Q. Please state your name and business address.

A. My name is John de la Bastide, and my business address is 4 Irving Place, New York, New York 10003.

Q. By whom are you employed and in what capacity?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") as Department Manager, Employee Benefits and Compensation.

Q. Please describe your educational background.

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

Q. Please describe your work experience.

A. I have been employed by Con Edison for 23 years. Between 1986 and 1996, I was promoted to various supervisory positions in Corporate Accounting. In 1998, I was promoted to the position of Section Manager, Employee Benefits. In 2001, I was promoted to Department Manager, Financial Forecasting, in Corporate Accounting and have held various positions as Department Manager in Corporate Accounting and Electric Operations. I assumed the position of Department Manager, Benefits and Compensation, in March 2007.

Q. Please generally describe your current responsibilities.

A. My current responsibilities as Department Manager of Compensation include administration of the compensation plans for non-officer management employees, officers, and members of the Company's Board of Directors.

Q. Please summarize your testimony.

A. My testimony addresses the Company's compensation package for non-officer management employees, which consists of base salary, a performance-based Variable Pay Plan, and equity grants, and demonstrates why the cost of this compensation package is a reasonable and necessary business expense the Company must incur to meet its obligation to provide safe and reliable service to its customers.

I will also explain how the Company's Variable Pay Plan is being modified, effective January 1, 2010, in conformity with the Commission's Order in the Company's last decided electric rate case (Case 08-E-0539), to place a greater emphasis on goals related to safety, reliability, customers' satisfaction, and operating performance and to eliminate the Net Income threshold.

Q. Will this Variable Pay Plan be in effect for the full rate year (i.e., through September 30, 2011)?

A. The rate filing assumes that to be the case. However, as I will discuss later in this testimony, the Company is currently evaluating recommendations regarding the Variable Pay Plan set forth in the recently completed management audit of the Company by the Liberty Consulting Group ("the Management Audit"). The Company may be implementing changes to its Variable Pay Plan pursuant to those recommendations. If such changes are determined prior to the conclusion of this proceeding, I will inform the record in this case of such changes. However, I do not anticipate any changes to the projected rate year level of compensation payable under this plan. In addition, the implementation of any changes pursuant to the Management Audit should serve to further validate, and by no means change the fact, that these are reasonable and necessary business expenses the Company must incur to meet its obligation to provide safe and reliable service to its customers.

Q. Has the Company taken any steps to mitigate the rate-year costs of the compensation package provided to its management employees?

A. Yes. The Company has mitigated the rate request in this proceeding by electing not to seek recovery of the annual awards and equity grants provided to the Company's officers, even though the costs of these programs are also reasonable and necessary business expenses the Company must incur to meet its obligation to provide safe and reliable service to its customers.

Q. Is the Company submitting any other testimony addressing the compensation of non-officer management employees?

A. Yes. Company witness Shafer, who is a Principal of Hewitt Associates LLC ("Hewitt"), the Company's compensation consultant, is filing testimony on the Company's behalf that explains that the design of the Company's compensation program, delivered through a combination of base salary, performance-based variable pay, and equity grants, is consistent with current industry practice. Company witness Shafer also demonstrates that the overall level of compensation for the Company's non-officer management employees falls well below the median when compared with benchmark data of various peer companies.

NON-OFFICER MANAGEMENT EMPLOYEE COMPENSATION

Q. Please describe how the compensation levels for non-officer management employees are established.

A. The Chairman and Chief Executive Officer of the Company, the Senior Vice President of Enterprise Shared Services, and Vice President of Human Resources establish, review, and administer the Company's compensation program for non-officer management employees. I manage the day-to-day administration of the Company's compensation program under the guidance of the officers listed above and in accordance with Company policy.

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

A. The Company's philosophy is to provide compensation that is competitive with the median levels of compensation provided by a peer group of companies. Setting compensation levels in this way permits the Company to be reasonably competitive in the labor market and to be able to attract, and compensate fairly, employees critical to the success of the Company. I emphasize that in targeting the median levels for compensation measured against a national norm, the Company has taken a very conservative low-cost approach, an approach which has benefited its customers.

Q. What was Hewitt's finding regarding the Company's non-officer management compensation practices?

A. As described in Company witness Shafer's testimony, for base salary, Hewitt found the current level is at the median when compared with the compensation peer group and the other national utility companies. When variable pay is added to base salary, Total Cash Compensation falls below the median. Mr. Shafer also concludes that the Company's base salary and variable pay compensation fall below the market median levels from 9.6 percent to 12.1 percent. Mr. Shafer also found that the Company's Variable Pay Plan is similar in structure to those of other utilities in terms of considering financial performance, customer satisfaction, and safety measures, with Con Edison having a greater emphasis on customer satisfaction and safety than its peers.

As Company witness Shafer testifies, the New York City wage differential typically ranges between 20 and 25 percent above national norms. The objective of the compensation program is to support the Company's business strategy, which is focused on providing customers with high quality, safe and reliable service at reasonable costs, by providing an environment where employees can continue to improve their contributions to the Company in furtherance of these objectives.

VARIABLE PAY PLAN

Q. Please describe the Company's Variable Pay Plan.

A. The Company's Variable Pay Plan compensates non-officer management employees provided that certain performance measures that are set prior to the beginning of the performance period are met. As demonstrated by the compensation review conducted by Hewitt, variable pay places a portion of non-officer management employees' compensation at risk. That portion must be earned by performance and must be re-earned every subsequent year. The Variable Pay Plan encourages appropriate behavior, and the amounts paid by the Company are commensurate with the accomplishment of predetermined goals by employees. Most companies, including those in the utility industry, follow this pay-for-performance philosophy and consider it a best practice.

Q. Is the Company's Variable Pay Plan an incentive compensation plan?

A. No. The Variable Pay Plan is designed to have all employees with at least a satisfactory rating earn a portion of their compensation directly tied to the achievement of specific goals. As I will explain in more detail later in this testimony, the Award Fund for the Variable Pay Plan assigns weighting to three components of Company performance. The weighting assigned to each of these three components under the plan currently in effect is 50 percent to Adjusted Net Income, 20 percent to Operating Budget, and 30 percent to various performance indicators, many of which are tied to performance metrics established by the Commission.

Q. How is the Variable Pay Plan that will be in effect during the rate year different from the Company's current Variable Pay Plan?

A. The Company has made two material changes to the Variable Pay Plan to address concerns set forth in the Commission's order in the Company's last-decided electric rate case (Case 08-E-0539) and in the Recommended Decision ("RD") issued by the Administrative Law Judges ("ALJs") in that case. These changes will be effective January 1, 2010, prior to the start of the rate year in this proceeding.

Q. Please describe these changes.

A. First, the Company changed the weighting of the various components of the Variable Pay Plan. Effective January 1, 2010, the weighting assigned to a comprehensive list of specific operating performance indicators was raised to 50 percent from 30 percent. The weighting assigned to the Operating Budget will comprise 25 percent rather than 20 percent, and the weighting for Adjusted Net

Income was reduced from 50 percent to 25 percent. The Company shifted the weightings for each of the components to provide greater emphasis for non-officer management employees on achieving operating goals geared toward customer satisfaction and providing safe and reliable utility service.

Q. Please describe the next change.

A. Effective January 1, 2010, the Variable Pay Plan no longer requires that the Company meet a threshold of 90 percent of the Adjusted Net Income target for payments to be made under the Plan.

Q. What is the intended effect of these modifications to the Variable Pay Plan?

A. By changing the weighting assigned to each of the three components of the plan, and eliminating the Adjusted Net Income threshold, the Company is placing greater emphasis on operating factors, without eliminating cost efficiency as an important objective, and eliminating the possibility that there will be no payments under the Variable Pay Plan if those objectives are met but a Net Income threshold is not.

Q. Why does the Company believe that a plan that emphasizes operating targets but also includes components relating to operating budgets and Adjusted

Net Income is a reasonable and necessary business expense?

A. There are several reasons. First, performance metrics are now the dominant element of the Company's plan. Second, the Company's achieving all three parameters will result, in fact, in greater benefits to customers than a plan that would focus only on operating performance metrics. Third, eliminating the 90 percent threshold for the Net Income target removes the possibility that employees will have less of a reason to achieve the Operating Performance and Operating Budget targets in the event it appears that the Company may achieve less than 90 percent of the Adjusted Net Income target.

Q. Please explain why the Company has established 50 percent as the percentage of the Variable Pay Plan tied to performance metrics, and 25 percent to each of the other two components.

A. The increase from 30 percent to 50 percent is directly responsive to the Commission's Order and the RD in the Company's last electric rate case, but the ultimate level is a matter of judgment. Members of our peer group have formulas that vary in weights given to financial and non-financial metrics. The Company is increasing the percentage to 50 percent, and not 100 percent, because we still believe it is important to establish a reasonable balance among these three components, which are interdependent and are all important for the Company's customers and the success of the Company.

Q. Why is this balance of the three components a benefit to customers?

A. If the Company made the plan 100 percent tied to customer performance metrics, the Company's non-officer management employees may become entirely focused on achieving these targets at any cost. This could ultimately result in higher costs to customers. Similarly, if we made the plan 100 percent tied to operating budgets, the Company's non-officer management employees could be encouraged to cut costs even at the risk of lowering customer service.

Q. How does the Company's plan compare with the plans of its peer companies?

A. Our peer companies have different weightings assigned to each of the components of their variable pay plans; however, it is the combination of providing targets that encourage employees to meet customer related goals within reasonable costs that is ultimately to the customers' benefit. As Mr. Shafer concluded, the Company's Variable Pay Plan is significantly more weighted towards operating focused goals such as customer satisfaction and safety and significantly less focused on financial measures. In contrast to the plans of other companies which include financial parameters such as earnings per share and cash flow, the operating budget and Adjusted Net Income threshold in the Company's plan are essentially cost-control incentives which benefit customers. And, since achieving these targets affects the variable pay awards for all employees, these targets provide management employees with a common stake in achieving the corporate goals so important to customers.

Q. Has there been any formal employee communication regarding the 2010 changes to the Variable Pay Plan?

A. Not yet. The changes I described are effective January 1, 2010, and will potentially impact variable pay awards scheduled to be made in April 2011 after the 2010 calendar year performance period is completed. It would be premature, and we believe confusing to employees, to publish information related to plan changes that would potentially impact April 2011 awards when the performance results for the April 2010 awards are not final. Our current practice has been to review performance indicators in the fourth quarter of the year to establish targets for the following year. During this period of time, the Company has actual results for most of the year and is finalizing the budget and goals for the following year. In January of each year, after the results for the performance period are final, both the actual results achieved and the new performance targets for the upcoming year are communicated to employees. It should be noted that the corporate level performance targets have been very consistent from year-to-year and the Company does not intend to relax or lower the performance goals for 2010. The Company is committed to changing the weightings assigned to each of the three components of the plan as described above.

Q. Will the Company make any additional changes to the Variable Pay Plan?

A. At this point, there are no additional planned changes to the Variable Pay Plan, effective January 1, 2010. However, the Management Audit includes recommendations that relate to the Variable Pay Plan and equity grants for non-officer management employees, and the Company will be considering the implementation of these recommendations. As mentioned previously, I will inform the record of any such modifications and discuss such changes in my update testimony, depending upon the status of audit implementation efforts as respects variable pay.

Q. Please explain.

A. As part of the Company's implementation plan filed with the Commission, various teams have been established to review the Management Audit recommendations and develop responses. I am a member of the team working on responses for the following two recommendations:

1. Increase the amount of stretch and put more pay at risk as part of a broad revamping of the compensation package; and
2. Before the study is done and implemented, reduce the emphasis on O&M expense and increase the weighting for capital expenditures performance and the operating performance measures.

In response to these recommendations, this team will evaluate the existing plans, examine their complexity, review performance measures, and the levels of pay-at-risk. Various milestones have been established to respond to these recommendations and any changes implemented by the Company will be effective January 1, 2011.

Q. Has the Commission determined that the costs of this program should not be recovered in rates in recent Commission orders on the Company's electric rates?

A. Yes. However, the Company disagrees with these rulings and has pending with the Commission a request for rehearing of the Commission's Order in Case 08-E-0539. The Company should recover the costs of non-officer management variable pay for two reasons. First, the costs of this plan are a reasonable business expense, needed to attract the employees necessary for the Company to provide safe and adequate service to customers. As demonstrated by Company witness Shafer, the Company's compensation package for its non-officer management employees, including the variable pay components, is well within the norm of the compensation provided by peer companies.

Second, the Company's Variable Pay Plan directly benefits customers and investors. As I will discuss in detail in this testimony, performance criteria under the Company's plan include numerous objectives important to customers. Some performance indicators related to customer service and operating efficiencies, which are based on performance mechanisms, are prescribed by the Commission and place negative revenue adjustments on the Company for not meeting goals established for these areas. For example, in the customer service area, the Variable Pay Plan includes indicators such as PSC complaints, customers calls answered, billing accuracy, percent of meters read on schedule and customer satisfaction surveys. In the operating areas, the Variable Pay Plan includes measures, such as damages to gas facilities resulting from mismarks, miles of leak-prone gas main to be replaced annually, and percentage of time during the year that service was available to gas customers. For example, in the past, certain gas organizations did not receive a full variable pay award because they did not meet their performance indicators related to their OSHA incident rate. The Commission prescribes performance incentives on the Company, and we believe it is appropriate to impose similar performance incentives on employees through the Variable Pay Plan. The Variable Pay Plan links pay to performance. The employees have a portion of their pay at risk if these goals are not met.

Q. Please explain how the Variable Pay Plan works.

A. Each year a "Target Fund" is determined by multiplying year-end salaries by the following Target Award percentages for each eligible non-officer management employee.

Employee Salary Band	Target Percent
Band Levels S, EP, 1, and 2	4.5%
Band Levels 3	10.0%
Band Level 4	15.0%

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

1. Achievement of specific safety, reliability, customer satisfaction and operating performance indicators, such as OSHA Incidence Rate, Electric Network System Availability, Electric Non-Network System Availability, Respond to Gas Odor Complaints within 30 minutes, Workable Gas Leaks Year-End Backlog, Steam System - Normal Pressure Operations, Generation Stations - Forced Outages, PSC Complaints, Customer Calls Answered, Customer Satisfaction Surveys, Environmental Index and Employee Development Index.

2. Performed within an "Operating Budget," which is the portion of the CECONY operating and maintenance

budget approved by the Board of Trustees that is comprised of departmental expenses, including Interference and Uncollectible Expenses. The Operating Budget performance targets are set in line with the expenditures approved by the Commission in the rate setting process.

3. Achievement of a pre-determined level of "Con Edison Adjusted Net Income," which will be comprised of net income from ongoing operations for the Company after subtracting all expenses incurred by the Company, including federal and state income taxes. Con Edison's Adjusted Net Income will be net of the Reserve that is established for the Award Fund during the year-end closing and is not weather normalized.

Q. Are the Company's performance criteria static?

A. No. The Company evaluates performance criteria to determine whether the criteria should be removed or new indicators added. The Company has the following principles for establishing performance indicators: 1) if the performance indicator is a regulatory requirement, the target should match the target adopted by the regulatory authority; 2) targets should be based on a three-year average of the prior experience with consideration given for incremental improvement to the target; 3) performance criteria should be measureable; and 4) performance indicators should be evaluated annually to see if any should be removed or new indicators should be added. I note that three of the 12 key indicators are based on an index. These are the Safety Index, Environmental Index, and Employee Development Index. While the overall index target remained the same - achieve six of the eight items listed, or 75 percent, some of the individual targets for the eight items listed within each of these indexes were revised. For example, within the Safety Index the 2009 number of "Significant High Hazard Injuries" was reduced to 48 percent of the 2008 target. Even though the actual number of "System Safety - Operating Errors" for 2008 of 128 was over the 2008 target of less than or equal to 115, the 2009 target was reduced to less than or equal to 104 to place greater focus on this measure.

Within the Environmental Index, the "Opacity Occurrences not to exceed NYCDEP Standards" 2009 target was reduced by approximately 34 percent of 2008 target. Within the Employee Development Index the "EEO Sensitivity Awareness and Sexual Harassment Training" was eliminated in 2009 because the program was completed in 2008. In addition, the 2009 targets for both the percentage of "Students Passing Promotional Exam Upon Completion of Career Path Training" and the number of "Training Modules Developed on eLearning" were raised.

Q. Do any corporate indicators relate to gas performance targets?

A. Yes, two of the corporate operating performance indicators specifically measure items addressed by the currently effective gas rate plan. They are Response to Gas Odor Complaints within 30 Minutes and Workable Gas Leak Year End Backlog.

Q. Can you explain each of these indicators?

A. Yes, the first Response to Gas Odor Complaints within 30 Minutes measures the response time for gas odor complaints from the time the call is received to the time the mechanic/supervisor arrives at the location. The response calculation includes instances where the Company responds to a report of a gas odor, or other unidentified odor, and an investigation determines whether or not the odor is natural gas. However, the response calculation excludes initial reports of gas that the investigation determines to be carbon monoxide. Also excluded are instances of zero response times when Company personnel are already on site. The Company is required by the Commission, in accordance with the current gas rate plan, to respond to gas leak and odor calls within 30 minutes for at least 75 percent of the calls for calendar year 2008, 2009, and 2010. Reports detailing performance are provided to the Commission on a monthly and quarterly basis. As odor complaints are received from customers, they are dispatched from CIS through the Emergency Control System (ECS) in the Gas Emergency Response Center (GERC) to the mechanics in the field via Computer Aided Dispatch (CAD). Once at the location, the mechanic records the arrival time electronically. Each month the Gas Leak Response Time Report is extracted from the ECS. This report serves as the basis for the monthly and quarterly reports to the Commission. The response time is calculated by dividing the total calls responded to within 30 minutes by the total number of calls. This calculation yields the percent of calls with a 30 minute or less response.

Q. What has been the Company's performance related to this indicator?

A. In 2004 and 2005, the Company's response to gas order complaints as a percent of total calls was 76% and

76.4%, respectively. In 2007 and 2008 the Company's responses to gas order complaints percentage improved to 80.2% and 80.8%, respectively. The use of GPS technology has helped improve dispatch efficiency. Using GPS, Dispatchers have a visual indication of who the closest available qualified responder is when a leak ticket is received. The use of Computer Aided Dispatching has helped with response time. Radio traffic has been reduced, thereby reducing delays in communicating leak information to the field. The information is passed to the mechanic electronically, providing more detailed and accurate information to the field.

Q. Can you explain Workable Gas Leak Year End Backlog?

A. Yes. Leak management is the largest single component of the work performed by Gas Operations. Leaks are classified by the degree or extent of the potential hazard resulting from gas leakage and these classifications, as well as the prescribed remedial actions, are defined in Sections 255.811 through 255.817 of the Commission's Rules and Regulations. Leak repair is prioritized based on these classifications. Workable leaks are those that pose the most risk to public safety, and which are required to be repaired within a prescribed time frame. They are defined as Type 1, 2, 2A and 2M leaks.

A backlog report is generated daily which documents the total number of pending leaks. The report shows the break down by the above leak types. The report extracts the pending leak back log information from the Gas Leak Management System (GLMS). This report is the basis for the daily backlog report, which is distributed through out Gas Operations.

Q. What has been the Company's performance related to this indicator?

A. In 2004 and 2005, the Company's Workable Gas Leak Year End Backlog was 114 and 79, respectively. In 2007 and 2008, the Company's backlog was 43 and 36, respectively. The 2008 backlog is approximately one-third the 2004 level and less than half the 2005 level. The replacement and repair of gas mains have contributed to the improvement in the year-end workable backlog. In 2008, Gas Operations replaced over 60 miles of leak-prone pipe. Replacement of this level of main which had a history of leaks or was prone to leakage, reduced the year-end workable leaks to repair. The results of these two corporate indicators clearly demonstrate that by tracking and reporting various performance measures the Company and our employees seek ways to achieve pre-established performance goals that benefit our customers and the Company.

Q. How is the Award Fund distributed?

A. The Award Fund is distributed to employees who have achieved a satisfactory or better performance rating and the actual amount awarded will vary among employees based on the target level for their position, the results of performance indicators assigned to their organization and an assessment of their individual performance. For each eligible employee, 60 percent of his or her award is based on achieving Company and specific organization performance goals, and the remaining 40 percent is based on individual performance as shown below:

Performance Indicator	Weighting
Individual Performance	40%
Organization Performance Indicators	35%
Organization Budget	15%
Adjusted Net Income	10%

Q. What are organization performance indicators?

A. In addition to the corporate level performance indicators used to determine the Award Fund, each organization develops performance indicators specific to its area along with target goals each year. The performance indicators reflect the organization's functions and work activities and are set at challenging yet achievable levels. Each month, the performance indicators are updated and management employees have the opportunity to monitor them to see whether their organization is on target in meeting its goals. If goals are not on target, then the employees have an opportunity to adjust to strive to meet those goals.

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

A. Yes. A satisfactory rating is a minimum threshold or requirement for receiving a portion of the variable pay. Unsatisfactory or marginally satisfactory employees are not eligible for the Variable Pay Plan. The Variable Pay Plan is designed to encourage teamwork and also individual performance. As such, the distribution of variable pay is based on 60 percent for the achievement of organizational performance indicators and 40 percent on individual performance. An organization succeeding in achieving its performance measures will include employees with varying ranges of individual performance, some at the satisfactory level and others above. Employees achieving at least a satisfactory rating are eligible to receive the team portion of variable pay (up to 60 percent of his or her target) based on the organization's performance indicators results. Performers with at least a satisfactory rating may also receive additional variable pay based on their individual contribution. The individual performance portion of variable pay targeted at 40 percent can range from 0 to 60 percent. High performers will receive greater than 40 percent for individual performance to distinguish them from satisfactory performers. Employees receiving different levels of variable pay reflect not only how well their organization performed but also reflect how well they performed individually during the period.

Q. Why should an employee that receives a satisfactory rating receive variable pay in addition to base compensation?

A. As noted above, the Company's compensation package is designed to provide an employee fair and reasonable compensation through a package of three components, with a portion of that compensation withheld (management variable pay) or not granted (equity grants) if performance is not satisfactory. Thus a satisfactory performer should receive a variable pay award in order to be compensated commensurate with satisfactory performance, and would receive less than market value for satisfactory performance if variable pay were withheld.

Q. What is the rate-year expense associated with non-officer management variable pay allocated to this gas rate proceeding?

A. The variable pay costs included in Operation and Maintenance expense for the rate year ending September 30, 2011, is $2.6 million.

Q. Please explain the forecast amount of $2.6 million for the costs of the Variable Pay Plan allocated to this gas rate proceeding.

A. The rate-year forecast of $2.6 million was based on the historic-year costs for variable pay, reduced to reflect the achievement of 100 percent of the target award fund and escalated using the labor factor.

Q. What do you mean by reduced to reflect achievement of 100 percent of the target award fund?

A. Based on the actual performance results achieved for the calendar year 2008, the variable pay award fund was established at 110 percent. In 2008 the Company achieved 120% of its operating performance goals (30%

weighting at 120 percent, or 36%) and 120% of its operating budget goal (20% weighting at 120%, or 24%) and 100% its Adjusted Net Income goal (50% weighting). Therefore, the historic year costs include 110 percent (36% for operating performance; 24% for operating budget; and 50% for Adjusted Net Income) of variable pay costs or $2.886 million. The Accounting Panel reduced the historic year cost by $262 thousand to normalize the cost of the Variable Pay Plan. Although employees received additional compensation for exceptional performance in the historic year, customers also benefited from the Company's higher performance without incurring the additional costs of the awards made under the plan.

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

A. No. In fact, Company witness Shafer testifies that the Company's base salary and variable pay compensation falls below the market median levels by 9.6 percent to 12.1 percent. This reflects the Company's need to recover the non-officer Variable Pay Plan to compensate its employees fairly, at a reasonable cost to its customers, and have the ability to attract employees by paying them competitively.

Q. Should the Variable Pay Plan be modified due to current economic circumstances?

A. Not in my opinion. Retaining and attracting talented employees is just as important during current economic conditions in order to enable the Company to maintain safe and reliable service of the quality customers have come to expect and rely upon. As I previously indicated, the Company has taken a very conservative low-cost approach to management compensation, an approach which has benefited its customers but which also does not provide employees the economic benefits experienced by employees in other industries during robust economic times. As to Company actions to reduce costs during current economic conditions, many Company witnesses have provided testimony in this proceeding of the various actions the Company is taking in this regard.

Q. Do you have any additional comments regarding customer benefits from a Variable Pay Plan?

A. Yes. I note that the Company does not agree with the view that certain elements of our plan benefit customers, and that other elements (*i.e.*, Operating Budgets and Net Income) benefit investors. Both customers and investors benefit from a well-run company, and attempts to allocate certain actions between these two stakeholder groups do not have merit. Investors have as much interest in the Company's achieving safety and reliability targets as customers have in the operating efficiencies and financial health of the Company.

NON-OFFICER MANAGEMENT BASE SALARY

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

A. We generally establish the merit budget and salary structure adjustments for base salaries for the year based on a Company conducted survey. In 2009, we conducted a telephone survey with thirteen companies, nine of which are from the compensation peer group disclosed in our proxy statement. The nine peer group companies surveyed were American Electric Power Company, Inc.; CenterPoint Energy, Inc.; Constellation Energy Group, Inc.; Dominion Resources Inc.; Edison International; Entergy Corporation; Exelon Corporation; FPL Group, Inc.; and Progress Energy, Inc.; four other utility companies (National Grid; Northeast Utilities, NSTAR; and Public Service Electric and Gas) were also willing to share compensation information with us. In addition to our internal survey, we also used compensation surveys published by various compensation consulting and research firms, such as Hewitt Associates, Watson Wyatt, the Conference Board, World at Work, Edwin Perlin Associates and Mercer. We generally select rates that reflect no more than the average of the benchmarked companies.

Q. Did Hewitt review the Company's base salary for non-officer management employees?

A. Yes. Hewitt conducted a benchmark sample of about 80 different positions covering 2,085 non-officer management employees. These jobs were compared with similar jobs at 38 utility companies across the nation, including 14 of the 20 companies in the compensation peer group adopted by the Company for reviewing officer compensation. The 14 companies forming the peer group include Ameren Corporation; American Electric Power Company, Inc.; CenterPoint Energy, Inc.; Constellation Energy Group, Inc.; Dominion Resources Inc.; DTE Energy Company; Duke Energy Corporation; Edison International; Entergy Corporation; FirstEnergy Corp.; NiSource, Inc.; PPL Corporation; Sempra Energy; and The Southern Company.

Q. What was Hewitt's finding regarding the Company's non-officer management compensation practices?

A. As described in Company witness Shafer's testimony, for base salary, Hewitt found the current level is at the median when compared with the compensation peer group and the other national utility companies.

EQUITY GRANTS

Q. Please describe the equity grant program for non-officer management employees.

A. Equity grants are awarded to non-officer management employees contributing to the future success and growth of the Company. The Management Development and Compensation Committee of the Company's Board (MD&C Committee), the administrator of the equity grant program, authorized granting equity awards in the form of performance based restricted stock (PBRS) to non-officer management employees in bands 3 and 4, and time-based restricted stock (TBRS) to employees in bands 1 and 2. The equity grants provide employees the right to receive one share of Consolidated Edison, Inc. common stock (or a cash payment equal to the fair market value of one share of Consolidated Edison, Inc. common stock) for each stock unit granted, subject to the satisfaction of certain pre-established long-term performance objectives.

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

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

Q. How and when are PBRS distributed?

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

Variable Pay Plan is determined by achieving performance goals for operating performance, operating budgets and Adjusted Net Income goals. The number of shares distributed will be determined by multiplying the Variable Pay Plan Award Fund average for the three years prior to the payout year by the number of shares linked to the performance indicators. For example, if the Variable Pay Plan Award Fund average for the three years prior to the payout is 95 percent, then 95 percent of the PBRS granted linked to this indicator will be distributed. The other fifty percent of the PBRS awarded to non-officer management employees is linked to Con Edison's performance using a Total Shareholder Return (TSR) indicator. TSR is the incremental value an equity investor receives (change in stock price plus dividends received) by holding one share of a company's common stock over a period of time. In determining the number of shares to be distributed, the following guidelines will apply based on how well Consolidated Edison Inc.'s TSR compares with the TSR for the compensation peer group over a three-year performance period:

Con Edison's TSR Percentile Ranking	Percent of Shares Distributed

75th or greater	150%
70th	140%
65th	130%
60th	120%
55th	110%
50th	100%
45th	85%
40th	70%
35th	55%
30th	40%
25th	25%
Below 25th	0%

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

Q. How and when are TBRS distributed?

A. The TBRS are distributed after completing a three-year vesting cycle. For example, non-officer management employees in bands 1 and 2 awarded TBRS in 2008 would receive a pay out of 100 percent of these shares in 2011.

Q. What is the rate-year expense associated with non-officer management equity grants allocated to this gas rate proceeding?

A. The amount for equity grants included in Operation and Maintenance expense for the rate year ending September 30, 2011, is $1.8 million. See Accounting Panel Exhibit Number 5, Schedule 1, line labeled "Other Compensation."

Q. Why are the costs of these equity grants a reasonable and necessary component of the compensation provided to non-officer management employees?

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

Q. Does this conclude your testimony?

A. Yes, it does.