

JOHN DE LA BASTIDE - STEAM

1 Q. Please state your name and business address.

2 A. My name is John de la Bastide, and my business address
3 is 4 Irving Place, New York, New York 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
7 Department Manager, Employee Benefits and Compensation.

8 Q. Please describe your educational background.

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

11 Q. Please describe your work experience.

12 A. I have been employed by Con Edison for 23 years.
13 Between 1986 and 1996, I was promoted to various
14 supervisory positions in Corporate Accounting. In
15 1998, I was promoted to the position of Section
16 Manager, Employee Benefits. In 2001, I was promoted to
17 Department Manager, Financial Forecasting, in Corporate
18 Accounting and have held various positions as
19 Department Manager in Corporate Accounting and Electric
20 Operations. I assumed the position of Department
21 Manager, Benefits and Compensation, in March 2007.

22 Q. Please generally describe your current
23 responsibilities.

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

5 Q. Please summarize your testimony.

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

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

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

23 A. The rate filing assumes that to be the case. However,
24 as I will discuss later in this testimony, the Company

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1 is currently evaluating recommendations regarding the
2 Variable Pay Plan set forth in the recently completed
3 management audit of the Company by the Liberty
4 Consulting Group ("the Management Audit"). The Company
5 may be implementing changes to its Variable Pay Plan
6 pursuant to those recommendations. If such changes are
7 determined prior to the conclusion of this proceeding,
8 I will inform the record in this case of such changes.
9 However, I do not anticipate any changes to the
10 projected rate year level of compensation payable under
11 this plan. In addition, the implementation of any
12 changes pursuant to the Management Audit should serve
13 to further validate, and by no means change the fact,
14 that these are reasonable and necessary business
15 expenses the Company must incur to meet its obligation
16 to provide safe and reliable service to its customers.

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

20 A. Yes. The Company has mitigated the rate request in
21 this proceeding by electing not to seek recovery of the
22 annual awards and equity grants provided to the
23 Company's officers, even though the costs of these
24 programs are also reasonable and necessary business

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1 expenses the Company must incur to meet its obligation
2 to provide safe and reliable service to its customers.

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

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

18 NON-OFFICER MANAGEMENT EMPLOYEE COMPENSATION

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

21 A. The Chairman and Chief Executive Officer of the
22 Company, the Senior Vice President of Enterprise Shared
23 Services, and Vice President of Human Resources
24 establish, review, and administer the Company's

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1 compensation program for non-officer management
2 employees. I manage the day-to-day administration of
3 the Company's compensation program under the guidance
4 of the officers listed above and in accordance with
5 Company policy.

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

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

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

22 A. As described in Company witness Shafer's testimony, for
23 base salary, Hewitt found the current level is at the
24 median when compared with the compensation peer group

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1 and the other national utility companies. When
2 variable pay is added to base salary, Total Cash
3 Compensation falls below the median. Mr. Shafer also
4 concludes that the Company's base salary and variable
5 pay compensation fall below the market median levels
6 from 9.6 percent to 12.1 percent. Mr. Shafer also
7 found that the Company's Variable Pay Plan is similar
8 in structure to those of other utilities in terms of
9 considering financial performance, customer
10 satisfaction, and safety measures, with Con Edison
11 having a greater emphasis on customer satisfaction and
12 safety than its peers.

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

22 VARIABLE PAY PLAN

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

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

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

17 A. No. The Variable Pay Plan is designed to have all
18 employees with at least a satisfactory rating earn a
19 portion of their compensation directly tied to the
20 achievement of specific goals. As I will explain in
21 more detail later in this testimony, the Award Fund for
22 the Variable Pay Plan assigns weighting to three
23 components of Company performance. The weighting
24 assigned to each of these three components under the

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1 plan currently in effect is 50 percent to Adjusted Net
2 Income, 20 percent to Operating Budget, and 30 percent
3 to various performance indicators, many of which are
4 tied to performance metrics established by the
5 Commission.

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

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

17 Q. Please describe these changes.

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

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

7 Q. Please describe the next change.

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

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

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

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

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1 Net Income is a reasonable and necessary business
2 expense?

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

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

19 A. The increase from 30 percent to 50 percent is directly
20 responsive to the Commission's Order and the RD in the
21 Company's last electric rate case, but the ultimate
22 level is a matter of judgment. Members of our peer
23 group have formulas that vary in weights given to
24 financial and non-financial metrics. The Company is

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1 increasing the percentage to 50 percent, and not 100
2 percent, because we still believe it is important to
3 establish a reasonable balance among these three
4 components, which are interdependent and are all
5 important for the Company's customers and the success
6 of the Company.

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

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

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

20 A. Our peer companies have different weightings assigned
21 to each of the components of their variable pay plans;
22 however, it is the combination of providing targets
23 that encourage employees to meet customer related goals
24 within reasonable costs that is ultimately to the

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1 customers' benefit. As Mr. Shafer concluded, the
2 Company's Variable Pay Plan is significantly more
3 weighted towards operating focused goals such as
4 customer satisfaction and safety and significantly less
5 focused on financial measures. In contrast to the
6 plans of other companies which include financial
7 parameters such as earnings per share and cash flow,
8 the operating budget and Adjusted Net Income threshold
9 in the Company's plan are essentially cost-control
10 incentives which benefit customers. And, since
11 achieving these targets affects the variable pay awards
12 for all employees, these targets provide management
13 employees with a common stake in achieving the
14 corporate goals so important to customers.

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

17 A. Not yet. The changes I described are effective January
18 1, 2010, and will potentially impact variable pay
19 awards scheduled to be made in April 2011 after the
20 2010 calendar year performance period is completed. It
21 would be premature, and we believe confusing to
22 employees, to publish information related to plan
23 changes that would potentially impact April 2011 awards
24 when the performance results for the April 2010 awards

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1 are not final. Our current practice has been to review
2 performance indicators in the fourth quarter of the
3 year to establish targets for the following year.
4 During this period of time, the Company has actual
5 results for most of the year and is finalizing the
6 budget and goals for the following year. In January of
7 each year, after the results for the performance period
8 are final, both the actual results achieved and the new
9 performance targets for the upcoming year are
10 communicated to employees. It should be noted that the
11 corporate level performance targets have been very
12 consistent from year-to-year and the Company does not
13 intend to relax or lower the performance goals for
14 2010. The Company is committed to changing the
15 weightings assigned to each of the three components of
16 the plan as described above.

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

19 A. At this point, there are no additional planned changes
20 to the Variable Pay Plan, effective January 1, 2010.
21 However, the Management Audit includes recommendations
22 that relate to the Variable Pay Plan and equity grants
23 for non-officer management employees, and the Company
24 will be considering the implementation of these

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1 recommendations. As mentioned previously, I will
2 inform the record of any such modifications and discuss
3 such changes in my update testimony, depending upon the
4 status of audit implementation efforts as respects
5 variable pay.

6 Q. Please explain.

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

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

20 In response to these recommendations, this team will
21 evaluate the existing plans, examine their complexity,
22 review performance measures, and the levels of pay-at-
23 risk. Various milestones have been established to
24 respond to these recommendations and any changes

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1 implemented by the Company will be effective January 1,
2 2011.

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

6 A. Yes. However, the Company disagrees with these rulings
7 and has pending with the Commission a request for
8 rehearing of the Commission's Order in Case 08-E-0539.
9 The Company should recover the costs of non-officer
10 management variable pay for two reasons. First, the
11 costs of this plan are a reasonable business expense,
12 needed to attract the employees necessary for the
13 Company to provide safe and adequate service to
14 customers. As demonstrated by Company witness Shafer,
15 the Company's compensation package for its non-officer
16 management employees, including the variable pay
17 components, is well within the norm of the compensation
18 provided by peer companies.
19 Second, the Company's Variable Pay Plan directly
20 benefits customers and investors. As I will discuss in
21 detail in this testimony, performance criteria under
22 the Company's plan include numerous objectives
23 important to customers. Some performance indicators
24 related to customer service and safety performance

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1 targets, which are based on performance mechanisms, are
2 prescribed by the Commission and place negative revenue
3 adjustments on the Company for not meeting goals
4 established for these areas. For example, the Variable
5 Pay Plan includes steam indicators such as monitoring
6 capital expenditures, limiting forced outages of steam
7 generation, and measuring the Company's ability to
8 deliver to its customers a dependable steam supply
9 within normal pressure. In addition, Steam Operations
10 conducts two customer satisfaction surveys each year
11 and prepares a report that compiles, summarizes, and
12 identifies key issues. Other operating area measures
13 include conducting at least 99 percent of scheduled
14 trap, slip joint, and manhole inspections. For
15 example, in the past, certain steam organizations did
16 not receive a full variable pay award because they did
17 not meet their performance indicators related to their
18 OSHA incident rate. The Commission prescribes
19 performance incentives on the Company, and we believe
20 it is appropriate to impose similar performance
21 incentives on employees through the Variable Pay Plan.
22 The Variable Pay Plan links pay to performance. The
23 employees have a portion of their pay at risk if these
24 goals are not met.

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1 Q. Please explain how the Variable Pay Plan works.

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

<u>Employee Salary Band</u>	<u>Target Percent</u>
7 Band Levels S, EP, 1, and 2	4.5%
8 Band Levels 3	10.0%
9 Band Level 4	15.0%

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

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

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1 2. Performed within an "Operating Budget," which is
2 the portion of the CECONY operating and maintenance
3 budget approved by the Board of Trustees that is
4 comprised of departmental expenses, including
5 Interference and Uncollectible Expenses. The Operating
6 Budget performance targets are set in line with the
7 expenditures approved by the Commission in the rate
8 setting process.

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

17 Q. Are the Company's performance criteria static?

18 A. No. The Company evaluates performance criteria to
19 determine whether the criteria should be removed or new
20 indicators added. The Company has the following
21 principles for establishing performance indicators: 1)
22 if the performance indicator is a regulatory
23 requirement, the target should match the target adopted
24 by the regulatory authority; 2) targets should be based

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1 on a three-year average of the prior experience with
2 consideration given for incremental improvement to the
3 target; 3) performance criteria should be measureable;
4 and 4) performance indicators should be evaluated
5 annually to see if any should be removed or new
6 indicators should be added. I note that three of the
7 12 key indicators are based on an index. These are the
8 Safety Index, Environmental Index, and Employee
9 Development Index. While the overall index target
10 remained the same - achieve six of the eight items
11 listed, or 75 percent, some of the individual targets
12 for the eight items listed within each of these indexes
13 were revised. For example, within the Safety Index the
14 2009 number of "Significant High Hazard Injuries" was
15 reduced to 48 percent of the 2008 target. Even though
16 the actual number of "System Safety - Operating Errors"
17 for 2008 of 128 was over the 2008 target of less than
18 or equal to 115, the 2009 target was reduced to less
19 than or equal to 104 to place greater focus on this
20 measure.

21 Within the Environmental Index, the "Opacity
22 Occurrences not to exceed NYCDEP Standards" 2009 target
23 was reduced by approximately 34 percent of 2008 target.
24 Within the Employee Development Index the "EEO

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1 Sensitivity Awareness and Sexual Harassment Training"
2 was eliminated in 2009 because the program was
3 completed in 2008. In addition, the 2009 targets for
4 both the percentage of "Students Passing Promotional
5 Exam Upon Completion of Career Path Training" and the
6 number of "Training Modules Developed on eLearning"
7 were raised.

8 Q. Do any corporate indicators relate to steam performance
9 targets?

10 A. Yes, two of the corporate operating performance
11 indicators specifically measure steam's performance.
12 They are Production Forced Outages and Steam Operation
13 within normal pressure.

14 Q. Can you explain each of these indicators?

15 A. Yes, the first, Production Forced Outages measures
16 "forced outages" or the loss of steam service or
17 steam/electric capacity due to an automatic trip
18 operation, an operator initiated trip, a controlled
19 shutdown, or the inability to place in service when
20 requested. The number of forced outages is a barometer
21 of equipment reliability and the effectiveness of
22 equipment maintenance programs.

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

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1 A. In 2004 and 2005, the forced outage rate was 4.8% and
2 4.2%, respectively. In 2007 and 2008, the forced
3 outage rate was reduced to 2.2% and 1.7%, respectively,
4 reflecting in part capital programs targeted to improve
5 system reliability.

6 Q. Can you explain what "Steam Operation within normal
7 pressure" relates too?

8 A. Yes. Maintaining the steam system within normal
9 pressure measures the Company's ability to deliver a
10 dependable steam supply to its customers. A measure
11 for determining that the steam system has been
12 operating successfully is the number of low-pressure
13 occurrences due to supply deficiency. The goal is to
14 maintain normal range steam pressure (above 125 psig)
15 in the distribution system for 99.7% of the time. The
16 goal is to have no more than 20 hours of low-pressure
17 operation during the year, which is equivalent to 0.3%
18 of the hours in a year.

19 The Energy Dispatchers monitor the pressures on the
20 steam system. If any monitored pressure point goes
21 below 125 psig and is indicative of a system problem
22 there is a steam alert. If two pressure points drop
23 below 125 psig or if one pressure point goes above 200
24 psig, it constitutes a steam emergency. The Plant

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1 Information system, a computer program, continuously
2 monitors and records pressure on the steam system.

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

5 A. The Company has been able to consistently achieve our
6 goal of maintaining system pressure and delivering a
7 dependable steam supply to its customers.

8 Q. How is the Award Fund distributed?

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

20	<u>Performance Indicator</u>	<u>Weighting</u>
21	Individual Performance	40%
22	Organization Performance Indicators	35%
23	Organization Budget	15%
24	Adjusted Net Income	10%

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1 Q. What are organization performance indicators?
2 A. In addition to the corporate level performance
3 indicators used to determine the Award Fund, each
4 organization develops performance indicators specific
5 to its area along with target goals each year. The
6 performance indicators reflect the organization's
7 functions and work activities and are set at
8 challenging yet achievable levels. Each month, the
9 performance indicators are updated and management
10 employees have the opportunity to monitor them to see
11 whether their organization is on target in meeting its
12 goals. If goals are not on target, then the employees
13 have an opportunity to adjust to strive to meet those
14 goals.

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

17 A. Yes. A satisfactory rating is a minimum threshold or
18 requirement for receiving a portion of the variable
19 pay. Unsatisfactory or marginally satisfactory
20 employees are not eligible for the Variable Pay Plan.
21 The Variable Pay Plan is designed to encourage teamwork
22 and also individual performance. As such, the
23 distribution of variable pay is based on 60 percent for
24 the achievement of organizational performance

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1 indicators and 40 percent on individual performance.
2 An organization succeeding in achieving its performance
3 measures will include employees with varying ranges of
4 individual performance, some at the satisfactory level
5 and others above. Employees achieving at least a
6 satisfactory rating are eligible to receive the team
7 portion of variable pay (up to 60 percent of his or her
8 target) based on the organization's performance
9 indicators results. Performers with at least a
10 satisfactory rating may also receive additional
11 variable pay based on their individual contribution.
12 The individual performance portion of variable pay
13 targeted at 40 percent can range from 0 to 60 percent.
14 High performers will receive greater than 40 percent
15 for individual performance to distinguish them from
16 satisfactory performers. Employees receiving different
17 levels of variable pay reflect not only how well their
18 organization performed but also reflect how well they
19 performed individually during the period.

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

23 A. As noted above, the Company's compensation package is
24 designed to provide an employee fair and reasonable

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1 compensation through a package of three components,
2 with a portion of that compensation withheld
3 (management variable pay) or not granted (equity
4 grants) if performance is not satisfactory. Thus a
5 satisfactory performer should receive a variable pay
6 award in order to be compensated commensurate with
7 satisfactory performance, and would receive less than
8 market value for satisfactory performance if variable
9 pay were withheld.

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

13 A. The variable pay costs included in Operation and
14 Maintenance expense for the rate year ending September
15 30, 2011, is \$1.5 million.

16 Q. Please explain the forecast amount of \$1.5 million for
17 the costs of the Variable Pay Plan allocated to this
18 steam rate proceeding.

19 A. The rate-year forecast of \$1.5 million was based on the
20 historic-year costs for variable pay, reduced to
21 reflect the achievement of 100 percent of the target
22 award fund and escalated using the labor factor.

23 Q. What do you mean by reduced to reflect achievement of
24 100 percent of the target award fund?

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1 A. Based on the actual performance results achieved for
2 the calendar year 2008, the variable pay award fund was
3 established at 110 percent. In 2008 the Company
4 achieved 120% of its operating performance goals (30%
5 weighting at 120 percent, or 36%) and 120% of its
6 operating budget goal (20% weighting at 120%, or 24%)
7 and 100% its Adjusted Net Income goal (50% weighting).
8 Therefore, the historic year costs include 110 percent
9 (36% for operating performance; 24% for operating
10 budget; and 50% for Adjusted Net Income) of variable
11 pay costs or \$1.625 million. The Accounting Panel
12 reduced the historic year cost by \$148 thousand to
13 normalize the cost of the Variable Pay Plan. Although
14 employees received additional compensation for
15 exceptional performance in the historic year, customers
16 also benefited from the Company's higher performance
17 without incurring the additional costs of the awards
18 made under the plan.

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

21 A. No. In fact, Company witness Shafer testifies that the
22 Company's base salary and variable pay compensation
23 falls below the market median levels by 9.6 percent to
24 12.1 percent. This reflects the Company's need to

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1 recover the non-officer Variable Pay Plan to compensate
2 its employees fairly, at a reasonable cost to its
3 customers, and have the ability to attract employees by
4 paying them competitively.

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

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

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

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

12 NON-OFFICER MANAGEMENT BASE SALARY

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

15 A. We generally establish the merit budget and salary
16 structure adjustments for base salaries for the year
17 based on a Company conducted survey. In 2009, we
18 conducted a telephone survey with thirteen companies,
19 nine of which are from the compensation peer group
20 disclosed in our proxy statement. The nine peer group
21 companies surveyed were American Electric Power
22 Company, Inc.; CenterPoint Energy, Inc.; Constellation
23 Energy Group, Inc.; Dominion Resources Inc.; Edison
24 International; Entergy Corporation; Exelon Corporation;

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1 FPL Group, Inc.; and Progress Energy, Inc.; four other
2 utility companies (National Grid; Northeast Utilities,
3 NSTAR; and Public Service Electric and Gas) were also
4 willing to share compensation information with us. In
5 addition to our internal survey, we also used
6 compensation surveys published by various compensation
7 consulting and research firms, such as Hewitt
8 Associates, Watson Wyatt, the Conference Board, World
9 at Work, Edwin Perlin Associates and Mercer. We
10 generally select rates that reflect no more than the
11 average of the benchmarked companies.

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

14 A. Yes. Hewitt conducted a benchmark sample of about 80
15 different positions covering 2,085 non-officer
16 management employees. These jobs were compared with
17 similar jobs at 38 utility companies across the nation,
18 including 14 of the 20 companies in the compensation
19 peer group adopted by the Company for reviewing officer
20 compensation. The 14 companies forming the peer group
21 include Ameren Corporation; American Electric Power
22 Company, Inc.; CenterPoint Energy, Inc.; Constellation
23 Energy Group, Inc.; Dominion Resources Inc.; DTE Energy
24 Company; Duke Energy Corporation; Edison International;

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1 Entergy Corporation; FirstEnergy Corp.; NiSource, Inc.;

2 PPL Corporation; Sempra Energy; and The Southern

3 Company.

4 Q. What was Hewitt's finding regarding the Company's non-

5 officer management compensation practices?

6 A. As described in Company witness Shafer's testimony, for

7 base salary, Hewitt found the current level is at the

8 median when compared with the compensation peer group

9 and the other national utility companies.

10 EQUITY GRANTS

11 Q. Please describe the equity grant program for non-

12 officer management employees.

13 A. Equity grants are awarded to non-officer management

14 employees contributing to the future success and growth

15 of the Company. The Management Development and

16 Compensation Committee of the Company's Board (MD&C

17 Committee), the administrator of the equity grant

18 program, authorized granting equity awards in the form

19 of performance based restricted stock (PBRS) to non-

20 officer management employees in bands 3 and 4, and

21 time-based restricted stock (TBRS) to employees in

22 bands 1 and 2. The equity grants provide employees the

23 right to receive one share of Consolidated Edison, Inc.

24 common stock (or a cash payment equal to the fair

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1 market value of one share of Consolidated Edison, Inc.
2 common stock) for each stock unit granted, subject to
3 the satisfaction of certain pre-established long-term
4 performance objectives.

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

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

16 Q. How and when are PBRS distributed?

17 A. The PBRS will be distributed after completing a three-
18 year performance cycle, but the number of shares
19 distributed on the payout year is based on a numerical
20 formula and depends on the achievement of certain
21 performance criteria. The following performance
22 indicators will determine the number of shares (or cash
23 equivalent) actually distributed at the end of each
24 performance cycle: fifty percent of PBRS granted to

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

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1 with the TSR for the compensation peer group over a
2 three-year performance period:

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

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

22 Q. How and when are TBRs distributed?

23 A. The TBRs are distributed after completing a three-year
24 vesting cycle. For example, non-officer management

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1 employees in bands 1 and 2 awarded TBRS in 2008 would
2 receive a pay out of 100 percent of these shares in
3 2011.

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

7 A. The amount for equity grants included in Operation and
8 Maintenance expense for the rate year ending September
9 30, 2011, is \$203 thousand. See Accounting Panel
10 Exhibit Number 6, Schedule 1, line labeled "Other
11 Compensation."

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

15 A. As discussed earlier, the equity grants are part of an
16 overall compensation package for non-officer management
17 employees that are below the median compensation levels
18 for a peer group of similarly-situated companies. The
19 costs of this program are a necessary and reasonable
20 business expense incurred by the Company in order to
21 attract the talented employees necessary to provide
22 safe and reliable service. The Company provides equity
23 grants to non-officer management employees to promote
24 employee behavior to drive the future success of the

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1 Company and to retain quality employees critical to
2 achieve this success. Payouts are made only after the
3 consistent demonstration of achieving performance
4 indicators over a period of time, as measured by the
5 three-year average of the Variable Pay Plan Award Fund.

6 Q. Does this conclude your testimony?

7 A. Yes, it does.