

LUTHER TAI - ELECTRIC

1 Q. Please state your name and business address.

2 A. My name is Luther Tai. My business address is 4 Irving
3 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 Senior
7 Vice President of Enterprise Shared Services.

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

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

10 Q. Please describe your educational background.

11 A. I graduated from Massachusetts Institute of Technology
12 with a BS in Chemical Engineering in 1970. I also
13 received a MS in Industrial Engineering from Columbia
14 University in 1975, a JD from New York Law School in
15 1986, a MBA from Cornell University in 2002 and a
16 Doctor of Education degree from University of
17 Pennsylvania in 2005.

18 Q. Please describe your work experience.

19 A. I joined Con Edison in June 1970 and have held various
20 managerial positions including Chief Generation
21 Planning Engineer, Chief Forecast Engineer and Director
22 of Corporate Planning. In 1998, I became the Vice
23 President, Corporate Planning with the responsibilities

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1 of developing corporate strategy and directing merger
2 and acquisition activities. I assumed the position of
3 Senior Vice President of Central Operations in
4 September 2000, which encompassed System and
5 Transmission Operations, Substations, Maintenance and
6 Construction, Steam Operations and Energy Management.
7 A year later, I moved into the position of Senior Vice
8 President of Central Services with responsibility for
9 Information Resources, Purchasing, Central Field
10 Services, Human Resources and various other support
11 services. Since July 1, 2006, I held the position of
12 Senior Vice President of Enterprise Shared Services.

13 Q. Please generally describe your current
14 responsibilities.

15 A. My current responsibilities include Human Resources,
16 Equal Employment Opportunity Affairs, Energy
17 Management, Emergency Management, Security Services,
18 Facilities, and Research and Development.

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

21 A. I am a member of the board of directors of the Regional
22 Plan Association. I also serve on the board of Woodrow
23 Wilson National Fellowship Foundation, the board of

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1 Stevens Institute of Technology and the advisory board
2 of the Executive Program in Work-Based Learning
3 Leadership at the University of Pennsylvania.

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

6 A. Yes. I submitted testimony in Cases Nos. 91-G-1194, 91-
7 S-1193, 91-E-0462, 93-G-0996, 93-S-0997, 93-E-0334, 96-
8 E-0897 and 08-E-0539.

9 Q. What is the purpose of your testimony?

10 A. My testimony addresses the Company's compensation
11 package for non-officer management employees, including
12 the changes made to the Variable Pay Plan.

13 Q. Please summarize your testimony.

14 A. I will demonstrate that the compensation package for
15 the Company's non-officer management employees, which
16 includes base salary, performance-based variable pay
17 and equity grants, is a reasonable and necessary
18 business expense that the Company must incur in order
19 to meet its obligations to provide safe and reliable
20 service to its customers. The annual cost for the rate
21 year ending March 31, 2011 for the non-officer
22 management compensation package is included in
23 Accounting Panel exhibit number 5, schedule 1. I

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1 should note that Company witness Shafer, a Principal of
2 Hewitt Associates LLC, is presenting testimony on
3 behalf of the Company that explains the reasonableness
4 of the Company's compensation programs and the overall
5 level of compensation for non-officer management
6 employees delivered through a combination of base
7 salary, variable pay and equity grants in comparison
8 with benchmark data of various peer companies. I will
9 explain how the Variable Pay Plan, to be effective
10 January 1, 2010, is different from the current plan
11 considered in the Company's last electric rate case
12 (Case 08-E-0539), and places greater emphasis on goals
13 related to safety, reliability, customers' satisfaction
14 and operating performance. I will also explain why the
15 costs of this modified plan should be fully reflected
16 in the revenue requirement established in this
17 proceeding. I would note that in addition to modifying
18 the plan, the Company has also mitigated its rate
19 request by electing to not seek recovery of either
20 officer annual incentive awards or equity grants in
21 this proceeding, notwithstanding that these programs
22 are also a necessary and legitimate cost of doing
23 business, which should be fully reflected in rates. I

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1 will explain how the variable pay and equity grant
2 programs are structured to align the interests of both
3 the Company and customers.

4 NON-OFFICER MANAGEMENT EMPLOYEE COMPENSATION

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

7 A. The Company philosophy is to provide compensation that
8 is competitive with the median levels of compensation
9 provided by a peer group of companies. Setting
10 compensation levels at the median of our peer group of
11 companies enables us to be reasonably competitive in
12 the labor market and to attract and compensate fairly,
13 employees critical to the success of the Company. I
14 would note that the Company has taken a very
15 conservative low-cost approach in targeting the median
16 levels for compensation against a national norm, and
17 our ratepayers have benefited from this approach. As
18 stated in Company witness Shafer's testimony, the New
19 York City wage differential typically ranges between 20
20 and 25 percent above national norms. The objective of
21 the compensation program is to support the Company's
22 business strategy, which is focused on providing
23 customers with high quality, safe and reliable service

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1 at a reasonable cost, by providing an environment where
2 employees can continue to improve their contributions
3 to the Company in furtherance of these objectives.

4 Q. Please describe how you establish compensation levels
5 for non-officer management employees?

6 A. The compensation program for non-officer management
7 employees is comprised of base salary, variable pay and
8 equity grants. The Chairman and Chief Executive
9 Officer of the Company, the Vice President of Human
10 Resources and I establish, review and administer the
11 Company's compensation program for non-officer
12 management employees.

13 VARIABLE PAY PLAN

14 Q. Please describe the Variable Pay Plan.

15 A. The Company's Variable Pay Plan compensates non-officer
16 management employees provided that certain performance
17 measures that are set prior to the commencement of the
18 performance period are met. As indicated by the
19 compensation review conducted by Hewitt, variable pay
20 places a portion of non-officer employees' compensation
21 at risk. It must be earned by performance and must be
22 re-earned each subsequent year. This pay-for-
23 performance philosophy is used by most companies in the

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1 utility industry and non-utility corporations and is
2 considered best practice. The Variable Pay Plan
3 incents appropriate behavior and the amounts paid by
4 the Company are commensurate with accomplishment of
5 predetermined goals by employees.

6 Q. Has the Company made any changes to the Variable Pay
7 Plan that will be in effect during the rate year?

8 A. Yes, we did. The Company has made two material changes
9 to its program that address concerns discussed in the
10 Commission's order in the Company's last electric rate
11 case and the Recommended Decision (RD) issued by the
12 Administrative Law Judges (ALJs) in that case.

13 Q. Please explain these changes.

14 A. First, as it relates to funding the Variable Pay Plan,
15 the Company has significantly increased the weighting
16 of operating performance indicators component of the
17 Variable Pay Plan. Effective January 1, 2010, the
18 weighting assigned to a comprehensive list of specific
19 operating performance indicators will be raised to 50
20 percent from 30 percent in the current formula. The
21 Operating Budget will comprise 25 percent rather than
22 20 percent as in the current formula, and Adjusted Net
23 Income will be reduced from 50 percent under the

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1 current formula to 25 percent. We have shifted the
2 weightings for each of the components to provide
3 greater emphasis for non-officer management employees
4 on achievement of operating goals geared toward
5 providing customers with safe, reliable and quality
6 service. A sliding scale of 0 percent to 120 percent
7 is applied to each component based on actual results
8 achieved.

9 Second, the Variable Pay Plan no longer requires
10 meeting a financial threshold of 90 percent of the
11 Adjusted Net Income target for payments to be made
12 under the plan. In making these modifications to the
13 Variable Pay Plan, we took into consideration the
14 concerns raised by the ALJs, other parties and the
15 Commission's Order in our last electric rate case. The
16 plan is designed to place a portion of employees'
17 compensation at risk subject to employees achieving
18 pre-determined goals. By changing the weighting
19 assigned to each of the three components (achievement
20 of specific safety, reliability, customer satisfaction
21 and other operating performance indicators, operating
22 budgets and Adjusted Net Income) and eliminating the
23 Adjusted Net Income threshold, we have placed more

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1 emphasis on operating factors, without eliminating cost
2 efficiency as an important objective, and without the
3 possibility that there will be no payments under the
4 Variable Pay Plan if those objectives are met but a net
5 income threshold is not.

6 Q. The Commission order (p. 56) indicated that "[w]e do
7 not see that it would be categorically unjust or
8 unreasonable for ratepayers to bear the costs of an
9 incentive plan limited to such factors [e.g.,
10 addressing safety, environmental protection] and not
11 including financial parameters." Why does the Company
12 believe that it is also just and reasonable for
13 customers to bear the full costs of a plan that
14 emphasizes operating targets but also includes
15 components relating to operating budgets and Adjusted
16 Net Income?

17 A. There are several reasons, which I will explain in more
18 detail below. First, performance metrics are now the
19 dominant element of the Company's plan. Second, what
20 the Commission has referred to as a "financial
21 parameter", i.e., Adjusted Net Income, is no longer
22 tied to a minimum threshold and represents a smaller
23 percentage of the plan. Third, the Company achieving

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1 all of these parameters will result, in fact, in
2 greater benefit to customers than a plan that would
3 focus only on operating performance metrics.

4 Q. Why has the Company established 50 percent as the
5 percentage of the Variable Pay Plan tied to performance
6 metrics, and 25 percent to each of the other two
7 components?

8 A. The increase from 30 percent to 50 percent is directly
9 responsive to the Order and the RD, but the ultimate
10 level is somewhat a matter of judgment, as members of
11 our peer group have formulas that vary in weights given
12 to financial and non-financial metrics. In addition, we
13 have proposed a greater percentage of 50 percent and
14 not 100 percent because we still believe it to be
15 important to establish a reasonable balance among these
16 three components, which are interdependent and are all
17 important for the success of the Company. If we made
18 the plan 100 percent tied to customer performance
19 metrics, our non-officer management employees may
20 become entirely focused on achieving these targets at
21 any cost. This would ultimately result in higher costs
22 to customers. Similarly if we made the plan 100
23 percent tied to operating budgets, our non-officer

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1 management employees could be encouraged to cut costs
2 even at the risk of lowering customer service. Our
3 peer companies may have different weightings assigned
4 to each of the components of their variable pay plans;
5 however, it is the combination of providing targets
6 that encourages employees to meet customer related
7 goals within reasonable costs that is ultimately to the
8 ratepayers' benefit.

9 Q. Why is it important to include all three components in
10 the plan?

11 A. Emphasizing performance in only one area at the
12 exclusion of the others would not achieve the goals of
13 the Company. For example, if actual Adjusted Net
14 Income consistently comes in below target, it will
15 result in a higher cost of debt and equity as
16 underwriters and shareholders lose confidence in the
17 Company and thus result in a higher cost of capital.
18 If budgets go uncontrolled, it will result in higher
19 rates for customers when rates are reset. And if
20 operating objectives are not met, we are not providing
21 service expected by our customers. As is evident from
22 the order in the last case, in particular, the
23 austerity adjustment, providing service at the lowest

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1 reasonable cost is a fundamental Commission objective.

2 A variable pay plan that is tied exclusively to
3 performance metrics could potentially drive our
4 employees to meet safety, reliability and other goals
5 at any cost. This would be adverse to the interests of
6 customers, as the increased cost of providing service
7 would necessarily translate to higher rates in the
8 future based upon higher costs incurred during the
9 historic year upon which rates are set.

10 Accordingly, a critical element of our program is
11 achieving targeted operating budgets, which tie a
12 material portion of variable pay to our employees
13 operating efficiently. Together, these two components
14 comprise 75 percent of the modified Variable Pay Plan.

15 Q. Your plan still includes a net income target, which the
16 Commission order several times refers to as a
17 "financial parameter" that triggers its existing
18 "policy" from the National Fuel case that such plans be
19 self-supporting. Why do you believe that the National
20 Fuel "policy" should not result in the Commission's
21 rejecting the Company's modified variable plan for
22 inclusion in the revenue requirement?

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1 A. First, as noted above, in direct response to the order,
2 the Adjusted Net Income target is no longer the
3 dominant element of the plan, reduced from 50 percent
4 down to only 25 percent of the plan's aggregate
5 targets. Second, in direct response to the
6 Commission's concern (Order, p. 53) that "the net
7 income threshold for receiving any incentive pay
8 ensures that managers will see meeting that threshold
9 as more important than achieving any of the operating
10 goals...," the Company has eliminated that financial
11 threshold.
12 Third, meeting a net income target that is a minor
13 element of a plan dominated by operating objectives and
14 budget goals should be viewed as beneficial to
15 customers.

16 Q. Please explain.

17 A. For the same reasons that the operating budget
18 component of the program is important to customers by
19 tying employee variable pay to achieving performance
20 metrics at a reasonable cost, the Adjusted Net Income
21 target provides additional incentive for employees to
22 perform more efficiently. For example, to the extent
23 that further efficiencies beyond meeting targeted

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1 budgets may be achieved, customers will again directly
2 benefit from rates lower than they would otherwise be
3 in the future because costs in the historic year will
4 be lower.

5 Q. The Commission indicated (Order, pp. 52-53) that the
6 Company's explanation of its earnings levels during the
7 2006-2008 periods shows the weakness of its claim that
8 "the mix of performance and financial parameters in its
9 plan keeps its managers focused on meeting operating
10 parameters that benefit ratepayers in a cost-effective
11 manner also fails." Do you agree?

12 A. No, I do not. The Company explained that earnings at
13 or above a sharing threshold during the 2005 rate plan
14 were primarily attributable to the Company's retention
15 of additional revenues from weather-related sales or
16 lower-than-forecasted property taxes, and therefore
17 provided no basis for Westchester's exorbitant
18 productivity adjustment, which the Commission correctly
19 rejected. It does not mean that the Company's Variable
20 Pay Plan did not work as intended to provide employees
21 the proper incentives to achieve operating, budgetary
22 and net income goals during that same period.

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1 Q. Do you have any additional comments regarding the issue
2 of customer benefits from a Variable Pay Plan?

3 A. Yes. I would just note that the Company does not agree
4 with the view that certain elements of our plan benefit
5 customers, and that other elements (i.e., "financial
6 parameters") benefit investors. Both customers and
7 investors benefit, in the short term and particularly
8 in the long term, from a well-run company, and attempts
9 to parse certain actions between these two stakeholder
10 groups do not have merit. Investors have as much
11 interest in the Company achieving safety and
12 reliability targets as customers have in the operating
13 efficiencies and financial health of the Company.

14 Q. You explained the changes and reasons for them. Please
15 explain how the modified Variable Pay Plan works.

16 A. Each year a "Target Fund" is determined by multiplying
17 year-end salaries times the following Target Award
18 percent for each eligible management employee.

19

20

21

22 Employee Salary Band Target Percent

23 Band Levels SL, EP, 1, and 2 4.5%

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1	Band Level 3	10.0%
2	Band Level 4	15.0%

3 The resulting amount represents the Target Fund. An
4 Award Fund is then determined by adjusting the Target
5 Fund based on the Company's performance in achieving
6 goals within each of the following three areas:

- 7 1. Achievement of specific safety, reliability,
8 customer satisfaction and operating performance
9 indicators, such as the OSHA Incidence Rate,
10 Electric Network System Availability, Electric Non-
11 Network System Availability, Respond to Gas Odor
12 Complaints within 30 minutes, Workable Gas Leaks
13 Year-End Backlog, Steam System - Normal Pressure
14 Operations, Generation Stations - Forced Outages,
15 PSC Complaints, Customer Calls Answered, Customer
16 Satisfaction Surveys, Environmental Index and
17 Employee Development Index.
- 18 2. Performance within an "Operating Budget," which is
19 the portion of the CECONY operating and maintenance
20 budget approved by the Board of Trustees that is
21 comprised of departmental expenses, including
22 Interference and Uncollectible expenses. The
23 operating budget performance targets are set in line

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1 with the expenditures approved by the Commission in
2 the rate setting process.

3 3. Achievement of a pre-determined level of
4 "Consolidated Edison Company of New York (CECONY)
5 Adjusted Net Income," which will be comprised of net
6 income from ongoing operations for CECONY after
7 subtracting all expenses incurred by CECONY,
8 including federal and state income taxes. CECONY's
9 Adjusted Net Income will be net of the reserve that
10 is established for the Award Fund during the year-
11 end closing and is not to be weather normalized.

12 Q. Why should the Company be permitted to recover the
13 costs of the non-officer management Variable Pay Plan?

14 A. The Company should recover non-officer management
15 variable pay costs for two reasons. First, the
16 principles of cost-of-service rate regulation require
17 that a regulated company be provided a reasonable
18 opportunity to recover its reasonable business
19 expenses. Based on the comparative work performed by
20 Hewitt, there is strong evidence that the Company's
21 compensation package for its non-officer management
22 employees, including the variable pay components, are
23 well within the norms and thus satisfy the criteria for
24 a reasonable business expense.

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1 Second, the Company's Variable Pay Plan directly
2 benefits customers and investors. Performance criteria
3 include numerous objectives important to customers.
4 Some performance indicators relate to customer service
5 and operating efficiencies, which are based on
6 performance mechanisms prescribed by the Commission
7 that place penalties on the Company for not meeting
8 goals established for these areas. For example, in the
9 customer service area, the Variable Pay Plan includes
10 indicators such as PSC complaints, customer calls
11 answered, billing accuracy, percent of meters read on
12 schedule and customer satisfaction surveys. In the
13 operating areas, the Variable Pay Plan includes
14 measures such as system reliability where the
15 Commission imposes penalties depending on the duration
16 and frequency of outages. For example, in the past
17 certain electric organizations did not receive a full
18 variable pay award because they did not meet their
19 performance indicators due to the frequency and
20 duration of outages. Given that the Commission
21 prescribes performance incentives on the Company, we
22 believe it is appropriate to impose similar performance
23 incentives on employees through the Variable Pay Plan.
24 The Variable Pay Plan links pay to performance. The

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1 employees have a large portion of their pay at risk if
2 these goals are not met.

3 Q. How is the award distributed?

4 A. The Award Fund is distributed to employees who have
5 achieved a satisfactory or better performance rating
6 and the actual amount awarded will vary among employees
7 based on the target level for their position, the
8 results of performance indicators assigned to their
9 organization and an assessment of their individual
10 performance.

11 For each eligible employee, 60 percent of his or her
12 award will be based on achieving Company and specific
13 organization performance goals, and the remaining 40
14 percent is based on individual performance as shown
15 below:

<u>Performance Indicator</u>	<u>Weighting</u>
Adjusted CECONY Net Income	10%
Organization Budget	15%
Organization Performance Indicators	35%
Individual Performance	40%

21
22 Q. What are performance indicators?

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1 A. Each organization develops performance indicators with
2 targeted goals each year. The performance indicators
3 reflect the organization's functions and work
4 activities and are set at challenging yet achievable
5 levels. Each month, the performance indicators are
6 updated and management employees have the opportunity
7 to monitor them closely to see if their organization is
8 on target in meeting its goals. If goals are not on
9 target, then they have an opportunity to adjust to
10 rectify the situation.

11 Q. Must all employees have a satisfactory rating to
12 receive a pay out under the Variable Pay Plan?

13 A. Yes. A satisfactory rating is a minimum threshold or
14 requirement for receiving a portion of the variable
15 pay. Employees who are rated unsatisfactory or
16 marginally satisfactory in performance are not eligible
17 for the Variable Pay Plan. The Variable Pay Plan is
18 designed to encourage teamwork and also individual
19 performance. An organization succeeding in achieving
20 its performance measures will include employees with
21 varying ranges of performance, some at the satisfactory
22 level and others above. Employees achieving a
23 satisfactory rating are eligible to receive a minimum

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1 award (up to 60 percent of his or her target) based on
2 the organization's results. Satisfactory performers
3 may also receive additional variable pay based on their
4 individual contribution. High performing employees
5 achieving a better than satisfactory rating also are
6 eligible to receive a minimum award (up to 60 percent
7 of his or her target) based on the organization's
8 results and additional variable pay based on their
9 individual contribution. The additional variable pay,
10 which is based on individual contributions, ranges from
11 0 to 60 percent and high performers will receive a
12 greater amount of variable pay to distinguish them from
13 satisfactory performers. Employees receiving different
14 levels of variable pay reflect not only how well their
15 organization performed but also reflects how well they
16 performed individually during the period.

17 Q. Is the Company's program excessive compared with that
18 of its peers?

19 A. No. In fact, Company witness Shafer testifies that the
20 Company's base salary and variable pay compensation
21 falls below the market median levels by 9.6 percent to
22 12.1 percent. This reflects the Company's need to
23 recover the non-officer Variable Pay Plan to compensate

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1 its employees fairly, at a reasonable cost to its
2 customers, and have the ability to attract employees by
3 paying them competitively.

4 NON-OFFICER MANAGEMENT BASE

5 Q. Please describe how you establish base salary levels
6 for non-officer management employees?

7 A. We generally establish the merit budget and salary
8 structure adjustments for base salaries for the year
9 based on a Company conducted survey. In 2009, we
10 conducted a phone survey with thirteen companies, nine
11 of which are from the compensation peer group disclosed
12 in our proxy statement. The nine peer group companies
13 surveyed were: American Electric Power Company, Inc.;
14 CenterPoint Energy, Inc.; Constellation Energy Group,
15 Inc.; Dominion Resources Inc.; Edison International;
16 Entergy Corporation; Exelon Corporation; FPL Group,
17 Inc.; and Progress Energy, Inc. Four other utility
18 companies (National Grid; Northeast Utilities; NSTAR;
19 and Public Service Electric and Gas) were also willing
20 to share compensation information with us. In addition
21 to our internal survey, we also used compensation
22 surveys published by various compensation consulting
23 and research firms, such as Hewitt Associates, Watson

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1 Wyatt, the Conference Board, World at Work, Edwin
2 Perlin Associates and Mercer. We generally select
3 rates that reflect no more than the average of the
4 benchmarked companies.

5 EQUITY GRANTS

6 Q. Please describe equity grants for non-officer
7 management employees.

8 A. Equity grants are awarded to management employees
9 contributing to the future success and growth of the
10 Company. For 2008, the Management Development and
11 Compensation Committee of the Company's Board of
12 Directors (MD&C Committee), the administrator of the
13 equity grant program, authorized granting equity awards
14 in the form of performance based restricted stock
15 (PBRS) to non-officer management employees in bands 3
16 and 4, and time-based restricted stock (TBRS) to
17 management employees in bands 1 and 2. The equity
18 grants provide the right to receive one share of Con
19 Edison common stock (or a cash payment equal to the
20 fair market value of one share of Con Edison common
21 stock) for each stock unit granted, subject to the
22 satisfaction of certain pre-established long-term
23 performance objectives.

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

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

12 Q. How and when are PBRS distributed?

13 A. The PBRS will be distributed after completing a three-
14 year performance cycle, but the number of shares
15 distributed on the payout year is based on a numerical
16 formula and depends on the achievement of certain
17 performance criteria. The following performance
18 indicators will determine the number of shares (or cash
19 equivalent) actually distributed at the end of each
20 performance cycle: Fifty percent of PBRS granted to
21 non-officer management employees in bands 3 and 4 is
22 linked to performance as measured by the Variable Pay
23 Plan Award Fund for non-officer management employees.

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1 As previously mentioned, the Award Fund for the
2 Variable Pay Plan is determined by achieving
3 performance goals for operating performance, operating
4 budgets and Adjusted Net Income goals. The number of
5 shares distributed will be determined by multiplying
6 the Variable Pay Plan Award Fund average for the three
7 years prior to the payout year by the number of shares
8 linked to this performance indicator. For example, if
9 the Variable Pay Plan Award Fund average for the three
10 years prior to the payout year is 95 percent, then 95
11 percent of the PBRs granted linked to this indicator
12 will be distributed. The other fifty percent of the
13 PBRs awarded to non-officer management employees is
14 linked to Con Edison's performance using a Total
15 Shareholder Return (TSR) indicator. TSR is the
16 incremental value an equity investor receives (change
17 in stock price plus dividends received) by holding one
18 share of a company's common stock over a period of
19 time. In determining the number of shares to be
20 distributed, the following guidelines will apply based
21 on how well Con Edison's TSR compares with the TSR for
22 the compensation peer group over a three-year
23 performance period:

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1		
2	Con Edison's TSR	Percent of
3	<u>Percentile Ranking</u>	<u>Shares Distributed</u>
4	75 th or greater	150%
5	70 th	140%
6	65 th	130%
7	60 th	120%
8	55 th	110%
9	50 th	100%
10	45 th	85%
11	40 th	70%
12	35 th	55%
13	30 th	40%
14	25 th	25%
15	Below 25 th	0%

16 For example, 100 percent of the PBRs linked to this
17 performance indicator will be distributed if the Con
18 Edison's TSR during the performance period ranks in the
19 50th percentile when compared to the TSR for the
20 compensation peer group.

21 Q. How and when are TBRS distributed?

22 A. The TBRS are distributed after completing a three-year
23 vesting cycle. For example, management employees in

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1 bands 1 and 2 awarded TBRS in 2008 would receive a pay
2 out of 100 percent of these shares in 2011.

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

5 A. As discussed earlier, the equity grants are part of an
6 overall compensation package for non-officer management
7 employees that are below the median compensation levels
8 for a peer group of similarly-situated companies. It
9 is a necessary and reasonable business expense incurred
10 by the Company in order to attract the talented
11 employees necessary to provide safe and reliable
12 service. The Company provides equity grants to non-
13 officer management employees to promote employee
14 behavior to drive the future success of the Company and
15 to retain quality employees critical to achieve this
16 success. Payouts are made only after the consistent
17 demonstration of achieving performance indicators over
18 a period of time, as measured by the three-year average
19 of the Variable Pay Plan Award Fund.

20 Q. Has the Company used the services of a compensation
21 consultant to evaluate its compensation program for
22 non-officer management employees?

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- 1 A. Yes. The Company retained Hewitt Associates to conduct
2 a review of its current non-officer management level
3 compensation practices related to base salary, variable
4 pay and equity grants. As part of this review, Hewitt
5 has conducted a benchmark sample of about 80 different
6 positions covering 2,085 management employees. These
7 jobs were compared with similar jobs at 38 utility
8 companies across the nation, including 14 of the 20
9 companies in the compensation peer group adopted by the
10 Company for reviewing officer compensation. The 14
11 companies from the peer group include: Ameren
12 Corporation; American Electric Power Company, Inc.;
13 CenterPoint Energy, Inc.; Constellation Energy Group,
14 Inc.; Dominion Resources Inc.; DTE Energy Company; Duke
15 Energy Corporation; Edison International; Entergy
16 Corporation; FirstEnergy Corp.; NiSource, Inc.; PPL
17 Corporation; Sempra Energy; and The Southern Company.
- 18 Q. What is Hewitt's finding regarding the Company's non-
19 officer management compensation practices?
- 20 A. As described in Company witness Shafer's testimony, for
21 base salary, Hewitt found current level is at the
22 median when compared with the compensation peer group
23 and the other national utility companies. When

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1 variable pay is added to base salary, Total Cash
2 Compensation falls below the median. As indicated
3 above, Company witness Shafer's testimony states that
4 the Company's base salary and variable pay compensation
5 falls below the market median levels from 9.6 percent
6 to 12.1 percent. Hewitt also found that the Company's
7 Variable Pay Plan is similar in structure to those of
8 other utilities in terms of emphasis placed on
9 financial performance, customer satisfaction and safety
10 measures, with Con Edison having a greater emphasis on
11 customer satisfaction and safety than peers. The
12 upside of the Company's payout range of 120 percent is
13 low. The compensation peer group has an upside that
14 can be as high as 175 percent and the upside for the
15 other national utilities can be as high as 200 percent.
16 Hewitt's assessment of the value of the Company's
17 equity grant program is 1 to 8 percent of base salary
18 while the peer group is at 5 to 35 percent and the
19 other national utility programs ranged from 5 to 40
20 percent level. Therefore, adding equity grants to base
21 and variable pay makes the total level of compensation
22 fall even further below the median of the benchmark.
23 Company witness Shafer's testimony states that the

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1 Company's total non-officer management compensation
2 falls far below the market median levels from 23.1
3 percent to 24.8 percent.

4 Q. Do you agree that a comparison of compensation levels
5 for the Company's non-officer management employees
6 should take into account benefits, such as pensions,
7 health insurance, and matching funds for savings plans?

8 A. No, as stated in Company witness Shafer's testimony, it
9 is a very common practice to review compensation
10 practices without including benefits. In fact Company
11 witness Shafer states that, "it is very unusual in our
12 experience for an organization to combine benefits."
13 Additionally, there is no evidence to support the
14 implied "excess" in benefits that would somehow
15 increase the value of non-officer compensations levels
16 above the median of our Peer groups

17 Q. Does this conclude your testimony?

18 A. Yes, it does.