Case No. 09-E-0428

LUTHER TAI - REBUTTAL

ELECTRIC

Q. Please state your name.

A. My name is Luther Tai.

Q. Have you previously submitted testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony addresses:

- the adjustments to the Company's Variable Pay Plan for non-officer management employees by the Staff Accounting Panel, Consumer Protection Board ("CPB") witness Schultz, and New York Energy Consumer Council ("NYECC") witness Bomke; and
- the proposed disallowance of the costs of the Company's Long-Term Incentive Compensation Plan ("LTIP") by the Staff Accounting Panel, CPB, and NYECC.

REBUTTAL

Variable Pay Plan

Q. Do you agree with the Staff Accounting Panel's adjustment to reduce the Company's rate year labor expense by $14.815 million by removing variable pay from the Company's forecast?

A. No, I do not for the reasons discussed below.

Q. Do you agree with the Staff Accounting Panel's position that Con Edison's Variable Pay Plan provides for additional compensation to non-officer management employees?

A. No, I do not. The compensation package for Con Edison's non-officer management employees includes base salary, variable pay and equity grants. As explained by Company witness Shafer, companies have moved away from a "base salary only approach." Variable pay puts a greater portion of the employee's compensation at risk. To describe variable pay as additional compensation is not an accurate representation. In fact, if there were no variable pay awards, the base salary for non-officer management employees should be increased.

Q. Do you agree with the Staff Accounting Panel's position that the changes to Con Edison's Variable Pay Plan, effective January 1, 2010, are purely speculative at this time?

A. No, I do not. As discussed in the Company's response to DPS-54(see attached Exhibit ___(LT-1)), with the

Chairman and Chief Executive Officer ("CEO") and the Vice President of Human Resources, I establish, review and administer the Company's compensation program for non-officer management employees. Before submitting my initial testimony, I reviewed the changes to the Variable Pay Plan described in my initial testimony with the Company's CEO and the Vice President of Human Resources, and we collectively decided that the Company will implement these changes, effective January 1, 2010.

Q. Why hasn't there been any formal employee communication regarding the 2010 changes to the Variable Pay Plan?

A. The changes discussed are effective January 1, 2010 and will potentially impact variable pay awards scheduled to be made in April 2011. 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.

Q. Do you agree with the Staff Accounting Panel that the Company has not addressed the concern raised by the Commission in the 2009 Rate Order that funding would inure to the benefit of shareholders in the event performance falls short and payments under the Variable Pay Plan are not made?

A. No, I do not. The Company's rates reflect its estimated costs of doing business. With few exceptions (like property taxes and environmental remediation expense), estimated costs are not reconciled to actual incurred costs. In some cases, the Company incurs more costs than estimated amounts; in other cases the Company incurs less cost. The management variable pay costs are no different. The Company's Variable Pay Plan is a necessary and reasonable business expense. The plan is tied directly to operating performance metrics, several of which are existing regulatory performance metrics that result in negative rate adjustments for not achieving these measures. See response to NYECC-73, attached as Exhibit ___(LT-2). The Commission has established these operating performance indicators, and the Company is placing a portion of employees' compensation at risk if these goals are not met. Also see response to NYC-83, attached as Exhibit__(LT-3) for a description of each of the Award Fund operating performance indicators. Additionally, as discussed in the Liberty audit, 60 percent of variable pay awards is based on employees achieving performance measures specific to the tasks employees are responsible for on a daily basis. Liberty identified a total of 2,550 performance measures throughout the Company used by various organizations. In addition, the Company is not requesting the maximum amount payable under its management variable pay program. That is, if performance targets are exceeded, the Company will pay out additional amounts that are not reflected in the rate request.

Finally, the Company notes that Staff does not recognize that the Company made a material change to its management Variable Pay Plan to reflect the concern regarding the Company not paying out the full amount provided for in rates. That is, the Company eliminated from the net income target a provision that called for no management variable pay to be awarded if 90 percent of the net income target was not achieved.

Q. Does Staff assert that the amounts paid by the Company are excessive?

A. They do not.

Q. Does Staff dispute that most other comparable companies have compensation packages structured in a similar manner?

A. No, they do not.

Q. Do you believe that any plan that includes financial parameters must be self supporting through productivity savings?

A. No. Such a categorical exclusion precludes providing the Company a reasonable opportunity to demonstrate that the overall plan, including its financial parameters, is in customers' interests. As I explained in my initial testimony, the features of the Company's plan that are considered to be financial parameters -- net income and operating budget components -- alone and in conjunction with the operating performance targets results in a balanced pay-for-performance program that benefits customers. In my view, no parties to this proceeding or prior Commission proceedings has refuted this demonstration, but have relied exclusively on a narrow interpretation of the National Fuel decision to deny the Company recovery of any of these legitimate business expenses.

Q. Please continue.

A. The net income factor is a good measure of the Company's operating performance and demonstrates that the Company is managing its business well and is focused on costs and quality of service. In addition, the operating budget target raises employee awareness and helps to control costs and use resources efficiently, both of which are fundamental to running a good business.

I would also note that the Liberty consultants concluded in the Management Audit that "matching the cost of the program with its value can't be done-it is a best-effort bet, at best, which is all that can be done…." Moreover, as the audit points out and, in fact, the ALJs in the Company's last electric rate case determined, the Variable Pay Plan need not be justified exclusively by productivity savings. Liberty consultants made recommendations regarding the program, including putting more pay at risk. The Liberty consultants did not recommend eliminating the program. While various parties to this proceeding are seeking to capture potential savings that may result from implementing the audit recommendations (which Company witnesses Rasmussen and Muccilo address), certainly the Company should be entitled to recover the costs of programs (like management variable pay) implemented and/or continued as a result of implementing the audit recommendations.

Q. Did other parties to this case have comments related to the Company's Variable Pay Plan?

A. Yes, CPB witness Schultz recommended that the entire Variable Pay Plan be disallowed because the Company has not provided historical measurements that conclusively demonstrate that ratepayers benefit from the Variable Pay Plan.

Q. Do you agree?

A. No, I do not. As discussed above, the Company's Variable Pay Plan is tied directly to operating performance metrics, several of which are existing regulatory performance metrics that result in negative rate adjustments for not achieving these measures. The Company achieved 10 of the 12 performance measures in 2006, 11 of the 12 in 2007, and all 12 were achieved in 2008. The variable pay Award Fund established for each of these years reflects these results and the percentage earned in each year was 75.5 percent for 2006, 101 percent for 2007, and 110 percent for 2008. These results send the right message to our employees, that it is important to achieve the performance targets established each year, many of which are based on regulatory performance metrics, and when we achieve our goals employees earn their portion of compensation tied to performance.

Q. Did CPB witness Schultz make any other statements regarding the Company's Variable Pay Plan with which you disagree?

A. Yes. Mr. Schultz suggests that the Company does not evaluate performance criteria annually to determine whether the criteria should be removed or new indicators added. This is not the case as the Company evaluates its performance criteria annually. In response to NYC-97, attached as Exhibit ___(LT-4), the

Company explained the Company's guidelines for determining and resetting performance measures. Pursuant to its confidentiality agreement with the City, the Company also provided a two inch confidential binder, which included the operating performance indicators, approximately 2,550, that are reviewed and evaluated each year to determine the following year's indicators.

Q. Is Mr. Schultz correct in his statement that all 12 key indicators remain exactly the same despite the Company having achieved them in 2008?

A. No. 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 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" was reduced by approximately 34 percent. The "SF_6 Gas Emissions" was reduced by approximately 16 percent.

Within the Employee Development Index the "EEO Sensitivity Awareness and Sexual Harassment Training" was eliminated in 2009 since the program was completed in 2008. 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 you have any other comments on the performance targets?

A. Yes, two points I would like to add. First, just because a target has not changed from one year to the next does not mean it is not a valid target. The performance indicators reflect organizations' functions and work activities and have to be set at challenging yet achievable levels. These targets have to be met each year, and employees must continue to meet goals in order to earn the variable pay portion of their compensation package. Before raising a target, for example, reliability, consideration must be given to whether the additional cost should be incurred where additional improvements are not warranted. In fact, in this proceeding, parties are discouraging investment in reliability enhancements under current economic conditions. The Company is focused on maintaining reliability and setting annual performance targets consistent with current standards is the proper standard for employee performance necessary to earn the variable portion of their pay, and certainly of material benefit to customers when those standards are met.

Secondly, it should be pointed out that within the Variable Pay Plan there are 2,550 different performance indicators used for the distribution of variable pay awards. Each of these is also reviewed and reestablished by each department within the Company annually.

Q. Mr. Schultz states that some major performance benchmarks of interest to ratepayers are not incorporated in the performance goals. Items such as

SAIDI, CAIDI and SAIFI are not reflected in the goals. Do you agree?

A. No. The "Electric Network System Availability" and the "Electric Non-Network System Availability" which are both part of the 12 key indicators Mr. Schultz references in his testimony are based on SAIDI, CAIDI and SAIFI.

Q. Can you describe "Electric Network System Availability?"

A. Yes. Electric Network Availability measures the percentage of time during the year that service was available to customers. In comport with PSC Customer Interruption Reporting System, the Company will record Network "System Average Interruption Frequency Index" (SAIFI) and the "Customer Average Interruption Duration Index" (CAIDI) performance for the system.

The Average System Availability Index or ASAI, is calculated by multiplying SAIFI by CAIDI to obtain the "System Average Interruption Duration Index" (SAIDI). The ASAI is one minus SAIDI divided by the total hours requiring service.

Q. Is the same methodology used to calculate "Electric Non-Network System Availability?"

A. Yes. The same methodology is used to calculate the ASAI for the Non-Network system.

Q. Is SAIFI or CAIDI used in any other performance indicators?

A. Yes, within Electric Operations, the distribution performance indictors used for the Senior Vice President, Vice Presidents and General Managers all have SAIFI and CAIDI as part of their indicators.

Q. Do you agree with Mr. Schultz that variable pay should only be awarded for performance that is over and above satisfactory?

A. No. As indicated above, Variable pay is a portion of each employee's compensation package. The Variable Pay Plan is designed to have all satisfactory employees receive up to 60 percent of their Target Award percent assuming the Award Fund goals are met. This way all employees have a common interest in meeting the corporate goals. To the extent employee's performance exceeds a satisfactory rating the Variable Pay Plan allows for discretion in awarding the 40 percent individual performance piece.

Q. Did any other parties to this case have comments related to variable pay?

A. Yes, Mr. Bomke on behalf of the NYECC recommends that the entire Variable Pay Plan be disallowed.

Q. Do you agree?

A. No, I do not, for the reasons discussed above in response to the Staff Accounting Panel's and CPB's testimony on the Variable Pay Plan, which clearly demonstrate that the variable pay is a component of the Company's basic compensation package, should not be considered as incentive compensation and thereby evaluated under the Commission's incentive policy and should be recovered as a reasonable cost of doing business.

Q. Will the Company continue the Variable Pay Plan if it is not allowed in rates for the rate year or in a multi-year rate plan?

A. The Company believes continuation of a variable pay plan is needed to attract and retain employees. We would have to re-evaluate the plan and consider alternative designs (especially in the context of the Liberty audit recommendation specifically directed at the Variable Pay Plan) if the Commission continues to exclude these costs from rates. We believe the plan benefits both customers and shareholders, properly compensates employees who meet the performance measures, and incents desired performance of our employees.

Long-Term Incentive Compensation Plan

Q. Do you agree with the proposed disallowance of the costs associated with the LTIP equity grants for non-officer management employees by the Staff Accounting Panel, CPB and NYECC?

A. No, I do not.

Q. Do you agree with the Staff Accounting Panel that the Company's equity grants are designed to primarily benefit shareholders?

A. No. First, I would note the same reasons that I provided earlier in support of recovery of management variable pay apply here. In particular, the equity grants are part of the basic compensation package comprised of three components, base salary, variable annual pay and long term compensation. The Company's compensation package is designed to attract and retain qualified employees. These equity grants serve to fairly compensate employees. They are important to attract and retain competent employees who will contribute to the Company's future success, which will benefit both customers and shareholders. The costs of these equity grants should be fully recoverable as a legitimate cost of doing business that is not avoidable by the Company if it is to retain the competent employees needed to provide safe and reliable service to customers. As Company witness Shafer explains, the Company's compensation package, including equity grants, is well below the median level when compared with comparable companies' compensation levels.

Q. How do you respond to CPB's assertion that the costs of this program are not appropriate to be borne by customers "at this time of economic difficulty?"

A. 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 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. Does this conclude your rebuttal testimony?

A. Yes, it does.

Company Name: Con Edison
Case Description: 2009 Electric Rate Filing
Case: 09-E-0428

Response to DPS Interrogatories – Set DPS8
Date of Response:
Responding Witness:

Question No. :54
Subject: Company Labor – Variable Pay Plan - In his testimony in this proceeding, Company witness Tai indicates that Con Edison has made material changes to its Variable Pay Plan that addresses concerns discussed in the Commission's 2009 Rate Order in Case 08-E-0539 (as well as the ALJ's RD). 1. Indicate whether the changes to the Variable Pay Plan discussed by Company witness Tai have been adopted and approved by the Company's Board of Directors. If yes, provide evidence in support of the Board's decision(s). 2. Provide a formal copy of the Company's revised Variable Pay Plan incorporating the changes indicated by Company witness Tai. If no formal revisions have been made to the Company's existing Variable Pay Plan to date, so indicate. 3. Provide copies of any and all internal correspondence with plan participants that discuss the changes to the Variable Pay Plan as indicated by Company witness Tai. If no information has been shared with plan participants to date, so indicate.

RESPONSE:

1. The Company's Board of Directors is not required to approve changes to the Management Variable Pay Plan. The Chairman and Chief Executive Officer, Senior Vice President of Enterprise Shared Services and the Vice President of Human Resources establish, review and administer the Company's compensation program for non-officer management employees.
2. No formal revisions have been made to the Company's existing Management Variable Pay Plan document. The changes described by Company witness Tai will be effective January 1, 2010 for the calendar year. The revisions will be made before the end of calendar year 2009.
3. No written communication has been distributed to management employees describing the revised weighting for the 2010 Variable Pay Plan. The 2010 Variable Pay Plan performance goals and weighting assigned to each will be communicated management employees in January 2010.

Company Name: Con Edison
Case Description: 2009 Electric Rate Filing
Case: 09-E-0428

Response to NYECC Interrogatories – Set NYECC5
Date of Response:
Responding Witness:

Question No. :73
73. Referencing your testimony on page 16, lines 7-17, a. for each of these listed items provide the Company's maximum potential annual revenue exposure due to an existing regulatory performance metric. b. are the existing regulatory performance metrics in 73a insufficient for their intended purpose? If not, then why does the Company need to include such existing regulatory performance metrics in its Variable Pay Plan at ratepayer expense? If so, explain the extent of the insufficiency. c, explain in detail how the specific safety, reliability, customer satisfaction and operating performance indicators were constructed by the Company.

RESPONSE:

a. Below is the potential penalty associated with each of the operating performance indicators listed on page 16 of my testimony:
    - PSC complaints - $6 million
    - Customer calls answered: $4 million
    - Customer satisfaction surveys: $9.3 million
    - Electric Non-Network System Availability – $10 million
    - Electric Network System Availability - *
    - Response to gas odor complaints within 30 minutes: $0.6 million
    - Workable gas leaks Year-End backlog: $0.6 million
    - OSHA Incidence Rate – none
    - Steam System – Normal Pressure Operations – none
    - Generation Stations – Forced Outages – none
    - Environmental Index – none
    - Employee Index – none

    * Electric network system availability was $10 million; see April 24, 2009 Order for revised electric network system metrics and other additional system reliability performance mechanisms established in that rate case.

b. These metrics are not included in the Variable Pay Plan at ratepayers' expense.

c. We use the following principles for establishing performance indicators: 1) if the performance indicator is a regulatory requirement the target should match the target agreed upon with 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) annually performance indicators should be evaluated to see if any should be removed or new indicators should be added.

Company Name: Con Edison
Case Description: 2009 Electric Rate Filing
Case: 09-E-0428

Response to City of NY Interrogatories – Set NYC2
Date of Response:
Responding Witness: Tai

Question No. :83
Please identify and describe all of the specific operating performance indicators used to measure management employee performance.

RESPONSE:

Under the management Variable Pay Plan there are two sets of performance indicators. The first set is used to determine the "Award Fund", as described by Company witness Tai's testimony on page 16. The second set of performance indicators relate to how the "Award Fund" is distributed to management employees as described on page 19 of Company witness Tai's testimony. The operating performance indicators used for distribution varies by department within the Company. There are many performance indicators at this level specific to each area. For example, Customer Operation's performance indicators include Meter reading on Cycle, routine investigations completed within 30 days and billing accuracy. Central Operations' performance indicators include Equipment Reliability which monitors Transformer availability and substation operation feeder restoration time. Within Enterprise Shared Services, Facilities tracks completion of routine work orders within 10 days, Energy Management tracks daily electric peak load forecast accuracy, and Human Resources tracks percentage of students passing promotional exam upon completion of training. Annually, each department reviews their performance indicators with their respective officer.

The twelve operating performance indicators for the 2008 Award Fund are described below. Similar indicators have already been established for 2009. The 2010 operating performance indicators have not been established. Each year, the indicators are reviewed as to whether they continue to be relevant and important to our operations. And we seek to strive to continue to improve our operations.

1.0 Electric Network Availability

Availability Indices for Electric Operations measure the percentage of time during the year that service was available to customers. In comport with PSC Customer Interruption Reporting System, the Company will record Network "System Average Interruption Frequency Index" (SAIFI) and the "Customer Average Interruption Duration Index" (CAIDI) performance for the system.

The PSC allows SAIFI and CAIDI numbers for the underground system to exclude winter storms where the salt run-off applied to roadways causes more frequent burnouts. An exclusion is triggered when 10% or more of the customers in a borough/county are out of service or when customers are out of service for more than 24 hours.

The Average System Availability Index or ASAI, is calculated by multiplying SAIFI by CAIDI to obtain the "System Average Interruption Duration Index" (SAIDI). The ASAI is one minus SAIDI divided by the total hours requiring service.

2.0 Electric Non - Network Availability

The same methodology is used to calculate the ASAI for the Non-Network system. PSC excludable storms are also excluded in this calculation. For the Non-Network or overhead system, PSC excludable storms are major storms where 10% or more of the customers in a borough or county are out of service or where customers are out of service for more than 24 hours.

For the non-network system, major storms can be automatically excluded in the PSC Customer Interruption Reporting System. The SAIFI and CAIDI numbers, excluding the major storms, are generated to calculate the ASAI.

3.0 Response to Gas Odor Complaints within 30 Minutes

Response time for gas odor complaints is measured 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.

Con Edison is required by the PSC 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 PSC 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 PSC.

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.

4.0 Workable Gas Leak Year End Backlog

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 the Rules and Regulations of the New York State PSC, 16 NYCRR, Part 255.811 through 255.817. 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.

5.0 Representative Calls Answered Within 30 Seconds

This is the percentage of calls answered by our Call Centers between the hours of 9:00 AM and 5:00 PM Monday through Friday, (excluding holidays) and includes only calls answered by customer service representatives within 30 seconds.

The Communications Management Group (CMG) creates a daily report for business hours data. The source of the data comes from the Call Center telephone Automatic Call Distributor system (ACD). The ACD constantly collect and stores inbound call data. The CMG uses database access query tools to pull the call data for all inbound customer service applications, which are then entered into various Excel workbooks. The workbooks contain a variety of call statistics that are used to track the Call Center's performance.

The Performance Group of the Strategic Applications department in Customer Operations takes the CMG data from the daily report and puts it into the Call Center report. The data is used to calculate the Representative Calls answered within 30 seconds on a year-to-date basis.

6.0 PSC Complaints

Tracking complaints made to the PSC allows the Company to measure its performance with regard to resolving customer complaints.

When a complaint is received by the PSC, it is referred back to the Company for resolution. If the Company fails to resolve the initial complaint with the customer, the customer may refer the complaint back to the PSC. This is an escalated complaint. The 12-month escalated complaint rate represents the average number of escalated complaints received per month per 100,000 customers. This is used as a service measure by the PSC to evaluate the Company's level of customer service. The PSC performance target is ≤2.6 complaints per 100,000 customers.

Since a complaint can originate from any customer in our service territory, the Company included electric, gas and steam customers, along with the residents of master metered buildings, in our base population. The base population is estimated to be approximately 3.75 million customers and is reported to the PSC by the Company.

The Executive Action group of the Specialized Activities department in Customer Operations uses the PSC website to obtain the total number of escalated monthly customer complaints. The PSC also publishes the estimated customer complaint rate on their website.

7.0 Customer Satisfaction Surveys

Customer Satisfaction Surveys are conducted twice each year during the second and fourth quarters. These are telephone interviews of customers who contact us. The surveys are conducted by a vendor, Communication Research Associates (CRA). These surveys are conducted for four categories: Electric Emergency Calls, Gas Emergency Calls, Non-Emergency calls, and Visitor inquiries at customer walk in centers.

The surveys contain a variety of questions that measure a customer's satisfaction with their recent Company contacts and the service provided by the Company representatives with whom they interacted. For each customer segment, CRA computes a composite index (converted to a 100-point scale) based on responses to a selection of these questions. CRA reviews and compiles the results and forwards them to the Company for reporting to the PSC. The average of the second and fourth quarter results for each category is computed. At the corporate level, the lowest of the four averages is compared to the lowest PSC goal of 80 (Electric Emergency Calls)

8.0 Steam Operations within Normal Pressure

Maintaining the steam system within normal pressure measures our ability to deliver a dependable steam supply to our customers. A measure for determining that the steam system has been operating successfully is the number of low-pressure occurrences due to supply deficiency. The goal is to maintain normal range steam pressure (above 125 psig) in the distribution system for 99.7% of the time. The goal is to be no more than 20 hours of low-pressure operation during the year, which is equivalent to 0.3% of the hours in a year.

The Energy Dispatchers monitor the pressures on the steam system. If any monitored pressure point goes below 125 psig and is indicative of a system problem there is a steam alert. If two pressure points drop below 125 psig or if one pressure point goes above 200 psig, it constitutes a steam emergency. The Plant Information (PI) system, a computer program, continuously monitors and records pressure on the steam system.

9.0 Production Forced Outages

Forced outages are the loss of service of steam or steam / electric capacity due to an automatic trip operation, an operator initiated trip, a controlled shutdown, or the inability to place in service when requested. The number of forced outages is a barometer of equipment reliability and the effectiveness of equipment maintenance programs. The calculations are shown below:

The Forced Outage Rate is a measure of the reliability of a unit during scheduled operation.

The Forced Outage Rate reported is a weighted year to date rate which is computed as follows:

Weighted Forced Outage Rate = Sum of Forced Outage Rate x Station Rating of Each Boiler / Sum of Station Rating of Each Boiler.

All data is tracked and kept through a system called Central Operations Status Reporting System (COSRS). The data is transferred onto excel spreadsheets for internal reporting. The data is validated by the stations and Steam Operation personnel at the end of each month to ensure the hours are accurately reported.

10.0 Safety Index

The Safety Index goal includes the following eight components. A minimum of six out of the eight components (OSHA Injury/Illness Incidence rate must be one of the six) have to be met to achieve this index.

10.1 OSHA Injury/Illness Incidence Rate
10.2 Significant High Hazard Injuries
10.3 Public Safety-Related Equipment Failures
10.4 Contractor OSHA Incidence Rate
10.5 Preventable Motor Vehicle Collisions
10.6 System Safety-Operating Errors
10.7 Safety Strategy/Work Practice Improvements
10.8 Documented Field Inspections

10.1 OSHA Injury/Illness Incidence Rate

The data used to calculate the OSHA rate is obtained from two different systems – recordable injuries and illnesses are managed using the Safety and Health Information Management System (SHIMS), and man-hours are generated through Payroll.

Using the information above, the OSHA rate is calculated in SHIMS. Throughout the past year, on the 4th of each month, injury and illness reports are generated. On the

8th of each month, man-hours are extracted from systems in Payroll and, in conjunction with the data generated on the 4th of each month, the OSHA rate is calculated using the following formula.

$$\frac{(\text{Number of OSHA Recordable Injuries + Illnesses}) \times 200{,}000}{\text{Man-hours Worked}}$$

SHIMS and the monthly OSHA rate report are controlled and managed by Corporate EH&S. Injury and illness information entered into SHIMS is checked regularly for proper classification.

10.2 Significant High Hazard Injuries

Significant high hazard injuries are electrical, gas or steam burns, electrical shocks, or falls from an elevation or down a stairway greater than 3 feet, resulting in hospitalization.

Operating Groups are responsible for inputting injury data into SHIMS. When sorting data, appropriate entries are flagged based on its type: electrical, gas, or steam burns; electrical shocks; and fall from elevation or down stairs greater than three feet. Once the data has been sorted accordingly, a tally is conducted to obtain the total number of Significant High Hazard Injuries.

10.3 Public Safety-Related Equipment Failures

Public safety-related equipment failures are the number of subsurface equipment failures accompanied by physical injury to people and/or property damage for Gas Operations, Steam Operations, and S&TO. Electric Operations is also included, but adheres to a more restrictive criterion that includes all subsurface failures. This does not include equipment failures initiated by contractors or companies other than Con Edison. The four operating groups maintain and manage this information in their respective databases.

10.4 Contractor OSHA Incidence Rate

This rate includes only contractor work that is conducted under the management of Construction. Construction maintains the running total of injuries, illnesses, and contractor man-hours on a monthly basis. Using the formula above, the Contractor OSHA Rate is calculated as follows:

$$\frac{(\text{Number of OSHA Recordable Injuries + Illnesses}) \times 200{,}000}{\text{Man-hours Worked}}$$

10.5 Preventable Motor Vehicle Collisions

A vehicle accident is preventable when, after investigation, it is determined that the accident was caused by the driver not exercising reasonable caution, using faulty judgment, and/or not using principles of defensive driving in order to prevent the accident.

10.6 System Safety-Operating Errors

An Operating Error is defined as an operating action or omission that did or could have resulted in an unsafe working condition, personal injury, equipment damage, customer or equipment outages, or operation of equipment not consistent with its design. The failure to properly convey, receive, or record an Operating Order, or any other information required by a rule or procedure, shall also be documented as an Operating Error.

10.7 Safety Strategy/Workplace Improvements

This indicator represents the number of completed program enhancements as defined in the organization's Safety Strategy, as well as, the number of documented improvements that enhance safe work practices through Close Calls, Time Outs, or Incident Investigations. Operating groups were required to follow their documented Safety Strategies, as well as document and record all events as each safety strategy/work practice improvement becomes completed. In this documentation, Operating Groups must detail specifically why these items were of significant importance and how they have been completed.

10.8 Documented Field Inspections

This indicator represents the number of documented field inspections and safety observations conducted by operating personnel (managers, supervisors, planners, or engineers) dedicated to safety. The focus of the inspection must be employee safety and, where appropriate, public safety. Operating Groups must document all field inspections and safety observations to count toward this index. All field inspections and safety observation data is managed, compiled, and tallied by each Operating Group.

11.0 Environmental Index

The Environmental Index goal includes the following eight components. A minimum of six out of the eight components have to be met to achieve this index.

11.1 Late Spill Notifications
11.2 Critical Correspondence On-Time Completions
11.3 Commitment Tracking
11.4 Reduce Dielectric Fluid Released to the Environment
11.5 Opacity Occurrences not to Exceed NYC DEP Standards
11.6 Reduce SF6 Gas Emissions
11.7 Do Not Exceed NOx Emissions Limit during any 24-Hour Period within Ozone Season (May –September)
11.8 SPDES Exceedances

11.1 Late Spill Notifications

Spill notifications are the required agency notifications based on applicable laws, regulations, and standards. Spills of substances to land or water must be reported to appropriate agencies within prescribed time limits. Any notification beyond a prescribed limit is considered a late report.

11.2 Critical Correspondence On-Time Completions

Critical Correspondence is correspondence to a regulatory agency that has, as its primary subject, any EH&S matter for which an agency can hold the Company responsible under law. If correspondence is designated to be Critical Correspondence, then CEHSP A12.09 must be followed. The correspondence must be complete, accurate and sent within a required time frame.

11.3 Commitment Tracking

An EH&S-related commitment is an explicit written promise to take a specified action that has been agreed to or volunteered by an authorized Company manager. Commitments must be defined, owned by a specific Company organization, and agreed to by that organization. Typically, these commitments relate to achieving or maintaining compliance with applicable EH&S regulations. Company Officers, General Managers, Plant Managers, Department Managers, Directors and EH&S Managers reporting directly to a Vice President are authorized under this procedure to make EH&S-related commitments on behalf of the company.

11.4 Reduce Dielectric Fluid Released to the Environment

Substation Operations monitors the total release of dielectric fluid to the environment. The release numbers also include any fluid released from connected substation equipment such as pressurizing plants, PURS (public utility regulating stations), and circulating plants. Any release must be reported, located and repaired as soon as practical.

11.5 Opacity Occurrences not to Exceed New York City Department of Environmental Protection (DEP) Standards

Opacity occurrences measure how many times visible emissions (smoke) that exceed DEP standards emanate from the smokestacks at any of Steam Operations' five generating facilities. Opacity occurrences, which are measured by a Continuous Emissions Monitoring System (CEMS) opacity transmission meter, result from improper combustion, or the release of accumulated fly-ash, in the boilers or combustion turbines. The regulatory limits and the monitoring and reporting requirements for opacity occurrences can be found in CEHSP E01.06 Stack Opacity Limits. Opacity exceedances are tracked by facility personnel, Steam Operations EH&S personnel, and Corporate EH&S personnel.

11.6 Reduce SF6 Gas Emissions

Sulfur hexafluoride (SF6) gas occasionally leaks from our equipment into the environment and needs to be replenished. Besides the detrimental environmental effects, the loss of SF6 is a reliability concern and operating cost. The Company goal is to continue efforts to reduce the amount of SF6 gas consumed on the system.

11.7 Do Not Exceed Nitrogen Oxide (NOx) Emissions Limit during any 24-Hour Period within Ozone Season (May –September)

This indicator measures our compliance with the DEC emissions standards for NOx (a by-product of combustion) at the Company's Steam Operations generating facilities, and Gas Operations compressors at Astoria LNG and Hunts Point. A web based computer program is used to help ensure that the appropriate units are operated within the NOx limits both during the ozone and non-ozone seasons. This system allows the Company to monitor and control the amount of NOx that is released to the environment. All coordinating activities are managed at the Energy Control Center.

The Company submits annual emissions reports at year-end to the New York State Department of Environmental Conservation (DEC) and the United States Environment Protection Agency (USEPA) to demonstrate regulatory compliance with emission limits. Monthly NOx status reports are produced and distributed.

11.8 SPDES Exceedances

Facilities, such a Company generating stations, discharge wastewater to the surface waters or ground waters of the state. The wastewater discharge outfalls are permitted under the State Pollutant Discharge Elimination System (SPDES). The discharge limits on the SPDES permits are closely monitored.

Flow rates (discharges) are calculated by the stations and reported each month via the Discharge Monitoring Report (DMR) and mailed to the DEC by Steam Operations EH&S. All permit parameters such as total suspended solids (TSS), oil and grease (O&G), and pH are taken at the frequency set forth in the permit. Some of the results are instantaneous, such as temperature and pH. Other samples, such as TSS and O&G, must be forwarded to the Astoria Chemical Testing Laboratory for analysis. Stations establish calendars in EMIS 30 days prior to the reporting period listing the analysis they must take.

12.0 Employee Development Index

The Employee Development Index goal includes the following eight components. A minimum of six out of the eight components have to be met to achieve this index.

- 12.1 Percentage of Band 4 and above positions that were filled utilizing the succession planning process
- 12.2 Online EEO sensitivity awareness and sexual harassment training
- 12.3 Number of Managers Completing Leadership Challenge and Business Academy
- 12.4 Number of Mentees in Corporate Mentoring Program
- 12.5 Students Passing Promotional Exam On Completion of Career Path Training
- 12.6 Students Completing Leadership Training
- 12.7 Number of Team Candidates Graduated from Program
- 12.8 Training courses converted to eLearning

12.1. Percentage of Band 4 and Above Positions Filled Using the Succession Planning Process

The Human Resources Department maintains a goal of filling Band 4 and above positions through a succession planning process. Each year the Company's succession plans are updated following meetings with the Company's officers and CEO.

12.2. Online EEO Sensitivity Awareness and Sexual Harassment Training

Con Edison has long been committed to supporting the principles of Equal Employment Opportunity (EEO), which are consistent with the companies' Standards of Business Conduct and foster an environment of respect and dignity for all employees.

To help meet this commitment and communicate EEO guidelines and expectations to all employees, EEO Affairs has developed an informative and interactive online EEO training module. The module helps employees identify conduct that may be considered harassing, discriminatory, or retaliatory, and communicates that it is every employee's responsibility to do his or her share to maintain a workplace that is free of these behaviors.

Using the statistical report function of The Learning Center portal, course (ONL 0037) was queried to obtain the course completion count.

12.3. Number of Managers Completing Leadership Challenge and Business Academy

Two courses at The Learning Center comprise the Leadership Challenge. Leadership Challenge 1 (LDM0206) is geared towards Employees at 2H/3L/3H/60-63 levels with a minimum of 6-18 months in their position and potential for advancement. Leadership Challenge 2 (LDM0306) is geared towards employees at 2H/3L/3H/60-63 levels with a minimum of 18 months in their position.

HR monitors the program at The Learning Center. The course completion data is obtained from trend analysis reports available on The Learning Center intranet portal. HR performs queries to determine which employees have completed the courses. A roster of attendees and their grades is maintained on a spreadsheet.

The Business Academy is geared towards band 3 and above employees. Information is obtained in a manner similar to the Leadership Challenge courses.

12.4. Number of Mentees in Corporate Mentoring Program

Each year in January, all employees are contacted regarding potential mentees for the Corporate Mentoring Program. To be eligible for acceptance into the program, applicants must meet the following criteria:

- a management employee in bands 1, 2, or 3,
- completion of at least one year of service,
- a satisfactory performance rating, and
- written approval to participate from his or her manager.

Talent Management maintains a list of corporate mentees and their mentors. There are a total of over 80 mentees in the Corporate and Executive Mentoring programs.

12.5 Students Passing Written Promotional Exam Upon Completion of Career Path Training

Career path training requires passing a written promotional test, which ensures that the employee has demonstrated proficiency in assigned tasks before he/she moves to the next higher job title. The methodology uses a ratio of exams passed over total tests given that should be ≥ 75%. A successful passing rate indicates that the training curriculum and the promotional test are aligned with the skills, procedures and specifications being taught in the field. This ensures that the employee has the knowledge and proficiency to perform the job assignments required for the next higher title. This measure is one of the operational definitions used to measure training effectiveness.

Exam data is maintained on The Learning Center Decision Support System (DSS) or testing database. Information is automatically fed from The Learning Center course registration system. HR accesses the DSS system each month and retrieves a report containing the employee's name, course identifier, ant the pass or fail grade. Career path related courses are identified for inclusion. Testing for potential outside hires is not included. The Career Path pass/fails are added to arrive at the totals for the month and the HR specialist calculates the passing rate.

12.6 Students Completing Leadership Training

Approximately 40 Leadership Training courses are offered at The Learning Center each year. The courses that comprise the Leadership Challenge are included as part of Leadership training. This performance measure deals with the number of management employees attending Leadership programs.

HR monitors the program at The Learning Center. Course completion data is obtained utilizing the trend analysis reports via The Learning Center intranet portal. Queries were made to determine employee course completion. A roster of attendees and grades is maintained on a separate spread sheet.

12.7 Number of Team (Tools for Employees Advancing to Management) Candidates Graduated from Program)

Con Edison's Tools for Employees Advancing into Management (TEAM) Program is a developmental experience designed to provide recently promoted weekly employees with the tools necessary to make a successful transition into a management role. The program is administered by the Employee Programs & Services (EP&S) section of Talent Management and has as its goal the development of candidates into skilled supervisors or individual contributors.

Candidates are expected to complete the program in 6 to 12 months. Completion of the program is defined by the effective date which removes the TEAM suffix from the candidate's record. Successful candidates are required to remain in their management position for at least 24 months after completion of the TEAM Program.

12.8. Training Courses Converted to eLearning – Convert 30 or More Courses to eLearning.

The development of additional eLearning courses was measured by the number of courses posted to the production site on The Learning Center eLearning Central portal. At the completion of the final review of instructional delivery of content, Human Resources test the functionality of the eLearning course on their test site. If the course works correctly, the course is posted on their production site, which makes it available to all employees. At this point, credit is taken for an eLearning course completion.

Company Name: Con Edison
Case Description: 2009 Electric Rate Filing
Case: 09-E-0428

Response to City of NY Interrogatories – Set NYC2
Date of Response:
Responding Witness:

Question No. :97
Please explain how the performance indicators are set at "challenging yet achievable levels" as stated in lines 4-5 on page 20 of Mr. Tai's pre-filed direct testimony. In providing this explanation, please state the levels for each indicator.

RESPONSE:
We use the following principles for establishing performance indicators: 1) if the performance indicator is a regulatory requirement the target should match the target agreed upon with 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) annually performance indicators should be evaluated to see if any should be removed or new indicators should be added.

See confidential attachment.