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I. EXECUTIVE MANAGEMENT AND CORPORATE GOVERNANCE

The Request For Proposals (RFP) requires a review of the Board of Directors that is to comment on the absence of conflict of interest and the fulfillment of corporate goals and objectives. This chapter provides an overview of the Board and then responds to each of the nine specific tasks of the RFP.

I.A OVERVIEW

Rockland Electric Company (RECO) is a financial and legal entity that has no employees. It has no independent Board of Directors. However, just as its workers come from Orange and Rockland Utilities (ORU), it is represented by the Board of Directors of ORU. The ORU Board is a secondary board. This means that the holding company, Consolidated Edison Incorporated (CEI), has a Board of Directors. The wholly owned subsidiary Consolidated Edison of New York (CECONY) has a Board of Directors. Then, ORU, which is a wholly owned subsidiary of CEI, has a Board of Directors.

The composition of the ORU Board is of three persons. Two are inside directors and one is selected from the outside community to act as an independent director. The inside directors are the ORU Chief Executive Officer and President (CEO) and the executive Chairman of CEI. The independent director is a professional banker who chairs a regional bank and is familiar with regulatory matters, community standards, financial operations, strategic planning and external relations.

As a secondary board, no committees exist. All board committee functions reflect the policy of CEI's board committees.

The following presentation follows the RFP. Nine specific areas of review are noted followed by a statement of findings. A discussion of the finding or conclusion is then presented. If necessary, any recommended action for improvement is then provided.

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I.B SELECTION OF DIRECTORS

The RFP requests an evaluation of the selection of directors.

I.B.1 The Current Composition Of The ORU Board Is Reflective Of An Advocate For RECO and ORU.

The current three-member board of ORU reflects a skill set that can represent ORU and RECO. This is apparent by examination of each directors précis resume.

- The chair of the ORU Board is Chairman of the Board of Consolidated Edison, Inc. (CEI) and of the subsidiary Consolidated Edison Company of New York (CECONY). These positions have been held since February 2006. Six months prior, he was named the CEO of CEI and of CECONY. Previously he had been the President and Chief Operating Officer (COO) of CECONY for five years.

The chair is well versed in the responsibilities of board membership and the advisory leadership requirements. He has been a director of ORU since 2005. Other memberships, as either a trustee or director include Honeywell International, Inc., American Gas Association, Business Council of New York State, Edison Electrical Institute, Institute for Electric Efficiency, Mayor's Fund to Advance New York City, New York Botanical Garden, New York State Energy Research and Development Authority, Partnership of New York City and YMCA of Greater New York, Inc.

- The President and CEO of ORU is technically the sole member of the RECO Board but is a full participating director of the ORU Board. He is new to this position as of February 2009. His background was Senior Vice President (SVP) of Central Operations at CECONY for approximately two years prior to his CEO position. Prior to his SVP role, he was Vice President of System and Transmission Operations for a period of almost

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five years. For a period of approximately twenty months, he was Vice President of Electric and Gas Operations at ORU.

This director is also well versed in outside boards especially in organization impacting ORU's footprint. He is Vice Chair of the Board of NPCC and is a Board member of the Jawanio Board and its Finance Committee. He serves on the Boards of the New Jersey Utilities Association, the Rockland Economic Development Corporation, and the Energy Association of Pennsylvania. He is a member of the Advisory Board of Rutgers Center for Energy, Economics & Environmental Policy. Locally, he is a member of the Management Council of the Hudson Valley Economic Development Council.

- The outside independent director has served as President and Chief Executive Officer of Provident Bank since 1986. This bank has \$2.8 billion in assets and is headquartered in Montebello, NY. He is well placed to interpret community sentiment and expectations. During an interview, this director emphasized his due diligence prior to accepting Board membership. He wished to investigate the expected role he would play on a Board with no subcommittees.

This director serves on the Boards of the Federal Home Loan Bank of New York, the New York Bankers Association, and the New York Business Development Corporation. He is a member of the American Bankers Association Government Affairs Committee.

I.B.2 ORU's Director Selection Is Informal But Seeks Community Knowledge In Nominees.

The current directors serve as by tradition. The Chairman of the Parent Corporation, CEI, serves to learn first hand of ORU issues. The President and CEO of ORU serves to advocate ORU and RECO. The outside director was invited due to his community experience and business acumen.

I.C SEPARATION OF THE CHAIRMAN AND CHIEF EXECUTIVE

The RFP asks for an examination of the degree of separation between the Chairman and CEO titles.

I.C.1 There Is A Clear Separation Of The Chairman And CEO Titles.

The predecessor to the current President and CEO of ORU was one of the CEI's top five SEC executives by compensation. This indicates the worth of the position of CEO and is very high. The incumbent CEO is an operations executive and held senior executive positions with CECONY. Consequently, the separation of the Chairman and CEO positions is clear to the observer historically and currently.

I.D EXECUTIVE COMPENSATION

The RFP asks for a review of executive compensation including a comparison with other utilities.

I.D.1 CEI Discloses Its Executive Compensation Program By Publishing Its Compensation Discussion And Analysis Report (CD&A).

Two public Security Exchange Commission reports contain the CD&A report, Form 10-K Annual Report and Form 14A Proxy Statement. The CD&A covers six important areas of analysis:

- Overview of philosophy and objectives of the compensation program;
- Role of the Management Development and Compensation Committee (MDCC) of CEI's Board;
- Specific MDCC actions;
- Retirement and associated benefits;

- Guidelines on stock ownership; and
- Tax implications.

I.D.2 Compensation Levels Are Compared To A Panel Of Utilities For The Top Five Executive Officers.

The CD&A committee retains Mercer Consulting, an American compensation consultant, with international practices, to examine executive compensation issues. One major analysis is to compare CEI top five executive compensation to that of the 20 peer companies. The compensation levels are grouped and reported in percentile groupings. ORU's CEO's previous incumbent was one of the CEI's top five compensated executives. The current CEO is covered by the CEI executive compensation program.

ORU's other top executives are its Vice President of Operations and the Vice President of Customer Service. The Towers Perrin Energy Services Industry Executive Database is used as the comparative panel measurement. This data is presented in quartile format in two divisions. The first is of 17 utilities with revenues of less than \$1 billion. The second is of 29 participants with revenue between \$1 billion and \$3 billion.

I.D.3 Compensation Philosophy Is Designed To Attract And Retain Key Executives.

The MDCC has established a philosophy that compensation should be divided into two components for its executive group. The first is competitive positioning for base pay. That is defined as the median of the peer group top five executives. The twenty utilities in the peer group for the year 2007 ranked from one half CEI's revenues to one and one half CEI's revenues.

Overall, CEI's revenues closely tracked the 75th percentile of the peer group.

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The second component is a pay for performance program. This program has both short term and longer term aspects. Awards under the annual incentive plan are based on achieving financial and operational objectives that favor the Company's businesses. The longer-term program is over a three-year period dependent on metrics relative to total shareholder return and the payout of the incentive plan. The longer-term metrics are compared to the compensation peer group over the three-year period.

I.D.4 Executive Compensation Is Heavily Weighted Toward CEI's Performance And The Contribution Of Each Subsidiary.

For 2008 and 2006 (long term program payable in 2008), the process demonstrates ORU's overall performance in the CEO's compensation. The process followed was to take the base salary and multiply it by a target percentage which varies according to position. In 2008, the CEO of CEI had a target percentage of 100% reflecting that this position had ultimate responsibility for company performance. The CEO of each of the utilities had target rates of 80%. Finally, this multiple was adjusted by "weighting earned" which is the sum of weightings earned for the financial and operating objectives. Besting an objective reflects an adjustment up to 120% of the weighting.

ORU's financial metrics for 2008 were based on CEI adjusted regulated net income with ORU net income considered [CEO of ORU received full 50% weighting while other top executives received 37.5% weighting]. Other financial metrics were performance against operating budgets where CECONY was 3% under and ORU was 0.5% under [CEO of ORU received 20% of the full target while CECONY's CEO received 21.6% of target]. Operating metrics cover employee safety, system performance, customer service, environmental performance and employee development. The target for ORU's CEO was 30% and 33% was earned. The 2008 compensation package for ORU's CEO was \$722,500.00 base salary and \$595,300.00 in short term incentive award.

I.D.5 The Long Term Incentive Compensation Is A Non-Discretionary Formula Plan.

The payout is restrictive stock awards. They provide the right to receive one share of CEI for each stock unit granted. The award of common stock or its cash equivalent can be deferred to CEI's supplemental savings plan. No dividends are paid until the stock units are vested.

The calculation is in two separate equations. The first is based on the incentive plan percentage average payout over a three-year period. The second is based on shareholder return percentage. This is a sliding scale based on the peer compensation groups' calculated shareholder return. The weighting ranges from zero if CEI's ratio is at the 25th percentile to 150% if CEI's ratio is at, or above, the 75th percentile.

In 2008, the 2006 payouts were awarded. The CEO of ORU received a payout of 4,453 units. This was the second highest award of the top five executives.

I.E. MANAGEMENT INDEPENDENCE

The RFP requests and assessment of RECO/ORU senior management independence

I.E.1 Recognition of ORU/RECO As Non-Urban Utilities Is Reflected In CEI Oversight.

As is discussed in the phase I report, under separate cover, the costs of shared services are reasonable and the joint operating agreement has received continued BPU acceptance. The top three executives of ORU include the CEO, who has prior experience at ORU, the executive in charge of customer service, who has an independent customer service center, and the executive who heads operations. The fact that the operations executive is a long-term ORU employee provides first hand knowledge of the systems

primarily overhead system. These three top executives run the day-to-day operations of the utilities.

CEI distances itself from such daily activity. As noted, shared services such as purchasing, accounting and treasury are centralized activities. Managers performing these functions may be covered by cost allocation rules.

I.F OUTSIDE FINANCIAL AUDITORS

The RFP requests an assessment of the [outside financial] auditors.

I.F.1 Outside Financial Auditors Are Nominated By The Audit Committee And Elected By A Stockholder Vote On An Annual Basis.

The Audit Committee follows accepted rules for the selection and retention of financial auditors. Its charter provides for a review of the financial auditor at least once every five years. Rotation of the financial auditors is not mandatory should the Audit Committee find that the auditor continues to pass third party inquiries or investigations by professional or governmental activities. As these queries show appropriate quality control and independence, then with stockholder ratification, the incumbent financial auditors can continue.

I.F.2 In 2007 And 2008, Audit Fees And Audit Related Fees Reflect Compliance With Rules To Protect Independence.

It is understood that if an outside auditor provides non-audit services, extreme levels of independence are incumbent of both the auditor and the utility. The monies paid reflect an almost complete absence of non-audit related services.

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Outside Auditor Fees

	2008	2007
Audit Fees	\$4,146,100	\$4,377,110
Audit-Related Fees	1,157,670	863,080
Tax Fees	--	--
All Other Fees	--	16,000
TOTAL FEES	\$5,303,770	\$5,256,190

Audit-related fees include quarterly reviews of financial statements, such as sales of assets, energy trading, and in 2007, an audit of pension and benefit plans. In 2008, another firm was hired to specifically audit pensions and benefits. All other fees include software licensing and seminar fees.

I.G COMMITTEE STRUCTURE

The RFP requested an evaluation of the appropriate committee structures.

I.G.1 ORU/RECO's Board Of Directors Has No Committees.

ORU/RECO's Board has been discussed above. The three directors are well qualified in their skill sets. However, they are not committee members, since as a secondary board, committees do not exist. ORU/RECO are integrated into the CEI corporate system.

I.G.2 CEI's Standing Committees Reflect New York Stock Exchange (NYSE) Corporate Governance Guidelines.

The Audit Committee is composed of four independent directors. It meets with utility officers, internal auditors and external auditors. It discusses financial reports, press releases, audit results, risk and the management of risk. All directors are independent under rule 10A-3 of the Securities and Exchange Act of 1934. This is in

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complete compliance with NYSE guidelines. It provides an annual report to the Board and approves audit programs.

The Corporate Governance and Nominating Committee has four independent directors. Its charter provides for a review of each director's performance prior to re-nomination as well as initial nominees. It retains a professional search firm to assist in identifying director candidates. The Committee assists in Board decisions on governance and director compensation.

The Environment, Health and Safety Committee is composed of four non-management directors and, although not covered by NYSE Guidelines, is a critical committee for a utility. This is a committee concerned with both external and internal issues.

The Finance Committee is composed of four non-management directors. It is charged with making recommendations to the Board concerning financial management and transactions.

The Management Development and Compensation Committee has four independent directors. No interlocking board memberships are known to exist. Its charter empowers it to advise on executive compensation as detailed above at §I.D EXECUTIVE COMPENSATION.

The Executive Committee is the only committee with an inside director. Three non-management directors complete the membership. This committee may be thought of as an emergency committee. It is called to act for the Board between Board meetings. In 2008 no meetings were held.

The Operations Oversight Committee is composed of five non-management directors. It oversees CEI's efforts relating to electric, gas, and steam operations.

The Planning Committee has a membership of five non-management directors. Its concern is long term planning.

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I.H COMPLIANCE WITH NYSE

The RFP requests a determination of CEI/ORU/RECO compliance with NYSE requirements and the Sarbanes-Oxley Act.

I.H.1 CEI Is In Compliance With NYSE Corporate Governance Guidelines.

As noted in part I.G, above, three committees that are part of NYSE Guidelines comply with the associated rules. The committees are: Nominating, Audit, and Compensation. All three have charters and demonstrate non-management and independent directors.

The Board's composition has only the Executive Chairman as a director with limited committee membership. Most of the directors clearly meet NYSE guidelines on the definition of independent director. As noted, no interlocks are reported by CEI.

Sarbanes-Oxley (SOX) compliance is a prescribed. Each year hundreds of accounting and financial control points are reviewed. A report is produced by internal audit, received by the Audit Committee, and reviewed with utility personnel. The report is then reviewed by the outside financial auditor. CEI was found to be essentially in compliance.

I.I COMPLIANCE WITH FERC

The RFP requests an assessment of Federal Energy Regulatory Commission (FERC) rules.

I.I.1 Only One Instance Of Non-Compliance Was Initially Determined But Covered After Field Work Was Completed.

The Chief Financial Officer (CFO) of CEI holds this position in all utility subsidiaries. FERC requires application for an Approval of

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Interlocking Positions. The application is required of an officer or a director of a utility, subject to FERC jurisdiction, who holds a concurrent position as an officer or director of another utility.

During the review process, ORU provided the appropriately completed and filed FERC form 561 covering interlocking positions.

1.1.2 ORU Is In Compliance With FERC Accounting Requirements "Transaction With Associated Companies"

In our review for Phase I of this assignment, it was determined that ORU kept its records in such a manner that showed affiliated transactions if and when they occurred in accordance with Part 101 of the Unified System of Accounts.

1.1.3 ORU Is A Listed Member In Good Standing Of The North American Electric Reliability Corporation (NERC)

ORU is listed as a member in the transmission category of NERC. The NERC promotes standards for reliability of the supply infrastructure. No issues of non-compliance were noted.

1.1.4 FERC Training Was Performed In The Form Of A Summary Of Changes Memo And Reissue Of "FERC Standards of Conduct Compliance" Policy Statement

On February 12, 2009, a memorandum was issued to the Board of Trustees with a copy of a revised Corporate Policy Statement dated January 27, 2009. An additional exhibit provided the Standards of Conduct. The Standards reflect much of the EDECA rules. In our Phase I report, PMC finds ORU/RECO in compliance with New Jersey's standards.

I.J LEGAL ISSUES

The RFP asks for evaluation of lawsuits brought before the Board of Directors.

I.J.1 No Provision Has Been Made For Loss From Environmental Liabilities Associated With Superfund Sites

RECO's letter to their financial accountants dated April 17, 2009, states that it is not probable that a liability has been incurred for environmental remediations. However, the company has a potential \$338,000.00 liability from the Borne Chemical Superfund Site.

I.J.2 An Investigation Of Contractor Payments Is Being Conducted Internally By A Retained Law Firm And Accounting Firm. Additionally, The New York Public Service Commission (NYPSC) Has Engaged A Consulting Firm To Perform A Forensic Audit Of A Certain Construction Vendor

The US Attorney General (USAG) arrested several inspectors and managers based on recorded evidence of misdealings with a particular construction company. The USAG has jurisdiction due to the potential misuse of government monies supplied for reconstruction of southern Manhattan after September 11, 2001. Ten employees and one retiree were arrested in January 2009 for accepting kickbacks on construction contracts for the Utility. The NYPSC's forensic audit is limited to one contractor and the arrested employees and retiree, initially. A second phase is planned to cover all construction contracts going back to 2001. It is not known if ORU/RECO would be covered in the second phase.

II. ORGANIZATION STRUCTURE

The RFP requires an evaluation of the policies and procedures that define the need, necessity, legal entitlement and the nature of the relationship among affiliates.

II.A OVERVIEW

RECO is described in the previous chapter and its affiliate relationships are discussed in the EDECA Report provided under separate cover dated November 2, 2009. The reader is reminded that the EDECA Report covers a number of the elements required by the RFP. PMC presents required elements in the order they appear in the RFP.

II.B RESOURCE ALLOCATIONS

The RFP requires an assessment of the resources among regulated and non-regulated affiliates.

II.B.1 The Accounting And Allocation Procedures For Separating The Costs Of Intercompany Transaction Of RECO From Its Affiliate Are Reasonable And Consistently Applied Since The Inception Of The Joint Operating Agreement (JOA)

The assignment and allocation of all costs to RECO is governed by the JOA. This document acknowledges that RECO has no assets to perform construction and maintenance work, this includes equipment and manpower. ORU provides all operations, construction and maintenance activity to RECO. The supply of energy is governed by a separate agreement.

II.B.2 The Capital Budget Process Provides For Resources To Maintain And Expand The System

The capital budget process is pushed by evaluation of improvements to reliability, safety, and efficiency of the electric system. The approval process includes the Vice President of Operations, Director-Financial Services, and the President and CEO. Finally, the ORU Board reviews and approves the planned capital budget. This provides direct access to the Chairman of the Board.

II.C COMPLIANCE

The RFP asks for an evaluation of policies and procedures and compliance with legal, regulatory, and contractual requirements.

II.C.1 Affiliate Charges And Cost Allocations Are In Compliance With Applicable Requirements

PMC reviewed affiliate charges and cost allocation methodologies. No instances of non-compliance with the JOA were noted. Each calculation and algorithm reflected the corresponding Article in the JOA. The JOA is subject to regulatory oversight and has been continually accepted by the BPU. As demonstrated during the PMC EDECA audit for 2009, the standards for operations in the utility are complied with and incorporated into the general accounting procedures.

II.D CONTRACTS WITH AFFILIATES

The RFP requests a review of affiliated interest contracts.

II.D.1 Bidding Procedures Are At Arms-Length.

All bidding is competitive. Pricing policies between affiliate interests are governed by the Separation Standards of the EDECA. PMC's 2009 audit of EDECA found no examples of non-compliance with the Separation Standards. A review of accounting procedures found inclusion of the EDECA standards. Further, PMC's review of intercompany charges showed no departure from the standards.

II.D.2 Cross-Subsidization Is Not A Material Concern

No employees who share responsibilities maintain time sheets splitting time between, or among, affiliates. The JOA specifies allocations for all costs. The result is a ratable sharing of costs precluding the possibility of cross-subsidization.

II.D.3 The Allocation Of Joint/Common Costs To RECO, ORU, And CEI Are Accurate And Consistently Maintained

The allocation of costs among entities was reviewed on a monthly basis for 2008. Tested were calculations of revenue and customer ratios used to allocate costs as per the JOA. For the year 2008, RECO was charged administrative costs of \$5.68 million which reflected 22.88% of the total of \$24.82 million. PMC's recalculation of the allocation ratio was 22.89%

II.E INTERNAL CONTROLS

The RFP requires an assessment of internal controls.

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II.E.1 The Outside Auditor Has Issued A Report Providing Assurance Of CEI's And ORU's Internal Control System Is Reasonable

Sarbanes-Oxley (SOX) reporting is a thorough system of reviewing control points in a company's financial reporting. Conducted annually, SOX audits are performed by Internal Auditing and reviewed by the Company's outside financial auditor. The SOX auditor provides an assessment of the financial controls. The financial auditor then evaluates that report and presents its findings to the Board of Directors.

PMC reviewed the SOX report for June 2009. No exceptions were noted for ORU/RECO.

III. HUMAN RESOURCES

The Contractor shall review RECO's human resources policies and procedures to determine the effectiveness of their workforces. To do this, the RFP provides for seven areas of review. Each is listed below followed by findings in each category.

III.A BACKGROUND

RECO, the legal entity that is regulated by the NJBPU, has no employees of its own. RECO's direct parent, O&R, has been owned by CEI since July 1999. CEI owns the much larger utility subsidiary, Consolidated Edison Company of New York ("CECONY"). O&R provides most of the resources that relate directly to utility functions in the RECO service territory. CECONY also contributes significantly in supporting those activities through a number of staff services it provides to O&R, among them Enterprise Shared Services. Included in Enterprise Shared Services is the Human Resources function consisting of talent and management development, support service, and compensation and benefits.

Orange and Rockland (O&R) employees fall into one of three categories that define their respective conditions of employment, administer the benefits that accompany their compensation and reward their contributions to the performance of the Utility. O&R employees are compensated in accordance with either the bargaining unit agreement that applies to their job classification or the Management Compensation Program as defined in the Corporate Policy Guide. The Management Development and Compensation Committee of the Board of Directors establishes, reviews and administers the executive compensation program for senior management.

III.B COMPENSATION AND BENEFITS

The RFP requires a review of salary, wage, and compensation and benefits packages.

III.B.1 The Bargaining Unit Contract Has Flexibility

The job classifications covered by the bargaining unit agreement between O&R and Local Union #503 of the International Brotherhood of Electrical Workers (IBEW) are compensated on an hourly basis. Annual increases are defined in the bargaining unit agreement, which was effective June 1, 2004 and covered wages, benefits and conditions of employment through May 31, 2009. A new five-year agreement retroactive to June 1, 2009 was negotiated and ratified effective June 5, 2009. The hourly rate of each job classification will increase 1.5% annually effective June 1st of 2009 and 2010, 2.0% in 2011 and 2.5% in 2012. Semi-annual increases of 0.50% effective January 1st will also be awarded beginning in 2011. In addition to the general wage increases defined above, wage increases for select job classifications were established in response to increased responsibilities and to provide more flexibility.

Several new job classifications have been created with the new contract, and the shift premiums will double. These wage adjustments appear conservative in comparison to the federally determined annual cost-of-living adjustment (COLA) of 5.8% effective January 2009, which was based on the twelve months ending the third quarter of 2008 and is intended to pace inflation. This COLA is applied to social security and supplemental security income (SSI) benefits. By early 2009, however, several online financial sources anticipate deflation – an annual fall in prices – by an average of 2.4%. Also of interest is the comparison with the 2009 merit increase budget of 3.0% for the non-bargaining unit management employees.

***III.B.2 The Bargaining Unit Is Well Treated In Company
Contributions To the Medical Plan***

In addition to cash compensation, the employees covered by the bargaining unit agreement are provided the same annual holidays, vacation and leaves of absence, pension and full benefits package as non-bargaining unit employees, except for the contributory costs related to coverage under the Company provided medical plan. The employee contribution for bargaining unit employees is a lesser percentage of the premium than for management employees.

***III.B.3 Management Is Compensated Under The Annual Team
Incentive Plan (ATIP)***

All non-bargaining unit employees are classified as management employees. Their compensation is administered in compliance with the Management Compensation Program. The Management Compensation Program places increased emphasis on performance incentives and less emphasis on base pay increases. The Program includes a Team Based Reward System that is comprised of base pay and variable pay under the Annual Team Incentive Plan (ATIP).

All bargaining unit positions have written Job Specifications. All management positions have written Position Descriptions. These written position descriptions are reviewed and updated as content changes or when a vacancy occurs. Management positions are assigned a base pay salary band. With the exception of the entry-level professional (EP) band, all salary bands have two salary ranges, low and high. Each salary range is expressed in minimum, midpoint and maximum annual dollars. The minimum annual amount is approximately 70.0% of the midpoint, and the maximum 130.0% of midpoint, rounded to the nearest even hundred dollars. Within each salary band the low range is approximately 88.0% of the high range. All management positions within O&R are assigned to one of these salary bands. The incumbent's salary is then determined annually, based on performance and increasing experience, within the appropriate salary range. It is the policy of

O&R to base the annual base pay for most management employees within the Company (O&R) on the 50th percentile of external measures, comprised primarily of competitive market data in the general industry. Positions that are unique to the utility industry are evaluated using utility market data and surveys. Where external industry data is not available, internal comparisons to similar positions are applied, and the band assigned is between the next lowest and highest positions within O&R. Annually, or as significant changes in the general market occur, the compensation function compares salary practices using regional and national compensation surveys.

III.B.4 Comparative Compensation Surveys Are Of Broad Use

To determine the base salary structure increase and the merit budget increase for 2008, compensation surveys from seven consulting firms were used to determine general industry practices. In addition, an internal survey of sixteen utility companies was conducted. The consulting firm surveys projected a 3.8% average merit increase while the utility company survey projected an average merit increase of 3.7%. Based on the composite results, the recommendation from CECONY was a 3.7% merit budget. However, O&R adopted a 3.6% salary budget for 2008. Likewise, the consulting firm surveys projected a base salary structure increase of 2.7% while the internal utility survey projected a 2.6% average increase for 2008. CECONY recommended that the base salary structure for secretarial, professional, attorneys, physicians and bands 1-4 be increased by 2.6%, pacing competitive general industry and utility practices. O&R adopted the CECONY recommendation.

To determine the base salary structure increase and the merit budget increase for 2009, compensation surveys from six consulting firms were used to determine general industry practices. In addition, an internal survey of thirteen utility companies was conducted. The consulting firms' projections for 2009 had not been updated. The utility company survey projected a 3.0% average merit increase. The recommendation from CECONY was a 3.0%

merit budget. Likewise, the consulting firm surveys projected a base salary structure increase of 2.8% while the internal utility survey projected a 2.3% average increase for 2008. CECONY recommended that the base salary structure for secretarial, professional, attorneys, physicians and bands 1-4 be increased by 2.5%, in line with competitive utility industry practices and in recognition of the current economic environment. O&R adopted and communicated a 3.0% merit increase budget and a 2.5% increase in the management salary structure. Although the use of named salary surveys was included in the data request response, no actual survey data supporting salary band ranges was submitted.

Based on the actual performance results in 2008 for O&R, the ATIP award was 115% of the target fund. In order to qualify for an ATIP award, each eligible management employee must have had a satisfactory performance review. Restricted stock is also awarded under the long-term incentive plan. Beginning in 2009, the annual recommendations for merit increases, ATIP awards and stock awards for the year just ended are entered online during the month of February using the Authoria system.

III.B.5 Health Care Is Based On Actual Costs Plus Administrative Fees

Employee benefits whose cost is a function of the individual's compensation are dictated by policy applicable to the class of employee. These benefits would include such practices as annual vacations, leaves of absence, holidays, sick and personal days. The cost of providing healthcare to an employee group is the actual cost of claims plus an administrative fee to an outside agency that processes claims for medical treatment. Annually, prior year and current year projected healthcare costs for medical, prescription, vision and dental coverage are reviewed. Changes to costs share and plan design for management employees are recommended. Changes to cost share and plan design for bargaining unit employees are negotiated as part of the collective bargaining process and are set for the duration of the current contract.

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Coverage under the employer provided healthcare plan requires an employee contribution. The employee contribution is based upon the number of family members to be covered under the plan and the employee classification, and is expressed as a percentage of the employer premium. In 2006 and 2007 management employees were assessed 20% of the applicable premium for single, married or family coverage. In 2008 the employee contribution was increased to 21%, and in 2009 to 22% of premium. Bargaining unit employees contributed 16% of the premium cost in 2006, 17% in 2007, 18% in 2008 and 19% in 2009. In addition to a monthly assessment for coverage, the management employees were subject to increased co-pays and deductibles during the same four-year period. The medical plan co-pay was increased from \$18 to \$22 per treatment visit. Individual annual deductibles increased from \$350 to \$475 and annual family coverage deductibles increased from \$1,050 to \$1,425 over the same four-year period. The dental network plan deductible for management employees also increased from \$50 in 2006 to \$75 in 2007 and 2008, and \$100 in 2009. The non-network plan deductible also had increased deductibles applied. As part of the 2004-2009 Local 503 Contract, the medical plan design in effect in 2004 remained the same throughout the term of the contract in exchange for an annual increase in employee contributions tied to the plan costs, as defined above. In the 2009-2013 Local 503 Contract the 19% employee contribution for bargaining unit employees' healthcare was frozen until January 1, 2011. Contributions will gradually increase to 21% in 2011 and 22% in 2012 and 2013. Bargaining unit employees' healthcare contributions are made on a weekly basis and are subject to maximum dollar amounts to avoid monetary penalties that could result from assigned overtime and/or shift premiums.

Periodically vendors are reviewed that provide welfare benefits to Orange & Rockland employees. During 2007 a request for proposal to provide basic life insurance and accidental death and dismemberment (AD&D) coverage was distributed, and four providers responded. As a result O&R changed the carrier for their basic life insurance and AD&D coverage from Hartford to MetLife. Changing carriers provided consolidation for coverage to include Consolidated Edison of New York and Orange & Rockland

employees, and resulted in both funding options and lower premiums.

III.C EXECUTIVE COMPENSATION

The RFP asks the consultant to determine and detail the reasonableness of RECO's as well as O&R and CEI's and its affiliates executive compensation packages.

III.C.1 Executive Compensation Is Competitive

In 2007 an analysis was performed to determine if the three elements of total direct compensation (base pay, annual bonus and long term incentives) for O&R vice presidents was reasonable when compared with other comparable energy services companies. The 2006 Towers Perrin Energy Services Executive Compensation Database was utilized for this analysis. The data included twenty-two energy companies under \$1 billion in revenues and thirty-one energy companies with \$1 to \$3 billion in annual revenues. The data was compared to three O&R executive positions.

The total direct 2006 compensation for Vice President Facilities at O&R was 85% and the incumbent's base salary was 94% of the competitive data. In 2007 his base salary was increased 3.26% to 97% of the competitive data. The O&R Vice President Operations' total direct compensation in 2006 was 90.5% and the base salary 87.8% compared to the competitive data. The incumbent's base salary was increased 5.32% in 2007 to 92.5% of the competitive data. The O&R Vice President Customer Service's total direct compensation was 114.4% and the base salary 102.8% compared to the competitive data. The incumbent's base salary was increased 4.15% in 2007.

In 2008 the same analysis was performed to determine if the total direct compensation for O&R vice presidents were reasonable when compared with other comparable energy services companies. The 2007 Towers Perrin survey of seventeen utilities with revenues

under \$1 billion and twenty-nine utilities in the \$1-\$3 billion revenue category was compared to O&R's Vice President Operations and Vice President Customer Services. The O&R Operations incumbent received total compensation that was approximately 110% of the comparable survey data, but the base salary was 95.3%. The O&R Customer Services incumbent's total compensation was nearly identical to the survey data with the base salary at 99.7%. The survey data was a year old. The recommended base salary increases effective July 1, 2008 were 3.8% to 98.9% and 4.5% to 104.2% of the 2007 competitive data respectively. As in the previous discussions, the O&R management employee and executive pay practices as directed by CECONY are strongly influenced by industry practices. Also of note is the Orange & Rockland policy stated in the Management Compensation Program that "The annual base pay for most employees within the Company will be based on the 50th percentile of external measures, comprised primarily of competitive market data in the general industry."

III.C.2 The Allocation Of Executive Compensation Is Reasonable To RECO

As stated earlier, RECO, a New Jersey Corporation, has no facilities or organization to conduct the electrical work required to provide its customer base with electric service. Since 1976 RECO has had an agreement with O&R to conduct all operations and make all ordinary additions, extensions and repairs to RECO's electric system incident to furnishing the service requirements of RECO's customers, including transmission, distribution, new business, commercial and general and administrative operations. Such services shall constitute all the work normally performed by an operating utility except the supply of electric energy. This agreement includes the staff that reads the meters, prepares, distributes and collects the monthly bills and otherwise services RECO customers. Charges from O&R to RECO are made on a direct basis when they can be isolated as pertaining solely and wholly to RECO. When this is not possible, as in the case of O&R staffing and administrative costs, revenue or customer ratios are

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used to determine the fair portion of the whole that is the responsibility of RECO. Specific Revenue and Customer Ratios are developed for each activity on the basis of the revenue and customers involved. The Customer Ratio also determines the portion of general materials and supplies inventory that is owned by RECO.

III.D PERSONNEL DEVELOPMENT

The RFP desires an assessment of the effectiveness of RECO's development, training and evaluation techniques.

III.D.1 The Development Program Is Well Constructed

In addition to the on-job training (OJT) that a new hire is subject to, such as the 13-16 weeks required in Customer Service, O&R provides career and leadership development. The Human Resources Department of CECONY's Shared Services, is available to offer guidance and counseling to employees in any area, including but not limited to career development, skills training, enrolling in the Education Assistance Program or in authorized external training and development programs.. The Senior Specialist, Management Development under Talent Management is responsible for the effective development, coordination and presentation of training and development programs, career development activities and corporate succession planning for all O&R employees. The incumbent facilitates planning to ensure a diverse pool of upwardly mobile candidates and develops, communicates and maintains programs aimed at retention of key employees. The incumbent has a master's degree in Human Resource Management with an undergraduate degree in vocational training, and provides training sessions related to leadership development, succession planning and on-job people skills. Approximately half of the time the incumbent conducts training sessions at various O&R work sites, and half of the time the authorized student-employees attend at the Con Edison Learning Center.

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The student/employees are most often in salary bands 1 and 2, so much of the training involves upward mobility, lateral mobility and those with performance problems. The respective managers select employees who will attend these training sessions. Internal training programs are offered periodically to management and bargaining unit employees. Retirement planning and financial planning seminars are held each year for employees and their spouses or guests. Human Resources coordinate these programs with managers and supervisors, and the Learning Center. Too extensive to detail here, but very comprehensive, annually multiple courses during every month of the year were offered in Personal Development, Coaching, Running the Business and Strategic Thinking. Leadership Development included such topics as ethics and standards of business conduct, EEO awareness, sexual harassment and many basic skills such as accurate time reporting and data entry. Suffice it to say that a great deal of time and resources are dedicated within O&R to employee development and satisfaction. There is also mention of an Educational Assistance Program but no further details were available in the accessible O&R Corporate Policy Guide or the Training and Development Policy. It was discussed briefing with the Senior Specialist, Management Development as consisting of attendance at a local educational institution, requiring management approval prior to enrollment and tuition reimbursement based on successful completion.

III.D.2 Succession Planning Is Well Designed

Succession Planning is a formalized process applicable to salary band 3 and 4 employees. The objective is to develop qualified candidates within the Company. The recommendations must meet one or several objectives: to build greater diversity among band 3 and 4 employees, to enhance flexibility, to further the development of a specific candidate and to promote cross-functional experiences. First-line supervisory positions and selected positions in salary bands through 3H and higher are posted internally for five days. Positions that are nominated for inclusion in the career development process by an Officer require senior officers'

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approvals, including Human Resources and EEO, and are exempt from the posting process. These opportunities are selected when a strong team surrounds the vacancy and/or the vacancy presents a diversity opportunity. Where more than one eligible employee presents strong potential, interviews are conducted. The best incumbent is selected to progress, and feedback is given to any incumbent that is not selected. Band 4 selection can come from the band 3 plan or from outside the plan. Participants in the band 4 plan can also be “swapped” among functions, with the same senior officer’s approvals, to facilitate cross-functional knowledge and development.

III.E LABOR RELATIONS

The RFP requires a review the current labor relations status and methodology.

III.E.1 Labor Relations Has A Visible Position In The Company

Under the general supervision of the Director of Human Resources, the Director Labor Relations is on the staff of the President and CEO of Orange and Rockland. The incumbent is responsible for leading the collective bargaining negotiating team, and the administration and interpretation of the collective bargaining agreement with the union on a company-wide basis. She represents the Company in all dealings with the Union, handles all grievances including preparation for arbitration cases, and monitors and recommends appropriate disciplinary actions involving employees covered by the bargaining unit agreement. The incumbent is an attorney who has been in the position for two years, having recently completed negotiations resulting in a five-year contract effective June 1, 2009.

III.E.2 Grievances Are Variable Due To Changing Factors

The bargaining unit agreement covers close to 700 O&R employees. The greatest number of grievances occur during the year in which the contract will expire and most commonly involve

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changes in the work hours, overtime assignments and disciplinary actions. Grievances can also be an indirect result of the weather, which creates overtime, shift changes, call-ins and changes in work conditions in response to emergency situations. During 2006, 44 grievances were filed, 13 during 2007 and 29 during 2008. Most grievances are settled or withdrawn at the third or fourth step. The Union rarely initiates arbitration. Job vacancies within the bargaining unit ranks are posted for seven working days and awards are made based on seniority with a good work record. If any applicant has a physical disability, they must pass a function capacity test to be awarded the position.

III.F PRODUCTIVITY

The RFP asks for an assessment of the productivity and utilization level of RECO's workforces.

III.F.1 The Performance Program Offers A Good Indicator Of Productivity

As stated earlier, the Management Compensation Program places increased emphasis on performance incentives and less emphasis on base pay increases. Such a program attempts to maximize productivity and staff utilization and cohesion by basing individual rewards on the achievement of operating objectives.

The performance incentive program is a Team Based Reward System that is tied to a series of operating objectives, comprising the Annual Team Incentive Plan (ATIP). All full-time and part-time management employees are eligible to participate in the ATIP. Under ATIP, a portion of employees' award opportunities is based on the Company's performance and a portion on division/department, and individual performance. The ATIP payout is based on the level of success in achieving the target goals in three areas – Earnings, Operating Budget and Customer Service/Safety/Employee Development.

Prior to 2009, the ratios for the three operating objectives were net

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earnings (50%), operating budgets (20%) and customer service/safety/employee development (30%). In 2009, weightings were revised to emphasize customer service; net earnings (25%), operating budgets (25%), and customer service/safety/employee development (50%). The rewards payout has a goal of 100% not to exceed 120% of the funds budgeted for ATIP awards. The O&R earnings target for 2006 was exceeded by \$1.3 million, representing 106% of the goal and increasing the award ratio to 53%. The Operating Budget target was \$163.1 million compared to \$162.0 million in actual expense, achieving 110.9% of goal. The final 30% of the performance incentives consisted of ten components, each weighted at 3.0%. In 2006 eight of the ten components were met or exceeded, for an overall total of 99.2% of the goal. An additional 1.1% of a potential 1.5% team award was achieved based on retained earnings. In 2007 the earnings target was again exceeded (106.3%), the operating budget was 90.2% of the goal and the Customer Service/Safety achieved 6 of 9 goals, resulting in a composite score of 92.1%. In 2008 the earnings were 119.8% of the goal, operating expenses were under budget, achieving 110.4% of the goal, and Customer Service/Safety achieved 11 of 12 components, resulting in a composite score of 115%.

Performance Metrics 2006-2008

Year	Net earnings		Operating Budget		Cust. Svc. Safety/Emp. Devel.	Overall Score
	Target	Actual	Target	Actual		
2006	\$44.3	\$45.6	\$163.1	\$162.0	8 of 10	99.2%
2007	\$45.0	\$46.443	\$170.6	\$171,584	6 of 9	92.1%
2008	\$40.0	\$43,959	\$184.3	\$183,258	11 of 12	115.0%

ATIP target award opportunities are tied to pay bands. They are expressed as a percentage of annual base salary. The percentages ranged from 4.0% of the composite base salaries in the secretarial and entry-level professional salary bands to 21% for salary band 4H. The chief executive officer's award was based on the formula under the Consolidated Edison Company's Executive Incentive Plan. The award opportunities are split into a team and an

individual incentive award in a 60/40-percentage guideline. The individual award portion can vary from 0 to 150% of guideline to recognize significant individual contributions. The 2009 ATIP goals were distributed in February and expressed as a percentage of target.

III.G PERSONNEL INFORMATION

The RFP requests an assessment of the human resources department's capability to access personnel information and perform their assigned duties.

III.G.1 The Success Of Human Resources Can Be Measured In The Low Turn Over Ratio

Enterprise Shared Services contains four functions or departments, one of which is Human Resources. Human Resources (HR) is divided into three sections, Talent Management, Compensation and Benefits, and Human Resources Support. The Director of Human Resources Support, a CECONY employee, directs a staff that is responsible for the employee records, posting vacancies up to level 3 (mid-manager) and entry level recruiting. A web site, JobFox, is maintained to accept unsolicited resumes, which are reviewed to identify entry level candidates. The HR support function distributes listings when seeking to hire outside of the existing staff, and keeps the EEO statistics regarding recruiting and selection. The HR support function also partners with area schools seeking employment opportunities. This department conducts complaint investigations from O&R non-bargaining unit employees and prepares a defense where warranted, including but not limited to racial, age, and/or gender discrimination. The Director of Human Resources Support has been in this position for approximately one year as the next step in her management development. Previously she was the EEO Director for CECONY. In her current limited capacity she is responsible for counseling managers in the application of company policies related to the conditions of employment. She estimates that O&R has a 5.0% turnover rate,

primarily retirees, which they process, as well as voluntary and involuntary terminations. They do not conduct exit interviews but have hired a vendor to document the reasons for departure of past employees.

III.H AFFIRMATIVE ACTION AND EQUAL EMPLOYMENT OPPORTUNITY

The RFP requests an assessment of the affirmative action and equal employment opportunity (AA/EEO) policies, procedures, and functions.

III.H.1AA/EEO Policies Are Formalized

O&R maintains a Corporate Policy Guide that includes policies to define the Company's Equal Employment Opportunity, Sexual Harassment, Incident Reporting and EEO, Affirmative Action and Unlawful Harassment. The policy defining the company's position on equal opportunity was last updated in 2002 and is committed to promoting diversity within the O&R workforce. The policy states that O&R does not discriminate in any way concerning conditions of employment and ensures that all personnel actions will be administered without regard to any status protected by law. Further, this policy charges employees to report suspected discrimination to their respective manager or the Human Resources Department in accordance with the Problem Resolution Procedure, and pledges dissemination both internally and externally to all employees, the Local Union 503 and appropriate outside agencies. This policy is posted on all Company bulletin boards, and included in the Policy Guide, contracts and purchase orders, and employee orientation and management development programs.

In July of 2006 O&R concentrated further on defining policies to address the components of their commitment and obligations to fair conditions of employment. The Company's policy on sexual harassment expects all employees to treat co-workers, customers and vendors with the utmost respect and dignity, and requires them

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to refrain from harassment of any type short of regulating the employee's social interactions and relationships. This policy again calls for the immediate report of any suspected sexual or other type of harassment, including to the Ethics Officer, and pledges that all such complaints will be investigated as soon as practicable and be kept confidential to the extent possible.

The Company's policy on Incident Reporting includes customers, contractors, visitors and vendors as well as employees. It expands the incidents eligible for immediate attention to include theft, misuse, loss or damage to company or personal property and threats of violence. Reports should be made to the immediate supervisor who will contact Corporate Security. In the event of immediate threat to life, 911 should be called. Corporate Security is responsible to investigate all such complaints.

Finally the EEO, Affirmative Action and Unlawful Harassment policy applies to all employees and reiterates the company commitment to workplace diversity, equal employment opportunity and a workplace free of all types of unlawful harassment. This policy proceeds to give a step by step procedure to follow in the event that an issue involving equal opportunity or harassment is raised, and assures the employee to do so without fear of reprisal. Further, the employee may report any suspected retaliation in accordance with this policy.

CECONY maintains an EEO Affairs Department that prepares and submits the federally mandated EEO-1 Report annually. An outside vendor writes the Affirmative Action Plan (AAP). An outside vendor also supplies work force statistics. The name of the vendor or vendors was not available.

III.H.2 Annually O&R Sets Goals For Placement Of Minorities And Females In Underutilized Job Groups

Under Federal law, the workforce must be analyzed to determine its composition. This analysis includes determining availability of under utilized groups such as minorities and women. Placement

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goals are expected to be established with specific good faith recruitment.

The goals are expressed as a percentage for females and a percentage for minorities in each federally defined job group. In 2005, for example, Executive II job group began the year with 19 incumbents of which 2 were female and none were minorities. The goals were 27.8% female and 7.6% minorities. During the year there were 124 opportunities to fill positions within all job groups. Fifty-three positions were filled externally of which 17 were minorities and 13 females. Seventy-one positions were filled from within, of which 6 were minorities and 13 were female.

Minority And Female Placement 2005-2007

Year	#	ACTUAL HIRES			PROMOTION & TRANSFERS		
		Total	Minority	Female	Total	Minority	Female
2005	124	53(42.7%)	17(32.1%)	13(24.5%)	71(57.3%)	6(8.45%)	13(18.3%)
2006	142	70(49.3%)	15(21.4%)	12(17.1%)	72(50.7%)	7(9.72%)	15(20.8%)
2007	141	61(43.3%)	20(32.8%)	13(21.3%)	80(56.7%)	8(10.0%)	15(18.75%)

= Number of Opportunities

The placement goals for 2008 sought to achieve a female population of 33.0% in the Executive II job group and 37.0% in the Craft Workers job group. For minorities, goals were set in all job groups except the Executive II category with the goal of increasing the minority employee population, as opportunities occur. The 2008 annual placement goals for the minorities ranged from 13.6% to 34.2%. Results of the 2008 placement goals were not made available.

IV. STRATEGIC PLANNING

The RFP requires that the contractor shall evaluate the RECO/O&R/CEI strategic planning methodology including:

- a. review and assess the organization's purpose and mission;
- b. define specific short and long term goals and suggest improvements in RECO's strategic planning to adapt to market environment and where affiliate goals are in conflict with RECO goals;
- c. evaluate RECO's business strategy for customer impact, responsiveness to market conditions, clarity and employee training, commitment and resources for implementation, and financial risk;
- d. determine if management focus is on RECO or is being diverted elsewhere; and
- e. determine any negative effects of diversification on RECO.

Each of these issues is addressed and followed by a conclusion and associated findings. Where necessary, recommendations are presented.

IV.A PURPOSE AND MISSION

The RFP requires a review of the stated purpose and mission.

IV.A.1 The Company's Planning Documents Contain Clear Statements Of Its Vision, Mission, And Values, Which Provide A General Framework For Its Strategic And Operational Activities And Are Entirely Appropriate To The Franchise Mandates Of An Electric Utility

The Company's Vision statement is: "Connecting energy with people every time, all the time." Its stated Mission is: "To deliver energy services to customers safely, reliably and economically while meeting the needs of our communities, shareholders and employees." These statements of vision and mission are fully compatible with each other and with the fundamental responsibilities of a non-diversified, investor owned public utility. While the Company's vision and mission establish a broad

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framework and overall objectives to be achieved, its Values indicate the manner in which the organization will behave in pursuit of its objectives. In that regard, the Company lists and defines six core values shown below.

1. Service: We will provide the best possible energy service. We will never forget that what we do, and the way we do it, vitally affects the people who depend on our service.
2. Honesty: We will conduct our business with honesty and integrity, and we will communicate openly.
3. Concern: We will show concern for the welfare of our customers, our co-workers and those who invest in our company. We will protect the environment in which we live and work.
4. Courtesy: We will be courteous to our customers, to each other and to all those whose lives we touch.
5. Excellence: We will strive for excellence in all we do. We will never be satisfied with less than the highest standards of performance.
6. Teamwork: We will work together in harmony as a team, combining our best thinking and efforts to realize our Vision and Mission.

IV.A.2 The Company's Planning Methodology Utilizes Both A Top-Down And Bottom-Up Approach With Major Assumptions And Objectives Flowing Down From The Top, While Operational Plans, Budgets And Key Performance Indicators Flow Up From The Bottom

Strategic planning for RECO/O&R/CEI is an integrated process that involves focused business planning, two and five year capital planning, 15-year electric delivery system planning, annual operating budgets, and key performance indicators. The process generally begins in the spring with reviews of internal and external variables that may drive the ultimate plans and budgets. Internal variables include a review of items including the previous year's plans and results, anticipated load growth, electric system reliability performance, workforce and facility needs. External variables include economic indicators, new regulations, and

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business and employment trends in the service territory. Additionally, load growth and contingency studies are performed each year at summer's end and taken into consideration in the ongoing planning process.

IV.A.3 The Planning Process Comprises Sufficient Levels And Opportunities For Senior Management And Board Of Director Input, Review, And Approval

As the planning process proceeds, budget requirements are developed, operational and financial risks are considered, gaps are identified, and a plan of work activities is compiled. During this process, the O&R Corporate Policy Committee (CPC) is updated on planning goals, parameters and issues for direction and input. The CPC consists of nine members of O&R corporate management as follows:

O&R Corporate Policy Committee

President & CEO
Vice President – Operations
Vice President – Customer Service
Director – Financial Services
Director – Human Resources Support
Director – Environment, Health & Safety
Director – Public Affairs
Ethics Officer
Section Manager – Business Shared Services

The final planning document is reviewed by the CEOs of both O&R and CEI, and sent to the O&R Board of Directors for review at their October Board meeting. It is then reviewed by the CEI Board at its November meeting, with final approval normally conferred by Directors at the December Board meeting.

IV.B PLANNING

The RFP requests identification of short and long term goals and objectives and an assessment of the absence of conflict.

IV.B.1 The O&R/RECO Short-Term Planning Process Focuses Heavily And Appropriately On Core Utility Operational Activities

For year 2009, the short-term (or annual) business plan identified eight focus areas which integrate and apply to RECO and O&R as a single business entity. The focus areas are listed below:

1. Continue service reliability and system integrity enhancements;
2. Continue development of a modern distribution system that supports new technology, system efficiency, and cost effective initiatives;
3. Build on the Company's strong team orientation to develop a mutually beneficial collective bargaining contract that increases workforce flexibility, employee motivation, and promotes greater Company efficiency;
4. Maintain ties to the community, continue to meet customer expectations regarding service, and begin implementation of a sustainable energy efficiency program;
5. Continued focus on employee and public safety and environmental goals;
6. Attract, develop and retain a competent, diverse and technically skilled workforce;
7. Successful implementation of the New York electric rate plan; and
8. Favorable outcome for 2009 regulatory matters including expected New York gas rate case.

Underlying and supporting these business focus areas are operational initiatives which the Company has identified as efforts required to drive successful performance. For example, focus areas 1 and 2 shown above are supported by a number of electric distribution and transmission operational initiatives and capital

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construction projects planned for completion by year-end 2009. These include the following:

Examples of Year 2009 Initiatives

Electric Distribution & Transmission – Efforts Driving Performance
Little Tor Substation Installation
Snake Hill Road Substation Installation
Complete design and begin construction of Corporate Drive, Hartley Road, and Tappan Substations
NY Smart Grid Pilot Project
Line 28 Installation
Sugarloaf 138 kV Substation Installation and Sugarloaf Area Line Reconfigurations
Ramapo 138 kV Terminal Installation
Line 31 Reconductor Upgrade
Distribution Automation and Communication Program

Annual operational plans also rely on projections of customers, energy sales and peak load growth which is discussed in Section IX of this report. Shown below is three years history of energy sales projections versus actual MWH sales.

Projected vs. Actual Sales for RECO in MWHs

YEAR	PROJECTED SALES	ACTUAL SALES
2006	1,634,493	1,664,602
2007	1,705,335	1,703,951
2008	1,738,944	1,676,035
TOTAL	5,078,772	5,044,588

It should be noted that projected sales assume normal weather while actual sales reflect actual weather. As a result, year to year comparisons of projected versus actual sales can vary significantly. However, as shown above, the difference between the total three-year projected versus actual energy sales for RECO is less than 0.7%. During the same three-year period, Company operating revenues grew from \$177.4 million to \$242.0 million, an increase of 36.4% which includes purchased power expense. And earnings

before interest, taxes, depreciation, and amortization (EBITDA) decreased slightly from \$24.8 million to \$23.3 million (6.0%).

The Year 2009 Plan also includes initiatives addressing human resources/efficiencies and customer service excellence regarding service, financial, and innovative performance drivers.

IV.B.2 Long-Term Planning Is Primarily Reflected In The Company's Five-Year Capital Plan And Fifteen-Year Electric Delivery System Plan; And Similar To The Short-Term Plan, Both Of These Appropriately Focus On Core Utility Operational Imperatives

The Company's five-year capital plan as well as the 15-year electric delivery system plan take into account a variety of known and forecasted variables including:

- a. new business projects that are in the planning stage;
- b. county master plans;
- c. various reports issued by local government authorities;
- d. projected infrastructure improvements such as highways, sewers, and railroads; and
- e. anticipated peak load growth projections, and contingency analyses performed on each substation circuit.

These long-term plans and underlying analyses are discussed in greater detail in Section IX, "Distribution and Operation Management", of this report.

IV.B.3 Key Performance Indicators (KPI) Are Designed And Used By Management To Monitor And Gauge The Activities And Efforts That Drive Short And Long-Term Plan Performance

O&R uses quantifiable and qualitative system-wide KPIs to measure and monitor progress achieved vis-à-vis the Company's planning goals and objectives. For example, Electric Operation's goal of "reliable service at reasonable cost" is measured in terms

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of: 1) SAIFI ≤ 1.36 outages per customer, 2) CAIDI ≤ 102 minutes, 3) electric transmission planning (N-1 operating criteria) $\geq 94\%$, 4) substation bank planning criteria $\geq 88\%$, 5) installation of 20 smart grid control/monitoring devices, and 6) job site reporting of servicers/troubleshooters by July 1, 2009.

Another example is the KPIs used to measure Customer Service's goal of "enhanced external relationships." Quantifiable and qualitative KPIs include:

1. calls answered in less than 120 seconds $\geq 90\%$
2. storm and non-storm restoration time $\geq 85\%$ and 95% , respectively;
3. damage prevention seminar for contractors;
4. increased participation on local boards and committees; and
5. communications with state and local officials and the public on energy and business issues.

An O&R report, titled "Corporate Performance Report", and last prepared in December 2008, contains a complete listing of all KPI year-end targets and actual results for each organizational area. Where applicable, the report also presents KPIs for each jurisdiction in which the Company operates (i.e., New York, New Jersey, and Pennsylvania).

More specifically, this report provides a detailed and comprehensive depiction of the Company's performance against its planning goals and targets for the following functional areas:

1. corporate;
2. regulatory;
3. operations;
4. customer service;
5. services;
6. public affairs;
7. human resources; and
8. ethics.

The report also contains an extensive appendix containing related charts and graphs as well as explanatory documents and notes.

IV.B.4 The Planning Process, As Described Above, Includes Ample Opportunity For Senior Management, The Corporate Policy Committee, And The Boards Of Directors Of Both O&R And CEI To Assure That The Goals Of Its Affiliated Corporate Entities Are Not In Conflict With Those Of RECO

In addition to adequate occasion for top corporate management to coordinate and monitor affiliate goals for potential conflict, the internal communication of RECO's priorities, as well as the close attention paid to New Jersey regulation creates an environment that supports successful RECO operations. Moreover, all financing requirements for RECO are met from operating revenues and a \$30 million credit line with Con Edison.

IV.C OVERALL BUSINESS STRATEGY

The RFP requires an evaluation of business strategy in five distinct areas.

IV.C.1 RECO's Business Strategy For Customer Impact And Responsiveness To Market Conditions Is Supported By Analytical Modeling, Economic Forecasts, And Growth Projections For The Service Territory And Beyond

Historical customer and demand growth trend assessment, regression analyses, and peak load forecasting along with access to Con Edison's significant financial and economic modeling capabilities converge to form a logical rationale for response to market conditions. These analytical tools also provide a basis from which potential customer impacts may be gauged. Additionally, annual surveys of residential and commercial customer opinions are performed and provide insight into issues such as pricing concerns and service levels. Moreover, review and examination of Commission complaints, which have generally been low in the New Jersey service territory, is periodically undertaken.

IV.C.2 Although RECO Has No Employees Per Se, O&R's Commitment To Employee Training Is Documented In Its Extensive Computerized Training Program Attendance Data Base

Workforce attrition, skills requirements, and the need for line apprentice schools are reviewed in the Company's annual planning process. As described in Section IX of this report, training is provided to all electric operations and maintenance personnel, and detailed records are appropriately computerized and maintained. The Company keeps an annual report of course attendance for each employee receiving training. The report contains the following information:

1. employee name, ID number, and cost area;
2. course name and code number;
3. dates of training;
4. passed or failed; and
5. required frequency of the training course.

As part of the CEI organization, O&R employees have access to Con Edison's impressive Learning Center facilities. Additionally, under the Human Resources section of its year 2009 plan, one of the efforts driving performance is to develop and facilitate O&R "101" training for new and recently hired employees. And a related HR KPI is to provide one class of management training per employee.

IV.C.3 The Commitment Of Resources For Plan Implementation Is Facilitated By Coordination Of The Planning Cycle With The Budgeting Cycle

The approved programs and activities which drive performance of plan goals and objectives are funded through the concurrent budgeting process. As noted above, all funding requirements for RECO are met from operating revenues and a \$30 million credit line with Con Edison.

IV.C.4 Appropriate Management Focus And Attention Is Placed On RECO As A Basic Electric Distribution And Transmission Utility

There is no evidence of non-core business ventures, subsidiaries, or planned diversification which could divert management attention from its current focus on operational service, reliability, and safety.

In turn, this operational focus limits financial risk to that of a regulated electric utility which may include lower than anticipated demand, tightening of financial markets for funds, and changes in legislation and/or regulation which may impact the costs of operation. As a result, any potential negative effects of diversification on RECO are averted and render this a non-issue.

IV.C.5 Although RECO Is A Non-Diversified Electric Distribution And Transmission Utility, It Has A Subsidiary Special Purpose Entity Which Was Created To Securitize Its Basic Generation Service (BGS) Deferred Balance

On July 30, 2004, RECO closed on its \$46.3 million securitization transaction. In this transaction, a Special Purpose Entity, Rockland Electric Company Transition Funding LLC, has issued 15-year transition bonds in the amount of \$46.3 million. These bonds are backed by the right to recover from RECO's customers, through a uniform non-bypassable Transition Bond Charge, scheduled principle and interest. Interest is at the weighted coupon rate of 5.22%. By this transaction, RECO has recovered on a net of tax basis the uncollected portion of the deferred balance RECO accumulated during the four-year period of August 1, 1999 – July 31, 2003 when rate caps were in place. The NJBPU approved this securitization by its Bondable Stranded Costs rate order issued May 26, 2004.

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V. FINANCE

PMC was requested to perform a general overview of RECO's finances. The review included:

- Performing a complete review of the direct and indirect effects of the financing of RECO, O&R and CEI, and all affiliates on RECO.
- Reviewing and assessing the financial performance of RECO, O&R and CEI, and all affiliates, including the effects of affiliate interrelationships on individual company's performance.
- Assessing the effect of O&R and CEI and affiliate activities on RECO's credit worthiness.

Specific to RECO's financing, PMC:

- Reviewed the debt management policies for RECO, O&R, CEI and all affiliates, identifying any real or perceived encumbrance of utility assets for non-utility purposes as well as the extent of any negative effects from business diversification.
- Evaluated the investment decisions of RECO, O&R and CEI and its affiliates with respect to the degree to which tax considerations may have outweighed other investment criteria (e.g. safety) in making decisions. Additionally, PMC assessed the effect of O&R and CEI's financing on RECO.
- Evaluated the methods that RECO and O&R and CEI and its affiliates have used to determine and allocate consolidated income taxes over the past 8 years.
- Assessed the degree to which the historical and projected tax benefits from diversified activities have been and are projected to be realized as a result of the taxable income of RECO and provide the identities of the chief beneficiaries.

V.A DEBT MANAGEMENT

The RFP requires an analysis of RECO's business performance from a financial perspective.

V.A.1 Debt Management Policies For RECO, O&R, CEI And All Affiliates Do Not Encumber Utility Assets For Non-Utility Purposes

PMC reviewed the debt management policies of RECO. RECO has not issued any bonds within the past three years. However, RECO has obtained regulatory approval from FERC on March 20, 2009 to issue and sell unsecured short-term debt in an amount not to exceed \$30 million outstanding at any one time. RECO did not have any Commercial Paper or Derivative Sales in 2009. Because RECO is generally self-financed and RECO has little to no involvement in non-utility activities, utility assets are not encumbered for non-utility purposes

V.B INVESTMENT DECISIONS

The RFP requires an assessment of investment decisions.

V.B.1 Investment Decisions Were Made With Safety In Mind

According to the RECO Treasurer, investments were made in safe financial vehicles. RECO's investments are largely in taxable investment portfolio accounts and not in tax exempt investing vehicles. Due to genuine concerns about the tax-exempt market conditions, RECO has opted for a safer investment strategy. PMC's review of the revenues and expenses demonstrate that RECO has been able to self- finance operational costs.

V.C INCOME TAX CONSIDERATIONS

The RFP requires an assessment of RECO's tax calculation.

***V.C.1 Methods To Determine And Allocate Consolidated
Income Taxes Over The Past 8 Years Were Reasonable***

PMC reviewed the O&R and subsidiaries schedule referred to as the "Allocation of Consolidated Tax Liability" pursuant to the Tax Sharing Agreement for the past 8 years. PMC found that taxable income was offset by any:

1. Net operating loss deduction;
2. Applicable Special Deduction; and
3. Capital Gain.

The resulting taxable income was multiplied times 35% to arrive RECO's tax. The amount that RECO owed was added to all other entities to arrive at the consolidated tax. RECO harnessed no benefit from tax savings from other entities, yet the consolidated amount of tax was affected by the other CEI entities.

V.D TAX BENEFITS

The RFP requires an assessment of projected tax benefits.

***V.D.1 Historical And Projected Tax Benefits From Diversified
Activities Are Appropriate***

RECO does not have a significant amount of diversified activity, thus PMC believes there have been no discernable amounts of historical or projected tax benefits earned by RECO.

VI. CASH MANAGEMENT

PMC was requested to assess cash forecasting and diversification of investments, determine the effects on RECO's net income used by affiliates and O&R and CEI, assess write-offs, analyze impacts on cost of capital, and review other issues pertinent to cost of capital.

VIA OVERVIEW

To achieve these tasks, PMC performed the following analyses and:

- Evaluated the cash forecasting and diversification of investments between all subsidiary corporations to determine:
 1. The details of RECO, O&R and CEI and its affiliate's cash management methodologies.
 2. If RECO's cash is held separately from the cash of O&R and CEI and its affiliates.
 3. The extent to which funds generated from the Utility's depreciation are used for non-utility purposes and make recommendations for improvement.
- Determined the effect of O&R and CEI and its affiliates' use of RECO's generated income on RECO's financing ability, company value, dividend policy, retained earnings, cash flow, and other financial performance measurements.
- Assessed the quantified or potential impact of write-offs by RECO, O&R and CEI and its affiliates on RECO.
- Determined the effects of diversifying activities on RECO's cost of capital.
- Reviewed and assessed the cost of capital to RECO relative to the cost of capital to utilities with comparable risk but without non-utility affiliates. Additionally, PMC has

provided recommendations to insulate RECO's capital costs from non-utility operations.

VI.B CASH FORECASTING

The RFP requests an evaluation of cash forecasting.

VI.B.1 Cash Forecasting Is Reasonable

PMC reviewed monthly cash forecasting procedures found in the Company Operations and Accounting Manual in the section referred to as Corporate Finance Procedures. The section describes the purpose of forecasting, the background and the detailed procedures. A rolling 24-month cash forecast for CECONY and O&R is developed. Corporate Finance coordinates with all entities monthly to ensure complete and accurate information is incorporated into the cash forecasts.

Cash forecasting procedures aid in the planning and management of the cash needs of O&R and RECO. Treasury is required to prepare monthly cash forecasts for each company. Corporate Finance prepares the regulated subsidiary forecasts and the consolidated forecast for CEI and the Competitive Energy Businesses. These forecasts will detail month-end cash position and borrowing needs of each unit and in total for the succeeding rolling twelve-month period. The cash forecast is provided to the Chief Financial Officer, Treasurer and to the Board of Directors. RECO has been able to self-finance operations with no significant assistance from their parent.

VI.B.2 Diversification Of Investments Is Appropriate

According to the RECO Treasurer, investments are made in safe financial vehicles. RECO's investments are largely in taxable investment portfolio accounts and not in tax exempt investing vehicles. Due to genuine concerns about the tax-exempt market

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conditions, RECO has opted for a safer investment strategy. PMC's review of the 2008 and 2007 revenues and expenses demonstrate that RECO has been able to self- finance operational costs.

VI.B.3 RECO's Cash Is Held Separately From The Cash Of O&R And CEI And Its Affiliates

According to the RECO Treasurer and review of other supporting documents, RECO's cash is in a separate bank account. Monies received from RECO customers are deposited into the RECO bank account. RECO records charges in accounts payable from O&R for services rendered on behalf of RECO, for payroll charges from O&R employees and other expense items and then, approves a payment to O&R for services rendered.

VI.B.4 Recovery Of Depreciation Expense In The RECO Ratemaking Process Is Offset By Capital Investment Made By RECO And Is Not Used For Non-Utility Purposes

By examining the RECO Statement of Cash Flows for the years ending 12/31/2008 and 12/31/2007, PMC found that while depreciation expense was \$3.4 and \$3.0 million, construction expenditures were \$14 and \$12 million, respectively.

VI.C FINANCIAL PERFORMANCE

The RFP requests a review of RECO's financial performance.

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VI.C.1 The Effects Of O&R And CEI And Its Affiliates Do Not Have Negative Impacts On RECO's Financing Ability, Company Value, Dividend Policy, Retained Earnings, Cash Flow Or Other Financial Performance Measurements

Pertaining to financing ability and as noted earlier, RECO obtained regulatory approval from FERC on March 20, 2009 to issue and sell unsecured short-term debt in an amount not to exceed \$30 million. RECO's company value has been reasonably stable and RECO does not declare dividends, but rather the parent company declares dividends. Due to RECO being owned by CEI, retained earnings are merged in the consolidation of financials. Other financial items are offered below.

Analysis of Financial Measurements From RECO Audited Financial Statements In (000's)

Item	2008	2007	2006	2005	4-year average
Cash and Temporary Investments	\$ 10,544	\$ 3,324	\$ 15,414	\$ 4,086	\$ 8,342
Shareholder Equity	\$ 157,991	\$ 147,243	\$ 133,761	\$ 122,786	\$ 140,445
Long term Debt	\$ 34,210	\$ 37,147	\$ 39,747	\$ 62,214	\$ 43,330
Operating Revenue	\$ 242,000	\$ 212,467	\$ 177,378	\$ 171,766	\$ 200,903
Operating Expense	\$ 229,425	\$ 196,760	\$ 162,792	\$ 157,221	\$ 186,550
Net Income	\$ 10,748	\$ 13,482	\$ 10,975	\$ 10,771	\$ 11,494

A review of the above table provides the following conclusions taken from the outside auditor audited financial statements.

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1. At 12/31/2008, Cash and Temporary Investments at 12/31/2008 exceed the four year average.
2. At 12/31/2008. Shareholder Equity is above the average and Long Term Debt is lower than the four-year average.
3. And at 12/31/2008, Operating Revenues have increased rather significantly over the four-year average, but so have Operating Expenses. The increase in operating expenses has impacted Net Income slightly as compared to the average.

VI.D WRITE-OFFS

The RFP requests the consultant review the impact of write-offs.

VI.D.1 Write-Offs By RECO, O&R And CEI And Its Affiliates Had Little To No Impact On RECO

Write-offs are a result of non-payment of customer final bills. RECO will write-off unpaid customer accounts ninety (90) days after the customer's final bill. Collection efforts from write-offs continue through the use of collection agencies and all recoveries are included in the Net Write-off monthly figures.

According to the notes in the outside auditor audited financial statements, RECO did not have any credit exposure in connection with electricity supply and hedging activities as of 12/31/2008.

VI.E COST OF CAPITAL

The RFP requires an analysis of cost of capital.

VI.E.1 RECO's Cost Of Capital Was Not Negatively Affected By Diversifying Activities

According to Docket Number ER06060483 State of New Jersey – BPU and on 3/22/2007 in the matter of approving RECO's electric rate through April 2010, a rate increase of \$6.4 million was approved. The return on common equity was 9.75% and the appropriate rate of return was 7.83%. The docket indicated the capital structure was 49.1% long-term debt, 4.30% short-term debt and 46.51% common equity. PMC found no discussion of negative effects by diversifying activities in the docket.

VI.F RECOMMENDATIONS

The RFP requests recommendations to insulate RECO's capital costs from non-utility operations.

VI.F.1 RECO's Capital Costs Are Generally Insulated From Non-Utility Operations Because RECO Does Not Engage In Non-Utility Operations.

RECO does not engage in non-utility operations. RECO has no plans to establish non-utility operations in the future. However, PMC offers some guideline recommendations should these plans change, including:

1. Adherence to proper cost assignment between entities followed by internal audits of the cost assignment results.
2. Performance of cost of service studies by RECO.
3. Annual reporting of capital costs between the entities to NJBPU.

VII. ACCOUNTING AND PROPERTY RECORDS

RECO's accounting and property records were reviewed by PMC. We:

- a) Evaluated the processing, recording, authorization and accountability of the functions among all levels of affiliate management.
- b) Reviewed the processes for receiving and securing accounts receivable.
- c) Reviewed the independence, processing and accountability of the payroll function, including the time and resources spent by employees on payroll.
- d) Evaluated the budget reporting, tracking, revision and analysis at all levels.
- e) Evaluated work order procedures, corporate accounting manual and property records at all levels.

VII.A ACCOUNTING SYSTEM

The RFP requires an assessment of the accounting system.

VII.A.1 The Processing, Recording, Authorization And Accountability Functions Are Well Documented For Accounting And Property Records

To adequately assess the processing, recording, authorization and accountability of the functions among all levels of affiliate management, PMC reviewed an O&R document called "Delegation of Authorities". The Delegation of Authorities document was created to establish the levels of authority required for approval of various corporate matters for O&R and its subsidiaries:

- Personnel and Other Company Matters;
- Forecasting Requirements;
- Capital Expenditures;
- Purchase Commitments;

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- Corporate Procurement card;
- Check Requests and Wire Transfers of Funds;
- Invoices, Fees and Assessments;
- Procurement and sale of Fuel, Energy, and Capacity;
- Customer Account Adjustments, Corrections and Refunds;
- Opening Bank Accounts, Signing Checks and Issuing Letters of Credit;
- Petty Cash;
- Settling Litigation; and
- Other General Ledger Account Transactions.

A brief discussion of three key areas is shown below as a demonstration of acceptable formulation.

Personnel and Other Company Matters

Purpose - To establish the levels of authorization that are required for approval of executive personnel and other Company matters for O&R and its subsidiaries.

Guidelines include:

1. Officer Appointments, Salaries and Employment Contracts
2. General Signing Authority
3. Declaration of Dividends to CEI
4. Approval of Time and Attendance Records
5. Emergency Powers
6. Approval During Absence of Managers
7. Permanent Delegation of Duties to Lower Managers

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Forecasting Requirements

Purpose – To establish the requirement that certain capital and operating forecast data be provided to the Board.

Guidelines include:

1. Capital & Operating budgets
2. Annual Forecast
3. Charitable Contributions budget

Capital Expenditures

Purpose –To establish the level of authority that is required for the approval of capital projects for O&R and its subsidiaries.

Guidelines include:

1. Capital Authorizations
2. Classes of Capital Authorizations
3. Procedure to Re-authorize/Supplement Authorizations
4. Waiver of Capital Authorization
5. Leases of Real Property by the Company as a Tenant or a Landlord or Other Personal Property

VII.B ACCOUNTS RECEIVABLE

The RFP requires an analysis of accounts receivable.

VII.B.1 Processes For Receiving And Securing Accounts Receivable Are Reasonable And Tested By Outside Auditors Regularly

PMC reviewed recent findings in outside audits in connection with the requirements of Sarbanes Oxley pertaining to the function of accounts receivable. To adequately assess the accounts receivable system, we reviewed Sarbanes Oxley (SOX) reports provided by PriceWaterhouseCoopers. PMC reviewed the June 1 – June 30,

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2009 SOX summary reports, project status reports and various control deficiency reports.

PMC reviewed a summary report for the entire "Transaction Cycle" for CEI, CECONY and O&R and the Competitive Energy Businesses. As of June 30, 2009, there were eight "Total Control Deficiencies". Each of these deficiencies had target dates for revision or correction by October of 2009.

VII.C PAYROLL

The RFP requires an analysis of payroll accounting.

VII.C.1 Payroll For RECO Is Performed By O&R

RECO does not have any employees. All charges made to RECO are done in accordance with the Joint Operating Agreement.

The amount of RECO payroll and fringe benefits for the years 2006-2008 is shown below.

	Payroll Amount	Payroll Fringe Benefits	Total	Increase
2006	3,805,365	3,272,614	7,077,979	
2007	4,053,980	3,243,184	7,297,163	3%
2008	4,365,938	3,361,773	7,727,711	6%

According to the O&R Delegation of Authorities, supervisors, managers, superintendents or higher level personnel are authorized to approve time and attendance records, including overtime, and excused time.

The payroll function is not billed separately as it is part of the overall Shared Services allocation, which is currently as follows:

- 7.1% of the payroll Department's total salary and expenses plus
- Fringes at 53.66% of salaries plus
- 16.80% of salaries for common plant allocation

VII.D BUDGETING

The RFP requires an assessment of the budget process.

VII.D.1 Processes For Budget Reporting, Tracking, Revision And Analysis Are Appropriate

PMC reviewed budget documents pertaining to the budget cycle. PMC found well thought out plans for budget input, reporting, tracking, revision and analysis in this document.

Corporate Strategy Objectives of the Budget Cycle is an adequate description of the budget process. The corporate strategy objectives cover operation and capital considerations.

They reflect the resources necessary to achieve our strategic objectives including reliability, environmental, external relationships, support activities, and human resources. In addition, consideration should be given to the organizational goals listed below. The budget support materials include a justification of the expenditures, identification of specific activities or programs, linkage between expenditures and units of measure, and updated enterprise risk assessments.

- Organizational Goals
 - Operational Excellence
 - Innovation and Technology
 - Timely Execution of Projects and Plans
 - Diversity
 - Teamwork

- Work Plans must include the following details:
 - Organization Initiatives that support the Corporate Strategy and Organizational Goals
 - Units of work and activities supporting operating and capital budget expenditures to the extent information is available
 - Develop Key Performance Indicators (KPI's)

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- Enterprise Risk Management – update and identify resources committed to mitigate risk

Budget results for Operating and Maintenance Expenses and Capital Expenditures are tracked effectively. Budget versus actual results are tracked monthly and year to date. The following items are line items composed of budget tracking.

Operating & Maintenance Expenses

- Gas Operations
- Gas Technical Services
- Electric Operations
 - Electric Underground
 - Contractor Tree Trimming
 - Overhead Contractor
 - Flaggers
- Electrical Engineering
- Substation and Control Center Operations
 - Substation Operations
 - Control Center Operations
- Support Operations
- Environmental Health & Safety
- Customer Service
 - Customer Service Business Group
 - Customer Assistance
 - Customer Meter Operations
 - New Business Services
 - CIMS Tech Analysis
 - Support Operations
 - Customer Energy Services
- Public Affairs
- Payment Processing
- Facilities
- Shared Services
- Human Resources
- Central Field Services
- Information Resources

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- Health Insurance/Worker's Compensation
- Corporate
- Unassigned Items

Pertaining to Capital Expenditures, PMC reviewed the following items of major categories including:

- Electrical Operations Underground
- Substations
- Information Resources
- Facilities
- Security
- Customer Service
- Corporate

VII.E WORK ORDERS

The RFP requires an assessment of work order process through to the property records.

VII.E.1 Work Order Procedures And Property Records Are Well Documented And Appropriate

Our analysis covered five specific parts as listed below.

1. Property records agree with audited financials

PMC reviewed the property records of RECO. The balance of the RECO property after additions and retirements as of 12/31/2008 was \$240,692,971. PMC verified the amount of the property found in the RECO property records to that of the RECO balance sheet as presented by the outside auditors and the amounts were in agreement.

2. Construction Work in Progress Work Orders

PMC reviewed work orders found in the 5/31/2009 CWIP report. PMC found 32 work orders that were to be closed and unitized that

were over budget. PMC found that the total overage was approximately \$1.8 million over budget out of about \$51 million or about a 4% overage.

3. Work Order and Property Record Procedures

PMC reviewed the procedures found in the O&R General Accounting Procedure Manual. According to the manual, the cost of plant additions is accumulated utilizing a job order or work order cost system and is identified for financial reporting purposes by PSC Account. Internally, the assets are recorded by "retirement units", units of property listed with the Commission, and defined as consisting of an item of property and associated minor items of property, which, when replaced or removed from service must be retired from the plant accounts. The replacement of a complete retirement unit is capitalized as a property addition, whereas the replacement of a partial retirement unit is generally charged to an appropriate maintenance expense account.

The department of Property Record is responsible for ensuring that plant additions and retirements at all plant locations (e.g., public highway, private property) and of general equipment (e.g., furniture, vehicles, computers) are correctly authorized, appropriated, classified and charged to the proper accounts.

The Plant Accounting Unitization System (PLUS) is used by Rockland Electric for all fixed asset functions including authorization approval, mass pricing for outside plant assets, job analysis for inside plant jobs and CPR data. Various PLUS system manuals provide standard guidelines for the processing of routine work functions and explain interfaces with other O&R systems. Property Record issues accounting rulings for work not specifically covered in the five-year capital budget.

Projects associated with electric or gas operations and authorized for less than \$50,000 reflect retirement units of mass property (i.e.: similar items installed in large quantity such as poles, gas mains and service cables), are recorded on standing job orders. Field forces, throughout the month utilizing the automated Work Management System (WMS), charge the various job orders. The

capital costs associated with these projects is cleared to Plant in Service each month during the closing process via automated journal entries in the Walker GL system. As projects are completed in the field, the assets installed automatically transfer from the WMS system to the PLUS system CPR database.

Projects associated with electric or gas operations and authorized for greater than \$50,000 reflect property units of mass property (i.e.: similar items installed in large quantity such as poles, gas mains and service cables), are recorded on individual authorizations issued by PR. The O&R Capital Budget Prioritization Committee (CBPC) must also approve each individual project. Field forces, throughout the month utilizing the WMS system, charge the various authorizations. The capital costs associated with these projects accumulate in CWIP.

4. Plant Additions

Additions to Plant are recorded during the monthly closing process in one of 2 ways: 1) via automated Walker GL journal entry or 2) via automated PLUS system entry occurring after the two step process described above.

When a project is determined to be in-service, the following Utility Plant Addition (UPA) entries transferring the appropriate costs from Construction Work in Progress to Plant in Service occur via one of the automated journal entries. Capitalization of costs subsequent to the month of in-service may be necessary for reasons that include payments of retainers and late billings by vendors.

5. Plant Retirements

All charges for Cost of removal and Salvage are accumulated on retirement orders in Retirement Work in Progress (RWIP). The Property Record department also records the original cost of plant items no longer used or useful in providing utility service in the Utility Plant Retirement (UPR) entry.

VII.E.2 The Corporate Accounting Manual Comes In The Form Of A "General Accounting Procedure" Document And Is Well Documented

Within the General accounting procedure document, there is significant discussion of the following types of transactions including:

- Accounting for transactions between CECONY and ORU
- Accounting for affiliate transactions with CEI
- Accounting for transactions between the regulated and unregulated affiliates

Within the General Accounting Procedure document, there are major sections as follows:

Auditing

Business Shared Services

Central Field Services

Energy Management

Information Resources

Purchasing

Corporate Accounting

Accounting Research and Procedures

Accounts Payable

General Accounts

Financial Forecasting & Corporate Budgeting

Miscellaneous Accounts Receivable

Payroll

Property Record

Property Tax and Depreciation

Regulatory Accounting

Regulatory Filings

Revenue Volume and Forecasting

Tax

**VIII. DISTRIBUTION AND OPERATION
MANAGEMENT**

The RFP requires that the contractor assess the following:

- RECO's reliability and any problem that may have caused financial harm to ratepayers
- RECO's efforts to use smart grid technology in meeting efficiency and reliability goals
- Review the following operational areas:
 - System Reliability
 - Smart Grid Activities
 - System Operations
 - System Planning
 - Load Management
 - Fuels Management
 - Pooling, Interchange and Economic Dispatch

Each of these areas is addressed with associated findings. Where necessary, recommendations are presented.

VIII.A RELIABILITY

The reliability of the electric distribution system is the major concern of the utility.

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VIII.A.1 RECO's Annual Submittal To The NJBPU Titled "Service Reliability Filing" Provides A Comprehensive Overview Of The Company's Electric Reliability Performance Along With Summary Descriptions Of Service Reliability And Maintenance Programs

In May 2009, RECO submitted its filing for year 2008 system reliability performance. The filing presents the Company's actual and benchmark reliability performance, and the associated minimum reliability levels set by the NJBPU for RECO for the System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI). Overall, RECO's SAIFI of 1.29 and CAIDI of 106 were considerably better than the minimum acceptable levels of 1.71 and 118, respectively. Additionally, while RECO's actual SAIFI performance was better than benchmark of 1.38, its CAIDI performance was 4 minutes worse than the 102 benchmark. These results are shown in the following table.

RECO Reliability Statistics – Year 2008

SAIFI Actual	SAIFI Minimum	SAIFI Benchmark	CAIDI Actual	CAIDI Minimum	CAIDI Benchmark
1.29	1.71	1.38	106	118	102

VIII.A.2 Over The Past Five Years, The Company's Reliability Performance Has Fluctuated

These results indicate that RECO has outperformed the minimum SAIFI standard (1.71) in every year, and has outperformed the minimum CAIDI standard (118 minutes) in four of the past five years. Reliability statistics are shown below.

RECO – Actual Reliability statistics

YEAR	SAIFI	CAIDI
2004	1.26	120
2005	1.46	101
2006	1.38	96
2007	0.89	98
2008	1.29	106

VIII.A.3 RECO Implements An Appropriate Complement Of Ongoing Distribution And Transmission Maintenance And Service Reliability Programs In Support Of Its Electric System Reliability Performance Goals

One of the most critical maintenance programs in support of a reliable distribution system is distribution tree trimming. RECO's program of tree trimming and vegetation management is based on a four-year, scheduled trim cycle. In order to prioritize the circuits to be trimmed, a computer database populated with tree-caused outages is analyzed to indicate areas requiring attention. Tree trimming records are kept for each circuit indicating completion dates and mileage trimmed. Circuits are also patrolled periodically to identify potential vegetation issues and avert service interruptions. Additionally, inspections and audits are performed on the circuits as the tree trimming is being done by contractors. The Company's Quality Assurance and Compliance Department performs these audits to assure quality of the work and that line clearance specifications are maintained.

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During year 2004, a pole inspection, treatment, reinforcement and replacement program was initiated in the RECO service territory. The inspection, treatment, and reinforcement work is performed by contractors, while pole replacement is done by contractors as well as Company personnel. The Company expects to inspect about 7,500 poles during the current year. Records and data for this work are stored in the Work Management System (WMS).

Additionally, during year 2007, the Company initiated a Circuit Ownership Program intended to identify for correction any issues that potentially threaten the reliability of the circuit. Among the issues and conditions targeted for observation during circuit patrols are: tree and vegetation conditions, lightning and animal protection devices, leaking transformers, defective poles, broken insulators and primary taps, sagging spans, and wire otherwise in need of upgrade. Problems identified under this program are prioritized and scheduled for repair and/or replacement.

RECO has also accelerated its distribution system automation program with focus on the installation of distribution mainline circuit mid-point and tie reclosers on all circuits with more than 1,000 customers throughout the New Jersey service territory. In conjunction with this effort, the Company is implementing distribution circuit auto-loops as part of its expanded distribution automation efforts.

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VIII.A.4 Over Half Of RECO's Distribution System Outages In Each Of The Past Three Years Have Been Caused By Tree Contact And Equipment Failure

Shown in the following table is RECO's last three years of distribution outages by cause.

Number of RECO Distribution Interruptions by Cause

CAUSE DESCRIPTION	YEAR 2008	YEAR 2007	YEAR 2006
Tree Contact	418	321	367
Equipment Failure	392	361	368
Animal Contact	125	137	203
Non-Company Accident	79	68	86
Lightning	66	26	41
Overload	10	29	50
Work Error	6	5	8
Customer Problem	0	4	3
No Cause Found/Other	79	75	76
TOTALS	1,175	1,026	1,202

From the table above, it can be seen that overall the total number of interruptions has decreased by 27 (2.2%) since year 2006. This is primarily due to reductions in outages caused by animal contact (down 78 or 38%), and overload (down 40 or 80%). However, tree contact and equipment failures have increased over the same time period. In terms of outage frequency, tree contact and equipment failure comprised 810 (69%) of the service interruptions experienced in year 2008, compared to 682 (66%) in 2007 and 735 (61%) in 2006. The increased frequency in tree- and equipment failure-related interruptions has occurred despite the reliability enhancement programs initiated by RECO during the past five years.

With regard to the 392 equipment failures in year 2008, 327 (83%) occurred on the overhead system while 65 (17%) occurred on the underground system. The most frequently failed overhead equipment categories were: a) primary and secondary

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connector/splice (129 failures), b) primary and secondary wire/cable (73 failures, and c) overhead transformers (67 failures). For the underground system, the most frequent failure categories were: a) primary and secondary wire/cable (35 failures), and b) padmount transformers (19 failures).

Shown in the following table is a comparison of RECO's year 2008 outage cause frequency with survey results published by the Edison Electric Institute (EEI) in 2003.

Outage Cause Frequency – Year 2008

OUTAGE CAUSE	RECO %	EEI SURVEY %
Tree Contact	35.6%	24%
Equipment Failure	33.4%	22%
Animal Contact	10.6%	7%
Non Company Accident	6.7%	N/A
Lightning	5.6%	9%
Overload	0.9%	N/A
Work Error	0.5%	1%
Customer Problem	0	N/A
No Cause Found/Other	6.7%	34%
Planned/Prearranged	N/A	3%

Although variable against the EEI survey, RECO's overall showing is favorable in terms of clear analysis of outage causes. Particular note is brought to the category of "No Cause Found/Other" which is approximately one fifth the level of the EEI survey.

VIII.A.5 Recommendations

RECO should design and implement enhanced reliability improvement programs focused specifically on the reduction of tree- and equipment failure-related interruptions.

Although RECO administers a 4-year cycle tree trimming plan with quality assurance inspections, a pole inspection program, and a circuit ownership and patrol program, enhanced efforts should

target tree and equipment caused outages. The enhanced programs should specify measureable goals to be attained, an action plan and schedule detailing enhancements and/or additions to current efforts, an estimate of resources required to implement the plans, personnel responsible for various elements of the plans, periodic meetings to monitor activities and progress, and inclusion of program results in the design of employee incentive compensation plans (if any). Additionally the Company should consider surveying its peers for best practices regarding these issues.

VIII.B SMART GRID TECHNOLOGY

Smart Grid initiatives are directed at improved operation of the grid and are assessed by the improvements in energy efficiencies.

VIII.B.1 RECO, Through O&R, Has Formulated A Suitable Long-Term Vision Of An Integrated Smart Grid Electric Delivery System

RECO envisions that Smart Grid technology will create the platform for advanced analytical and economic decision making and control. Moreover, these capabilities will be executed in real time on the electric distribution system. The Company states that it has already linked many of its mission critical systems including its work management system, customer information system, outage management system, and distribution engineering workstation system. The layering of Smart Grid technology over these existing linked systems sets the stage for RECO's vision of the future.

***VIII.B.2 RECO Has Developed And Submitted A Reasonable
“Smart Grid Pilot Proposal”, Dated June 10, 2009,
Which Proposes The Installation Of A State-Of-The-Art
Infrastructure And Advanced Metering System In A
Pilot Area Of Its New Jersey Service Territory***

In June 2009, RECO submitted a smart grid pilot project proposal that would involve 4,394 customers (4,129 residential and 265 commercial) located in the Boroughs of Ramsey, Mahwah, and Franklin Lakes. The proposed project encompasses five distribution circuits: four from the Darlington Substation and one from the South Mahwah Substation. The project is designed to integrate advanced automation and communication equipment with an advanced metering infrastructure (AMI), distributed energy resources (DER), and home area networks (HAN) to create an intelligent electric distribution system.

In addition to formulating its short- and long-term visions for an intelligent power delivery system, the Company has also formed a Smart Grid Department within the Electric Engineering organization and named a manager to head up the Smart Grid Department. This department will be responsible for providing the engineering, operational, and technological duties required to administer the proposed programs in the RECO service territory as well as O&R’s other states of operation.

RECO’s Smart Grid operating system proposal seeks to demonstrate significant improvements in the design, engineering, operation, and advanced control of the electric delivery system. The primary objectives of RECO’s proposed pilot project include the following:

1. Automatic restoration of customers interruptions occur, and minimization of the extent and duration of outages through expanded distribution automation
2. Minimize real time losses and maximize system performance through the control of voltage, power factor, and load distribution
3. Provide substantial improvement in service reliability levels

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4. Provide an expandable platform for future opportunities to implement more sophisticated demand response and distributed energy resource programs,
5. Operate the electric system more effectively during peak loading and/or contingency conditions, and
6. Reduce customer costs by providing time of use data and pricing.

The proposed pilot project is estimated to cost about \$29.6 million over a three-year period per the expenditures shown in the following table. It should be noted that the table contains a mix of capital and O&M costs which are more fully detailed and described for each project year in Exhibit #6 attached to the formal Smart Grid Pilot Proposal.

RECO Smart Grid Pilot Project – Estimated Costs

INFRASTRUCTURE ELEMENT	COST (\$Millions)
Distribution System	\$5.6
Substation System	\$11.2
Communications System	\$2.5
BASE ELECTRIC SYSTEM SUB-TOTAL	\$19.3
AMI System	\$4.5
HAN and DER Pilots	\$5.8
TOTAL	\$29.6

RECO believes that this project meets numerous Smart Grid criteria contained in the Energy Independence and Security Act of 2007, the FERC-NARUC Smart Grid funding criteria, and the FERC draft policy statement on Smart Grid. Although the Company anticipates improved distribution system reliability and potential customer cost reductions as a result of these expenditures, the pilot project proposal does not estimate the magnitude of these benefits.

VIII.B.3 RECO Is One Of Many Electric Distribution Companies Across The Country That Have Recently Developed And Proposed Smart Grid Pilot Programs Which Are In Various Stages Of Approval And/Or Demonstration

An important impetus for smart grid projects is potential project funding of up to 50% under the federal economic recovery package. In fact, the Department of Energy has increased the maximum amount a project may be granted from \$20 million to \$200 million. According to the Edison Electric Institute (EEI), there are about 70 smart grid demonstration projects in various stages around the country. For example, under a plan put forth by Duke Energy, subsequent to approval by the Indiana Utility Regulatory Commission, 800,000 smart meters would be installed throughout its Indiana service territory. These devices can tell customers how much electricity they use every day and how much they pay for it. Such information may prompt customers to wait for times of low energy demand, and therefore lower price, before turning on appliances. Duke has an agreement with Cisco Systems, Inc., which will provide equipment and software needed for the smart grid. The project cost is estimated to be about \$445 million. Duke has already received approval in Ohio to install nearly 700,000 smart meters and is considering similar projects in North and South Carolina, and Kentucky.

Similarly, Florida Power & Light is planning to provide smart meters in a million homes and businesses in the Miami area, while Pepco Holdings, Inc. plans to install 250,000 in Delaware and is seeking approval to do the same in other Mid-Atlantic States. Most recently, PECO, a subsidiary of Exelon Corp., filed a plan with the Pennsylvania Public Utility Commission to spend \$650 million installing 1.6 million residential and commercial smart meters and advanced communications networks. The plan calls for providing the meters over a 10 year time frame.

VIII.B.4 Recommendations

RECO should analyze and develop estimates of improvements to its distribution system reliability performance indices, the magnitude of potential customer cost reductions, and any other quantifiable financial and operational benefits that may be realized by the Company from the Smart Grid project.

Although the Company has made an appropriately detailed estimate of project costs, the same cannot be said for project benefits. For example, the Company states that Smart Grid will improve distribution system reliability in terms of the frequency of customer interruptions (SAIFI) and outage duration (SAIDI). However no attempt is made to analyze or quantify these improvements. Similarly, the Company anticipates potential customer cost reductions through the real-time availability of demand and pricing data/options, as well as other customer service benefits. Again, the proposal does not include an analysis or estimate of these cost reductions.

The Company lists a number of other engineering, operating, and customer service benefits such as:

- a. peak load reduction/demand response,
- b. improved transformer load management,
- c. distribution system planning and reduced system losses,
- d. improved voltage and VAR monitoring,
- e. remote meter reading,
- f. remote move in/move out reads and improved collection,
- g. fewer re-reads and billing adjustments,
- h. reduced complaints and call center requirements,
- i. increased revenue protection, and improved load research and pricing and tariff flexibility.

Where practical, a bona fide attempt to dollarize customer and company cost benefits should be undertaken.

VIII.C SYSTEM OPERATION AND MAINTENANCE

The maintenance of the electric operations is critical to the reliability of service and serves as a major contributor to customer satisfaction.

VIII.C.1 RECO Electric Operations Consist Of Overhead And Underground Distribution And Transmission Facilities Serving Three New Jersey Counties

The RECO system currently serves about 72,500 electric customers located in Bergen, Passaic, and Sussex counties. Of this total, about 58,000 customers are in Bergen County, 14,000 in Passaic, and the remainder in Sussex. The distribution system consists of 786 circuit miles of primary overhead and 275 miles of primary underground, and is served by 13 substations located in New Jersey.

Approximately 90% of the primary distribution circuit mileage is at 13.2kV. Additionally, the distribution system comprises roughly 43,460 poles, 13,550 overhead transformers, and 5,500 underground transformers. About half of the poles are between 30 and 50 years old.

RECO's electric distribution operation and maintenance (O&M) expenses for the past three years, and for budget year 2009, are shown in the following table.

RECO Electric Distribution O&M Expense

Expense Category	Year 2006	Year 2007	Year 2008	Budget 2009
Operation	\$1,146,280	\$2,505,985	\$1,996,913	\$2,997,300
Maintenance	\$3,972,656	\$3,995,339	\$3,982,715	\$3,535,700
Joint Expense-Debit	\$938,580	\$803,740	\$1,343,184	\$933,600
Total Distribution	\$6,057,516	\$7,305,064	\$7,292,812	\$7,466,600
Year-End Customers	71,885	72,274	72,398	72,500(est.)
Distribution O&M per Customer	\$84.27	\$101.07	\$100.73	\$102.99 (est.)

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It should be noted that "Joint Expense-Debit" represents charges made to RECO from O&R for carrying charges on property that is owned by O&R but is jointly used by O&R and RECO. For example, the Spring Valley Operations Center would be allocable as a jointly used facility. These charges are calculated pursuant to the NYPSC-approved Joint Operating Agreement between RECO and O&R and include the following components: depreciation, property taxes, insurance, federal income tax, and a return on investment. The annual fixed charges allocated to RECO are billed on a monthly basis and are charged to RECO transmission, distribution, customer accounting, and administrative and general expenses. The allocation of the joint expense billing to these operation and maintenance expense guideline classifications is based on actual property in joint use in each category.

During the same three-year historical period and current budget year, RECO's annual capital budgets and actual expenditures are as shown in the following table.

RECO Capital Budgets and Actual Expenditures (\$000)

Year	Budget	Actual	Variance
2006	\$15,518.5	\$14,124.6	(\$1,393.9)
2007	\$14,283.1	\$10,408.8	(\$3,874.3)
2008	\$14,265.8	\$14,589.2	\$323.4
2009	\$10,680.2	N/A	N/A
Total (2006-08)	\$44,067.4	\$39,122.6	(\$4,944.8)

For the period 2006-08, actual capital expenditures have been \$4.9 million (11.2%) below budget. Of the \$39.1 million of actual capital expenditures during the past three years, \$36.0 million (92%) has been used for projects in the following three categories: 1) Transmission and Substation Engineering - \$21.0 million (53.7%), 2) Electric Operations Overhead - \$8.1 million (20.6%), and 3) Electric Operations Underground - \$6.9 million (17.7%). RECO's transmission system comprises 60 miles of overhead and 18 miles of underground energized lines. About 83% of the overhead system is at 69kV, while nearly 63% of the underground system is at 138kV. During Year 2008, unaccounted-for energy totaled 87,687,429 KWH of which 35,177,403 KWH (40.1%) was

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transmission related. The total represented a 13,440,549 KWH reduction (i.e., a 13.3% improvement) over the Year 2007 unaccounted- for total of 101,127,978 KWH.

VIII.C.2 Although RECO Has No Employees, Per Se, The New Jersey Service Territory Which Includes Parts Of Bergen, Passaic, And Sussex Counties Is Maintained And Operated By O&R Employees, Some Of Whom Are Stationed In New Jersey, And Contractors As Needed

Bergen County is covered by O&R's Eastern Division crews, which consist of 64 overhead linemen and 24 underground linemen. Within Eastern Division, five overhead linemen are stationed in Harrington Park and two in Wyckoff.

Passaic County is covered by O&R's Central Division crews consisting of 35 overhead and eight underground linemen. Of that complement, six overhead linemen are stationed in West Milford. Sussex County is covered by O&R's Western Division crews, which consist of 33 overhead linemen and six underground linemen. Nine of the overhead linemen are stationed in Port Jervis.

While staffing levels and geographic locations are established as described, employees from any location within the O&R system may be called upon as needed to service the RECO system. Additionally, contractor crews are used based upon the amount of work required and the time frame for completion. For example, the current vegetation management staffing levels for New Jersey include 15 contractor crew personnel, one contract supervisor for the distribution system program, and one Company supervisor for the transmission system program.

VIII.C.3 As Is The Case In Most Electric Utilities, With Regard To System Operation The Control And Monitoring Functions Of The Distribution System Are The Combined Responsibility Of Two Areas: System Operations And Electric Distribution.

In general, the distribution equipment located in substations is under the jurisdiction of the system operator, while all field equipment is controlled by the Distribution Supervisor. Both have responsibility for system restoration when outages occur, and close coordination is required during major system contingencies in order to minimize service restoration time.

The System Operators have control of all major 13.2kV and 24.5kV substation equipment through the SCADA system located at the Control Center in Spring Valley. Critical responsibilities include: maintaining proper distribution bus voltage, monitoring circuit and bank loadings, and control of breakers and switches. Alarms are received by the System Operators and Distribution Supervisors in the event of high or low voltage conditions, loading levels approaching equipment ratings, and non-supervisory breaker operations. Additionally, all manual switching performed in the station is directed and logged by the System Operators who are also responsible for working clearances and tags on substation equipment.

The Distribution Supervisors are responsible for directing and logging all primary switching in the field, maintaining proper primary voltages throughout the system, and responding to distribution system contingencies. Prior to each summer season, the proper circuit configurations are provided to the Operating Supervisors who have responsibility to maintain these configurations. Abnormal configurations caused by contingencies, equipment, or planned construction are directed by the Distribution Supervisors, and all tags and working clearances are also logged and released to field forces.

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VIII.C.4 The Major Components Of RECO's Distribution System Maintenance Program Are Tree Trimming, Circuit Inspection, Infrared Survey, And Pole Inspection

As described previously in this section of the report, the distribution tree trimming program is a four-year cycle of vegetation management intended to reduce the incidence and amount of tree contact with overhead lines and thereby reduce the number of related outages.

The circuit inspection program consists of field inspections of all primary distribution components. Equipment that is observed to be non-compliant with Company standards is identified and slated for repair and/or replacement. Items addressed include animal guards, bare wire taps, mechanical connections, lightning arresters, and spacer and spacer cable ties.

An infrared survey is performed annually on all three-phase primary conductors, while single-phase primary conductors are surveyed every four years. Thermal hot spots on distribution equipment are identified and corrected in order to prevent related failures. The pole inspection program annually surveys distribution poles for condition and soundness, and replacement work orders are recommended for poles found to be defective. Other distribution maintenance programs include periodic inspections of reclosers, sectionalizers, GOABs, and switch capacitors leading to reconditioning and adjustments as needed. Additionally, underground distribution system maintenance includes cable rehabilitation and replacement, and the addition of lightning arresters at selected locations in URD developments.

VIII.C.5 Substation Maintenance Practices Appear To Conform To Industry Standards

Routine substation inspections are performed monthly, while semi-monthly maintenance is scheduled for batteries, transformer

pumps, and fans. An infrared survey of substations is performed annually, while gas-in-oil analysis of transformers is done each year and diagnostic testing every two years. Major maintenance of breakers, reclosers, transformers, and regulators is scheduled on a four- to ten-year cycle taking into consideration the performance history and type of device. Relay maintenance is performed every two years on transformer bank relays and every four years on distribution relays.

VIII.C.6 The Company's Computerized Work Management System (WMS) Drives RECO's Capital And Maintenance Construction Work Process From Initiation To Closing, Is The Vehicle That Links Fixed Transmission And Distribution (T&D) Assets To The Financial Statements, And Provides Required SOX 404 Compliance Controls

RECO's T&D capital and maintenance construction work is driven by WMS, and captures work related to the Company's fixed assets. The scope of fixed assets includes the physical work performed as well as materials installed to build and maintain the Company's outside plant. Construction work is performed by O&R operations field crews and contractors, while materials are either issued from O&R Stores or received as accounts payable items. Individual job orders provide crews with a design, estimated labor hours, material requirements, loaded costs, and the proper accounts to be charged. When work is completed, the results are approved and submitted to Mapping and Plant Accounting.

Throughout the WMS there are hard and soft controls to help and guide users. The key to SOX 404 compliance is choosing the correct account number for labor and material charges. The WMS contains various work type pointers, tables, and system edits to ensure this. At its core, the WMS consists of three basic process blocks:

- 1) preconstruction (work initiation and design);
- 2) Construction (labor and material charges; and
- 3) post construction (completion and closing).

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Key input and output controls are in place for each progressive block to ensure completeness, accuracy, and validity of data, with restricted access.

These controls may be summarized into four groups:

- a. manual controls requiring human intervention;
- b. automated controls;
- c. detective controls that find mistakes after- the-fact; and
- d. preventive controls that create a firewall against mistakes.

These controls provide SOX 404 compliance germane to RECO's T&D fixed assets.

VIII.C.7 In Addition To WMS, Electric Distribution Operations Are Supported By A Full Complement Of Computerized Information Systems, With Planned Enhancements To The Functionality Of Many Of Them

The Company's electric distribution operations departments are supported by a number of key computerized information systems. These are listed in alphabetical order in the table below.

Electric Operations Information Systems

CIMS	Customer Information Management System
DEW	Distribution Engineering Workstation
EIMS	Electric Information Management System
EMS/SCADA	Energy Management System
GRID	Provides info to CIMS and plant accounting from NRG
Mobile Devices	Laptops used by personnel in the field
NRG	Mapping and mapped facilities viewer
OMS	Outage Management System
ORU.com	ORU internet website
PASS	Pole attachment storage system
VRU	Voice Response Unit- scripted automatic customer call processor
WMS	Work Management System

With regard to current and planned enhancements, the OMS provides a case in point. Enhancements underway include:

- a. availability of a real time storm management organization chart (storm matrix);
- b. instant messaging among OMS users;
- c. links to storm management documents;
- d. real time switching system integrated with NRG; and
- e. mobile modules integrated with NRG for damage assessment, tree work, and single service restoration.

Planned enhancements include ties to WMS and DEW, enhanced call transfer and VRU callback capabilities, and automatic notifications based on customers affected and outage durations.

VIII.C.8 Compliance With The New Jersey One Call System Is Appropriately Standardized And Documented Within O&R's Gas Standards: Location Of Underground Facilities/One Call System Dated 01/29/2009

The Gas Standard cited is designed to provide working rules for all underground facilities including RECO's electric facilities. In order to avoid damage, prior to anyone digging in the vicinity, the location of RECO facilities is marked out according to tickets that are called in by excavators to the One Call Systems in the service territory. The Company receives notification of intent to dig at three operating centers located at West Nyack, Monroe, and the Middletown facilities. For RECO, the mark outs are intended to conform to guidelines set forth in the NJBPU Underground Facilities Protection Act, Title 48.

Prior to the start date of the planned excavation or demolition work stated in the recorded notice, the Company directly notifies the excavator that either:

- 1) the Company has no underground facility in or within 15 feet of the work area, or
- 2) every Company-owned underground facility located within 15 feet of the work area has been staked,

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marked, or otherwise designated in accordance with the provisions of state guidelines.

On average, the Company uses two full-time employees as facilities locators in RECO's service territory. The Company states that although there is no requirement in New Jersey to measure and track mismarks and/or related damages, it does so and states that none have occurred in the past three to four years.

VIII.C.9 The Company Maintains Appropriate Procedure Manuals For The Maintenance, Construction, And Design Of The RECO Electric Distribution System

Detailed manuals of standards and procedures to be used in the design, construction and maintenance of the Company's electric distribution system are formulated to meet all aspects of the National Electric Safety Code (NESC). The hard copies are maintained at the Company's Engineering Department offices located in Spring Valley, New York. Additionally, many of these standards and procedures are accessible electronically in PDF format.

During the course of this study, a sampling of RECO procedures and standards was reviewed including:

- a. Distribution Vegetation Management – 2009;
- b. Transmission Vegetation Management – 2009;
- c. Distribution Planning Criteria;
- d. Capacitor Maintenance Procedure;
- e. Inspection and Groundline Treatment of Standing Wood Poles;
- f. Location of Underground Facilities/One Call System; and
- g. Guidelines for Preparation of Capital Funding Request.

Although these documents appear to conform to accepted electric utility standards, we note that the Distribution Planning Criteria document was undated and contained information on reliability

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statistics that was not current. We also note that in some cases work procedure documents were labeled Con Edison while others were labeled O&R.

In addition, we reviewed the quarterly and annual summaries of mandated electric meter testing and documentation of results for year 2008. We note that a sample of 1,603 meters of various types was tested by RECO during the year, and the outcome resulted in acceptance for all meter types.

VIII.C.10 The Environmental Services Department Provides Safety Training To All Electric Operations And Maintenance Personnel, And Maintains Appropriately Detailed Records Of Course Attendance And Results

Safety training and the associated record keeping are a function of the Safety Section within the Environmental Services Department.

Safety procedures and practices are documented in RECO's work procedures, which are available in hard copy and on-line. Along with safety training, incident investigations are performed as required. Additionally field inspections are conducted in order to assure both employee and contractor compliance with Company safety procedures.

Shown in the following table are safety statistics for the past three years including recordable and lost time injuries, and total company injury rate (TCIR).

Safety Statistics

YEAR	Recordable Injuries	TCIR
2006	44 (25 Lost Time)	4.25
2007	64 (38 Lost Time)	6.26
2008	51 (26 Lost Time)	4.75

As can be seen from the statistics, year 2007 experienced a spike in recordable injuries resulting in increased lost time incidents.

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However, year 2008 reflects a return to improved safety performance results.

With regard to training records, the Company keeps a detailed annual report of course attendance. For each employee receiving training, the report contains the following information:

- 1) employee name, ID number, and cost area;
- 2) course name and code number;
- 3) dates of training;
- 4) passed or failed; and
- 5) required frequency of the training course (e.g., every 12 months, etc.).

VIII.C.11 Recommendations

Review and update the Distribution Planning Criteria document, and provide an effective date as well as date of most recent revision(s).

As noted, the Distribution Planning Criteria document was undated and contained some statistics that were not current. It would be prudent for the Company to review and update this document on a periodic basis and include the effective date of all revisions.

Compile all applicable work procedures into a RECO-specific document.

In order to avert any confusion regarding which Con Edison or O&R work procedures and practices (or portions thereof) apply, it would be prudent to compile all those that specifically pertain to RECO and title them as such.

VIII.D SYSTEM PLANNING

System Planning ensures the reliability of the system as it is implemented.

VIII.D.1 RECO's System Planning And Load Forecasting Process Employs A "Bottom-Up" Method That Focuses On The Summer Season, Which Is When The Company Experiences Its Peak Load

In order to plan for the most extreme conditions, the summer peak is critical to the planning process. Each year after the May-September period, all of the distribution circuit loadings are tabulated and reported as metered. The highest non-coincidental reading for each circuit is used for peak planning purposes. The distribution circuit configuration is confirmed both before and after the summer peak period, as well as the contributions of curtailable and demand-side management (DSM) customers, if any. Adjustments are made to peak circuit readings as needed to reflect normal configuration.

Once the peak circuit readings are confirmed, a determination is made of the loadings on each substation transformer bank. This value is compared against the limiting factors in the substation such as transformer, bus, and switch ratings. A load growth factor that usually represents the corporate growth rate is applied to the summer peak readings except where major differences are observed and confirmed by historical trend analysis. New business loads are then added to provide the final forecast for the next year. This process is then repeated in order to provide a second year's projection. The resulting two-year projection constitutes RECO's short-term distribution load forecast.

VIII.D.2 Suitable To The Needs Of Capital Planning, The Two-Year, Short Range Forecast Is Projected Out To Develop A Five-Year Forecast On A Transformer Bank Basis

The five-year forecast serves as the basis for the Company's five-year capital improvements projection. Capital projects intended to reinforce the system and relieve anticipated peak load stresses are generally planned to be in service prior to the summer peaking season.

VIII.D.3 Contingency Planning Is Appropriately Performed Subsequent To, And In Light Of, The Two- And Five-Year Forecast Study Results

As a result of the two-year forecast, a single contingency analysis is performed on each circuit exiting each substation. Next, a contingency analysis is performed on both single and double transformer substations. And finally, the five-year forecast results are used to perform a contingency analysis on the loss of transformers only.

If the analysis shows that overloaded facilities under contingency conditions are likely, load is transferred to adjacent circuits and/or substations to eliminate the overload. If switching is unable to eliminate the overload condition, alternative capital improvements are analyzed and preference given to the least-cost plan. Such capital improvements may entail switch upgrades, the installation of a second substation transformer, or the construction of a new substation.

VIII.D.4 RECO Periodically Expands Its Five-Year Forecast Into A 15-Year Electric Delivery System Planning Study, And Is Currently Completing Such An Effort For The Period Years 2009-2023

The 15-year long term planning study takes into account a number of factors including:

- a. historical loads and trends;
- b. economic indicators based on Con Ed analysis of the RECO service territory;
- c. currently known county and municipal development plans;
- d. currently known customer development plans and new business projects in the planning stage; and
- e. various reports issued by local government authorities which may anticipate improvement projects for highways, sewers, railroads, or other infrastructure.

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The plan also assumes current economic conditions for the first 2-3 years, with recovery and growth anticipated in the 2012/2013 timeframe. Moreover, growth in Rockland and Bergen Counties is expected to slowly levelize over the 15-year period.

The long-range plan has been designed to address a number of RECO system goals which include:

1. Fully meeting transmission and distribution planning criteria. This will require the design of new and upgraded substations, and significant transmission system backbone reinforcements and capacity upgrades.
2. Reducing the average age of major equipment and transmission lines.
3. Eliminating known reliability issues and upgrading system limitations with new equipment and designs.
4. Improving system operation and efficiency, and reducing system losses.
5. Improving system robustness for expansion of automation and Smart Grid initiatives.

VIII.D.5 If Implemented As Planned, The 15-Year Study Will Bring RECO's Electric Distribution System Into 100% Compliance With The Company's Planning Criteria In About Five Years

According to the 15-year planning study, the following RECO distribution system conditions exist regarding substations, transformer banks, and circuits for year 2009:

Facilities Meeting Planning Criteria – Year 2009

Facilities	No. of Facilities	% Meeting Planning Criteria
Substations	13	92%
Transformer Banks	24	96%
Circuits	78	81%

In order to meet distribution planning criteria, projects planned for the first five years (i.e., 2009-2013) have been identified and are reliability driven. This means that these projects should be

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constructed even if there is little or no load growth. The following table lists RECO's major projects scheduled for years 2009-2013.

Distribution Projects

Harings Corner Substation: New switchgear and UG exits (2009)
South Mahwah Substation: Upgrade to 2 – 50 MVA bank station (2012)
New Wyckoff Substation: 2 – 50 MVA bank station (2013)
Montvale Substation: Upgrade to 2 – 50 MVA banks (2013)
New Corporate Drive Substation: 3 – 50 MVA bank station (NY – 2010)
New Tappan Substation: 2 – 50 MVA bank station (NY – 2013)

Transmission Projects

Line 652: Begin 138 kV backbone into Bergen County
Y94 Tap to Lovett

The combined effects of these projects are expected to produce the following results on RECO's electric distribution system conditions in year 2013.

Facilities Meeting Planning Criteria – Year 2013

Facilities	No. of Facilities	% Meeting Planning Criteria
Substations	14	100%
Transformer Banks	28	100%
Circuits	91	99%

RECO's electric distribution and transmission systems are expected to fully meet all planning criteria during the second five-year period of the study, i.e., by year 2018.

VIII.D.6 Recommendations

Implement the projects listed in the first five-year portion of the 15-year electric delivery planning study, and continue to monitor and update project priorities for the second and third five-year segments.

As noted, the projects included for construction during years 2009-2013 are reliability driven and critical to bringing electric system conditions up to current planning criteria levels. While projects proposed for years 2014-2018 and for years 2019-2023 are important to maintain reliability, they are also designed to address anticipated customer and growth. Additionally, they will have the salutary effect on aging assets by significantly reducing the average ages of substation transformer banks, breakers, and related facilities and equipment.

VIII.E LOAD MANAGEMENT

VIII.E.1 Although RECO Has No Interruptible Rates Or Curtailable Load Programs, RECO Has Received An Order From The NJBPU Approving Its New Jersey Demand Response Program

The NJBPU approved the New Jersey Demand Response Program on December 10, 2008 for implementation during the summer of 2009. This program is intended to provide additional incentive to curtailment service providers (CSPs) to increase the State's participation in PJM's ILR Demand Response Program. The new incentive, which is in addition to that provided by PJM to register for load reduction, provides \$22.50 per MW day to CSPs for customers that are registered and actually reduce load during called events. At the time this program was approved, PJM was offering \$188.00 per MW day.

Under this program, CSPs were authorized to seek participants during a recruitment period that ended May 1, 2009. RECO's role

was to assist the CSPs by confirming customer load information so that load could be accurately registered with PJM. As a result, four CSPs secured registration from six participating customers totaling 1.5 MW.

If no events are called during the summer, PJM has authority to call a test in September 2009 during which all registered customers must participate. If participating customers comply with actual curtailment events or the test event, the CSPs receive the incentive payments. RECO has budgeted \$80,000 to fund this incentive to be paid by December 2009.

VIII.E.2 RECO's Energy Control Center Adequately Maintains A Manual Regarding PJM Load Relief Programs, Which Is Updated And Submitted Annually To The PJM

The Load Relief Programs manual describes measures and steps to be taken by the Company in order to maintain system reliability in the event that PJM initiates load relief activities affecting the RECO system. For example, contained in the manual is "Step II-B, Request Voluntary Curtailment by Large Industrial and Commercial Customers." This is a voluntary program involving RECO's largest customers, for which no monetary reimbursement is provided, nor is it governed by tariff.

In order to support this effort, the New Business Department contacts RECO's largest customers annually to provide education regarding the program and confirm customer load shedding potential. These customers also receive advance warning when there are potential reliability issues due to weather, maintenance, or generation availability. Educating customers about system reliability issues enhances their ability to make informed decisions regarding energy consumption and company operations.

RECO states that customers tend to reduce lighting and air conditioning loads as requested by PJM. The Company's New Business Department maintains and updates the list of large

customers who voluntarily reduce their load. This group potentially offers a significant beneficial impact during periods of peak usage.

VIII.E.3 RECO, As Part Of O&R, Is Fully Compliant With Reliability Standards Identified In The NERC 2008 Implementation Plan

An on-site compliance audit was performed by the Northeast Power Coordinating Council (NPCC) during May 2008. The objectives of the audit were to:

1. independently review the Company's compliance with requirements of the applicable reliability standards for registered functions;
2. validate compliance with applicable standards from the NERC 2008 Implementation Plan list of actively monitored standards;
3. validate evidence of self-reported violations and review the status of associated mitigation plans; and
4. document the Company's compliance culture.

The audit found that evidence provided by the Company demonstrated its compliance was complete and well organized.

VIII.F FUELS MANAGEMENT

No electric generation units are owned or operated by RECO, nor are any located in RECO's control area in New Jersey. As a result, there is no need for a fuels management function or organization to serve RECO.

***VIII.G POOLING, INTERCHANGE AND ECONOMIC
DISPATCH***

***VIII.G.1 Pooling, Interchange And Economic Dispatch Activities
Are Performed By The New York Independent System
Operator (NYISO) And The PJM Regional
Transmission Organization (PJM RTO)***

The NYISO operates the bulk electricity grid and administers wholesale electricity markets, while the PJM RTO manages the reliability of the electric transmission system and operation of wholesale electricity markets in a defined control area that includes New Jersey. As such, these entities are responsible for pooling, interchange and economic dispatch activities in the Company's service territory. We note, however, that the Company's Control Center is equipped with a GE-Energy XA/21 SCADA/EMS System with industry standard communication interfaces to allow secure exchange of data with the NYISO and PJM.

IX. CLEAN ENERGY

Under the Clean Energy Program established as part of EDECA, the NJBPU has instituted a number of initiatives to reduce peak demand, conserve finite resources, and promote new technologies.

The RFP requires that the contractor shall review the utility's participation in the various programs and assess RECO's accounting controls relative to the Clean Energy Program. Each of these issues is addressed and followed by a conclusion and associated findings. Where necessary, recommendations are presented.

IX.A PARTICIPATION

IX.A.1 RECO's Participation In The Various Clean Energy Programs Has Transitioned During The Period Of Years 2006-2009

The NJBPU establishes an annual budget for each utility to fund Clean Energy Programs from the Systems Benefits Charge (SBC) collected from customers. RECO provides monthly payments in accord with this budget and is required to deduct any expenses needed to operate utility managed programs as designated by the NJBPU. Shown in the following table is a listing of Clean Energy Program elements.

Clean Energy Programs

Residential HVAC
Residential New Construction
Energy Star
Residential Low Income (Comfort Partners)
C&I Construction
Clean Power Choice

During the period of year 2006 to date, the management of these programs has transitioned. In 2006 and a part of 2007, the listed programs were managed by the utility. During 2007, in

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consideration of its size, RECO was permitted to contract with PSE&G to manage its Clean Energy Programs at the established budgetary levels. However, all companies were required to manage their respective Clean Power Choice program, as defined by the Division of Clean Energy, which provides a vehicle for customers to purchase renewable ("green") power.

Additionally, during year 2007, the Clean Energy Programs were gradually transitioned to the NJBPU Office of Clean Energy (OCE), with the exception of Comfort Partners and Clean Power Choice. Management of these two programs remained a responsibility of the utilities.

In year 2009, RECO's participation in the Comfort Partners Program was suspended when its contracts with PSE&G and Honeywell (the Program implementer) ended and were not renewed. RECO subsequently petitioned the NJBPU for permission to initiate its own low-income energy efficiency program in place of Comfort Partners, but the petition has not yet been ruled upon.

IX.B BUDGETING

IX.B.1 RECO's Annual Budgets For Clean Energy Programs Have Increased For Three Of The Past Four Years, As Have Their Actual Annual Expenditures

Shown in the following table are RECO's Clean Energy Program annual budgets and actual expenditures for the years 2006-2009.

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RECO Clean Energy Program Budgets and Expenditures

YEAR	BUDGET	ANNUAL EXPENDITURE
2006	\$2,413,740	\$2,414,800
2007	\$2,998,900	\$2,777,882
2008	\$3,501,700	\$3,677,820
Sub-Total	\$8,914,340	\$8,870,502
2009	\$3,437,700	N/A
Total	\$12,352,040	N/A

The OCE compiles the annual benefits and savings that result from the Clean Energy Programs with the exception of Clean Power Choice. RECO states that for 2009 year-to-date, 189 customers have participated in this program. This compares with 88, 153, and 171 customers participating during years 2006, 2007, and 2008, respectively.

IX.C DOCUMENTATION

IX.C.1 RECO Has Documented And Exercises Appropriately Detailed General Accounting And Control Procedures That Provide Clear Guidelines For The New Jersey Societal Benefits Charge Which Includes The Clean Energy Program

Included in the Company's general accounting procedures are guidelines that specify the accounting treatment for New Jersey's Societal Benefits Charge (NJSBC), which is a provision of the Electric Discount and Energy Competition Act (EDECA) established in February 1999. The NJSBC is a surcharge on the ratepayer's utility bill to recover, inter alia, funding for social programs including the Clean Energy Program.

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According to the Company's General Accounting Procedure dated 10/31/08, the SBC component of the rate surcharge includes:

- a. labor/overhead costs incurred by RECO;
- b. DSM costs (part of the legacy programs) incurred for work done by contractors; and
- c. Clean Energy Program administered by the NJBPU. As stated earlier, the funding level for this program is determined by Board Order annually based on Company and BPU projections. The resulting ratepayer surcharge is calculated in April by RECO and becomes effective in August each year.

With more specific regard to RECO's accounting procedures and controls, O&R Energy Services charges the SBC program expenses through work orders which are cleared to the Miscellaneous Customer Service and Information Expenses account (910500). Payroll also charges labor expenses incurred by RECO through work orders. On a monthly basis, O&R Energy Services submits a check request with the appropriate work order to accounts payable (AP) to send funds to the relevant contractors who worked on the DSM program. Similarly, O&R Energy Services also submits a check request with the appropriate work order to AP to send funds to the NJBPU relating to the Clean Energy Program. These work orders are automatically cleared to the Regulatory Assets account (182425).

General Accounting records these monthly expenses by debiting Customer Service Expenses and crediting Regulatory Assets. Also on a monthly basis, General Accounting prepares a true up of SBC collections to the amounts expensed, with interest, to defer any over/under collections. For example, in the case of an over collection, the Other Electric Revenues account (456013) would be debited, and the Regulatory Liabilities account (254088) would be credited. Opposite entries would be made for under collections.

IX.D CURRENT PROGRAMS***IX.D.1 RECO Has Received Approval From The NJBPU For A Solar Renewable Energy Certificates (SREC) Based Financing Program, And A Demand Response Incentive Pilot Program***

On February 2, 2009, pursuant to Order of the NJBPU in Docket No. EO06100744, RECO petitioned the NJBPU for approval of an SREC-Based Financing Program. On July 29, 2009, RECO's SREC-Based Financing Program was approved by the NJBPU. This program provides for RECO to solicit bids for the purchase of SREC's for solar projects to be installed in its service territory. The solicitation process would be conducted by NERA Economic Consulting as the Solicitations Manager along with the RFPs of Jersey Central Power & Light and Atlantic City Electric. NERA would evaluate the bids which would then be approved by the BPU. The SRECs would be purchased by RECO under contracts with terms from 10 to 15 years. SRECs would then be auctioned by RECO in the platform established by Public Service Electric & Gas as part of its solar loan program. Any differential, positive or negative, between the contract purchase price and auction price will be cleared through a Regional Greenhouse Gas Initiative (RGGI) surcharge to the customer. The Program size is 3.769 MW through 2012, and solicitations will be made on a quarterly basis with SRECs ranked on a net present value basis. RECO is preparing to join in the next round of solicitations anticipated to occur in January, 2010.

As noted in Section VIII, "Distribution and Operation Management", on December 10, 2008, the NJBPU approved the NJ Demand Response Program for implementation during the summer of 2009. The NJBPU approved this program to provide an additional incentive to Curtailment Service Providers (CSPs) to increase the State's participation in PJM's ILR Demand Response Program. This incentive is in addition to that provided by the PJM to register for load reduction during this period. The new incentive provides \$22.50 per MW day to CSPs for customers that are registered and actually reduce load during called events. At the

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time of program approval, PJM's program was providing \$188.00 per MW day.

The program operates by authorizing CSPs to seek participants during a recruitment period which ended May 1, 2009. Four separate CSPs secured registrations from six separate participating customers totaling 1.5 MW. During the recruitment period, RECO's role was to assist the CSPs by confirming customer load information so that load could be accurately registered with PJM. If no events are called during the summer, PJM has authority to call a test in September 2009, during which all registered customers must participate. CSPs receive the incentive payments if participating customers comply with actual curtailment events and/or the test event. RECO has budgeted \$80,000 to fund this incentive to be paid by December 2009.

IX.E POTENTIAL PROGRAMS

IX.E.1 RECO Has Submitted Four Additional Programs That Have Not Yet Been Approved By The NJBPU: 1) A/C Cycling Program, 2) Energy Efficiency Pilot Program, 3) Solar Loan Program, And 4) Energy Efficiency Economic Stimulus Program

A brief description and status of these four programs follows:

A/C Cycling Program: RECO filed for an A/C Cycling Program in June 2007 for the 2008 summer period pursuant to its prior electric rate case. The Program was re-submitted to the Board on August 1, 2008, as part of the Company's Demand Response Program filed in compliance with Board Order dated July 1, 2008, in Docket Nos. EO08050326 and EO08060421. The program was designed to provide for central air conditioner cycling with two-way communication for 3,000 participants over a three-year period, with estimated demand reduction of 3 MW. For each participant, RECO would provide and install new thermostats with two-way communication capability and a \$50 up-front participation incentive. RECO has completed discovery in the proceeding.

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Energy Efficiency Pilot Program: RECO filed its Petition for an Energy Efficiency Pilot Program on September 2, 2008. The Program included the following ten components:

- a. Low Income Weatherization Program;
- b. a Residential Direct Installation Program;
- c. a Small Business Direct Installation Program;
- d. a Large C&I Energy Audit Program;
- e. an On-Line Audit Program;
- f. a Market Potential Study;
- g. a Contractor Education Program;
- h. a Residential Lighting Program;
- i. an In-School Outreach and Education Program; and
- j. a "Watt if" Outreach and Education Program.

RECO received a deficiency letter on its petition from the NJBPU Staff under the Board's RGGI regulations. Parts of this Program were re-submitted to the Board on January 19, 2009, as part of the Company's Energy Efficiency Economic Efficiency Program and, as such, the Company does not anticipate pursuing this Petition further at this time.

Solar Loan Program: RECO filed its Petition for a Solar Loan Program with the NJBPU on September 2, 2008. The Program would provide \$6 million in loans, funded through a customer surcharge, for residential solar installations in the service territory over a three-year period. The loans would be administered by a third-party lending institution repaid by the customer with cash or with SRECs. RECO received a deficiency letter on its petition from NJBPU Staff under the Board's RGGI regulations. The Company is working on completing the application.

Energy Efficiency Economic Stimulus Program: On February 20, 2009, RECO filed its Energy Efficiency Economic Stimulus Program with the NJ BPU. The Program provides for the following components:

- a. Residential Direct Install Program;
- b. On Line Audit Program;
- c. Market Potential Study; and

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- d. USF Low Income Audit and Direct Install Program. RECO has been engaged in settlement negotiations with NJBPU Staff, the OCE, and Rate Counsel regarding its Program.

The Company recently submitted to the Board an extension stipulation, agreeing to extend the 180-day RGGI deadline to act on the Petition to September 24, 2009, to allow sufficient time for administrative processing.

X. CUSTOMER SERVICE

The RFP requires a review of customer service areas to determine if RECO is serving the best interests of its ratepayers. The RFP defines those areas as meter reading and services provided to the customer.

X.A METER READING

Rockland Electric Company (RECO) is the electric service area that is regulated by the New Jersey Bureau of Public Utilities (BPU), and has no actual employees. Orange and Rockland (O&R) employees perform the functions that provide approximately 72,500 New Jersey customers with electric utility service. RECO's service territory includes 25 municipalities in Bergen, Sussex and Passaic Counties. RECO provides default electricity supply, which is the supply of electricity at regulated rates, to retail customers in its service territory who do not elect to purchase electricity from a competitive supplier.

X.A.1 *Customer Services Are Well Defined And Treated As A Major Function*

The Orange & Rockland Customer Service structure includes Energy Services, New Business, Customer Assistance, the CIMS Business Group, Customer Support Operations and Customer Meter Operations. Also known as Customer Field Operations, the Director of Meter Operations reports to the Vice President Customer Service and is responsible for field operations to include but not limited to cycle and non-cycle meter reading activities.

Orange & Rockland divides its meter routes into three divisions. The RECO meters are co-mingled into meter reading routes as determined by geographic location. The exact number of RECO routes and meters in each of the three divisions was not readily available during the onsite interview. However, in round figures, the Eastern Division (West Nyack, NY) contains approximately 80.0% of the New Jersey (RECO) meters, the Central Division (Blooming Grove, NY) approximately 15% and the Western Division (Middletown, NY) approximately 5% of the New Jersey meters.

Customer monthly Scheduled Read Days are established one year in advance. Meter reading routes are downloaded from the customer/billing data base (CIMS) to the meter reading system (Itron) two days before they are scheduled to be read in the field. If all meters in a route are read the first day, the readings are uploaded from Itron to CIMS and billed overnight. If a route has not been completed an attempt is made to complete reading the route the following business day. Thereafter the route is uploaded to CIMS, billed overnight, and an estimate is generated for any unread meters. RECO does not outsource meter reading.

X.A.2 Meter Reading Is Still A Manual Effort With Field Meter Readers

O&R employs 60-65 meter readers, each of which is assigned a small vehicle, usually a pick-up truck, to optimize their assigned route coverage.

Two different systems are utilized to read RECO meters using Itron's Premier Plus 4 meter reading system. Meter Readers are equipped with Itron's G5 handheld unit. The G5 utilizes different methods to capture customer electric consumption data depending on the functionality of the meter. The Meter Reader enters traditional electro-mechanical meter readings manually into the G5. Solid-state electronic meters are read either through an optical port on the meter or wirelessly by the Meter Reader. Itron's MV90xi system is used to remotely interrogate meters at customer' premises using either a dedicated landline or cellular technology. The latter system is primarily used for larger customers and those customers that are on Mandatory Hourly Pricing. Most RECO meters are residential. Any large accounts serviced in the New Jersey territory are primarily commercial rather than industrial.

Approximately 10,000 Orange and Rockland bills are generated each month using estimated readings, representing 3.3% of the total monthly bills issued. Of that number approximately 25% are RECO bills. Customers may avoid an estimated bill by providing their meter readings through the computerized telephone system (VRU) or the Internet within 24 hours of the Scheduled Read Date, i.e. the day the Meter Reader was at their location.

Year-to-date 2009, customers have provided 5,017-meter readings through the VRU system or the Internet, of which 3.9% were RECO customer meter readings.

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Some lighting programs in the RECO territory are categorized as unmetered usage services, such as public street lighting and private overhead lighting. These services are billed at a flat rate predicated on burn hours to calculate usage. These services are supplied for limited periods, i.e. dusk to dawn illumination, and are photoelectrically controlled for approximately 4,100 hours per year, approximately 60 cycle and at appropriate voltages or currents as designated by RECO.

X.B EFFECTIVENESS OF CUSTOMER SERVICE

X.B.1 Customer Assistance Is Headed By Experienced Management

The Director, Customer Assistance also reports directly to the Vice President Customer Service and is responsible for the Customer Assistance Department, which includes the workforce that responds to customer telephone calls, written inquiries including via the Internet, and the accurate and timely production and distribution of monthly customer bills. The current incumbent has been employed by O&R for twenty years, initially in financial and regulatory affairs positions. In early 2005 she was appointed to her current position.

Customer Service is centralized at the Spring Valley, New York location, is the only call center for O&R and services RECO customers as well. O&R also supports walk-in customer service centers in Blooming Grove and Fort Jervis, New York and Milford, Pennsylvania as well as Spring Valley. All locations are available to walk-in customers from 8:00 AM to 4:30 PM, Monday through Friday. RECO customers may drop off check payments in Saddle River, New Jersey.

There are a total of 65 Customer Service Representatives (CSR's) available at the Spring Valley call center and the walk-in offices. The duties of the Customer Service Representatives 3rd Class, 2nd Class and 1st Class are identical except for the period of time in the classification. The positions are covered by the bargaining unit and progress from the lower to the next higher classification after 12 months in the respective classification. The entry-level classification (CSR 3rd class) requires at least one year's related experience, preferably within the utility, and is supervised by the CSR 1st class. All three classifications are the primary respondent to customer calls for service, emergencies, questions about bills and payment arrangements. The fourth classification, Senior CSR, handles more complex customer issues, inquiries from commission and

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social agencies, authorizes deposit waivers and refunds, assists in the on-job training and assigns daily work to Customer Service Representatives.

CSR's are permitted to escalate customer calls to either a Senior Customer Service Representative or a supervisor for resolution. If a resolution cannot be reached the customer issue or complaint will be turned over to Customer Support Operations. Customer Support also responds to all inquiries received through the Bureau of Public Utilities and letters to the O&R executives.

X.B.2 Customer Assistance Is Well Covered

The CSR's respond to all customers serviced by O&R from 8:00 AM to 7:00 PM, Monday through Friday. Due to overlapping shifts, the maximum number of CSR's available during normal office hours would be 54 plus 4 Senior CSR's. Two CSR's remain on duty until 9:00 PM for emergency calls only. The Energy Control Center in Field Operations also accepts and responds to after hours emergency calls. In the event of a major outage, as many as needed up to and including all CSR's are called in to cover the customer calls and inquiries. Although the average number of calls per month will vary in accordance with outages and emergencies caused by weather conditions, the average monthly incoming calls from 2006 through 2008 ranged from 60,000 to over 66,000. The number of calls during the 8:00-4:30 office hours averaged 50,000 per month. There have also been approximately 11,000 on-line contacts annually in the last two years.

X.B.3 Performance Metrics Are Well Established

The corporate performance goal for the call center is to answer 74% of the incoming calls within 30 seconds during the 8:00 AM – 4:30 PM time frame. From 2006 through 2008 that goal was surpassed. Customer Assistance was to respond to at least 92% of written customer correspondence within five (5) business days. Again, the corporate goal was met or exceeded.

Internet inquiries, which became available to O&R customers in 2007, had a target of 92% response within 24 hours. In both 2007 and 2008 that goal was surpassed. Surveys of customers that had contact with the Call Center were initiated in 2007 and are performed on a monthly basis. Actual satisfaction results were 91.6% in both 2007 and 2008. RECO was

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included in the preceding statistics. Statistics applicable to RECO alone could not be determined.

The VRU system that processes incoming calls begins with a recording that pre-sorts the call. After thanking the caller, the recording offers service in English or Spanish. It then proceeds to pre-sort the calls by a gas or carbon monoxide emergency (press 1), to report an electric outage (press 2), if the customer is moving or wants service connected or disconnected (press 5), inquiries concerning payment, billing or meter reading (press 3), offers a direct connection if you know your party's extension (press 4), and finally, to speak to a customer Service Representative press # or say "zero".

When the call finally reaches a CSR, the system tells the CSR what state the caller is calling from, and if the incoming telephone number matches the account telephone number of record, displays the customer's account on the CIMS customer information system computer terminal.

X.B.4 Training Is Extensive

Regulations for New Jersey electric customers require some differences in service. Upon hiring, all CSR's attend full time training lasting 13 to 16 weeks, during which they are trained to handle both gas and electric services for all three states, i.e. customers in New Jersey, New York and Pennsylvania. Once training has been successfully completed, they are closely supervised and have available for immediate assistance more experienced Service Representatives, should they have questions concerning variances in State service conditions and/or regulations.

Although the Customer Assistance Department makes payment arrangements with delinquent customers, the Section Manager – Customer Support Operations is responsible for managing the accounts receivable processes as well as overseeing the escalated complaint process. Like the Directors of Customer Assistance and Meter/Field Operations, Customer Support Operations also reports to the Vice President Customer Service.

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X.B.5 Collection Activities Are Well Defined

Monthly utility bills issued by the Customer Assistance Department have a due date of 25 calendar days from the bill date. All O&R customers are assigned an internal credit rating based on their respective payment history. Residential customers with an "A" rating will get a notice that termination of service is pending 25 days after the bill due date. Fourteen business days after the termination notice was issued the customer is contacted by telephone, and if satisfactory payment arrangements are not made, the service will be disconnected within three days.

This process is accelerated when the customer does not have as good an internal credit rating. Residential customers with a "B" internal credit rating receive the notice of termination pending five days after the bill due date. Residential customers with a "C" internal credit rating receive the termination notice if the bill is not paid on the due date. The follow-up after the issue of the termination pending notice is the same for all three residential account credit ratings.

Non-residential accounts have tighter collection controls. The "A" rated accounts are issued a termination notice 11 days after the bill due date. "B" rated accounts are issued a termination notice 5 days after the bill due date, and "C" rated accounts are issued a termination notice on the bill due date. Telephone contact is made 11 business days after the issue of the termination notice, and in the absence of satisfactory payment arrangements, the service is disconnect for non-payment within three days.

Based on outside temperatures, utility services in support of home heating are not disconnected for non-payment during the winter months. In recognition of an increase in delinquencies during the winter months, and a spring "recovery" period, the following four-year aging of the RECO accounts receivable represents the twelve month periods ending in June of each year.

Aging Of Accounts.

Date	Current	30 days in arrears	60 days in arrears	90 days in arrears	Over 90 days
06/06	89.15%	7.6%	1.46%	0.75%	1.05%
06/07	89.97%	7.43%	1.32%	0.51%	0.77%
06/08	89.49%	7.01%	1.78%	0.69%	1.02%
05/09	83.18%	9.47%	3.10%	1.53%	2.63%

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Industry objectives are to be 80% current with less than 2.0% over 90 days. These objectives are not always achieved. A recent review of an East Coast utility revealed a two-year history just prior to our current economic crisis wherein the utility was well below the 70th percentile in its current collections, and well above 10% over 90 days. The results achieved by O&R are outstanding.

X.B.6 Conservation Efforts Are Measured

Since 2006, RECO has participated as a pledge driver in the nationwide ENERGY STAR – Change a Light, Change the World Campaign. The program encourages people to switch to more energy efficient compact fluorescent light bulbs. Statistics for the initial year of RECO's participation were combined with all of Orange and Rockland Utilities, Inc. subsidiaries. In the second year RECO's results were separated.

For the 2007-2008 program period, RECO generated 553 pledges, initiating the installation of 3,295 energy efficient compact fluorescent light bulbs. This represents an energy savings of 929,190 Kilowatt hours. Pledges were obtained from RECO customers largely through participation at community events, conservation workshops and the annual Suburban Home & Garden Show. In addition to ENERGY STAR, RECO has implemented Office of Clean Energy programs, which promote ENERGY STAR appliances.

X.B.7 RECO Participates In The NJ Clean Energy Programs

The NJ Clean Energy Program provides rebates to RECO customers when they install qualifying energy efficient air conditioners and heat pumps.

Annually the New Jersey Bureau of Public Utilities (NJBPU) establishes a budget for each utility to fund Clean Energy Programs. During 2006-2007, in consideration of its size, RECO was permitted to contract with PSE&G to manage the Clean Energy Programs. The Clean Energy Programs were gradually transitioned to the Office of Clean Energy (OCE) during 2007, with the exception of the Comfort Partners and Clean Power Choice.

The latter two programs continued to be managed by the utilities. RECO's participation in the Comfort Partners Program was suspended in

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2009. RECO petitioned the NJBPU to be permitted to initiate its own low-income energy efficiency program in place of the Comfort Partners program. The NJBPU had not ruled on the Company's petition at the writing of this report.

XI. EXTERNAL RELATIONS

The RFP provides clear direction for the audit of this function. It states “the contractor shall assess and make recommendations regarding the effect of RECO’s management of the external relations function – the methods by which RECO relates to its various stakeholders (i.e., customers, regulators, media and investors) in the fulfillment of the Utility’s corporate goals and objectives.”

XI.A COMMUNITY CONCERNS

XI.A.1 No Community Concerns Surfaced During Our Review

PMC used several sources of information to research and analyze RECO: the Internet for topical issues and to analyze the Orange and Rockland website, data requests and in-depth interviews with key personnel. The internet search revealed no serious system related problems or community concerns over proposed projects within RECO’s service territory.

XI.A.2 The Public Affairs Department Has Defined, Strategic Objectives

External Relations activity is primarily performed by the Public Affairs Department (PA), which provided a document for the period dated 2006 – 2008, that expresses their mission and strategic objectives. The document defines their stakeholders as customers, governmental and educational entities, businesses, community leaders and non-profit organizations. The following are the primary strategic objectives, each of which are broken down into several specific results oriented tasks:

- Providing Reliable service at reasonable costs;
- Being responsible stewards of the environment;
- Enhancing external relationships;

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- Strengthening the company's support activities; and
- Strengthening the company's human resources

RECO provided a breakdown of expenses for RECO, which increased between 2006 to 2008 by 4.1%. The summary of expenses was broken down into four major categories. Over the three year period costs were displayed by functional programs and the percentages represent the three year percent of total expenditures:

- Corporate Programs, 12.5%, spending for charitable giving and grants
- Economic Development, 6.1%, for salaries of staff assigned to that area
- Community Relations, 22.2%, for salaries of staff assigned to that area
- Corporate Communications, 59.2% for salaries of writers, media relations, advertisement placements and maintaining their website

The goals and objectives established for RECO in 2006 to 2008 will remain the same with slightly more emphasis on increasing the charitable giving in New Jersey and better balance of participation with mayors between New York and New Jersey. RECO intends to use the Community Investment Grants Committee to select uses for the additional monies.

XI.B PUBLIC RELATIONS - CUSTOMERS

Based on the results of interviews and responses to DRs, PMC determined the Public Affairs Department is comprised of the Communications and Public Affairs (PA) Departments and each perform tasks specific to their respective departments with apparently little cross over or duplication. Based on interviews and review of job descriptions, employees' assignment of time shared

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by RECO and Orange and Rockland varies but responsibilities are identical. The responsibilities of the PA staff focus primarily on working with the local, elected and appointed, officials.

XI.B.1 Out-Reach Programs Are Well Defined

The Communications Department provides community out-reach to customers using a variety of methods which pertain to a wide range of issues. In an interview the manager of Corporate Communications the methods used were explained in more detail and include the Internet, bill stuffers, and brochures, instructional guides for emergency responders, customers and local elected officials. The comprehensive Website, hosted and managed by O&R and RECO, provides a range of useful information ranging from customer specific information to storm and outage data to safety issues and customer rights and responsibilities.

XI.B.2 Response Teams Are Well Staffed

RECO maintains a Community response team consisting of 46 non – PA employees who are cross trained and located in strategic locations throughout the service territory. These individuals are used to facilitate communications during storm outages between company operations staff and local officials. Every other year RECO conducts meetings with Emergency response personnel with city and county non elected officials. Elected officials are provided 24/7 access to PA representatives.

An internet search of RECO by PMC found no articles expressing poor performance of the utility. Complaint Ratio Reports provided by the company indicated that the number of customers expressing themselves or filing complaints represented less than 1/10th of 1% of customer base of RECO. Results of a Customer Survey taken in 2008, show few respondents. The survey dealt primarily with customer's impressions of Customer Service Representatives (CSR) ability to assist the caller. The BPU customer complaint ratio reports for 2007 and 2008 were divided into four categories,

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i.e. collections, billing, service, all other. Over the two year period covered in the reports, complaints were equally divided approximately, 24 – 29% for collections, 26 – 29% billings and 40 – 49% service issues. Only 34 customers called to complain in 2007 and 55 in 2008.

XI.B.3 Survey Results Indicated Successful Out-Reach Efforts

No major incidents reported in news papers or press releases other than storm damage issues. The brochures developed by the Communications Area were informative and developed along seasonal issues. Results of a Customer Survey taken in 2008 did not reveal any signification issues. Survey results were generally positive; however responses of some respondents were less favorable with having to use the automated customer service system. There were few complaints about high rates. There were several compliments for the amount of information and assistance callers received from Customer Service Representatives (CSR); however, complaints by respondents were that the CSRs were too technical or callers were given too little information concerning the status of outages.

XI.C REGULATORY AND LEGISLATIVE AFFAIRS

The department has no direct regulatory responsibilities. According to interview discussions PA personnel on occasion accompany RECO Operations personnel when they attend discussions or hearings held with NJBPU staff. The Director of O&R/Westchester Public Affairs directs the state and local governmental relations activities for RECO in the State of New Jersey. The primary goal is to ensure the company's position is adequately expressed and the impact of proposed programs on customers and/or RECO are presented.

XI.C.1 RECO Benefits From Industry Organization Memberships

Memberships in several Regional industry associations assist RECO in various areas such as maintaining good relationships with community leaders and legislative affairs. Interviews with PA staff affirmed the usefulness of participation in the various industry associations. The New Jersey Utility Association provides analysis of legislative bills and sends emails daily to the Director of PA, which, in turn, are forwarded to the appropriate department within RECO and O&R, which includes the Legal, Environmental, Regulatory Affairs.

The last two rate cases filed by RECO indicated one in 2006 which was effective in April of 2007 for 3.4% increase and another request in 2002 which was effective in August of 2004 for increase of 1.7%. In the interview with the Director of PA, PMC was told RECO had recently filed a rate request and were provided a link to a news release posted on the Internet by RECO. According to the press release, the company filed an electric base rate case with the NJBPU on August 17, 2009. The company is seeking approval of a \$9.8 million an overall revenue increase of 3.8 percent. The expressed purposed of the increase is to cover "operating expenses, infrastructure investment needs, taxes and fixed charges as well as increase costs associated with employee health care and pensions."

XI.C.2 RECO Does Not Take An Active Role In Lobbying

A response to the request for a list of state House or Senate Bills the RECO lobbied for or against during 2008 was that RECO did not lobby for, or against, any bills in the state legislature. A request of the Substantive Hearings, in which RECO staff testified indicated neither O&R nor RECO representatives testified in any substantive committee hearings in 2008.

XI.D MEDIA/CUSTOMER COMMUNICATIONS

The Communications Department is responsible for coordinating responses to the media on all matters pertaining to the utility. In the interview with the Manager of Corporate Communications, in which he explained the various venues utilized to disperse information in a timely and meaningful manner. The Manager is available to media representatives 24/7 to explain outages, their location(s) and estimated restoration time and proposed projects planned within the service territory of RECO.

RECO has developed several strategies for communicating with the Media as well as customers both voluntarily and in compliance with state or federal guidelines. The website maintained by RECO is a product of the Communications Department and provides up to date storm outage information on a geographic basis. The information includes capabilities to determine by community the number of customers out of service, estimated restoration time. The system is automatically fed from the Outage Management system, so information is up to date. RECO also provides a condensed version of their website for cell phones giving customers and the media access to storm outage information, billing information including the primary matters of interest to customers.

Eight times a year RECO sends customers brochures developed along seasonal issues that impact the customers and utility. The information provided in the brochures is also provided on the website maintained by RECO, in addition to mandated information requirements. Some topics covered in the brochures include programs and services, customer rights and responsibilities, energy efficiency tips, help with paying bills and safety.

XI.E INVESTORS

RECO has no contact with investors. The Utility cited the Liberty Management Audit conducted in 2003, in which the report found no material impact by the parent company. The Utility stated that during the last three years there were no financial placements.

XII. SUPPORT SERVICES

This area covers the RFP's requirement to examine the following RECO support services and determine their effectiveness in accomplishing their objectives of providing a favorable environment for RECO's operations and service:

- a. insurance;
- b. legal;
- c. facilities management; real estate and land management
- d. materials management;
- e. transportation;
- f. computer systems and services;
- g. records management; and
- h. security of infrastructure.

XII.A INSURANCE

XII.A.1 The Company's Procedures For The Acquisition And Assignment Of Insurance Coverage Are Sound And Result In A Favorable Environment For RECO's Operations And Service

The Risk Management Department of Consolidated Edison Company of New York, Inc. (CECONY) under the direction of the Treasurer of CEI, is responsible for overseeing the formulation, negotiation, administration, and purchase of the insurance covering CEI and its subsidiaries, subject to the appropriate charges to these entities. CECONY's Risk Management Department then determines the level of loss exposure and the insurance coverage needed to spread the desired portion of the risk at the subsidiary level.

Specific insurance policies purchased for a CEI subsidiary are billed directly to the subsidiary. In the case of RECO, the charges for one such policy for the leased office facilities at Saddle River, NJ, are billed directly to RECO. All other insurance charges are

allocated to RECO in accordance with the Joint Operating Agreement.

All purchases require approval before commitments may be made or purchase order documents issued. The dollar levels for such approvals are in accordance with Corporate Policy 000-1 "Delegation of Authorities."

XII.B LEGAL

XII.B.1 The Company's Level Of Legal Services And Attendant Charges To RECO Are Reasonable And Result In A Favorable Environment For RECO's Operations And Service

The CECONY Law Department is comprised of approximately 80 attorneys providing legal services to all CEI subsidiaries. Of these eighty, one senior attorney is dedicated to ORU and its subsidiary RECO. The normal range of services is generally limited to accidents and real estate assistance; however, if a unique situation arises, outside counsel may be consulted. Currently, only one item of litigation is ongoing (an accident involving an ORU/RECO maintenance vehicle and a pedestrian), and this is being handled in-house.

Legal charges are allocated to RECO in accordance with the Joint Operating Agreement.

***XII.C FACILITIES, REAL ESTATE AND LAND
MANAGEMENT***

***XII.C.1 The Company's Management Of Facilities, Real Estate
And Land Is Reasonable And Provides A Favorable
Environment For RECO's Operations And Service***

ORU owns all its facilities, with three exceptions: the leased office facilities at the Blue Hill complex in Pearl River, NY, the leased office facilities in Saddle River, New Jersey, and a leased customer service office in Milford, PA. This latter facility is leased for the sole benefit of RECO, and, as a result, the entire lease cost is charged directly to RECO. As noted in the Cost Allocations section of this report, for 2008 the annual lease expense was \$73,500 for 3,000 square feet of space (or \$24.50/sf/annum). This compares favorably with the \$23.00/sf/annum cost of ORU's lease of its Blue Hill facilities.

These holdings are currently static, with no plans to acquire any additional facilities. Nor are any facilities idle. The prevailing management philosophy is that, especially under the current economic circumstances, any acquisition or idle capacity would be prohibitively expensive.

All facilities repair and maintenance is competitively bid. Repair and maintenance for the Saddle River property is charged directly to RECO. All other facilities costs are allocated in accordance with the Joint Operating Agreement. ORU facilities repair and maintenance costs for the three years ended December 31, 2008, were summarized, scheduled and compared. PMC found these costs to be reasonable, and no unwarranted upward trends were noted.

XII.D MATERIALS MANAGEMENT

XII.D.1 The Company's Materials Management Program Is Reasonable And Provides A Favorable Environment For RECO's Operations And Service

ORU has 20 stores designations to track inventory. Throughout its operating territory there are four manned storerooms and eight unmanned facilities. Each facility carries one or more of four designations: major electric storeroom; major gas storeroom; tools and work equipment; storm stock - electric material; miscellaneous storeroom; or satellite electric storeroom. Of the latter category, three are located within New Jersey (Wycoff, Harrington Park, and West Milford). As of June 11, 2009, the cost of inventory stored in these facilities exceeded \$9.2 million.

The goal of the Stores Department is to minimize costs while maintaining an appropriate level of materials on hand at any given time to ensure continued and uninterrupted service to subscribers. Virtually continuous internal audit coverage of this function helps to flag variances, which, if determined to be significant, are subject to immediate additional investigation.

All acquisition of inventory materials is effected through the Purchasing Department (as discussed further in the Purchasing section of Phase I of this report). The value of all items scrapped (whether the result of construction of new facilities or retirement of old) is recovered under contract with a third-party resource recovery specialist.

XII.E TRANSPORTATION

XII.E.1 The Provision Of Transportation Equipment And Services Is Reasonable And Contributes To A Favorable Environment For RECO's Operations And Service

Beginning in 1998, and continuing through 2002, Orange and Rockland Utilities (O&R) acquired replacement transportation equipment via a financial lease. In 2002, a study determined that transportation equipment should be purchased outright in the future. There are still several vehicles of the 1998-2002 vintage that were purchased via the lease. Most of those vehicles will reach the end of their service life in the next year or so, and the Company is examining alternatives for those vehicles that would have otherwise remained in service. Within the next 2 years all leased vehicles will have been retired.

There is no formal procedure to revisit the "buy versus lease" decision made in 2002, but similar buy/lease scenarios have been considered more recently at CECONY (which manages the fleet for both companies). The assumptions from the 2002 analysis still hold largely true and do not suggest leasing, however the Transportation department does examine the issue roughly every 2 years for subsets of the fleet and for the fleet overall.

All purchases of vehicles are effected through the Purchasing department and are subject to stringent requirements, as discussed the Purchasing section of Phase I of this report.

While no vehicles are assigned directly to RECO, the Company does maintain two filling stations in New Jersey. The costs attributable to these stations are charged directly to RECO.

XII.F COMPUTER SYSTEMS AND SERVICES

XII.F.1 The Company's Management Of Computer Systems And Services Is Reasonable And Provides A Favorable Environment For RECO's Operations And Service

RECO benefits directly from the systems development and enhancement efforts which are driven by CECONY and applied Company-wide to leverage commonality and knowledge across all operating units and systems. This emphasis has produced significant results since the merger with, for example, a single new HR payroll system (from PeopleSoft) supplanting several separate and individual payroll systems, and improved Finance and Supply systems from Oracle.

The planning process includes regular meetings with Company executives with continual revision and updating of a five-year running plan for system development. The principal focus is on identifying synergies (chiefly in common administrative areas) where system development can expect to maximize efficiencies. Where common functions are identified that are already producing desired results, such as current stand-alone customer billings systems, no attempt is made to "fix" that which is not broken. The systems are included, however, in downstream planning.

Since September 11, 2001, computer systems themselves have been decentralized among distributed data centers located service-area-side.

XII.G RECORDS MANAGEMENT

XII.G.1 The Company's Records Management Policy Is Reasonable And Provides A Favorable Environment For RECO's Operations And Service

The Company's Records Specialist is responsible for establishing records management policies and procedures for all Company records and ensuring compliance with federal (e.g., FERC, IRS, NARUC, OSHA, and SOX) and state (e.g., NJBPU and NYSPSC) and local regulatory requirements. All Company records must be incorporated into the Records Management and Retention Program under the direction of the Company's Records Management Department.

The Records Management Department develops Record Retention Schedules for each department's records. The Retention Schedules describe the specific records and information they contain and designate a time period for which the record must legally be retained and a discretionary retention period for which the department can retain the records for business purposes. Records must be retained for the retention periods documented in the Retention Schedules.

Each Retention Schedule is reviewed by the Law Department and signed by the organizational vice president. Each department's designated Records Coordinator is then responsible for the department's conformance to its Retention Schedule. The Records Coordinator transfers records to and from Archives according to the respective retention schedule. Records listed in the departmental Retention Schedules can be destroyed only after the expiration of the legal and discretionary retention periods, completion of a Records Destruction authorization form, and written approval by the departmental manager and the Records Specialist. When the legal and discretionary retention periods expire, records must be destroyed with three months of the expiration date. If the department wishes to retain certain records,

either the Retention Schedule must be revised or a waiver must be granted by the Records Specialist and the Law Department.

XII.H SECURITY OF INFRASTRUCTURE

***XII.H.1 The Company's Infrastructure Security Efforts
Constitute An Industry Standard And Provide A
Favorable Environment For RECO's Operations And
Service***

As with computer systems and services, RECO benefits directly from CECONY's system-wide efforts to improve cybersecurity, which has had much higher visibility in the wake of September 11, 2001. Efforts are driven by ISO standards, with the Company taking a leadership role (both high-level and working-level) in industry and combined government/industry committees and working groups focused on increased security standards.

At the local level, ORU/RECO relies on a supervisory control and data acquisition (SCADA) system to enhance infrastructure security. The ORU/RECO SCADA is used to operate both the transmission and the distribution systems. The SCADA system is a GE-Energy XA21 Energy Management System (EMS) originally installed in the early 1990s. The most recent version, 9.1, of the EMS hardware and software was installed in January 2009. Sixty-four substations in New Jersey, New York and Pennsylvania are monitored and controlled by the EMS system. ORU/RECO maintains a primary EMS system in its Operations Center and a backup EMS in an Alternate Operations Center.

XIII. CONTRACTOR PERFORMANCE

The RFP requires that the contractor shall assess the following in relation to RECO's overall performance:

- Evaluate RECO's method of reviewing the effectiveness of its contracted service to locate and mark underground facilities in accordance with the NJ One Call Law.
- Evaluate RECO's procedures for inspecting contractors engaged to install new and replacement lines and services.

This shall include:

- Identifying RECO's process for reviewing contracted services
- Assessing the procedures, percentages, and areas of jobs inspected on a daily basis
- Analyzing the inspection forms used

XIII.A CONTRACTOR PERFORMANCE

XIII.A.1 The Company Has Recognized And Identified Risks In Its Contractor Control Program, And Has Begun To Implement The Recommendations Of An Internal Task Force

In March 2009, O&R was directed by the New York State Department of Public Service (NYDPS) to conduct a self-assessment of its internal controls associated with the procurement and management of contractor services and report its findings. On July 17, 2009, a task force of assigned employees submitted its report, which contains 17 recommendations designed to improve the internal controls of contractors. The report also identified 13 associated risk issues and characterized their impacts as financial, operational, safety, and/or a combination of these.

While all risk issues are important, examples of critical potential risks and their associated impacts are shown in the following table:

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Examples of Potential Contractor Risk Issues and Impacts

RISK ISSUE	RISK IMPACT
Contractor performs work not required	Financial
Company field rep allows work not required to be performed	Financial
Contractor bills for work not performed	Financial, Operational, Safety
Contractor submits double invoice	Financial
Collusion between company rep(s) and or contractor(s)	Financial, Operational, Safety

Each of the 17 recommendations offered included in the task force report addresses one or more of the 13 identified, potential risks. Shown in the following table shows the number of recommendations by category and the number completed to date.

Status of Contractor Controls Recommendations

CATEGORY	# of RECOMMENDATIONS	# COMPLETED
Work Verification	6	4
Procedural/Process	7	2
Personnel	4	1

As shown, seven of the 17 recommendations have been completed. We note that eight of the 10 uncompleted recommendations have estimated completion dates of the 2nd quarter 2010, one at year-end 2009, and one to be determined. While we applaud the Company for this effort, the delayed completion of 10 recommendations raises concerns that sufficient resources have not been allocated to expedite completion of all initiatives.

XIII.A.2 RECO Does Not Use Contractors For Underground Facilities Locating And Marking Services; The Company Has An Effective Method Of Reviewing The In-House Performance Of These Activities In Accordance With The NJ One Call Law

All locating of underground facilities is performed by O&R employees as opposed to contractors. As detailed in Section VIII, "Distribution and Operation Management", on average the Company uses two full-time employees as facilities locators in RECO's service territory. Company compliance with the New Jersey One Call System is appropriately standardized and documented within O&R's Gas Standards: Location of Underground Facilities/One Call System, dated 01/29/2009. The Gas Standard cited provides working rules for all underground facilities including RECO's electric facilities. For RECO, mark-outs are intended to conform to guidelines set forth in the NJBPU Underground facilities Act, Title 48. All contractors performing work for RECO are required to abide by all provisions of the New Jersey One Call Law (Underground Facilities Act). If any underground electric damages occur, they are investigated by Electric Operations along with a Company Locator and a Contractor representative. Any contractor in violation of the One Call requirements is recorded in the O&R Contractor Oversight System (COS) and corrective action taken.

XIII.A.3 Standard Procedures Have Been Established For Inspecting Contractors Engaged To Install New And Replacement Lines And Services In RECO's Service Territory

New business and underground electric distribution projects undertaken by the Contract Administration Group (CAG) are assigned to an O&R Chief Construction Inspector (CCI) to oversee, schedule, administer the contract, monitor extra work, and process invoices for approval. Each CAG project is also assigned a full-time field inspector provided by National Field Services, Inc. (NFS).

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The field inspector is responsible for:

- a. overseeing the contractor's daily safety and project environmental compliance;
- b. ensuring the contractor complies with applicable O&R Standards and Procedures; and
- c. assuring contractor compliance with terms and conditions of the service contract.

The NFS inspector communicates with the CCI throughout the day, and each CCI visits each active project on a daily basis.

Overhead electric distribution projects are assigned to an Electric Operations Line Supervisor who generally performs the combined functions of the CCI and the field inspector as described above. In addition, the Line Supervisor is responsible for switching and protection as needed, and is assigned to the project on a full-time basis.

By way of comparison and contrast, vegetation management (VM) contractors are generally managed in a similar way. However, due to the large number of VM crews, field inspectors and the CCI allocate their time among many crews, and generally visit each crew only a few times per week.

XIII.A.4 While The Company Appears To Have A Reasonable And Standardized Approach For Inspecting Contractors Engaged To Install New And Replacement Lines And Services, Perform Vegetation Management And Overhead Distribution Work, The Processes And Forms Used Could Be More Appropriately Documented And Compiled In A Field Inspection Program Manual

The Company states that it does not have a Field Inspection Program Manual. However, we requested and received Company inspection forms used to monitor and record contractor performance.

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The array of forms used is shown in the following table.

Inspection Forms re: Contractor Performance

CONTRACTOR INSPECTION FORMS
Contractor Guidelines Checklist
Daily Inspection Sheet
EH&S Hazard Analysis for Contractor Work
Jobsite Observation Evaluation
Field Observation Report

Although the Company does not have a field inspection program manual, the variety of inspection forms contain sufficient checklists to monitor and record its reviews of contractor performance in a standardized manner. The daily inspection forms typically detail the type of work, the number of units completed, unit prices, cost, and compliance with Company procedures, regulations and environmental health and safety requirements (EH&S). Contractor guideline checklists are used to review and monitor contractor compliance with policy and equipment issues such as applicable laws, traffic and pedestrian control, hazardous materials, safety clothing and equipment, conformance with OSHA and NEC specifications, and use of qualified personnel. The inspection forms are signed by the inspector and reviewed by a Manager or Engineer after they are submitted.

In addition to daily field inspections, O&R's Quality Assurance Department (QA) periodically inspects contractor work. QA meets with field inspectors on site to review contractor compliance with the Company's construction standards. Independently of the field inspector, QA also performs scheduled and unannounced audits designed to verify contractor labor, equipment, operator qualifications, extra work authorizations, and contract compliance. The QA findings are recorded on Contractor Field Observation reports for each site visit. Each audit finding is recorded in the Action Tracking System, a computer system that tracks the resolution of each QA finding. Procedures and future specifications are modified and/or updated as required when deficiencies are discovered via QA audits and periodic reviews.

XIII.A.5 The Company Maintains An Effective And Useful History Of Each Contractor's Performance In Its Contractor Oversight System, Which Chronicles Contractor Compliance With Applicable Specifications, Company Procedures, Regulations, And EH&S Requirements

The Contractor Oversight System (COS) compiles and maintains information submitted by Company inspectors, supervisors and managers on Contractor Field Observation Reports (CFOR). The CFORs record site visit evaluation of worksite orderliness, proper setup of work area protection, use of protective equipment, tools and equipment, EH&S and administrative compliance. Inspector ratings for each category are entered and recorded along with explanatory comments.

In addition to the CFORs, a semi-annual Contractor Evaluation Report (CER) is required for all contracts. CERs are initiated by the user group Manager and rate the contractor on infraction reports, quality and timeliness of work, conduct of work, Action Lines, and various compliance categories.

When negative aspects of contractor performance are observed, the violations are recorded in the CFOR and the contractor is verbally notified to take corrective action. Action Lines are filed against contractors who exhibit continued unsatisfactory performance and/or infractions, and generally require the contractor to submit a Corrective Action Plan (CAP) specifying the steps to be taken and schedule for completing them. Severe violations may be brought to the Company's Compliance Committee, which consists of members representing purchasing, EH&S, auditing, law, and the involved user department. Depending on the severity and intransigence of the infractions, disciplinary action against the contractor may range from suspension from the current job to removal from the List of Qualified Suppliers.

XIII.B RECOMMENDATIONS

XIII.B.1 The Company Should Assure That Sufficient Resources Are Made Immediately Available To Complete And Implement All Recommendations Contained In The Internal Task Force Report, Titled "Self Assessment Of Internal Controls Associated With Procurement And Management Of Contractor Services", As Expeditiously As Possible

Although the Company has identified potential risks in its contractor control program and has begun to implement the recommendations of an internal task force, 10 of the 17 recommendations remain incomplete. In light of the seriousness of possible consequences, and the current investigation at its parent company, it would be prudent to allocate sufficient human and financial resources in order to complete and implement all recommendations posthaste.

XIII.B.2 The Company Should Compile Its Standardized Contractor Inspection Procedures And Forms Into A Field Inspection Program Manual In Order To Document The Processes And Assure They Are Uniformly Understood And Implemented

The Field Inspection Manual should contain:

- a. all contractor inspection and compliance procedures;
- b. inspection requirements and frequencies for the various types of contractor work to be observed and recorded;
- c. forms to be used by personnel responsible for reviewing and documenting contractor performance;
- d. use of the Contractor Oversight and Action Tracking Systems; and
- e. the progressive action steps to be taken in response to poor performance and compliance infractions by contractors.

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While some new or revised procedures may be adopted as a result of the Company's "Self Assessment of Internal Controls Associated with Procurement and Management of Contractor Services", such changes would be incorporated into program manual updates, along with the effective dates of any and all revisions.