A. Yes. I am a member of the Board of Directors of the
12 New York Business Group on Health ("NYBGH"). NYBGH is
13 a not-for-profit coalition of 150 health plan sponsors
14 and health-related organizations the mission of which
15 is to find practical solutions to contemporary health
16 care issues in the New York metropolitan area.
- 17 Q. Have you previously submitted testimony on behalf of
18 the Company before this Commission?
- 19 A. Yes. I have either submitted testimony or testified in
20 a number of Con Edison electric, gas and steam cases.
- 21 Q. What is the purpose of your testimony?
- 22 A. My testimony: (1) explains the Company's forecast of
23 employee welfare expenses, including projected health
24 insurance costs for the rate year; (2) addresses the

1 Company's measures to mitigate health care and other
2 benefit costs; (3) explains the normalization for the
3 Stock Purchase Plan; (4) discusses changes to mitigate
4 other post employment benefit ("OPEBs") costs; (5)
5 demonstrates that the Company's benefit programs are
6 reasonable; (6) discusses base compensation levels for
7 the Company's officers; and (7) addresses compensation
8 for members of the Company's Board of Directors.

9 Q. Please summarize your testimony.

10 A. My testimony explains the forecast of employee welfare
11 expenses based on historical costs and escalation of
12 existing programs. These costs are net of any costs
13 that employees are responsible for paying such as co-
14 payments and deductibles and also reflect the Company's
15 wellness efforts over the past several years. Employee
16 welfare expenses net of capitalization are estimated to
17 increase \$984,424 from the historic year (12 months
18 ended June 30, 2009) to the rate year (12 months ending
19 September 30, 2011). In addition, these costs are
20 lower than they otherwise would have been as a result
21 of the Company's changing its health plan
22 administrator. I discuss measures the Company has
23 taken to mitigate health and other benefit costs
24 related to retirement benefits such as retiree health

1 and pensions. I also demonstrate that the relative
2 values of the Company's employee benefit programs are
3 at the median level of a peer group of companies.
4 Finally, my testimony demonstrates that officer base
5 compensation levels and compensation for members of the
6 Company's Board of Directors are a reasonable and
7 necessary business expense.

8 EMPLOYEE WELFARE EXPENSES

9 Q. Was the document entitled "CONSOLIDATED EDISON COMPANY
10 OF NEW YORK, INC., ADMINISTRATIVE AND GENERAL EXPENSES
11 - MAJOR ACCOUNT GROUP 49, EMPLOYEE WELFARE EXPENSES -
12 PSC ACCOUNT 926.2" prepared under your direction and
13 supervision?

14 A. Yes, it was.

15 MARK FOR IDENTIFICATION AS EXHIBIT ___ (HJR-1)

16 Q. What does this Exhibit show?

17 A. Page 1 of this Exhibit is a summary of the Company's
18 forecast of employee welfare expenses for the rate year
19 ending September 30, 2011. This forecast is based on
20 costs incurred in the historic year, the twelve months
21 ended June 30, 2009. Lines 1 through 19 show costs for
22 the Company's employee benefit programs and lines 20 to
23 24 show health care costs net of employee deductions.
24 Total employee welfare expenses are shown on line 25.

1 Total employee welfare expenses, net of capitalized
2 amounts (line 26), are shown on line 27. Page 2 of the
3 Exhibit is a summary of projected health care costs and
4 employee deductions for twelve months ending September
5 30, 2011.

6 Q. Please describe the methods used for escalating
7 employee benefit costs.

8 A. Three different methods are used to escalate historic
9 year costs to the rate year costs. First, a labor
10 factor of 5.78 percent is used to escalate employee
11 welfare costs that are a function of salaries and
12 wages. For example, the Thrift Saving Plan provides a
13 Company match to management employees for a portion of
14 their contributions; this is escalated using the labor
15 escalation factor. Second, a non-labor factor of 3.21
16 percent is used to escalate employee welfare costs that
17 are unrelated to salaries and wages, such as consulting
18 services. The Accounting Panel discusses these labor
19 and non-labor factors. Third, health care costs were
20 projected utilizing the 2009 actual costs and 2010
21 premiums based on actual claims experience. For 2011,
22 health care premiums were then increased by 1.4
23 percent, which reflects the latest GDP information, as
24 forecasted by the U.S. Department of Commerce.

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1 Q. Does the projection include any programs currently not
2 available to employees?

3 A. In an effort to mitigate future cost increases while
4 still offering a competitive benefits program, no new
5 programs are proposed in this filing. It was assumed
6 that the programs being offered today will continue
7 over the next several years.

8 HEALTH INSURANCE COSTS

9 Q. Please explain the increase for health insurance shown
10 on line 24, page 1 of Exhibit__ (HJR-1).

11 A. Line 24 shows the cost increase of \$625,166 for health
12 insurance less employee contributions. Projected
13 health care costs for the rate year were developed by
14 applying the number of employee contracts as of August
15 2009 to the forecasted premium rates for the rate year
16 ending September 30, 2011. Historic year costs for the
17 long-term disability plan are escalated using the labor
18 factor. Historic year costs for benefits
19 administration are escalated using the non-labor
20 factor. The common cost factor of 5.10 percent for
21 steam was applied to total projected health care costs
22 and long-term disability costs to arrive at the rate
23 year forecast.

1 Q. Does your projection for health care costs include the
2 change to the health plans as a result of the federal
3 Mental Health Parity Law which becomes effective
4 January 1, 2010?

5 A. Yes. The law requires that the plans' benefit
6 provisions applicable to mental health care be no more
7 restrictive than the benefit provisions applicable to
8 the coverage for other medical conditions. As a
9 result, certain benefit limitations currently imposed
10 solely on mental health care benefits will be lifted
11 starting January 1, 2010, increasing the cost of health
12 care.

13 Q. Why is the Company recommending use of the GDP deflator
14 for health care costs when it opposed use of the GDP in
15 recent electric and other rate cases?

16 A. In an attempt to mitigate the revenue requirement
17 increase in this case and minimize the number of
18 matters at issue, the Company is escalating health care
19 costs using the forecasted GDP deflator.

20 Notwithstanding use of the GDP deflator here, we
21 continue to believe that the use of a higher escalation
22 factor is necessary to more accurately reflect the
23 Company's projected health care costs. The Company's
24 proposal in this case should not be construed as

1 reflecting a different position should the Company
2 propose to use the higher escalation factor in a future
3 rate filing.

4 Q. If the Company had not applied the GDP deflator in this
5 case, what percentage would you have used to estimate
6 increases in health care costs?

7 A. I would have used 8.0 percent for projecting hospital
8 and medical costs for 2011 and 7.0 percent for
9 prescription drug costs. This percentage is based upon
10 medical inflation trends and projected changes provided
11 by our health care carriers. This figure is a more
12 accurate indicator for health care costs which
13 historically increase well in excess of the GDP. It is
14 important to note that the Company actually projects
15 that its hospital and medical costs will increase by
16 8.0 percent.

17 MEASURES TO MITIGATE COSTS

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

20 A. The Company has taken numerous steps to contain and
21 mitigate these costs. As described above, the Company
22 has requested only the GDP deflator amount to escalate
23 health care costs, rather than using the more accurate
24 health care costs trends. For 2010, the Company is

1 consolidating plan administrators, which helps to lower
2 our rate request. In addition, the Company continues
3 to annually review employees' contribution to health
4 care costs as a percentage of the total costs as well
5 as review the features of the health and welfare plans.
6 This review includes an analysis of high cost claims,
7 medical diagnostic codes, and prescription drug usage
8 to identify opportunities to make plan design changes
9 to mitigate future health care cost increases.

10 Q. What other steps is the Company taking to mitigate
11 costs?

12 A. As described in greater detail below, the Company
13 conducts periodic audits of the health and welfare
14 plans to confirm the correct processing of claims and
15 that the payment of claims is in accordance with the
16 plan design for each of the health care options. The
17 Company educates employees about the plans to encourage
18 efficient use of the benefit programs. The Company
19 also offers a number of wellness initiatives, including
20 a smoking cessation program. For the last several
21 years, the Company has been providing flu shots. All
22 of these efforts are intended to encourage employees to
23 become healthier and better consumers of health care
24 with the intent that the result may mitigate health

1 insurance costs from the levels that they otherwise
2 would have been in future years.

3 Q. What other actions has the Company adopted to encourage
4 healthy life choices?

5 A. Nutrition education services are available to
6 employees. Healthy food choices help employees better
7 manage their weight and chronic health conditions such
8 as diabetes and heart disease.

9 EMPLOYEE CONTRIBUTIONS

10 Q. Does your proposal reflect an increase for employee
11 contributions?

12 A. Yes. Contributions are projected to be \$2,335,521 for
13 the rate year ending September 30, 2011, an increase of
14 \$68,125 page 1, line 23, of Exhibit __ (HJR-1).

15 Q. Please explain.

16 A. This increase for employee contributions was calculated
17 as follows: projected employee contributions for
18 health care expenses are based on the number of
19 employee contracts as of August 2009 and the 2010
20 employee contribution rates with the assumption that
21 management contribution rates will increase by 1.4
22 percent from 2010 to 2011. The contributions of
23 employees in Local 1-2 and Local 3 are set by the terms
24 of the respective Collective Bargaining Agreements.

1 Forecasted employee contributions for the long-term
2 disability plans are calculated by applying the labor
3 factor to the historic amounts. The common cost factor
4 for steam is then applied to the total employee
5 contribution amount to arrive at the rate year
6 forecast.

7 Q. Has there been a change in the level of employee
8 contributions recently?

9 A. Yes. The Company reviews the level of employee
10 contributions each year. In addition, the Company has
11 taken a number of steps to increase employee
12 contributions toward their health care costs in the
13 form of increases to annual deductibles and co-payments
14 for the hospital, medical, prescription and dental
15 plans. For example, in 2006, the annual medical
16 deductible for employees under one of the management
17 plans was \$400 per person. This same deductible in
18 2010 will be \$500 per person. The co-payment for a
19 physician office visit under this management plan was
20 \$18 in 2006; in 2010, the co-payment will be \$24. For
21 the prescription standard plan, a management employee
22 paid an annual deductible of \$50 per family in 2006;
23 the deductible in 2010 will be \$75 per person.

24 Q. Have similar changes been made for union employees?

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1 A. Yes. The Company negotiated with UWUA Local 1-2 and
2 IBEW Local 3 for union members to increase deductibles
3 and co-payments during the term of the Collective
4 Bargaining Agreements. In 2006 a UWUA Local 1-2 member
5 had an annual deductible of \$400 per person/\$1,200 per
6 family under the premium plan for a non-participating
7 physician. In 2010, the annual deductible for the same
8 choice will be \$500 per person/\$1,500 per family. The
9 office visit co-payment for a participating physician
10 was \$18 for each visit in 2006 for a UWUA Local 1-2
11 member. In 2010, the office visit co-payment for the
12 same choice by a Local 1-2 member will increase to \$24
13 per visit. Under the dental plan for members of UWUA
14 Local 1-2, the annual deductible for one of the choices
15 in 2006 was \$50 per person for a participating dentist.
16 In 2010, the annual deductible for a participating
17 dentist for the same choice will be \$125 per person, an
18 increase of 150 percent.

19 Q. Please describe some of the increases in employee
20 contributions for IBEW Local 3 members.

21 A. For IBEW Local 3 members, the annual medical deductible
22 for one of the options was \$375 per person and \$1,125
23 per family in 2006. This same option will have an
24 annual medical deductible of \$500 per person and \$1,500

1 per family for 2010 for IBEW Local 3 members. The
2 office visit co-payment for a participating provider
3 was \$18 for this same option in 2006. In 2010, the
4 office visit co-payment for a participating provider
5 will be \$22 for members of IBEW Local 3. The annual
6 deductible applicable for use of a participating
7 dentist under the preferred dentist program was \$50 per
8 person in 2006. Starting in 2010, union employees in
9 this same dental plan will be paying an annual
10 deductible of \$100 per person for services performed by
11 a participating dentist in the preferred dentist
12 program.

13 Q. Does the rate year forecast reflect plan design changes
14 implemented for management employees and negotiated for
15 UWUA Local 1-2 and IBEW Local 3 members?

16 A. Yes. The rate year forecast reflects an estimate of
17 offsets to the employee welfare plan costs of \$2.8
18 million from employee co-payments and deductibles in
19 the rate year. Each year, the Company reviews health
20 care costs and employee contributions and works towards
21 employees' contributions keeping pace with the
22 increases in health care costs.

23 Q. Please continue.

1 A. I would just note that the health care costs may be
2 significantly affected by potential federal legislation
3 that is currently being discussed. If legislation is
4 enacted in the near term, the Company will update its
5 projected costs in line with update procedures
6 applicable to this proceeding. In the longer term, we
7 would note that the new laws provision proposed by the
8 Accounting Panel/Muccilo, regarding future changes in
9 laws and rules that may affect both customers and the
10 Company, is particularly important as respects to
11 potential changes in health care rules and laws.
12 Absent adoption of the new laws provision, I propose
13 that the Commission authorize a deferral mechanism
14 applicable to potential changes in health care costs.

15 OTHER COST CONTROL MEASURES

16 Q. Has the Company taken any other initiatives to manage
17 health care costs?

18 A. Yes. The Company continually looks for ways to manage
19 health care costs. For example, as noted above, as of
20 January 1, 2010, the Company's hospital and medical
21 plans will be administered by one vendor, CIGNA. Other
22 steps taken to manage health care costs include, among
23 other efforts, undertaking cost containment programs,
24 such as Case Management and Behavioral Health,

1 requiring that certain rules be followed by
2 participants or reimbursement will be denied, and
3 providing savings incentives under the prescription
4 program to encourage participants to use more generic
5 prescriptions. These efforts and others are described
6 below.

7 Q. Please explain the change to CIGNA.

8 A. Prior to implementing this change, several vendors
9 administered the Company's hospital and medical plans.
10 As a result of consolidating the administration of the
11 plans under one vendor, the Company will realize a
12 total Company-wide savings of \$1.5 million in
13 administrative costs in 2010. This is reflected in the
14 2010 premiums included in this filing.

15 Q. Are there other features of the Company's health plans
16 that help to mitigate health care costs?

17 A. Yes.

18 Q. Please describe these features.

19 A. To help manage the continued rise in health care costs
20 and mitigate future cost increases, the Company
21 continues to undertake cost containment programs, such
22 as Case Management, which will continue to be offered
23 by CIGNA. As part of the change to CIGNA, we will also

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1 continue to offer Behavioral Health case management
2 services, and CIGNA's 24-Hour Health Information Line.

3 Q. Please explain these programs.

4 A. Each of these programs is designed to assist the
5 employee/dependent to obtain the most appropriate
6 treatment and avoid unnecessary medical procedures and
7 tests, which may mitigate future health care cost
8 increases. More specifically, when an individual is
9 faced with a serious illness, such as major head
10 trauma, severe burns, spinal cord injury, and other
11 illnesses, Case Management services are available to
12 assist the individual and the family members to obtain
13 and coordinate effective treatment and services. For
14 mental health care, CIGNA Behavioral Health will review
15 and manage the mental health treatment plan developed
16 for the patient in an effort to use resources
17 effectively. All employees and dependents will have
18 access to a 24-Hour Health Information Line. This
19 health information line, available at any time of the
20 day and any day of the year, will provide employees and
21 dependents with access to a health information nurse.
22 A nurse will answer health questions and offer guidance
23 and self-care techniques. Employees and dependents

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1 will also be able to access the Health Information
2 library which covers more than 1,000 topics on tape.

3 Q. Will there be additional programs designed to help
4 mitigate health care costs in the future?

5 A. Yes. CIGNA has a Health Advisor Program that is
6 designed to facilitate healthy behaviors and promote
7 the achievement of health-related goals for at-risk
8 individuals. CIGNA also offers Well Aware Disease
9 Management Programs to address 30 health conditions,
10 including heart disease, asthma, diabetes, and lower
11 back pain. These programs are developed in accordance
12 with recognized subject matter experts, the American
13 Heart Association, the American Academy of Allergy,
14 Asthma and Immunology, the American Diabetes
15 Association and others.

16 Q. Will there be other programs to assist employees and
17 dependents with their lifestyle choices with benefits
18 to health care costs?

19 A. Yes. CIGNA will be offering programs called Healthy
20 Steps to Weight Loss and Stress Management Program.
21 Both programs are designed to encourage lifestyle
22 choices that will benefit the health of our employees
23 and dependents.

1 Q. What other actions has the Company taken to help
2 control the increase in health care costs?

3 A. As explained further below, the Company encourages
4 employees and dependents to take a greater role in
5 managing their health care expenditures. Employees
6 failing to follow certain procedures in obtaining
7 medical care and services may not be reimbursed for
8 incurred expenses. For example, if an employee or
9 dependent needs durable medical equipment and
10 prosthetic devices, pre-notification to the insurance
11 carrier is required. Treatment plans are required by
12 the claims administrator for physical and occupational
13 therapy, speech therapy, and services performed for
14 diagnosis or treatment of dislocations, subluxations or
15 misalignment of the vertebrae before such programs may
16 begin. Emergency room visits will only be covered for
17 an accidental injury or a sudden/serious illness.

18 Q. Has the Company taken any measures to control
19 prescription drug costs?

20 A. Yes. We believe that employees and their families can
21 help the Company mitigate plan costs as well as their
22 out-of-pocket costs by being a better consumer at the
23 point of purchase. To help educate employees and their
24 families to be better consumers, CVS/Caremark prepares

1 a report for each employee and dependent which
2 highlights their expenditures and opportunities for
3 savings. This report, sent annually to the employee
4 and family members, contains information on how the
5 employee and the Company could achieve savings on
6 future prescriptions by using the more efficient and
7 less expensive mail order program or switching from a
8 more expensive brand name drug to a less expensive
9 generic substitute, when available. The first report
10 was mailed in October 2008; another report was mailed
11 in August 2009.

12 Q. Has the Company seen any change in the number of
13 employees using the mail order program?

14 A. Yes. The number of prescription drugs filled through
15 mail order continues to increase. In 2008, 53 percent
16 of prescription drugs were filled using the mail order
17 option. Between January and September 2009, the
18 percentage of prescription drugs filled through mail
19 order was 61 percent, which results in a savings of
20 approximately \$1.8 million, which is reflected in our
21 projected premium costs. In addition, beginning during
22 the first quarter of 2009, the Company further
23 encouraged use of lower cost prescription options
24 because CVS pharmacies began to offer to fill

1 prescriptions at the same cost as mail orders due to a
2 corporate merger with Caremark.

3 Q. Please explain why the CVS option was helpful.

4 A. Some employees have commented that they do not use the
5 mail order feature because of such concerns as
6 prescriptions being lost in the mail. We expect that
7 the availability of the CVS option will address the
8 fear of lost prescriptions and will encourage more
9 employees to take advantage of the prescription/pick-
10 up/mail order feature, which does not alter home
11 mailing of prescriptions.

12 Q. Has there been an increase in the generic dispensing
13 rate for prescription drugs?

14 A. Yes. The year-to-date (January to September) 2009
15 generic dispensing rate was 56.3 percent compared to
16 the generic dispensing rate of 54.6 percent in 2008.
17 This increase in the generic dispensing rate will
18 result in savings, however, the level of savings is
19 dependent on the cost of the specific brand name drugs
20 compared to the cost of the generic drugs. Our plan
21 design allows CVS/Caremark to substitute the generic
22 drugs when it is processed through the mail order
23 feature unless the prescription indicates no
24 substitutions. In that case, CVS/Caremark will try to

1 contact the prescribing physician to determine whether
2 the physician will allow the prescription to be filled
3 using the generic drug rather than the brand name drug.
4 Nevertheless, savings achieved are reflected in our
5 projected premium costs.

6 AUDITS OF COMPANY VENDORS

7 Q. What other measures has the Company taken to manage
8 health care costs?

9 A. The Company initiates periodic independent audits of
10 the hospital, medical and prescription drug vendors
11 (Blue Cross Blue Shield, United Healthcare, GHI and
12 CVS/Caremark) to check that the programs are being
13 administered according to the plan design and claims
14 are being processed correctly.

15 Q. What is the time frame for any audits currently being
16 conducted?

17 A. There is a current audit reviewing the claims for GHI
18 for the years 2004, 2005, 2006 and 2007.

19 Q. When do you expect this audit to be completed?

20 A. The report is expected to be completed by end of year
21 2009.

22 Q. Have any audits been recently completed?

23 A. Yes. Audit reports for United Healthcare (for the
24 years 2006 and 2007), CVS/Caremark audit (for the years

1 2004-2007) and Blue Cross Blue Shield audit (for the
2 years 2004-2007) are all expected to be completed by
3 the end of 2010.

4 Q. Can you please summarize the results of these audits?

5 A. Generally, our experience has been that the amount of
6 overpayment has been very small. For example, the
7 preliminary findings of these audits reveal an
8 overpayment of \$162,184 for United Healthcare, \$12,468
9 overpayment for Empire Blue Cross/Blue Shield and an
10 overpayment of \$12,744 for CVS/Caremark.

11 Q. What happens when an overpayment is found?

12 A. The health care vendors will reimburse the Company.

13 STOCK PURCHASE PLAN

14 Q. What is the adjustment for the Stock Purchase Plan?

15 A. The historic year costs for the Stock Purchase Plan
16 include the Company matching contribution on dividend
17 reinvestments for two quarters rather than Company
18 match for four quarters worth of dividends. This was a
19 result of a clerical error. As such, a normalizing
20 adjustment of the variation of the costs for two
21 quarters, or \$498,000, is included in the revenue
22 requirement.

23 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

24 Q. Please describe the Company's OPEB programs.

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- 1 A. The Company's OPEB programs are comprised of the
2 Retiree Health Program, which includes major medical,
3 hospitalization, vision and pharmaceutical benefits.
4 The Company also offers a limited retiree term-life
5 insurance program.
- 6 Q. What is the status of the Company's OPEB plan?
- 7 A. Starting with the Retiree Health Program, CECONY offers
8 retirees who have 75 points (adding age and years of
9 service to equal 75 points) at the time they
10 retire/terminate from employment and their eligible
11 dependents a voluntary contributory Retiree Health
12 Program. The Retiree Health Program offers enrolled
13 retirees different coverage options which include
14 several HMOs, a prescription drug plan and a
15 comprehensive hospital, medical and vision care plan
16 with a network of participating providers. Once a
17 retiree or covered dependent becomes eligible for
18 Medicare, the Retiree Health Program coordinates his or
19 her health care expenses with Medicare. For Medicare
20 eligible retirees, Medicare is the primary payer of
21 hospital and medical claims and the Retiree Health
22 Program is the secondary payer. Under the prescription
23 drug plan, once a retiree and covered dependent becomes
24 eligible for Medicare Part D, the Retiree Health

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1 Program submits the retiree's claim information to
2 Medicare, which will determine if the company is
3 eligible to receive a Federal "Retiree Drug Subsidy" on
4 behalf of the Medicare eligible retiree or covered
5 dependent. The Company also provides certain retired
6 management employees limited retiree term-life
7 insurance equal to \$50,000 a year. Certain retired
8 union employees may purchase up to \$30,000 of coverage
9 in units of \$10,000.

10 Q. Please discuss the steps the Company takes annually to
11 manage or mitigate the overall costs of OPEBs.

12 A. The Company reviews on an annual basis its OPEBs to
13 determine the effectiveness of implementing cost
14 containment programs and other changes to mitigate
15 future cost increases. This review includes a
16 determination of how much the Company will charge the
17 retirees electing to participate in the Retiree Health
18 Program and plan design changes to deductibles and co-
19 payments. Additionally, the Retiree Health Program was
20 amended, as detailed below, to provide for a method to
21 share the total expense associated with the Retiree
22 Health Program with the participating retiree and their
23 covered dependents.

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1 Q. How did the Company amend its OPEB plan to reflect this
2 cost sharing method?

3 A. The Retiree Health Program was amended, beginning in
4 calendar year January 1, 2008, to limit what the
5 Company contributes toward the cost of the Retiree
6 Health Program. The Company's contribution is limited
7 to the 2007 plan year's per capita contribution ("2007
8 Contribution Amount") plus an inflation adjustment
9 equal to the change in the Consumer Price Index for All
10 Urban Consumers ("CPI-U"). Changes to the Company's
11 2007 Contribution Amount will be fixed each year by the
12 increase in the CPI-U and not by the increase in health
13 care costs. Each year, if the cost for the Retiree
14 Health Program is expected to be more than the increase
15 in the CPI-U, the cost increase above the change in the
16 CPI-U will be passed on to participating retirees and
17 their covered dependents in the form of a higher
18 monthly contribution.

19 Q. What are the annual savings from this plan amendment?

20 A. This plan amendment was implemented in 2002 and was
21 first recognized for accounting purposes in the
22 calculation of the 2002 retiree health expense. Since
23 that time, the benefits of this amendment have been
24 reflected annually in the accounting cost. As a method

1 to quantify this type of annual savings, if the
2 amendment was first measured in 2008 rather than when
3 it was first recognized for accounting purposes in
4 2002, a conservative estimate of the annual savings
5 from this plan amendment when applied to the 2008 plan
6 results is approximately \$20 million of savings.

7 Q. Please explain how this change has impacted the
8 Company's contribution and the retiree's contribution
9 to the Retiree Health Program in 2008 and 2009.

10 A. Beginning on January 1, 2008, the Company's
11 contribution to health care costs increased by only 2.3
12 percent and the retiree's contribution increased
13 approximately 31 percent. This change resulted in an
14 increase to retirees' contribution from 17 percent in
15 2007 to approximately 22 percent of the Retiree Health
16 Program costs in 2008. Beginning on January 1, 2009,
17 retiree contributions toward health care costs were
18 increased slightly and are expected to remain at 22
19 percent of the Retiree Health Program's costs. In
20 2010, the retiree contributions (under age 65) for
21 hospital, medical, and vision will increase 6.0 percent
22 from the prior year; the retiree contributions (under
23 age 65) for prescription drug coverage will increase
24 22.4 percent. For retirees with family coverage over

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1 age 65, their contributions for hospital, medical and
2 vision will increase 10.1 percent. The retirees will
3 be contributing an additional 22.4 percent for
4 prescription drug coverage.

5 Q. Will the Company's and retirees' contribution toward
6 Retiree Health Program cost continue to be made in the
7 same manner in future years?

8 A. Yes. The Company expects to follow this method in
9 future years, which limits the Company's annual cost to
10 the 2007 per capita base amount plus the cumulative
11 increases in annual CPI-U.

12 Q. What other steps has the Company taken to address the
13 cost of OPEBs?

14 A. On January 1, 2006, the Company amended the Retiree
15 Health Program to qualify for the Medicare Retiree Drug
16 Subsidy.

17 Q. Please describe the plan amendment.

18 A. The Company takes full advantage of the Retiree Drug
19 Subsidy Program established by the Medicare
20 Prescription Drug, Improvement and Modernization Act of
21 2003 ("Medicare Part D Act"). Under the Medicare Part
22 D Act, employers providing "actuarially equivalent
23 prescription drug coverage" to Medicare eligible
24 retirees, receive a 28 percent tax-free subsidy from

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1 the federal government for allowable prescription drug
2 costs incurred by those retirees. The Company's health
3 care actuary has determined that its prescription drug
4 plan provides a benefit that is at least actuarially
5 equivalent to the Medicare prescription drug plan which
6 means that the Company is eligible to receive the tax-
7 free subsidy. The Company has received retiree drug
8 subsidy payments for each year from 2004 through 2008.
9 The subsidy payment for 2009 has not been received by
10 the Company at this time although we have estimated it
11 below. The 2010 application to receive the Retiree
12 Drug Subsidy has been filed.

13 Q. What is the cost savings associated with the Retiree
14 Drug Subsidy?

15 A. The Company has seen the following cost savings from
16 2004 to 2009:

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(\$ millions)	2004	2005	2006	2007	2008	2009
OPEB before Medicare Rx subsidy	\$41.8	\$86.6	\$85.5	\$102.1	\$102.6	\$110.3
OPEB after Medicare Rx subsidy	\$23.5	\$62.6	\$55.6	\$ 70.0	\$ 70.2	\$ 78.0
Savings from Subsidy	\$18.3	\$24.0	\$29.9	\$ 32.1	\$ 32.4	\$ 32.3

1

2 Q. Has the Company made any other recent amendments to its
3 OPEB plan?

4 A. Yes. On January 1, 2008, the Retiree Health Program
5 was amended to provide same sex domestic partners with
6 retiree health care benefits after the death of the
7 retiree. The surviving same sex domestic partner would
8 pay the full cost of providing this extended coverage.

9 Q. Are there any savings associated with this plan change?

10 A. No. This change is revenue neutral.

11 Q. Are there any other steps the Company has implemented
12 to reduce OPEB costs that have not required plan
13 amendments?

14 A. The Company links some of its Retiree Health Program's
15 deductibles to those set by various Medicare plans.
16 For example, the Company's retiree hospital/medical

1 deductible is 50 percent of the Medicare Part A
2 deductible. The federal government has increased the
3 Medicare Part A deductible each year and the Company
4 has increased its deductibles accordingly.

5 Q. Has the Company implemented any other cost saving
6 steps?

7 A. Yes. In 2009, the Company negotiated additional
8 discounts with its prescription drug plan vendor
9 resulting in savings of \$4.9 million for the plan.

10 Q. Are there any other Company efforts to contain OPEB
11 costs?

12 A. Yes. The Retiree Health Program includes various cost
13 containment features, such as 24-Hour Health
14 Information Line (CIGNA's program,) which I described
15 earlier in my testimony.

16 Q. Have there been any other initiatives with respect to
17 the Company's OPEB plan that were considered and
18 rejected?

19 A. No. In fact, other than the reductions set forth
20 above, there have been no changes to the Retiree Health
21 Program.

22

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1 RETIREMENT PLAN

2 Q. Please provide a description of the most recent
3 amendments to The Consolidated Edison Retirement Plan
4 ("Retirement Plan").

5 A. The Consolidated Edison Retirement Plan has a number of
6 amendments that impact Consolidated Edison Company of
7 New York, Inc. ("CECONY") employees starting in 2001 to
8 the present. Some of the amendments were required for
9 tax qualification purposes or were a result from
10 collective bargaining agreements with members of Local
11 1-2 or Local 3. Some of the amendments increased the
12 liability and other amendments decreased the liability
13 of the Retirement Plan. For example, CECONY management
14 employees hired on or after January 1, 2001, accrue
15 pension benefits under a cash balance formula. The
16 cash balance formula significantly reduces the
17 Retirement Plan's future liabilities attributed to new
18 hires.

19 Q. Are there any other amendments to the Retirement Plan
20 that reduce the Retirement Plan's future liability?

21 A. Yes. Effective as of June 27, 2004, the pension
22 benefit for married members of Local 1-2 members who
23 were first hired after June 27, 2004 will be

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1 actuarially reduced for payment in the form of a
2 qualified joint and 50 percent survivor benefit.

3 Q. Are there any other amendments reducing the Retirement
4 Plan's future liability?

5 A. Yes. The pension benefit for a union employee
6 represented by Local 3, IBEW, has been significantly
7 modified. First, employees hired on or after June 26,
8 2005, and prior to January 1, 2010, will not be
9 eligible for a cost-of-living adjustment on the pension
10 benefit after retiring. Second, for employees hired on
11 or after June 26, 2005 and prior to January 1, 2010 the
12 pension benefit for married employees will be
13 actuarially reduced for payment in the form of a
14 qualified joint and 50 percent survivor benefit.
15 Third, the pension formula for employees hired on or
16 after January 1, 2010, will be a cash balance formula
17 as opposed to the traditional four-year average
18 formula.

19 Q. Please explain the most recent amendments to the
20 Retirement Plan.

21 A. The Retirement Plan was amended for union employees
22 represented by Local 1-2 CECONY, effective July 1,
23 2008, and for CECONY Management Employees, effective
24 January 1, 2009, to provide a retention incentive for

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1 certain long service employees continuing their
2 employment with the Company through the June 30, 2012.
3 This benefit was not included in the Local 3 contract
4 that was negotiated in June 2009.

5 Q. How does the retention incentive work?

6 A. Employees on the active payroll who are age 55 and have
7 30 or more years of service with the Company or will
8 turn age 55 with 30 or more years of service during the
9 period July 1, 2008, through June 30, 2012, for union
10 members of Local 1-2 or January 1, 2009, through June
11 30, 2012, for management employees qualify for a
12 special pension accrual. The special pension accrual
13 is equal to 0.5 percent of final average salary for
14 each year of service above 30 years and applies
15 prospectively. The special pension accrual period
16 sunsets after June 30, 2012.

17 Q. Are there any additional changes being proposed for the
18 Retirement Plan in the near future?

19 A. No.

20 BENEFIT PROGRAM COMPARISON

21 Q. How do the Company's benefit programs for non-officer
22 employees compare with the benefit packages of
23 similarly situated companies?

1 A. The Company believes that providing competitive
2 benefits and compensation is essential in attracting
3 and retaining employees. The Company has taken a very
4 conservative approach in targeting its benefits package
5 to the median levels of a peer group of companies.

6 Q. How did you reach the conclusion that the Company's
7 benefits package is at the median level of a peer group
8 of companies?

9 A. I made this conclusion based on the results of a
10 benefits valuation study developed Towers Perrin, a
11 benefits consultant. This study is confidential, but
12 the Company is willing to provide the study provided
13 that an appropriate protective order is issued or
14 confidentiality agreement signed in this proceeding.

15 Q. Please explain the results of the benefits valuation
16 study conducted by Towers Perrin.

17 A. Towers Perrin determines the value of benefits provided
18 by companies by applying a standard set of actuarial
19 methods and assumptions to a common employee
20 population. This quantitative evaluation of each
21 company's benefit provisions and overall benefit
22 program facilitates a comparison of these benefit
23 values against peer companies.

1 Q. Did Towers Perrin compare Con Edison's benefit program
2 to a peer group of comparable companies?

3 A. Yes, Towers Perrin compared the Company's benefit
4 programs, excluding employee contributions, to
5 similarly situated energy services companies.

6 Q. How does the Company's benefit program for management
7 employees compare to the peer group of companies used
8 by Towers Perrin?

9 A. When compared with the benefit programs (excluding
10 employee contributions) for the peer group of
11 companies, the Company's benefit programs provided to
12 employees are reasonable and deemed at the median level
13 of the peer group.

14 COMPENSATION PROGRAM FOR OFFICERS

15 Q. What are the elements of the Company's compensation
16 program for its officers?

17 A. The Company's compensation program for its officers is
18 comprised of three elements: base salary, annual awards
19 and equity grants.

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

21 A. The Company's philosophy is to provide base salary,
22 annual awards and equity grants that are competitive
23 with the median levels of officer compensation provided
24 by a peer group of companies. We believe that setting

1 compensation levels at the median of our peer group of
2 companies allows the Company to be competitive in the
3 labor market and to fairly compensate, attract and
4 retain employees critical to the success of the
5 Company. The objective of the officer compensation
6 program is to support the Company's business strategy,
7 which includes such objectives as providing customers
8 with quality service, earning a reasonable return for
9 investors, and providing an environment where employees
10 can continue to improve their contributions to the
11 Company. As such, annual award and equity grants are
12 linked to financial, budget and operational goals
13 important to both customers and investors.

14 Q. Please describe how you establish compensation levels
15 for officers.

16 A. The Management Development and Compensation Committee
17 of the Board of Directors of the Company (the "MDC
18 Committee") establishes, reviews and administers the
19 Company's officer compensation program. The MDC
20 Committee has retained Mercer as an independent
21 compensation consultant, to provide it with
22 information, analyses, and objective advice regarding
23 officer compensation. The MDC Committee uses an
24 industry peer group of twenty publicly-traded utility

1 companies of comparable size and scope to the Company
2 for purposes of providing benchmark information on
3 compensation levels provided to officers. This peer
4 group is also used to measure relative total
5 shareholder returns for vesting one half of the
6 performance based restricted stock units grants.

7 Q. Is the cost of the annual awards and equity grants for
8 officers included in this rate request?

9 A. No. The Company has mitigated the rate request in this
10 proceeding by electing not to seek recovery of the
11 annual awards and equity grants provided to the
12 Company's officers, even though the costs of these
13 programs are also reasonable and necessary business
14 expenses the Company must incur to meet its obligation
15 to provide safe and reliable service to its customers.
16 (See Accounting Panel Exhibit __ (AP-5), Schedule 1,
17 page 3 of 6, line items number 15 and 31, which removes
18 this cost from the rate request).

19 Q. Are you presenting as an exhibit a one-page document
20 entitled "ANALYTICAL FRAMEWORK - PEER GROUP."

21 A. Yes.

22 MARK FOR IDENTIFICATION AS EXHIBIT __ (HJR-2)

23 Q. What does this Exhibit show?

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1 A. This material, prepared by Mercer, shows the twenty
2 utility companies used by the MDC Committee in
3 comparing and evaluating the Company's officer
4 compensation program.

5 Q. Are you presenting as an exhibit a three-page document
6 entitled "MARKET ASSESSMENT - TOP EXECUTIVES BASE
7 SALARY (\$000)" and "MARKET ASSESSMENT - OTHER
8 EXECUTIVES BASE SALARY (\$000)?"

9 A. Yes.

10 MARK FOR IDENTIFICATION AS EXHIBIT ___ (HJR-3)

11 Q. What does this Exhibit show?

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

16 Q. How does the Company's officer base compensation
17 compare to the base compensation of officers holding
18 equivalent positions at the peer group of companies?

19 A. Mercer reviewed and benchmarked the Company's officer
20 compensation program comprised of base salary, annual
21 awards and long-term equity grants. When compared with
22 the base compensation levels reported in proxies for
23 the peer group of companies for the top-five highest
24 paid, base salary is deemed to be competitive with the

1 median levels using both proxy and survey data. For
2 the remaining officers, base compensation was found to
3 be around the median level with some positions above
4 and some below the median range.

5 Q. What is Mercer's conclusion regarding the overall level
6 of the Company's officer compensation program?

7 A. Mercer has concluded that based on publicly available
8 proxy data, base salary, annual awards and equity
9 grants for officers are competitive with the median of
10 the market.

11 DIRECTORS' COMPENSATION

12 Q. Please explain the Directors' compensation package.

13 A. Members of the Board who are not employees of the
14 Company are paid an annual retainer fee as well as a
15 fee for each meeting attended, and receive an annual
16 grant of 1,500 stock units.

17 Q. Do you agree that the annual equity grant is a
18 reasonable component of Directors' compensation?

19 A. Yes, the stock awards for the Board of Directors, which
20 replaces a retirement plan, are part of their total
21 compensation package. In a study of Director
22 compensation conducted by the Board's compensation
23 consultant, Mercer, it was found that total Director
24 compensation is aligned with the median levels of both

1 the twenty company peer group and a general industry
2 (\$10 - \$15 billion total market capitalization)
3 reference group.

4 Q. Are the costs of equity compensation for Directors a
5 reasonable and necessary business expenses?

6 A. Stock awards for the Board of Directors are part of
7 their basic compensation package and are a reasonable
8 cost of attracting and retaining qualified Directors.
9 These equity awards are a basic component of
10 compensation, which is required to be deferred until
11 the Director's termination of service from the Board.

12 Q. Are the stock award grants to the Board of Directors
13 considered incentive compensation?

14 A. No. There are no financial or other performance
15 metrics used to determine the stock grants because it
16 is neither pay-for-performance nor incentive
17 compensation. Moreover, in the Liberty Consulting
18 Group's report entitled, "Final Report, Management
19 Audit of Consolidated Edison Company of New York,
20 Inc.," Liberty consultants concluded that the Company's
21 stock-based compensation for outside Directors comports
22 with industry practice. Liberty explained that Con
23 Edison's use of stock as part of the compensation
24 program is like that used by other large utilities, and

1 it makes sense to use stock as a piece of compensation
2 packages because that does reward or penalize
3 participants, along with stockholders. This is a
4 reasonable and ordinary business expense.

5 Q. The Order in Case 08-E-0539 (pp. 56-57) stated,
6 "Because the compensation is in the form of stock, it
7 provides greater benefit to the directors, all other
8 things being equal, if the Company performs well
9 financially, to the benefit of shareholders independent
10 of any benefit to ratepayers." Do you agree?

11 A. No, I do not. First, this statement ignores the fact
12 that Directors will receive a lesser benefit, all else
13 being equal, if the Company does not perform well
14 financially. Second, as explained by Company witness
15 de la Bastide in the context of the Company's Variable
16 Pay Plan, both customers and investors benefit, without
17 distinction, in the short-run, and particularly in the
18 long-run, from a well-managed company, including when
19 the Company performs well financially.

20 Q. Please comment on the Commission's statement (Order,
21 pp. 56-57) that the Company provides no reason why it
22 cannot compensate Directors in some other form that is
23 not aligned with the interests of shareholders.

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- 1 A. The issue is not whether the Company can provide
2 compensation in some other form. Of course it can.
3 However, this statement does not explain why customers
4 would be better off if rates reflected cash payments
5 rather than stock awards or indicate that the Company's
6 approach is not comparable to the approach taken by its
7 peers. The Director's role is one of oversight and
8 judgment to protect the interests of shareholders and
9 customers by seeing that the officers are managing the
10 Company in an effective, ethical and legal manner.
11 Fairly compensating Directors for that role is a
12 reasonable and necessary business expense. If such
13 compensation is fair and reasonable, the form of
14 payment should not determine whether it is recoverable
15 in rates.
- 16 Q. Why does the Company provide dividend equivalents to
17 Directors as part of their compensation?
- 18 A. The stock awards granted to Directors do not entail the
19 issuance of actual shares of stock but instead are
20 required to be deferred until the Director's
21 termination of service from the Board. Dividend
22 equivalents are paid to Directors to compensate them
23 for the time value of money associated with the
24 mandatory deferral of a portion of their compensation.

1 Q. Why is rate recovery of the dividend equivalents
2 appropriate?

3 A. If the Company had provided Directors with actual
4 shares of stock, customers would have incurred the full
5 equity return on the value of the additional equity
6 included in the Company's capital structure. The
7 Company's use of stock units avoids issuing additional
8 equity, thereby avoiding this cost for customers. This
9 avoided cost offsets the cost of the dividend
10 equivalent. In addition, had the Company paid this
11 portion of Director's compensation in cash, it would
12 have had to incur additional financing costs.
13 Accordingly, to the extent rate recovery of the stock
14 awarded to Directors is permitted, the costs of the
15 dividend equivalents associated with the stock units
16 should also be recoverable.

17 Q. Does this complete your testimony?

18 A. Yes, it does.

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CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
ADMINISTRATIVE AND GENERAL EXPENSES - MAJOR ACCOUNT GROUP 49
EMPLOYEE WELFARE EXPENSES - PSC ACCOUNT 926.2
STEAM

LINE NO.	12 MONTHS ENDED 06/30/09 ACTUAL	NORMALIZATION	PROGRAM CHANGE	ESCALATION	12 MONTHS ENDING 3/31/11 RATE YEAR	LINE NO.
1. Thrift Savings Plan	\$1,003,991		\$0	\$52,526 [N]	\$1,056,517	1.
2. Group Life Insurance	101,757	0	0	10,398 [O]	112,155	2.
3. Military Duty Allowance	6,121	0	0	354 [L]	6,475	3.
4. Restaurants & Newsstands	4,755	0	0	153 [M]	4,908	4.
5. Stock Purchase Plan	124,686	25,398	0	6,935 [A]	157,019	5.
6. Stock Option Plan	1,585	0	0	51 [M]	1,636	6.
7. Deferred Income Plan	(391,164)	391,164	0	0 [P]	0	7.
8. Tuition Aid	287,954	0	0	9,243 [M]	297,197	8.
9. Occupational Supplement	146,617	0	0	6,390 [D]	153,007	9.
10. Company Clubs	1,570	0	0	50 [M]	1,620	10.
11. Employee Publications & Communications	28,939	0	0	1,505 [C]	30,444	11.
12. Scholarship for Employees' Children	6,692	0	0	215 [M]	6,907	12.
13. Child Care & Elder Care Consulting Serv.	7,334	0	0	235 [F]	7,569	13.
14. Financial Counseling Service	15,394	0	0	494 [J]	15,888	14.
15. Consulting Services	87,942	0	0	2,823 [E]	90,765	15.
16. Occupational Accidental Death	2,809	0	0	90 [M]	2,899	16.
17. Work Home Wellness Program	105,344	0	0	3,382 [G]	108,726	17.
18. World Trade Center	62,135	0	0	1,995 [I]	64,130	18.
19. Sub-Total	<u>1,604,461</u>	<u>416,562</u>	<u>0</u>	<u>96,839</u>	<u>2,117,862</u>	19.
Health Insurance						
20. Dental	620,941	0	(30,777)	0	590,164	20.
21. Prescription Drug Plan	1,333,629	0	42,810	0	1,376,439	21.
22. Hospital & Medical Insurance	6,458,199	0	681,258	0	7,139,457	22.
23. Employee Deductions	(2,267,396)	0	(68,125)	0	(2,335,521)	23.
24. Sub-Total	<u>6,145,373</u>	<u>0</u>	<u>625,166</u>	<u>0</u>	<u>6,770,539</u>	24.
25. Total Employee Welfare Expenses	<u>\$7,749,834</u>	<u>\$416,562</u>	<u>\$625,166</u>	<u>\$96,839</u>	<u>\$8,888,401</u>	25.
26. Capitalization	<u>1,743,321</u>	<u>0</u>	<u>151,277</u>	<u>2,867</u>	<u>1,897,464</u>	26.
27. Net of Capitalization	<u>\$6,006,513</u>	<u>\$416,562</u>	<u>\$473,889</u>	<u>\$93,972 [Q]</u>	<u>\$6,990,937</u>	27.

[A] to [J] Labor escalation 5.78%; non-labor escalation 3.21%; new/expanded programs, if any
[L] Escalation is based on labor factor of 5.78%
[M] Escalation is based on non labor factor of 3.21%
[N] Escalation-labor 5.78%; non labor factor 3.21%; employee contributions/match
[O] premiums & 5 yr avg for dividends
[P] refer to Accounting Panel's testimony
[Q] does not include fringe benefits for of new hires; see testimony of Accounting Panel

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
SUMMARY OF HEALTH INSURANCE COSTS
STEAM CASE
RATE YEAR FORECAST
TWELVE MONTHS ENDING SEPTEMBER 30, 2011

DENTAL - MET LIFE & ASO		\$590,164
PRESCRIPTION DRUG - CAREMARK	1,365,894	
RETIRED KEY OFFICERS' PRESCRIPTION DRUG	10,545	
TOTAL PRESCRIPTION DRUG	<u>1,376,439</u>	1,376,439
HOSPITALIZATION - BLUE CROSS	2,150,087	
MEDICAL - UNITED HEALTHCARE	3,007,306	
MEDICAL - GROUP HEALTH INSURANCE	1,140,506	
RETIRED OFFICERS' MEDICAL - UHC	56,799	
HMO - BLUE CROSS/BLUE CHOICE	93,164	
HMO - HIP	130,454	
HMO - AETNA/U.S. HEALTHCARE	163,944	
HMO - MVP	51,166	
VISION - COMPREHENSIVE VISION	31,643	
MANAGEMENT LONG TERM DISABILITY	150,437	
WEEKLY LONG TERM DISABILITY	131,705	
FLEXIBLE BENEFITS ADMINISTRATION	25,461	
PRINTING & MAILING OF HEALTH PLANS	1,383	
CASE MGMT. PROGRAMS	5,402	
TOTAL HOSPITALIZATION & MEDICAL		<u>7,139,457</u>
TOTAL GROSS HEALTH INSURANCE COSTS		9,106,060
EMPLOYEE DEDUCTIONS		<u>(2,335,521)</u>
TOTAL NET HEALTH INSURANCE COSTS		<u><u>\$6,770,539</u></u>

Analytical Framework – Peer Group

The review used the current peer group and does not recommend any changes to it

Company Name	Ticker	2008 Revenue (\$M)	2008 Net Income (\$M)	2008 Assets (\$M)	Market Capitalization - April 2009 (\$M)	1-Yr TSR - Dec. 2008 (%)	3-Yr TSR - Dec. 2008 (%)
Constellation Energy	CEG	\$19,818	\$1,301	\$22,284	\$4,323	-74%	-22%
Exelon	EXC	\$18,859	\$2,737	\$47,817	\$30,388	-30%	4%
Southern	SO	\$17,127	\$1,807	\$48,347	\$22,609	0%	7%
FPL Group	FPL	\$16,410	\$1,639	\$44,821	\$22,096	-23%	10%
Dominion Resources	D	\$16,299	\$1,851	\$42,053	\$17,683	-22%	1%
PG&E Corp.	PCG	\$14,628	\$1,338	\$40,860	\$13,615	-6%	5%
American Electric Power	AEP	\$14,440	\$1,383	\$45,155	\$12,577	-25%	0%
Edison Int'l	EIX	\$14,112	\$1,266	\$44,615	\$9,289	-38%	-7%
FirstEnergy	FE	\$13,580	\$1,342	\$39,521	\$12,468	-31%	3%
Duke Energy	DUK	\$13,207	\$1,362	\$53,077	\$17,723	-22%	3%
Energy	ETR	\$13,094	\$1,241	\$36,617	\$12,698	-28%	10%
CenterPoint Energy	CNP	\$11,322	\$447	\$19,676	\$3,716	-23%	4%
Xcel Energy	XEL	\$11,203	\$646	\$24,958	\$8,395	-14%	5%
Pepco Holdings	POM	\$10,824	\$300	\$16,475	\$2,621	-36%	-3%
Sempra Energy	SRE	\$10,758	\$1,123	\$26,400	\$11,257	-29%	1%
DTE Energy	DTE	\$9,329	\$546	\$24,590	\$4,830	-14%	-1%
Progress Energy	PGN	\$9,167	\$830	\$29,873	\$9,501	-13%	2%
NiSource	NI	\$8,874	\$79	\$20,032	\$3,015	-39%	-15%
PPL	PPL	\$8,044	\$948	\$21,405	\$11,227	39%	5%
Ameren	AEE	\$7,839	\$615	\$22,657	\$4,892	-35%	-9%
75th Percentile		\$15,044	\$1,367	\$44,667	\$14,632	-20%	5%
Median		\$13,150	\$1,182	\$31,697	\$11,242	-27%	2%
25th Percentile		\$10,401	\$598	\$22,564	\$4,877	-35%	-2%
Average		\$12,946	\$1,010	\$33,262	\$11,771	-27%	0%
Consolidated Edison	ED	\$13,583	\$1,207	\$33,498	\$10,183	-16%	-1%
Percentile Rank		58th	51st	53rd	44th	78th	29th

Market Assessment – Top Executives Base Salary (\$000)¹

Base salary is generally positioned at the market median for both proxy and survey data

Findings

- Overall, proxy data and survey data show that Con Ed's base salaries for its top executives are competitive with the market median
- Individual base salaries for the Top 5 officers are competitive with market median levels of both the proxy and survey data except for the EVP
 - The EVP's base salary is competitive with 75th percentile proxy and survey data levels

Position	Current Base Salary	Proxy Peer Group						Survey Data					
		25th		50th		75th		25th		50th		75th	
		Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio
Chairman of the Board/CEO	\$1,136	\$1,080	105%	\$1,172	97%	\$1,283	89%	\$1,032	110%	\$1,202	94%	\$1,366	83%
EVP	\$747	\$566	132%	\$613	122%	\$675	111%	\$513	146%	\$592	126%	\$664	112%
President & COO	\$655	\$659	99%	\$679	97%	\$817	80%	\$610	107%	\$675	97%	\$804	82%
SVP & CFO - Finance	\$599	\$511	117%	\$539	111%	\$577	104%	\$467	128%	\$547	110%	\$618	97%
General Counsel - Law	\$500							\$427	117%	\$493	101%	\$553	90%
Overall			113%		107%		96%		122%		106%		93%

The figures in *blue italics* represent Con Ed as a percentage of market levels.

Market Assessment – Other Executives Base Salary (\$000)

Overall, base salary levels are positioned at median, with significant variation by individual

Position	Current Base Salary	Survey Data					
		25th		50th		75th	
		Data	Ratio	Data	Ratio	Data	Ratio
SVP - Public Affairs	\$396	\$290	136%	\$317	125%	\$384	103%
SVP - Enterprise Shared Services	\$388	\$310	125%	\$397	98%	\$534	73%
SVP - Business Shared Services	\$383	\$310	124%	\$397	96%	\$534	72%
SVP - Customer Operations	\$347	\$176	197%	\$215	161%	\$270	128%
SVP - Electric Operations	\$319	\$259	123%	\$286	112%	\$351	91%
SVP - Gas Operations	\$312	\$245	127%	\$330	95%	\$413	75%
VP - Regulatory Services	\$341	\$190	179%	\$238	144%	\$264	129%
VP - Legal Services	\$339	\$223	152%	\$251	135%	\$283	120%
SVP - Central Operations	\$283	\$276	102%	\$312	91%	\$445	64%
VP - Government Relations	\$306	\$211	145%	\$282	109%	\$336	91%
VP/Treasurer - Treasury	\$299	\$258	116%	\$283	106%	\$323	93%
VP - Environment, Health & Safety	\$291	\$181	161%	\$211	138%	\$236	124%
VP - Strategic Planning	\$273	\$222	123%	\$291	94%	\$375	73%
Secretary & Associate General Counsel	\$270	\$233	116%	\$260	104%	\$303	89%
VP - Central Engineering	\$263	\$212	124%	\$277	95%	\$295	89%
VP - Information Resources	\$259	\$251	103%	\$301	86%	\$358	72%
VP - Facilities	\$257	\$145	177%	\$176	146%	\$204	126%
VP - Energy Management	\$257	\$197	130%	\$243	106%	\$312	82%

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The figures in *blue italics* represent Con Ed as a percentage of market levels.

Market Assessment – Other Executives Base Salary (\$000)

Overall, base salary levels are positioned at median, with significant variation by individual *continued*

Position	Current Base Salary	Survey Data					
		25th		50th		75th	
		Data	Ratio	Data	Ratio	Data	Ratio
VP - Engineering & Planning	\$256	\$227	113%	\$297	86%	\$315	81%
VP - Manhattan	\$255	\$234	109%	\$300	85%	\$353	72%
VP - Tax	\$248	\$217	115%	\$251	99%	\$288	86%
VP - Gas Engineering	\$241	\$156	154%	\$188	129%	\$224	108%
VP - Brooklyn/Queens	\$229	\$234	98%	\$300	76%	\$353	65%
VP - Human Resources	\$228	\$274	83%	\$321	71%	\$371	62%
VP/Controller - Corporate Accounting	\$223	\$263	85%	\$293	76%	\$313	71%
VP - Central Field Services	\$227	\$179	126%	\$208	109%	\$244	93%
VP - Staten Island & Electric	\$225	\$236	95%	\$291	77%	\$363	62%
VP - Bronx/Westchester	\$225	\$234	96%	\$300	75%	\$353	64%
VP - Gas Operations	\$224	\$208	107%	\$231	97%	\$295	76%
VP - Construction	\$224	\$182	123%	\$222	101%	\$253	89%
VP - Steam Operations	\$221	\$205	108%	\$239	93%	\$305	72%
VP & General Auditor - Auditing	\$218	\$211	103%	\$233	94%	\$252	87%
VP - Substation Operations	\$217	\$202	107%	\$255	85%	\$295	73%
VP - Energy Policy & Regulatory Affairs	\$213	\$190	112%	\$238	90%	\$264	81%
VP - Purchasing	\$210	\$176	119%	\$210	100%	\$248	85%
VP - System & Transmission Operations	\$196	\$202	97%	\$255	77%	\$295	66%
	Overall		122%		102%		87%

The figures in *blue italics* represent Con Ed as a percentage of market levels.