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February 4, 2009

Honorable Kristi Izzo
Secretary
Board of Public Utilities
Two Gateway Center
Newark, New Jersey 07102

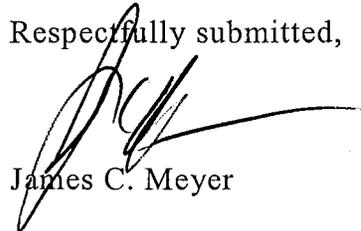
Re: I/M/O the Verified Petition of Rockland Electric Company For
Approval of An Economic Stimulus Program and Associated Cost
Recovery
BPU Docket No.

Dear Secretary Izzo:

On behalf of Rockland Electric Company, enclosed for filing please find an original and eleven copies of the Verified Petition for Approval of An Economic Stimulus Program and Associated Cost Recovery, including exhibits.

Please contact me if you have any questions regarding this matter. Kindly stamp the enclosed extra copy "filed" and return it to me in the enclosed postage paid envelope.

Respectfully submitted,



James C. Meyer

Enclosures
c: Attached Service List

3923466.1

**IN THE MATTER OF THE VERIFIED PETITION OF
ROCKLAND ELECTRIC COMPANY FOR APPROVAL
OF AN ECONOMIC STIMULUS PROGRAM AND
ASSOCIATED RATE RECOVERY**

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**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**I/M/O the Verified Petition of
Rockland Electric Company for
Approval of an Economic Stimulus Program
and Associated Rate Recovery**

VERIFIED PETITION

**STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**IN THE MATTER OF THE PETITION OF
ROCKLAND ELECTRIC COMPANY FOR
APPROVAL OF AN ECONOMIC STIMULUS
PROGRAM AND ASSOCIATED
RATE RECOVERY**

VERIFIED PETITION

BPU Docket No. _____

Rockland Electric Company (“RECO”, the “Company”, or “Petitioner”), a corporation of the State of New Jersey, which has its principal offices at 82 East Allendale Road, Suite 8, Saddle River, New Jersey 07458, respectfully petitions the New Jersey Board of Public Utilities (“Board”) pursuant to *N.J.S.A.48:2-1, et seq.*, for expedited approval of (1) an economic stimulus program (“ESP” or “Program”) comprised of energy delivery system infrastructure improvements and (2) associated rate recovery via an economic stimulus surcharge (“ESS”), as follows:

INTRODUCTION

1. Petitioner is a public utility engaged in the distribution of electricity and the procurement of Basic Generation Service (“BGS”) for residential, commercial and industrial purposes within the State of New Jersey. RECO provides service to approximately 72,000 electric customers in northern Bergen and Passaic counties and small sections of Sussex County. RECO’s customer base includes approximately 63,000 residential customers. RECO’s residential customers include 451 customers currently

enrolled in the Universal Service Fund (“USF”) program. RECO also has approximately 8,400 commercial and industrial customers.

2. Petitioner is subject to regulation by the Board for the purpose of setting its retail distribution rates and to assure safe, adequate and reliable electric distribution service pursuant to *N.J.S.A. 48:2-1 et seq.*

BACKGROUND

3. On October 16, 2008, Governor Corzine addressed a joint session of the Legislature regarding the current economic crisis facing the State of New Jersey. The Governor presented a comprehensive economic assistance and recovery plan (“Governor’s Stimulus Plan”) intended to enhance the State’s business climate. The Governor stated that a major thrust of his Stimulus Plan is to strengthen the current economic activity and grow employment “right away.” To that end, he instructed the Board and other commissions to accelerate, where feasible, spending on capital projects. The Governor expected these agencies to usher in billions of dollars in projects in the six months following the speech.

4. Following the Governor’s October 16, 2008 speech, the Office of the Governor and the State’s gas and electric utilities (“Energy Utilities”) began communicating regarding programs that the Governor’s Office desired the Energy Utilities to implement pursuant to the Governor’s Stimulus Plan. The State requested the energy utilities to accelerate capital investments to support economic development and job growth. In an e-mail dated January 5, 2009, the Governor’s Energy Policy Advisor requested that the Energy Utilities provide company-specific program proposals, with

associated cost recovery and rate mechanisms, broken down into the following categories:

1. Infrastructure programs that will effectively spur an increase in construction employment, while increasing the reliability of the electric and gas distribution system.
2. Infrastructure programs that will improve the energy efficiency of the electric or gas distribution system.
3. Statewide energy efficiency programs scaled down from the menu of programs submitted by the energy utilities.

5. On January 19, 2009, RECO submitted its ESP and energy efficiency program stimulus proposals to the Governor's Office and senior Board Staff. Thereafter, the Governor issued a press release addressing the proposals by RECO and the other Energy Utilities. The Governor stated he was "gratified by the responsiveness of New Jersey's electric and gas utility companies to invest in our state's infrastructure....By accelerating these types of projects, we are maintaining and creating jobs for our citizens....Additionally, these measures will help provide consumers with a more reliable energy system and decrease overall energy consumption in the state. I encourage the Board of Public Utilities to prioritize the review of these projects so that the economic benefit of any work they approve can flow to the people of New Jersey as soon as possible."

6. The Board has requested that RECO file formal petitions for approval of RECO's ESP, efficiency program stimulus proposals and associated rate recovery mechanisms. Accordingly, RECO files this Petition setting forth its proposed infrastructure projects and cost recovery mechanisms and surcharge rates consistent with the State's initiative and the criteria established above. RECO will file a separate petition

requesting expedited approval of a stimulus proposal focused on energy efficiency programs and associated rate recovery. Although RECO is easily the smallest of New Jersey's electric distribution companies, it has proposed a robust ESP with significant proposed capital investment and operating expenditures. Indeed, RECO's total proposed expenditures over the next three years under the ESP total over \$30 million.¹ This would approximately double RECO's budgeted spending on infrastructure improvement projects and energy efficiency programs during the proposed three-year timeframe. The first year of the program predominantly focuses on the Western portion of RECO's Bergen County service territory. RECO has proposed to implement the ESP for three years so that some of the projects and programs herein can be extended to address other areas of its Bergen County service territory. RECO believes that its proposals will promote economic development and job creation, and enhance the reliability of RECO's electric delivery system.

THE ESP PROJECTS AND PROGRAMS

7. In accordance with the Governor's Office's request, RECO's ESP proposal includes infrastructure projects focused on the reliability of its delivery system, as well as infrastructure projects focused on energy efficiency. A summary chart of the proposed projects and programs, timeframes to implement, and associated costs over the next three years is attached as Exhibit A. Implementation on this timeframe is dependent, among other things, on the timing of the Board's action on this Verified Petition. A more detailed description of the projects and programs is set forth in Exhibit B.

¹ Subject to paragraph 19, *infra*.

Infrastructure Projects

8. As part of its ESP, RECO proposes several infrastructure projects. All but one, the Darlington Circuit Exit project (which has been accelerated), are beyond the scope of its otherwise planned capital expenditures for the three year period from April 2009 to April 2012. These infrastructure projects include (1) reliability focused infrastructure projects, and (2) energy efficiency focused infrastructure projects. As shown in Exhibit A, RECO proposes investments for infrastructure projects totaling \$9.655 million, \$9.313 million, and \$8.076 million in years one through three, respectively.²

9. As set forth in Exhibits A and B hereto, the reliability focused infrastructure projects proposed by RECO in its ESP are as follows:

(1) Replacement of 325 old and deteriorating poles each year at an estimated annual cost of \$1.3 million and total cost of \$3.9 million;

(2) Replacement of an additional 16,000 feet per year of aged underground residential distribution cable at an estimated annual cost of \$800,000 and total cost of \$2.4 million;

(3) Replacement of four underground distribution circuit exits at the Allendale Substation and associated aged cable to improve reliability to 5,600 customers at an estimated cost of \$1 million;

(4) Replacement of four underground distribution circuit exits at the Franklin Lakes Substation and associated aged cable to improve reliability to 4,100 customers at an estimated cost of \$800,000;

² Subject to paragraph 19, *infra*.

(5) Installation of a new distribution circuit at the Darlington Substation to provide load relief and allow RECO to meet its circuit planning criteria at an estimated cost of \$1.125 million;

(6) Installation of a new distribution circuit at the West Milford Substation to provide load relief and allow RECO to meet its circuit planning criteria at an estimated cost of \$2.3 million; and

(7) Installation of a duct and manhole system to provide for the eventual undergrounding and upgrade of Lines 652, 654 and 656 from 69kv to 138kv, to reduce load on 69kv lines and provide contingency backup on the system, at a total estimated cost over two phases of \$8.8 million.

10. Several of these reliability focused infrastructure projects are proposed for completion in the first year of the program, so as to emphasize a near term capital investment and economic stimulus. These include the Allendale Substation project, the Franklin Lakes Substation project, the Darlington Substation project and the West Milford Substation project.

11. As set forth in Exhibits A and B hereto, the energy efficiency focused infrastructure projects proposed by RECO in its ESP are as follows:

(1) Replacement each year of 500 older, less efficient distribution transformers with transformers that meet new Department of Energy (“DOE”) high efficiency standards, at an estimated annual cost of over \$1.9 million, and total cost of about \$5.8 million;

(2) Implementation of circuit phase swaps to improve circuit imbalances, improve efficiencies, and reduce system losses at estimated costs of \$85,000, \$43,000 and \$25,000, respectively, in years one through three; and

(3) Installation of new capacitors and relocation of existing capacitors to provide for power factor improvements, reduce system losses and improve efficiencies at estimated costs of \$306,000, \$228,000 and \$210,000, respectively, in years one through three.

SUMMARY OF ESP BENEFITS

12. The infrastructure investment portions of RECO’s ESP will provide timely assistance to the State as it attempts to stimulate the economy and bolster the job market. The Company estimates that the reliability and energy efficiency related infrastructure projects alone can provide 15.5 man-years worth of work in the first year of the proposal. The man-hour details by program and project are shown in the Table below.

NJ Energy Efficiency / Economic Stimulus Effort - Year 1 (2009 start)			
Program / Project	Capital MHs	O&M MHs	Total MHs
Pole Replacement (325 annually)	4875	1625	6500
Transformer Replacement (500 annually)		2340	2340
Circuit Phase Balancing		510	510
Circuit Capacitors	324	493	817
URD Cable Rebuild	4000		4000
Allendale UG Circuit Exits	1900		1900
Franklin Lakes UG Circuit Exits	1500		1500
Darlington New Distribution Circuit	2500		2500
West Milford New Distribution Circuit	4700		4700
	19799	4968	24767
Man-Years	12.4	3.1	15.5

For years two and three of the ESP, RECO estimates that the reliability and energy efficiency related infrastructure projects alone will provide 21.9 and 18.5 man-years, respectively, worth of work. The overall projected infrastructure related man-year totals for RECO’s three year ESP proposal are shown in the Table below.

	Cap Man-Yrs	O&M Man-Yrs	Total Man-Yrs
Year 1	12.4	3.1	15.5
Year 2	19.2	2.8	21.9
Year 3	15.9	2.6	18.5
All Years	47.5	8.5	56.0

Depending on how the Company staffs these projects, it is estimated that this could potentially create 25 to 30 incremental jobs for each year of the project. These work impacts will provide a significant benefit to the State since it is recognized that job creation produces economic growth that exceeds the value of the jobs created.

The environmental benefits of the energy efficiency focused infrastructure projects can be summed up in reduced electrical system losses and improved operating efficiency of the electric delivery system. All of the measures will serve to reduce the operating current needed to support the given system operating conditions, thereby serving to reduce the electric system losses incurred by the square of the load current reduced across the entire load cycle. This effectively improves system efficiency from the distribution system all the way back to the generation producing the required system demand, effectively helping to reduce greenhouse gas emissions.

13. RECO’s ESP is a direct result of the Governor’s Stimulus Plan. It provides for investment in infrastructure projects in an accelerated manner in order to

support economic development and job growth in the state and improve the reliability and efficiency of RECO's delivery system.

COST RECOVERY PROPOSAL

Economic Stimulus Surcharge

14. RECO proposes to establish a new cost recovery mechanism, the ESS, for purposes of recovering from customers on a monthly basis, the costs and associated carrying costs incurred on behalf of the reliability focused and energy efficiency focused infrastructure projects within the ESP ("ESP Costs"). ESP Costs include: (1) the carrying costs (depreciation and return on net investment, including tax effects) on capital investments and (2) the incremental operation and maintenance expenses associated with the infrastructure programs. ESP Costs will be recovered through the ESS. In addition, the ESS will include any prior period over or under-recoveries. The difference between monthly actual ESP costs and monthly actual amounts collected through the ESS will be subject to deferred accounting, with interest,³ and reconciled annually. Any prior period over or under-recovery, including accumulated interest, will be included in the following year's ESS.

15. The ESS will be a non-bypassable cents per kilowatt hour surcharge applicable to all RECO distribution customers. The ESS will be published in a separate tariff leaf, attached hereto as Exhibit C. The ESS will be set annually based on the Company's forecasted ESP Costs, adjusted for any prior over- or under-recoveries

³ Interest will be calculated as determined by the Board in its Order dated October 21, 2008 in Docket Number ER08060455 and will be included in the deferred balance for both an over-collection and for an under-collection.

including interest, and a forecast of the Company's kWh deliveries to customers for the period in which the ESS will be in effect. The resulting rate in cents per kWh will then be increased to reflect Sales and Use Tax ("SUT"). The ESS will initially be set to recover, commencing April 1, 2009, the estimated ESP Costs approved by the Board for the year one ESP infrastructure projects based on projected kilowatt-hour deliveries during the period April 1, 2009 through March 31, 2010. Annual updates will be based on forecasted ESP Costs for the succeeding twelve month intervals, plus true-ups for any prior period over- or under-collections.

16. Expenditures for ESP infrastructure projects costs will be accumulated as set forth in this paragraph. Capital expenditures will be accumulated in separate capital work orders, thereby allowing for the spending on these projects to be easily identifiable. The work orders will be closed out to utility plant in accordance with Company accounting procedures. Depreciation will be calculated and booked in the normal manner and deferred taxes related to the book/tax depreciation timing differences will also be calculated in the normal manner. Operation and maintenance expense will be accumulated in separate accounts in order to facilitate the identification of such expenses. The expenses will be identified as to incremental expenses and non-incremental expenses. Only incremental operation and maintenance expenses will be recovered through the proposed ESS on a dollar-for-dollar basis.

17. The Company proposes that it earn and collect, pursuant to the proposed ESP, a carrying charge on the infrastructure projects from the time of completion of the projects to the time they are ultimately included in rate base as a result of a RECO base rate case proceeding. During the period of construction (i.e., before close out to plant),

these projects will accrue AFUDC in the normal manner. The carrying charge will include depreciation and a return on net project investment. Net project investment for purposes of calculating the return includes gross project spending plus accumulated AFUDC, less accumulated depreciation and less accumulated deferred income taxes. RECO proposes to apply an after-tax overall rate of return to the ESP infrastructure projects of 8.18%. The rate of return is based on the Company's most recently approved overall weighted average cost of capital ("WACC") together with the income tax effects, except that RECO will use a return on equity of 10.5 % in the weighted cost of capital calculation. RECO's after-tax overall WACC authorized by the Board in RECO's most recent base rate case was 7.83% based upon a return on equity of 9.75%.⁴ The additional 75 basis points return on equity is appropriate for RECO's undertaking of significant capital investment, in response to an urgent request of the State to provide economic stimulus, at a time of increased business risks associated with the volatility in financial markets. In addition, the proposed after-tax rate of return of 8.18% and cost of equity of 10.5% will remain fixed during the life of this program.

18. The ESS is intended to continue until the time of the next RECO base rate case. At the time that the Company implements new base rates, all ESP costs, accrued carrying charges, and revenues will be reconciled. At that time, the capital project costs will be included in rate base and any deferred over/under collection of incremental O&M costs will be settled.

19. RECO will work with Board Staff and the Division of Rate Counsel to reach an amicable resolution of all issues relating to this Petition on an expedited basis.

⁴ I/M/O the Verified Petition of Rockland Electric Company for Approval of Changes in Electric Rates, Its Tariff for Electric Services, Its Depreciation Rates, and for Other Relief, Docket No. ER06060483, Decision and Order Approving Stipulation and Adopting Initial Decision (March 22, 2007).

RECO's ability to move forward with the substantial accelerated investments in its ESP is dependent, however, upon the Board's: (1) making appropriate findings in this proceeding, among other things, that the proposed infrastructure projects and RECO's estimated costs thereof are reasonable, necessary and proper for the provision of safe, adequate and reliable service, (2) approval of cost recovery through the ESS as proposed in this Petition, and (3) provision of adequate assurances of full and timely recovery of all of the costs of the ESP, including underlying expenditures and carrying costs. To the extent the Board determines that it will review RECO's ESP infrastructure project costs again in a subsequent proceeding after the investments are made, RECO's willingness to undertake the ESP investments depends on the parties reaching an agreement acceptable to RECO setting forth the scope of any such review. Similarly, RECO must reserve the right to forego the final third year proposed infrastructure projects and estimated expenditures if the Board in the future ceases to allow the full and timely recovery of the costs of the first or second year projects, for example, by disallowing recovery of all or part of the project investments made in year one year two in a subsequent proceeding.

20. RECO proposes to implement the ESS effective April 1, 2009. RECO proposes an initial ESS rate of 0.0870 cents per kWh, including SUT, to be effective April 1, 2009 to recover the initial ESP Costs for year one of the program. The calculation of the year one ESP Costs and ESS is set forth in Exhibit D.

21. The ESS is a rate adjustment clause. The Board has authority pursuant to N.J.S.A. 48:2-1 *et seq.* to approve RECO's ESS rate adjustment clause to recover the costs of its proposed ESP.

COMMUNICATIONS

22. Communications and correspondence related to this petition should be sent as follows:

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MISCELLANEOUS

23. A draft Form of Notice of Filing and of Public Hearings will be circulated to the parties. This Form of Notice will set forth the requested changes to RECO's electric rates and will be placed in newspapers having a circulation within the Company's service territory upon receipt, scheduling and publication of a public hearing date. Two

public hearings will be held in the Company's service territory. The notice will be served on the County Executives and Clerks of all municipalities within the Company's service territory upon receipt, scheduling and publication of public hearing dates.

24. Two copies of this Petition will be served upon the Department of Law and Public Safety, 12 Halsey Street, P.O. Box 45029, Newark, New Jersey 07101 and upon the Director, Division of Rate Counsel, 31 Clinton Street, Newark, New Jersey 07101.

25. Attached hereto and made a part of this Petition are the following exhibits:

Exhibit A -- Summary of Project and Program Costs (Years 1-3)

Exhibit B -- Program Descriptions

Exhibit C -- Proposed Tariff Leaf for Economic Stimulus Surcharge

Exhibit D -- Calculation of proposed ESP Costs, Economic Stimulus Surcharge, and bill impacts

CONCLUSION AND REQUESTS FOR APPROVAL

For all the foregoing reasons, RECO respectfully requests that the Board retain jurisdiction of this matter. RECO requests that the Board expeditiously issue an Order that:

1. Finds the ESP in the public interest and authorizes RECO to implement and administer the reliability focused infrastructure improvements, and energy efficiency focused infrastructure improvements, under the terms set forth in this Petition and accompanying Exhibits;

2. Authorizes RECO to recover all infrastructure costs requested herein through an Economic Stimulus Surcharge, which would be filed annually;

3. Approves the proposed Economic Stimulus Surcharge mechanism, set forth in the proposed amendment to RECO's Schedule for Electric Service, P.U.C. No. 2 - ELECTRICITY, a copy of which is attached to the Petition as Exhibit C;

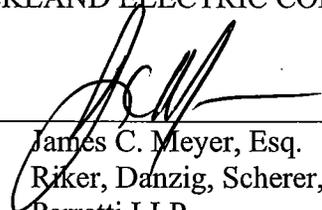
4. Approves the initial Economic Stimulus Surcharge of 0.0870 cents per kWh, including SUT, effective April 1, 2009; and

5. Grants such other and further relief as may be just and proper and required to protect RECO's interests. .

Respectfully submitted,

ROCKLAND ELECTRIC COMPANY

By



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4 Irving Place
New York, NY 10003

Attorneys for Rockland Electric
Company

Dated: February 4, 2009

EXHIBIT A

NJ Energy Efficiency / Economic Stimulus Effort - Year 1 (2009 start)				
Program / Project	Capital Cost	O&M Cost	Total Cost	Timeframe to Implement
Reliability Focused Infrastructure				
Pole Replacement	\$ 975,000	\$ 325,000	\$ 1,300,000	April '09 to April '10
URD Cable Rebuild	\$ 800,000	\$ -	\$ 800,000	Sept. '09 to April '10
Allendale UG Circuit Exits	\$ 1,000,000	\$ -	\$ 1,000,000	October '09 - November '09
Franklin Lakes UG Circuit Exits	\$ 800,000	\$ -	\$ 800,000	November '09 - December '09
Darlington New Distribution Circuit	\$ 1,150,000	\$ -	\$ 1,150,000	December '09 - April '10
West Milford New Distribution Circuit	\$ 2,300,000	\$ -	\$ 2,300,000	December '09 - April '10
SubTotals	\$ 7,025,000	\$ 325,000	\$ 7,350,000	
Energy Efficiency Focused Infrastructure				
Transformer Replacement	\$ 1,596,100	\$ 317,500	\$ 1,913,600	April '09 to April '10
Circuit Phase Balancing	\$ -	\$ 85,000	\$ 85,000	Sept. '09 to April '10
Circuit Capacitors	\$ 206,000	\$ 100,600	\$ 306,600	Sept. '09 to April '10
SubTotals	\$ 1,802,100	\$ 503,100	\$ 2,305,200	
Year 1 Totals	\$ 8,827,100	\$ 828,100	\$ 9,655,200	

NJ Energy Efficiency / Economic Stimulus Effort - Year 2 (2010 start)				
Program / Project	Capital Cost	O&M Cost	Total Cost	Timeframe to Implement
Reliability Focused Infrastructure				
Pole Replacement	\$ 975,000	\$ 325,000	\$ 1,300,000	April '09 to April '10
URD Cable Rebuild	\$ 800,000	\$ -	\$ 800,000	Sept. '09 to April '10
Line 652/654/656 UG Conduit System Pt. 1	\$ 5,000,000	\$ -	\$ 5,000,000	April '10 to April '11
SubTotals	\$ 6,775,000	\$ 325,000	\$ 7,100,000	
Energy Efficiency Focused Infrastructure				
Transformer Replacement	\$ 1,623,900	\$ 317,500	\$ 1,941,400	April '10 to April '11
Circuit Phase Balancing	\$ -	\$ 43,000	\$ 43,000	April. '10 to Nov. '10
Circuit Capacitors	\$ 190,900	\$ 37,400	\$ 228,300	April '10 to April '11
SubTotals	\$ 1,814,800	\$ 397,900	\$ 2,212,700	
Year 2 Totals	\$ 8,589,800	\$ 722,900	\$ 9,312,700	

NJ Energy Efficiency / Economic Stimulus Effort - Year 3 (2011 start)				
Program / Project	Capital Cost	O&M Cost	Total Cost	Timeframe to Implement
Reliability Focused Infrastructure				
Pole Replacement	\$ 975,000	\$ 325,000	\$ 1,300,000	April '11 to April '12
URD Cable Rebuild	\$ 800,000	\$ -	\$ 800,000	April '11 to April '12
Line 652/654/656 UG Conduit System Pt. 2	\$ 3,800,000	\$ -	\$ 3,800,000	April '11 to April '12
SubTotals	\$ 5,575,000	\$ 325,000	\$ 5,900,000	
Energy Efficiency Focused Infrastructure				
Transformer Replacement	\$ 1,623,900	\$ 317,500	\$ 1,941,400	April '11 to April '12
Circuit Phase Balancing	\$ -	\$ 25,000	\$ 25,000	April. '11 to Nov. '11
Circuit Capacitors	\$ 190,900	\$ 18,700	\$ 209,600	April '11 to April '12
SubTotals	\$ 1,814,800	\$ 361,200	\$ 2,176,000	
Year 3 Totals	\$ 7,389,800	\$ 686,200	\$ 8,076,000	

INFRASTRUCTURE PROJECTS**(1) Reliability Focused Infrastructure Improvements****Pole Replacement**

During time of adverse weather and severe storms, it is typically the oldest pole plant that cannot withstand the additional stress and strain that the system experiences under these conditions. The Company's records indicate that there are over 9,000 poles in RECO's service territory that are near or in excess of 50 years old. The pole replacement program will generally focus on replacing the oldest poles in RECO's service territory that also exhibit excessive signs of deterioration and aging. The program includes replacing 325 poles each year, at an estimated incremental annual cost of \$1.3 million

Underground Cable Rebuild Program

This is an annual program that RECO already implements, typically replacing approximately 7,000 feet of aged underground residential distribution cable, nearing the end of its useful life, in various subdivisions located in its service territory. As part of this economic stimulus effort, the Company will accelerate the program and replace an additional 16,000 feet in each year of the program. The rebuild projects are based on cable service age, failure history, customer density, and outage statistics. Typical projects replace the underground cable and terminations and install fault indicators and additional switching capability. The estimated incremental annual cost for this program will be \$800,000.

Allendale Substation – Replace Underground Circuit Exits

This project replaces four existing underground distribution circuit exits located at the Allendale Substation. These four circuits serve 5,600 customers with a peak load of 40 MVA. The existing underground cables are all over 35 years old, and this cable type, with this service age, has exhibited signs of reduced service reliability. This project will replace over one circuit mile of aged cable and replace all associated cable terminations.

The total cost for this project is estimated to be at \$1 million and will be completed by the end of the first year of the program.

Franklin Lakes Substation – Replace Underground Circuit Exits

This project replaces four existing underground distribution circuit exits located at the Franklin Lakes Substation. These four circuits serve 4,100 customers, with a peak load of 33 MVA. The existing underground cables are all over 35 years old, and this cable type, with this service age, has exhibited signs of reduced service reliability. This project will replace 3,900 circuit feet of aged cable and all associated cable terminations. The total cost for this project is estimated to be \$800,000 and will be completed by the end of the first year of the program.

Darlington Substation – Additional Distribution Circuit

The Darlington Substation currently has six active 13.2kV distribution circuits with two available circuit positions which were intended for future use at the time of installation. Three out of the six active circuits are heavily loaded and two of these circuits currently do not meet RECO's distribution planning criteria. This project is identified in the Company's future budget requirements and will be accelerated as part of this economic stimulus effort. This project will install a new distribution circuit that will provide load relief and allow the Company to meet its circuit planning criteria in this area. The project will install a 1,800 foot underground circuit exit and 3,300 feet of new overhead circuitry. The total cost for this project is estimated to be \$1.15 million and will be completed by the end of the first year of the program.

West Milford Substation – Additional Distribution Circuit

The West Milford Substation currently has six active 13.2kV distribution circuits with two available circuit positions which were intended for future use at the time of installation. Two out of the six active circuits are heavily loaded and one of these circuits currently does not meet the Company's distribution planning criteria. This project is identified in the Company's future budget requirements and will be accelerated as part of

this economic stimulus effort. This project will install a new distribution circuit that will provide load relief and allow the Company to meet its circuit planning criteria in this area. The project will install a one mile underground circuit exit and 4,500 feet of overhead distribution circuitry. The total cost for this project is estimated to be \$2.3 million and will be completed by the end of the first year of the program.

Upgrade Lines 652/654/656 to 138kV

In the Company's Eastern Division, the 69kV transmission system serves a total of fourteen substations. This load area is presently fed from four 138/69kV autobank transformers that are each located at different switching stations. As load continues to grow in this load area, it becomes more difficult to provide backup for contingencies of the auto banks, as well as the transmission line sources. The Company's plans call for the upgrade of Lines 652/654/656 to 138kV that will provide a 138kV loop from its South Mahwah Substation to the Harings Corner Substation. This will remove load from the existing 69kV system and provide contingency backup for the existing 138kV sources and the 138/69kV auto banks serving this area. The first part of this project will provide a 3.3 mile conduit system from the South Mahwah Substation to the Upper Saddle River - Orchard Street transition structure in year two. The total cost for this portion of the project is \$5 million and it will be completed by the end of the second year of the program. The second portion of the project would be to install a 2.5 mile conduit system from the Upper Saddle River Substation to the location of the new Summit Ave Substation in year three of the project. The total cost for this portion of the project is \$3.8 million. This is a narrow 69 kV transmission right-of-way that cannot be easily or economically expanded for 138 kV operation. Therefore, underground installation is required.

(2) Energy Efficiency Focused Infrastructure Improvements

Transformer Replacement Program

Distribution line transformers should be designed with the lowest losses that are economically justifiable. Loss evaluation is already a major part of the Company's

purchase decisions. RECO's distribution transformers meet the industry's NEMA high efficiency TP-1 standards. By 2010, the Department of Energy ("DOE") has mandated that all liquid filled and dry type distribution transformers be manufactured to meet the new DOE high efficiency standards. These standards provide efficiencies that, in many cases, are much higher than those of NEMA TP-1. Electric delivery system loss reduction and system efficiency improvements will continue as transformers designed to meet DOE efficiency levels penetrate into the transformer population replacing older, less efficient units. The Company is proposing to implement a transformer replacement program that will commence installation of the new DOE high efficiency transformers in 2009 to replace older, less efficient units. The program includes replacing 500 transformers each year, and the estimated total incremental annual cost is approximately \$2 million for each year of the program.

Circuit Phase Balance and Capacitor Programs

Recent distribution system studies completed by the Company have determined that the two most promising distribution system measures for improving efficiency and reducing losses, while maintaining a positive cost / benefit ratio, are circuit phase balancing and circuit capacitor installation and optimization.

For the circuit phase balance program, the Company will complete the circuit studies and implement the proper phase swaps to improve circuit imbalances to a target of 10% or better.

For the circuit capacitor installation and optimization program, the Company will complete the circuit studies to identify new capacitors and the relocation of existing capacitors that will allow for power factor and loss improvements to be garnered throughout the load cycle.

The annual incremental costs for these two programs vary depending on the number of circuits, and the scope of work required on those circuits to be addressed each year. The estimated incremental costs are provided in Exhibit A.

GENERAL INFORMATION

No. 31 ECONOMIC STIMULUS SURCHARGE ("ESS")

The ESS shall be applied to the kWh usage on the bills of all customers served under this Schedule. The ESS shall recover the costs and associated carrying costs incurred on behalf of the reliability focused and energy efficiency focused infrastructure projects within the Company's Economic Stimulus Program ("ESP Costs"). ESP Costs include: (1) the carrying costs (depreciation and return on net investment, including tax effects) on capital investments and (2) the incremental operation and maintenance expenses associated with the infrastructure projects. In addition, the ESS will include any prior period over or under-recoveries. The ESS will be subject to deferred accounting, with interest, and reconciled annually by comparing the actual amounts subject to recovery to the actual amounts collected. Any difference will be included in the following year's ESS.

The ESS to be effective on and after the date indicated below shall be set at 0.0870 cents per kWh including sales and use tax ("SUT").

The difference between the actual monthly ESP Costs and ESS recoveries will be deferred, with interest, for future recovery. Interest, calculated as determined by the Board in its Order dated October 21, 2008 in Docket Number ER08060455, will be included in the deferred balance for both an over-collection and for an under-collection.

On January 1 of each year, the Company shall file with the Board the ESS to be effective for the twelve-month period commencing the following April 1. The ESS shall be set to recover any prior period over- or under-recovered balances, including interest, and to provide current recovery of the forecasted ESP Costs over the twelve-month period commencing the following April 1.

ISSUED:

EFFECTIVE:

ISSUED BY: William Longhi, President
Saddle River, New Jersey 07458

ROCKLAND ELECTRIC COMPANY
ECONOMIC STIMULUS PROGRAM FOR INFRASTRUCTURE IMPROVEMENTS
PROPOSED ECONOMIC STIMULUS SURCHARGE (EXCLUDES SALES AND USE TAX)

Economic Stimulus Surcharge

April 2009 - March 2010	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	TOTAL EXPENSES	ESS Rate/KWH
O&M Expenditures	\$53,753	\$56,375	\$66,492	\$79,784	\$81,194	\$71,783	\$61,075	\$56,830	\$66,316	\$70,645	\$63,635	\$60,530	\$788,413	
Capital Infrastructure Investment	\$44,989	\$47,184	\$55,651	\$66,776	\$67,956	\$60,079	\$51,117	\$47,564	\$55,503	\$59,127	\$53,260	\$50,661	\$659,867	
													\$1,448,280	0.00081282

April 2010 - March 2011	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	TOTAL EXPENSES	ESS Rate/KWH
O&M Expenditures	\$52,040	\$52,366	\$60,034	\$72,010	\$75,522	\$68,268	\$56,291	\$52,919	\$58,427	\$63,088	\$57,320	\$54,615	\$722,900	
Capital Infrastructure Investment	\$107,583	\$108,257	\$124,109	\$148,868	\$156,127	\$141,132	\$116,371	\$109,401	\$120,788	\$130,423	\$118,499	\$112,907	\$1,494,463	
													\$2,217,363	0.001195532

April 2011 - March 2012	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	TOTAL EXPENSES	ESS Rate/KWH
O&M Expenditures	\$49,191	\$49,236	\$62,088	\$72,889	\$76,814	\$66,017	\$59,280	\$52,240	\$58,525	\$63,730	\$59,251	\$56,626	\$725,888	
Capital Infrastructure Investment	\$146,561	\$146,695	\$184,985	\$217,166	\$228,861	\$196,692	\$176,621	\$155,645	\$174,372	\$189,879	\$176,535	\$168,713	\$2,162,725	
													\$2,888,613	0.001503077

ROCKLAND ELECTRIC COMPANY
ECONOMIC STIMULUS PROGRAM FOR INFRASTRUCTURE IMPROVEMENTS
PROPOSED ECONOMIC STIUMULUS SURCHARGE (EXCLUDES SALES AND USE TAX)

Amortization Period	40 Years
Equity Component	46.51%
Equity Return	10.50%
	4.88%
After-Tax WACC	8.18%
Effective Tax Rate	40.92%
Interest Expense	3.29%

	TME 3/2010	TME 3/2011	TME 3/2012	TME 3/2013	TME 3/2014	TME 3/2015	TME 3/2016
Expenditures							
CAPITAL - Reliability Focused Infrastructure	\$6,235,000	\$7,565,000	\$5,575,000	\$0			
CAPITAL - Energy Efficiency Focused Infrastructure	\$1,802,100	\$1,814,800	\$1,814,800	\$0			
TOTAL =CAPITAL - Infrastructure Programs	\$8,037,100	\$9,379,800	\$7,389,800	\$0			
Cumulative Expenditures CAPITAL - Infrastructure Programs	\$8,037,100	\$17,416,900	\$24,806,700	\$24,806,700			
Amortization - 2009 Expenditures	\$200,928	\$200,928	\$200,928	\$200,928	\$200,928	\$200,928	\$200,928
Amortization - 2010 Expenditures		\$234,495	\$234,495	\$234,495	\$234,495	\$234,495	\$234,495
Amortization - 2011 Expenditures			\$184,745	\$184,745	\$184,745	\$184,745	\$184,745
Amortization - 2012 Expenditures				\$0	\$0	\$0	\$0
Cumulative Amortization	\$200,928	\$636,350	\$1,256,518	\$1,876,685	\$2,496,853	\$3,117,020	\$3,737,188
Gross Expenditures	\$8,037,100	\$17,416,900	\$24,806,700	\$24,806,700	\$24,806,700	\$24,806,700	\$24,806,700
Accumulated Amortization	\$200,928	\$636,350	\$1,256,518	\$1,876,685	\$2,496,853	\$3,117,020	\$3,737,188
Net Expenditures	\$7,836,173	\$16,780,550	\$23,550,183	\$22,930,015	\$22,309,848	\$21,689,680	\$21,069,513
Accumulated Deferred Tax	\$3,206,562	\$6,866,601	\$9,636,735	\$9,382,962	\$9,129,190	\$8,875,417	\$8,621,645
Under/(Over) Recovery Balance	\$4,629,611	\$9,913,949	\$13,913,448	\$13,547,053	\$13,180,658	\$12,814,263	\$12,447,868
Return Requirement	\$378,602	\$810,747	\$1,137,820	\$1,107,857	\$1,077,894	\$1,047,930	\$1,017,967
Equity Portion	\$226,089	\$484,153	\$679,470	\$661,577	\$643,684	\$625,791	\$607,898
	2009	2010	2011	2012	2013	2014	2015
Revenue	\$659,867	\$1,494,463	\$2,162,725	\$2,192,281	\$2,149,925	\$2,107,568	\$2,065,212
Expenses:							
Amortization	\$200,928	\$435,423	\$620,168	\$620,168	\$620,168	\$620,168	\$620,168
Administrative Costs	-	-	-	-	-	-	-
Interest Expense	76,256	239,554	392,472	452,315	440,245	428,175	416,104
Deferred Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Taxable Income	\$382,683	\$819,487	\$1,150,085	\$1,119,799	\$1,089,513	\$1,059,226	\$1,028,940
Federal and State Taxes	\$156,594	\$335,334	\$470,615	\$458,222	\$445,829	\$433,435	\$421,042
Net Income	\$226,089	\$484,153	\$679,470	\$661,577	\$643,684	\$625,791	\$607,898

ROCKLAND ELECTRIC COMPANY
ECONOMIC STIMULUS PROGRAM FOR INFRASTRUCTURE IMPROVEMENTS
OPERATION AND MAINTENANCE EXPENSES

O&M SUMMARY

TME 3/31/2010

O&M - Reliability Focused Infrastructure	\$	325,000
O&M - Energy Efficiency Focused Infrastructure		463,413
	\$	788,413

TME 3/31/2011

O&M - Reliability Focused Infrastructure	\$	325,000
O&M - Energy Efficiency Focused Infrastructure		397,900
	\$	722,900

TME 3/31/2012

O&M - Reliability Focused Infrastructure	\$	325,000
O&M - Energy Efficiency Focused Infrastructure		400,888
	\$	725,888

TOTAL O&M SPENDING	\$	2,237,201
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ROCKLAND ELECTRIC COMPANY
ECONOMIC STIMULUS PROGRAM FOR INFRASTRUCTURE IMPROVEMENTS
CAPITAL STRUCTURE
(000s)

	Amount (\$000's)	Ratio	Cost Rate	Weighted Average Ratio	Weighted Average Ratio
Long Term Debt	\$ 396,168	49.19%	6.26%	3.08%	3.08%
Short Term Debt	34,651	4.30%	5.00%	0.22%	0.22%
Common Equity	374,608	46.51%	10.50%	4.88%	8.27%
Total	<u>\$ 805,427</u>	<u>100%</u>		<u>8.18%</u>	<u>11.56%</u>

(a) Per Case ER06060483 - Docket PUC 09134-2006N
Consolidated Capital Structure, twelve months ending December 31, 2006
except for change in Return on Common Equity

Rockland Electric Company
Economic Stimulus Program for Infrastructure Improvements
Revenue Impacts
By Category

	Twelve-Month Periods Commencing		
	<u>Apr-09</u>	<u>Apr-10</u>	<u>Apr-11</u>
Required Economic Stimulus Surcharge Revenue	\$1,448,280	\$2,217,363	\$2,888,613
RECO Sales (MWH)	1,781,787	1,854,708	1,921,800
Economic Stimulus Surcharge (¢/kWh)	0.081	0.120	0.150
Economic Stimulus Surcharge (including SUT)*	0.087	0.128	0.161
Change in Economic Stimulus Surcharge	0.087	0.041	0.033
 <u>Average Rates (¢/kWh)</u>			
Residential	17.663	17.704	17.737
Small	16.648	16.689	16.722
Large	15.912	15.953	15.986
 <u>Percentage Increase/(Decrease)</u>			
Residential	0.49%	0.23%	0.19%
Small	0.52%	0.25%	0.20%
Large	0.55%	0.26%	0.21%
 * SUT at	 7.0%		

ROCKLAND ELECTRIC COMPANY

Economic Stimulus Program for Infrastructure Improvements

Impact of Economic Stimulus Surcharge on a Typical Residential Customer

	<u>Current*</u>	Twelve-Month Periods Commencing		
		<u>Apr-09</u>	<u>Apr-10</u>	<u>Apr-11</u>
Annualized Monthly Bill	\$172.94			
Economic Stimulus Program Revenue Requirement		\$1,448,280	\$2,217,363	\$2,888,613
Forecast Sales (kWh)		1,781,787,200	1,854,707,600	1,921,800,000
Economic Stimulus Surcharge (cents/kWh)		0.0813	0.1196	0.1503
Economic Stimulus Surcharge Including SUT (cents/kWh)		0.0870	0.1280	0.1610
Economic Stimulus Surcharge Monthly Bill Amount		\$0.80	\$1.18	\$1.49
Monthly Bill Including Economic Stimulus Surcharge		\$173.74	\$174.12	\$174.43
Change in Monthly Bill		\$0.80	\$0.38	\$0.31
Percent Bill Increase From Then-Current Rates		0.46%	0.22%	0.18%
Percent Bill Increase From Current Rates		0.46%	0.68%	0.86%

* At January 1, 2009 Rates
925 kWh per month