LUTHER TAI - ELECTRIC

Q. Please state your name and business address.

A. My name is Luther Tai. My business address is 4 Irving Place, New York, NY 10003.

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

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") as Senior Vice President of Enterprise Shared Services.

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

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

Q. Please describe your educational background.

A. I graduated from Massachusetts Institute of Technology with a Bachelor of Science degree in Chemical Engineering in 1970. I also received a MS in Industrial Engineering from Columbia University in 1975, a JD from New York Law School in 1986, an MBA from Cornell University in 2002 and a Doctor of Education degree from University of Pennsylvania in 2005.

Q. Please describe your work experience.

A. I joined Con Edison in June 1970 and have held various managerial positions including Chief Generation Planning Engineer, Chief Forecast Engineer and Director of Corporate Planning. In 1998, I became the Vice

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

Q. Please generally describe your current responsibilities.

A. My current responsibilities include Human Resources, Equal Employment Opportunity Affairs, Emergency Management, Energy Management, Security Services, Facilities, Research and Development, and Shared Services Administration.

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

A. I am a member of the board of directors of the Regional Plan Association. I also serve on the board of Woodrow Wilson National Fellowship Foundation, the board of Stevens Institute of Technology's and the advisory board of the Executive Program in Work-Based Learning Leadership, a doctorate program for chief learning officers in corporations, at the University of Pennsylvania.

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

A. Yes. I submitted testimony in Case Nos. 91-G-1194, 91-S-1193, 91-E-0462, 93-G-0996, 93-S-0997, 93-E-0334, and 96-E-0897.

Q. What is the purpose of your testimony?

A. My testimony addresses the Company's compensation for officers and non-officer management employees.

Q. Did you include exhibits as part of your testimony?

A. Yes, I will submit two Exhibits. The first is titled "Analytical Framework," and the second is titled "Market Assessment."

Q. Please summarize your testimony.

A. I will address the Company's compensation philosophy with an explanation of the various components of the compensation package for officers and non-officer management employees.

I will demonstrate that the overall compensation level for Company officers and non-officer management employees within the structure of the compensation package to include base salary, annual incentives and long-term incentives, is a reasonable and necessary business expense that the Company must incur in order to meet its obligations to provide safe and reliable service to its customers. The annual cost for the rate year ended March 31, 2010 for officers (excluding annual incentives) and non-officer management compensation package is included in Accounting Panel exhibit number 5, schedule 1. I should note that Hewitt Associates is also presenting testimony on behalf of the Company that explains the reasonableness of the Company's compensation programs and the overall level of compensation delivered through a combination of base salary and annual incentive and long term incentives in comparison to various peer companies.

I will also explain how the annual incentive and long term incentive plans are structured to align the interests of both the Company and customers and how the payment of incentive compensation is based on the Company and the Company departments achieving pre-established performance levels and targets that produce specific benefits to customers with respect to service quality, reliability, and cost efficiency. The latter mitigates the Company's costs of providing quality service for both near term and long term.

Finally, I will explain the relationship between the level of funding for the annual incentive and long term incentive plans and how they are reflected in the Company's budget as well as its rate request.

Q. Please describe the Company's compensation philosophy.

A. The Company philosophy is to provide base salary, annual incentives and long term incentives that are competitive with the median levels of compensation provided by a peer group of companies. We believe that setting compensation levels at the median of our peer group of companies would allow us to be competitive in the labor market and to fairly compensate, attract and retain employees critical to the success of the Company. The objective of the compensation program is to support the Company's business strategy, which includes such objectives as providing customers with quality service, making reasonable return to investors, and providing an environment where employees can continue to improve their contributions to the Company. As such, the annual incentive is linked to financial, budget and operations goals. The long-term incentive rewards achievement of financial and operations goals as well as total shareholder return.

Officer Compensation

Q. What are the elements of the Company's officer compensation program?

A. The Company's officer compensation program is comprised of three elements, base salary, annual incentives and long term incentives. For benchmarking comparison, base salary and annual incentives are known as "Total Cash Compensation" and base salary plus annual incentives and long term incentives are known as "Total Direct Compensation."

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

A. The Management Development and Compensation Committee of the Board of Directors of the company (the "MDC Committee") establishes, reviews and administers the Company's officer compensation program. The MDC

Committee has retained Mercer as an independent compensation consultant, to provide it with information, analyses, and objective advice regarding officer compensation. The MDC Committee has adopted an industry peer group of twenty publicly-traded utility companies of comparable size and scope to the Company for purposes of providing benchmark information on compensation levels provided to officers. This peer group is also used to measure relative total shareholder returns for vesting of performance based restricted stock units awarded under the long term incentive program.

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

A. Yes.

Q. What does this Exhibit show?

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

MARK FOR IDENTIFICATION AS EXHIBIT __ (LT-1)

Q. Are you presenting as an exhibit a three-page document entitled "MARKET ASSESSMENT - TOP 5 EXECUTIVES TARGET TDC ($000)" and "MARKET ASSESSMENT - OTHER EXECUTIVES TARGET TDC ($000)?"

A. Yes.

Q. What does this Exhibit show?

A. This material, also prepared by Mercer, compares the Company's officer compensation program to the programs in place at the peer group of companies.

MARK FOR IDENTIFICATION AS EXHIBIT __ (LT-2)

Q. How does the Company's officer compensation program compare to the peer group of companies?

A. Mercer reviewed and benchmarked the Company's officer compensation program comprised of base salary, annual incentive compensation and long-term incentive compensation. When compared with the compensation levels reported in proxies for the peer group of companies for the top-five highest paid, "Total Cash Compensation" in the form of base salary and annual incentives is deemed to be competitive with the median levels with some positions above and some below the median range. But "Total Direct Compensation," (i.e., base salary, annual incentives and long term incentives) for the top five officers falls well below the median level because the long term incentive component was substantially lower than the peer companies. For the remaining officers, Total Direct Compensation was found to be around the median level.

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

A. Mercer has concluded that based on publicly available proxy data, Total Direct Compensation for the top five officers was below the median because of the low value for the long term incentive component but for the remaining officers, the Total Direct Compensation was competitive with the median of the market.

Annual Incentive Program for Officers

Q. Please describe the annual incentive program for officers.

A. The annual incentive program provides cash compensation to officers based on the Company's performance. The MDC Committee annually sets financial, budget and operating targets at the beginning of the performance period to measure the performance of individual and collective responsibility of officers. The MDC

Committee sets the range of the award that each officer is eligible to receive under the annual incentive plan after considering various factors, including:

- Recommendations from the chief executive officer for each officer;
- A general assessment of each officer's performance of his or her responsibilities; and
- Level of annual incentive compensation compared with executives holding equivalent positions in the compensation peer group.

The range of awards included threshold, target and maximum levels reflecting differing levels of achievement of the various financial, budget and operating objectives. Awards are scaled to reflect relative levels of achievement of the objectives between the threshold, target and maximum levels. Each officer's potential award can range from 0% to 120% of their target.

Q. How does the annual incentive program for officers work?

A. First a Target Fund under the annual incentive plan is determined by multiplying the base salary as of the end of the year of each eligible officer by his or her Target percentage. The Target percentage for each officer varies by position ranging from 35% of base salary for a Vice President to 100% for the CEO. An Award Fund is then determined for all officers by adjusting the Target Fund by the actual weighting earned for achieving pre-determined financial budget and operating objectives in the following three areas:

1. Achievement of a pre-determined level of "Consolidated Edison Company of New York (CECONY) Adjusted Net Income," which is comprised of net income from ongoing operations for CECONY after subtracting all expenses incurred by CECONY, including federal and state income taxes. CECONY Adjusted Net Income will be net of the reserve that is established for the Award Fund and is not weather normalized.
2. Performance within an "Operating Budget," which is the portion of the CECONY O&M Budget approved by the Board of Trustees that is comprised of departmental expenses, including interference costs of moving

Company facilities to avoid interfering with governmental projects and uncollectible bill expenses.

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

The weighting assigned to each component is 50% to Adjusted Net Income, 20% to Operating Budget and 30% to specific performance indicators. A sliding scale of 0% to 120% is applied to each component based on actual outcomes. However, if Adjusted Net Income is less than or equal to 90 percent of the targeted Adjusted Net Income, no annual incentive awards are made.

Q. How is the award distributed?

A. The Award Fund is distributed to each officer (except for the CEO and certain other officers - President and COO, Senior Vice President and CFO, Senior Vice President of Business Shared Services, Senior Vice President of Enterprise Shared Services, Senior Vice President of Public Affairs, General Counsel, and Vice President and General Auditor), based on achieving Company and specific organization performance goals, and based on individual performance as shown below:

Performance Indicator	Weighting Sr. Officer	Weighting Vice Pres.
Adjusted CECONY Net Income	15%	12.5%
Organization Budget	20%	17.5%
Organization Perf. Indicators	25%	30.0%
Individual Performance	40%	40.0%

Q. Why are formulas structured differently for the CEO and certain officers?

A. For the CEO and certain other officers, the Target Award Fund, and payout will be based on financial, budget and operating performance measures in the following areas:

Performance Indicator	Weighting
Adjusted Net Income	50%
Financial Performance	20%
Operating Performance Indicators	30%

But, within the financial and operating performance indicators, different weights are assigned to each officer in this group based his or her responsibilities associated with the each of the CEI subsidiaries. For example, as the Senior Vice President of Enterprise Shared Services, my responsibilities include areas under Consolidated Edison Company of New York (CECONY) and Orange and Rockland Utilities (O&R). Therefore, the performance measures assigned to my position have been weighted as follows:

Performance Indicator	Weighting
Adjusted Regulated Net Income (CECONY and O&R)	50%
Financial Performance	
CECONY Operating Budget	19%
O&R Operating Budget	1%
Operating Performance Indicators	

CECONY Performance	29%
O&R Performance	1%

The rationale behind this is to reflect performance indicators that are closely tied to the responsibilities of these officers. But the fundamental philosophy of pay for performance remains the same.

Ultimately the MDC Committee has the discretion to adjust (upward or downward) the actual awards to be paid to an officer.

Q. What was the Award Fund for officers for the last two years?

A. For 2007, the aggregate Award Fund for officers was equal to 102% of the Target Fund and for 2006 the Award Fund was equal to 75.5% of the Target Fund.

Q. Why should the Company be permitted to recover the costs of annual incentives?

A. Mercer found that the Company's total officer compensation package is competitive but below the median for the top five highest paid officers when taking long term incentive into consideration. A competitive annual incentive component is important to attracting and retaining appropriate talent to manage the business in a way that meets the needs and expectations of our customers and investors.

Q. Is the cost of the annual incentive program for officers included in this rate request?

A. The Company is not seeking recovery of this element of officer compensation in this proceeding in order to reduce the number of issues to be addressed in this proceeding (See Accounting Panel Exhibit #5, Schedule 1, page 1 of 6, line item number 34, which removes this cost from the rate request). But it is my strong belief that the annual incentive program is a legitimate cost of doing business and should be recoverable in full from customers. In addition, the compensation level provided under the program is reasonable as supported by an in-depth analysis provided by Mercer. The Company has sought to structure the annual incentive program to benefit both investors and customers.

Long Term Incentives

Q. Please describe the long-term incentive compensation plan.

A. The shareholders of the Company approved a new Long Term Incentive Plan (LTIP) on May 19, 2003, and the Board of Directors has authorized implementing the LTIP effective January 1, 2004. The purpose of the Plan is to provide long-term incentive compensation to officers and management employees contributing to the future success and growth of the Company. Long-term incentive compensation awarded under the Plan includes both stock options and performance based restricted stock units (PBRS). The MDC Committee has the administrative authority over the LTIP, and determines the mix of stock options and PBRS. In 2006, the MDC Committee approved Mercer's recommendation that stock options be removed from the mix of LTIP awards granted in 2007 and beyond. For 2007 and 2008, the MDC Committee approved the allocation of awards be comprised solely of PBRS for officers. The PBRS have a vesting period of three years. The stock units provide for the right to receive one share of Con Edison common stock (or a cash payment equal to the fair market value of one share of Con Edison common stock) for each stock unit granted, subject to the satisfaction of certain pre-established long-term performance objectives.

Q. How are LTIP awards determined and granted to officers?

A. All officers are eligible to receive PBRS awards based on various factors including recommendations from the CEO, a general assessment of each officer's performance of his or her responsibilities and target levels of long-term incentive compensation established for each officer based on benchmark information for executives holding equivalent positions in the compensation peer group. It is the practice of the MDC Committee at its January meeting each year to make annual awards under the LTIP to the Company's officers. In January 2008, eligible officers received LTIP awards comprised of PBRS in varying amounts.

Q. How and when are PBRS distributed?

A. The PBRS will be distributed after completing a three-year performance cycle, but the number of shares distributed on the payout year is based on a numerical formula and depends on the achievement of certain performance criteria. The following performance indicators will determine the number of shares (or cash equivalent) actually distributed at the end of each performance cycle:

Fifty percent of PBRS awarded to officers is linked to performance as measured by the annual incentive plan Award Fund. As previously mentioned, the Award Fund for the Annual Incentive Plan is determined by achieving performance goals for adjusted net income, operating budgets and operating performance goals.

The number of shares distributed will be determined by multiplying the annual incentive plan Award Fund average for the three years prior to the payout year by the number of shares linked to this performance indicator. For example, if the annual incentive plan Award Fund average for the three years prior to the payout year is 95%, then 95% of the PBRS award linked to this indicator will be distributed. The other fifty percent of the PBRS awarded is linked to the performance of Con Edison using a Total Shareholder Return (TSR) indicator. TSR is the incremental value an equity investor receives (change in stock price plus dividends received) by holding one share of a company's common stock over a period of time. In determining the number of shares to be distributed, the following guidelines will apply based on how well Con Edison's TSR compares with the TSR for the compensation peer group over a three-year performance period:

Con Edison's TSR Percentile Ranking	**Percent of Shares Distributed**
75^{th} or greater	150%
70^{th}	140%
65^{th}	130%
60^{th}	120%
55^{th}	110%
50^{th}	100%
45^{th}	85%
40^{th}	70%
35^{th}	55%
30^{th}	40%
25^{th}	25%
Below 25^{th}	0%

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

Q. Why should the Company be permitted to recover the costs of long-term incentives?

A. The Company awards long-term incentives to officers and non-officer management employees to promote employee behavior to drive future success of the Company. Payouts under the LTIP are performance-based and made only after the consistent demonstration of achieving performance indicators, as measured by the indicators, over a period of time. The long term incentive is an excellent way to attract and retain competent employees for the benefit of customers and investors.

Non-Officer Management Employee Compensation

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

A. The compensation program for non-officer management employees is comprised of base salary, variable pay and long term incentives. The Chairman and Chief Executive Officer of the Company, the Vice President of Human Resources and I establish, review and administer the Company's compensation program for non-officer management employees. We benchmarked with twelve of the compensation peer group companies and four other utility companies who were willing to share compensation information with us. We also used compensation surveys published by various compensation consulting and research firms, such as Hewitt Associates, Watson Wyatt, the Conference Board, World at Work, ORC World Wide, Edwin Perlin Associates and Mercer. From this information, we establish the merit budget and salary structure adjustment for base salaries for the year. We generally select rates that reflect no more than the average of the benchmarked companies. We obtained benchmark information on variable pay and found that the target levels established by the Company are at the low end of the peer group. Under the variable pay program, target awards for non-officer employees can range from 4.5% to 15%. We found that at 12 of 13 companies providing information on variable pay, targets ranged from 10% to 25% of base pay. While data indicated that our variable pay targets are below median, we have not increased our variable pay target levels for 2008.

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

A. Yes. The Company has retained Hewitt Associates to conduct a review of its current non-officer management level compensation practices related to base salary, variable pay and long term incentives. As part of this review, Hewitt has conducted an initial benchmark sample of about 16 different jobs covering 593 management employees. These jobs were compared with similar jobs at 38 utility companies across the nation, including 14 of the 20 compensation peer group adopted by the Company for reviewing officer compensation.

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

A. As described in Mr. McCullough's testimony, for base salary, Hewitt found some employee pay variability around the median exists but overall, current practice is below the median when compared with the compensation peer group and the other national utility companies. When variable pay is added to base salary, Total Cash Compensation falls further below the median. Hewitt also found that the Company's variable pay program is similar in structure to those of other utilities in terms of emphasis placed on financial performance, customer satisfaction and safety measures. The upside of the Company's payout of 120 percent is low. The compensation peer group upside could be as high as 175 percent and the upside for the other national utilities could be as high as 200 percent. Hewitt's assessment is that the Company's long term incentive program of 1 to 8 percent of base salary while the peer group is at 5 to 35 percent and the other national utility programs ranged from 5 to 40 percent level. Therefore, adding long term incentives to base and variable pay, makes total level of compensation fall even further below the median of the benchmark.

Variable Pay Program

Q. Please describe the Variable Pay Program.

A. The Company's Variable Pay Program compensates non-officer management employees provided that certain performance measures that are set prior to the commencement of the performance period are met. As indicated by our internal survey results and in the compensation review conducted by Hewitt, variable pay places a significant portion of non-officer employees' compensation at risk. It must be earned by performance and must be earned each year. This pay-for-performance philosophy is used by most companies in the utility industry and non-utility corporations and is considered best practice. Variable Pay program incents appropriate behavior and its reward is commensurate with accomplishment of predetermined goals by employees that benefit both customers and investors. Payout of awards is linked to achieving financial budget and operating performance measures that promote safe and reliable operations, better customer service, environmental excellence and public safety.

Q. If the Commission does not agree with the structure of the annual incentive variable pay programs, is that a basis for denying the Company recovery for the costs of these programs?

A. In my opinion, the answer is clearly no. There is sufficient evidentiary support that this employee expense is a legitimate cost of doing business that should be recovered in rates. Therefore, regardless of the form of compensation, the Company's rates should reflect a reasonable level of employee expense necessary for the company to retain qualified and competent individuals to manage its business. As Lee McCullough of Hewitt explains, the total dollar value of the Company's compensation package is below the median. As such there is no reasonable basis for denying Company full recovery of its business cost, especially where such level of compensation is below the median of the total level of compensation that its peer companies pay. An appropriate level of compensation is necessary to attract and retain quality employees for which the Company competes in a competitive marketplace.

Incentive compensation is widely recognized as best practice and it puts a large portion of the pay at risk to employees.

Q. Please explain how the variable pay program works.

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

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

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

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

2. Performance within an "Operating Budget," which is the portion of the CECONY O&M Budget approved by the Board of Trustees that is comprised of departmental expenses, including Interference and Uncollectible expenses.
3. Achievement of specific safety, reliability, customer satisfaction and operating performance indicators, such as the OSHA Incidence Rate, Electric Network System Availability, Electric Non-Network System Availability, Respond to Gas Odor Complaints within 30 minutes, Workable Gas Leaks Year-End Backlog, Steam System - Normal Pressure Operations, Generation Stations - Forced Outages, PSC Complaints, Customer Calls Answered, Customer

Satisfaction Surveys, Environmental Index and Employee Development Index.

The weighting assigned to each component is 50% to Adjusted Net Income, 20% to Operating Budget and 30% to specific performance indicators. A sliding scale of 0% to 120% is applied to each component based on actual outcomes. However, if Adjusted Net Income is less than or equal to 90 percent of the target Adjusted Net Income, no variable pay awards are made.

Q. Has the variable pay program Award Fund been less than 100%?

A. Yes. The Award Fund for 2007 was set at 75.5% due to not achieving financial and operating performance indicators, mainly attributed to the Long Island City and Westchester outages. These events contributed to the Company achieving adjusted net income and operating budget targets that were below the 100% level, which reduced the Award Fund to 75.5%. The fact that the payout of variable pay awards was reduced supports our position that the pay is directly linked to performance measures, which benefit customers. Employees fully recognize that failure to perform to meet our customers' expectations also means reducing pay for them.

Q. How is the award distributed?

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

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

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

Q. Will all employees with a satisfactory rating receive a pay out under the variable pay program?

A. Yes. A satisfactory rating is a minimum threshold for receiving a portion of the variable pay. Employees who are rated unsatisfactory in performance are not eligible for variable pay. The variable pay program is designed to encourage teamwork and also individual performance. An organization succeeding in achieving its performance measures will include employees with varying ranges of performance, some at the satisfactory level and others above. Employees achieving a satisfactory rating are eligible to receive a minimum award (up to 60% of his or her target) based on the organization's results. Satisfactory performers may also receive additional variable pay based on their individual contribution. High performing employees achieving a better than satisfactory rating also are eligible to receive a minimum award (up to 60% of his or her target) based on the organization's results and additional variable pay based on their individual contribution. The additional variable pay, which is based on individual contributions, ranges from 0 to 60 percent and high performers will receive a greater amount of variable pay to distinguish them from satisfactory performers. Employees receiving different levels of variable pay reflect not only how well their organization performed but also reflects how well they performed individually during the period.

Q. What was the amount of variable pay awards granted in the last two years?

A. Based on the actual performance results in 2007 for Consolidated Edison Company of New York, Inc. compared to the predetermined performance targets, the resulting management variable pay Award Fund for 2008 was set at 101 percent of the Target Fund, with a payout of $27.4 million. As indicated above, for 2007, the management variable pay Award Fund was set at 75.5 percent of the Target Fund, with a payout of $18.4 million.

Q. Please explain why a portion of the variable pay program is tied to adjusted net income.

A. Adjusted Net income is a good measure of the Company's operating performance. A goal of any business is to realize a return for its equity investors. A company that operates well financially benefits both the customer and investor. The achievement of adjusted net income targets demonstrates to investors and customers that the Company is managing the business well and is focused on costs and quality of service. It also mitigates the size and frequency of requests for rate increases.

Q. Please explain why a portion of the variable pay program is tied to operating budgets.

A. Controlling cost and using resources efficiently are fundamental to running a good business. This performance indicator raises employee awareness in each operating organization. It reminds them that they can directly influence operating budgets through their decisions each day and by performing their tasks efficiently and effectively.

Q. What are performance indicators?

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

Q. What are the performance indicators for Electric Operations?

A. As previously described, 35% of a variable pay award distributed to employees is determined by organizational performance indicators. For Electric Operations, each organization has established performance indicators that are linked to corporate goals such as safety, environmental, reliability, and customer service, and goals particular to its operations such as reducing the number of underground structure events, electric shock incidents and transformer failures.

Q. Why should the Company be permitted to recover the costs of the variable pay?

A. The Company should recover variable pay costs for two reasons. First, the principles of cost-of-service rate regulation require that a regulated company be compensated for its reasonable business expenses. Based on the comparative work performed by Hewitt, there is adequate evidence that the Company's compensation package for its employees, including the variable pay element, are well within the norms and thus satisfy the criteria for a reasonable business expense. Second, the

Company's variable pay program directly benefits customers and investors. Performance criteria include numerous objectives important to customers. Some performance indicators relate to customer service and operating efficiencies, which are similar to the performance mechanisms prescribed by the Commission that place penalties on the Company for not meeting goals established for these areas. For example, in the customer service area, the variable pay program includes indicators such as PSC complaints, customer calls answered, response to customer complaints, billing accuracy, percent of meters read on schedule and customer satisfaction surveys. In the area of operating areas, the variable pay plan includes measures such as system reliability (CAIDI and SAIFI) where the Commission imposes penalties depending on the duration and frequency of outages. For example, certain electric organizations did not receive a full variable pay award because they did not meet their CAIDI and SAIFI performance indicators, which comprise 12 of the 35 percent of the operating performance indicators.

Given that the Commission prescribes performance incentives on the Company, we believe it is appropriate to impose similar performance incentives on employees through the variable pay program. The variable pay program links pay to performance. The employees have a large portion of their pay at risk. They are rewarded only when they achieve their performance goals in meeting the needs of our customers, the investors and the public.

Long Term Incentives

Q. Please describe the long-term incentive compensation plan for non-officer management employees.

A. As mentioned previously in the officer compensation area, the Company's shareholders approved a new Long Term Incentive Plan (LTIP) on May 19, 2003, and the Board of Directors has authorized implementing the LTIP effective January 1, 2004. The purpose of the Plan is to provide long-term incentive compensation to officers and non-officer management employees contributing to the future success and growth of the Company. Long-term incentive compensation awarded under the Plan includes both stock options and performance based restricted stock units (PBRS). The MDC Committee has the administrative authority over the LTIP, and determines the mix of stock options and PBRS.

In 2006 the Committee approved Mercer's recommendation that stock options be removed from the mix of LTIP awards granted in 2007 and beyond. For 2007, the Committee approved the allocation be comprised solely of PBRS for officers and non-officer management employees in bands 3 and 4, and time-based restricted stock units (TBRS) for management employees in bands 1 and 2. Both PBRS and TBRS have a vesting period of three years.

For 2008, the Committee authorized granting awards under the LTIP in the form of PBRS to officers and non-officer management employees in bands 3 and 4, and TBRS to management employees in bands 1 and 2. The stock units provide for the right to receive one share of Con Edison common stock (or a cash payment equal to the fair market value of one share of Con Edison common stock) for each stock unit granted, subject to the satisfaction of certain pre-established long-term performance objectives.

Q. How are LTIP awards determined and granted to non-officer management employees?

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

Q. How and when are PBRS distributed?

A. The PBRS will be distributed after completing a three-year performance cycle, but the number of shares distributed on the payout year is based on a numerical formula and depends on the achievement of certain performance criteria. The following performance indicators will determine the number of shares (or cash equivalent) actually distributed at the end of each performance cycle:

Fifty percent of PBRS awarded to non-officer management employees in bands 3 and 4 is linked to performance as measured by the variable pay plan Award Fund for management employees. As previously mentioned, the Award Fund for the variable pay plan is determined by achieving performance goals for adjusted net income, operating budgets and operating performance goals. The number of shares distributed will be determined by multiplying the variable pay plan Award Fund average for the three years prior to the payout year by the number of shares linked to this performance indicator. For example, if the annual incentive plan Award Fund average for the three years prior to the payout year is 95%, then 95% of the PBRS award linked to this indicator will be distributed. The other fifty percent of the PBRS awarded to officer and non-officer management employees is linked to the performance of the Con Edison using a Total Shareholder Return (TSR) indicator. TSR is the incremental value an equity investor receives (change in stock price plus dividends received) by holding one share of a company's common stock over a period of time. In determining the number of shares to be distributed, the following guidelines will apply based on how well Con Edison's TSR compares with the TSR for the compensation peer group over a three-year performance period:

Con Edison's TSR Percentile Ranking	**Percent of Shares Distributed**
75^{th} or greater	150%

70^{th}	140%
65^{th}	130%
60^{th}	120%
55^{th}	110%
50^{th}	100%
45^{th}	85%
40^{th}	70%
35^{th}	55%
30^{th}	40%
25^{th}	25%
Below 25^{th}	0%

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

Q. How and when are TBRS distributed?

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

Q. Why should the Company be permitted to recover the costs of long-term incentives?

A. The Company awards long-term incentives to non-officer management employees to promote employee behavior to drive the future success of the Company and to retain quality employees critical to achieve this success. Payouts under the LTIP are made only after the consistent demonstration of achieving performance indicators over a period of time. The long term incentive is an excellent way to attract and retain competent employees for the benefit of customers and investors.

Relationship of Incentive Plan Funding to Budgets and Rate Requests

Q. Please explain the relationship between the level of funding for the incentive plans to the Company budgets and to the rate request.

A. The budgets, as well as the Company's rate request, assume that Company employees will achieve the performance targets set forth in next year's incentive plans. For example, if the Company achieves performance targets for reliability, safety, environmental excellence and cost efficiencies, and therefore pays out 100 percent of the incentive funding, costs and revenues are in balance and customers receive the benefits of the Company's achieving its targets. If one or more targets are not achieved, the payout of incentive compensation to officer and non-officer management employees is lowered or in the extreme, eliminated. In the case where payouts are less than 100% of the Award Fund, the Company would likely have incurred incremental costs at its own expense.

Q. Do investors benefit from these programs?

A. Yes. They generally benefit from these programs in the same manner as customers do. To the extent incentives result in the Company achieving higher levels of reliability, safety and efficiency, both customers and investors benefit. Efficiencies achieved by the Company would be captured for the full benefit of customers when rates are reset.

Q. Does this conclude your testimony?

A. Yes, it does.

Analytical Framework – Peer Group
The study used the peer group approved by the MD&C Committee in 2006

Company Name	Ticker Symbol	2006 Revenue ($M)	2006 Net Income ($M)	2006 Total Assets ($M)	Aug 07 Market Value ($M)	1yr Total Return August 2007	3yr Total Return August 2007
CONSTELLATION ENERGY GRP INC	CEG	$19,285	$950	$21,802	$14,970	41%	29%
DOMINION RESOURCES INC	D	16,482	1,396	49,269	24,804	10%	13%
FPL GROUP INC	FPL	15,710	1,281	35,991	23,938	36%	23%
EXELON CORP	EXC	15,655	1,592	44,319	47,644	19%	28%
DUKE ENERGY CORP	DUK	15,184	1,863	68,700	23,113	10%	17%
SOUTHERN CO	SO	14,356	1,607	42,858	26,846	8%	10%
AMERICAN ELECTRIC POWER	AEP	12,622	1,005	37,987	17,757	26%	15%
EDISON INTERNATIONAL	EIX	12,622	1,232	36,261	17,173	24%	28%
PG&E CORP	PCG	12,539	991	34,803	15,724	9%	18%
SEMPRA ENERGY	SRE	11,761	1,416	28,949	14,529	13%	18%
FIRSTENERGY CORP	FE	11,501	1,261	31,196	18,729	11%	19%
ENTERGY CORP	ETR	10,932	1,160	31,083	20,277	37%	23%
XCEL ENERGY INC	XEL	9,840	572	21,958	8,654	3%	10%
PROGRESS ENERGY INC	PGN	9,570	571	25,701	11,879	9%	7%
CENTERPOINT ENERGY INC	CNP	9,319	432	17,633	5,210	17%	18%
DTE ENERGY CO	DTE	9,022	433	23,785	8,159	20%	10%
PEPCO HOLDINGS INC	POM	8,363	250	14,244	5,395	14%	15%
NISOURCE INC	NI	7,490	283	18,157	5,165	-7%	1%
PPL CORP	PPL	6,899	879	19,747	18,488	42%	30%
AMEREN CORP	AEE	6,880	558	19,578	10,542	0%	8%
75th Percentile		$14,563	$1,310	$36,693	$20,986	24%	23%
Median		11,631	998	30,016	16,449	14%	18%
25th Percentile		9,245	568	21,288	10,070	9%	10%
CONSOLIDATED EDISON INC	ED	$12,137	$748	$26,699	$12,449	4%	8%

Exhibit ___ LT – 1

Market Assessment – Top 5 Executives Target TDC ($000)

Target TDC is positioned below market median levels, and competitive with the 25th percentile

Findings

- Overall, due to its relatively low levels of LTI, Con Edison is delivering target total direct compensation to its top five executives that is competitive with the 25th percentile of the peer group, and below the 25th percentile of the survey data
- Using the peer group for the 3 positions for which data was available, the Chairman & CEO is slightly below the median competitive range, while others fall significantly below
- Using the survey data, 4 of the 5 top positions are below the median competitive range

		Peer Group						Survey Data					
		25th		50th		75th		25th		50th		75th	
Position	Current Target TDC	Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio	Data	Ratio
Chairman of the Board & CEO	$5,565	$4,833	*115%*	$6,219	*89%*	$8,128	*68%*	$6,210	*90%*	$6,837	*81%*	$7,921	*70%*
President & COO	$1,688	$1,493	*113%*	$2,687	*63%*	$3,182	*53%*	$1,967	*86%*	$2,483	*68%*	$2,976	*57%*
SVP & CFO	$1,246	$1,506	*83%*	$1,867	*67%*	$2,552	*49%*	$1,488	*84%*	$1,730	*72%*	$1,988	*63%*
General Counsel - Law	$780	-	-	-	-	-	-	$984	*79%*	$1,164	*67%*	$1,372	*57%*
SVP - Public Affairs	$758	-	-	-	-	-	-	$618	*123%*	$665	*114%*	$867	*87%*
	Overall		***104%***		***73%***		***57%***		***92%***		***80%***		***67%***

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

Exhibit ___ LT – 2

Page 1 of 3

Market Assessment – Other Executives Target TDC ($000)

Target TDC is generally aligned with median, though we see significant variability by position

Position	Current Target TDC	Survey Data 25th Data	25th Ratio	50th Data	50th Ratio	75th Data	75th Ratio
SVP - Gas Operations	$749	$578	*130%*	$668	*112%*	$816	*92%*
SVP - Enterprise Shared Services	$739	$826	*89%*	$1,119	*66%*	$1,346	*55%*
SVP - Business Shared Services	$733	$826	*89%*	$1,119	*65%*	$1,346	*54%*
SVP - Central Operations	$661	$572	*115%*	$661	*100%*	$1,109	*60%*
SVP - Customer Operations	$652	$380	*172%*	$495	*132%*	$515	*127%*
SVP - Electric Operations	$595	$1,302	*46%*	$1,460	*41%*	$1,954	*30%*
VP - Regulatory Services	$586	$314	*186%*	$405	*145%*	$560	*105%*
VP - Legal Services	$527	$400	*132%*	$439	*120%*	$507	*104%*
VP - Substation Operations	$516	$365	*141%*	$415	*124%*	$525	*98%*
VP/Controller Corporate Accounting	$520	$481	*108%*	$550	*94%*	$631	*82%*
VP - Government Relations	$507	$380	*134%*	$531	*96%*	$752	*67%*
VP & General Auditor - Auditing	$488	$365	*133%*	$399	*122%*	$430	*114%*
VP - Environment, Health & Safety	$497	$299	*166%*	$354	*140%*	$382	*130%*
VP - Strategic Planning[1]	-	$443	-	$552	-	$574	-
VP - Construction	$473	$306	*154%*	$386	*123%*	$506	*93%*
VP - Treasurer/Treasury [1]	-	$459	-	$509	-	$571	-

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

Continued on Next Page

[1] Since position is vacant, no LTI grants are available to calculate TDC.

Exhibit ___ LT – 2

Market Assessment – Other Executives Target TDC ($000)

Target TDC is generally aligned with median, though we see significant variability by position *continued*

		Survey Data					
		25th		50th		75th	
Position	**Current Target TDC**	**Data**	**Ratio**	**Data**	**Ratio**	**Data**	**Ratio**
VP - Human Resources	$446	$562	*79%*	$612	*73%*	$703	*63%*
VP - Purchasing	$449	$233	*193%*	$295	*152%*	$382	*118%*
VP - Central Engineering	$436	$321	*136%*	$399	*109%*	$523	*83%*
VP - Information Resources	$442	$507	*87%*	$574	*77%*	$654	*68%*
Sec. and Associate General Counsel	$439	$400	*110%*	$439	*100%*	$507	*87%*
VP - Engineering & Planning	$458	$366	*125%*	$455	*101%*	$597	*77%*
VP - Energy Management	$416	$345	*120%*	$456	*91%*	$573	*73%*
VP - Manhattan	$447	$516	*87%*	$608	*74%*	$616	*73%*
VP - Tax [1]	-	$384	-	$459	-	$535	-
VP - Gas Engineering	$396	$272	*145%*	$296	*134%*	$371	*107%*
VP - Facilities	$404	$196	*206%*	$236	*171%*	$251	*161%*
VP - System & Transmission Operations	$406	$365	*111%*	$415	*98%*	$525	*77%*
VP - Brooklyn/Queens	$357	$516	*69%*	$608	*59%*	$616	*58%*
VP - Staten Island & Electric Services	$376	$490	*77%*	$590	*64%*	$663	*57%*
VP - Gas Operations	$375	$361	*104%*	$426	*88%*	$542	*69%*
VP - Central Field Services	$384	$233	*165%*	$295	*130%*	$382	*101%*
VP - Steam Operations [1]	-	$353	-	$479	-	$684	-
VP - Bronx/Westchester [1]	-	$516	-	$608	-	$616	-
	Overall		***125%***		***103%***		***86%***

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

[1] New incumbent: received below typical or no award for 2007 LTI.

Exhibit ___ LT – 2

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