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Law Department

Consolidated Edison Company
of New York, Inc.
4 Irving Place
New York NY 10003-0987
www.conEd.com

John L. Carley
Assistant General Counsel
(212) 460-2097
FAX: (212) 677-5850
Email: carleyj@coned.com

August 1, 2008

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

Re: I/M/O Demand Response Programs for the Period Beginning June 1, 2009 - - Electric Distribution Company Programs
BPU Docket No. EO08050326

Dear Secretary Izzo:

Pursuant to the Board's Order dated July 1, 2008 in the above-referenced proceeding, Rockland Electric Company encloses an original and ten copies of its Demand Response Program filing. This filing consists of:

- Verified Petition;
- Testimony of Jane Quin; and
- Testimony of Kenneth Kosior.

Please contact me if you have any questions regarding this matter.

Very truly yours,

John L. Carley
John L. Carley
Assistant General Counsel

Enclosure
c: Rate Counsel

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

I/M/O the Verified Petition of
Rockland Electric Company for
Approval of a Demand Response Program
PURSUANT TO N.J.S.A. 48:3-98.1

VERIFIED PETITION

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE VERIFIED PETITION OF ROCKLAND ELECTRIC COMPANY FOR APPROVAL OF A DEMAND RESPONSE PROGRAM PURSUANT TO N.J.S.A. 48:3-98.1	)) **P E T I T I O N**)) BPU Docket No. _____________)
IN THE MATTER OF DEMAND RESPONSE PROGRAMS FOR THE PERIOD BEGINNING JUNE 1, 2009-- ELECTRIC DISTRIBUTION COMPANY PROGRAMS	)))) BPU Docket No. EO08050326)

Rockland Electric Company ("RECO", the "Company", or "Petitioner") a corporation of the State of New Jersey, which is subject to the jurisdiction of the Board of Public Utilities ("Board") and which has its principal offices at 82 East Allendale Avenue, Suite 8, Saddle River, New Jersey, respectfully petitions the Board as follows:

INTRODUCTION

1. Petitioner is engaged in the retail distribution and sale of electric energy for residential, commercial and industrial purposes within the State of New Jersey. RECO provides service to approximately 72,000 electric customers, of which 62,900 (i.e., 87%) are residential customers.

2. RECO's Eastern Division, which accounts for approximately 90% of RECO's load, is affiliated with PJM. RECO's Central and Western Divisions, which account for approximately 10% of RECO's load, are affiliated with the NYISO.

3. Petitioner is subject to regulation by the Board for the purposes of setting its retail distribution rates and to assure safe, adequate and reliable electric distribution service pursuant to *N.J.S.A.* 48:2-21 *et seq*.

4. On January 13, 2008, legislation was signed into law[1] by Governor Corzine which set forth the New Jersey Legislature's findings that energy efficiency and conservation measures must be essential elements of the State's energy future and that greater reliance on energy efficiency and conservation will provide significant benefits to the citizens of New Jersey. The Legislature also found and declared that public utility involvement and competition in the conservation and energy efficiency industries are essential to maximize efficiencies. The above-referenced legislation is herein referred to as the Regional Greenhouse Gas Initiative legislation ("RGGI Legislation").

5. Pursuant to Section 13 of the RGGI Legislation, an electric or gas public utility may, among other things, provide and invest in energy efficiency and conservation programs in its service territory on a regulated basis.[2] See *N.J.S.A.* 48:3-98.1(a)(1). The RGGI Legislation also states that electric and gas public utility investment in energy efficiency and conservation programs may be eligible for rate treatment approved by the Board, including a return on equity, or other incentives. See *N.J.S.A.* 48:3-98.1(b). Ratemaking treatment may include placing appropriate technology and program cost investments in the utility's rate base, or recovering the utility's technology and program costs through another ratemaking methodology approved by the Board, including, but not limited to, the Societal Benefits Charge ("SBC"). *Id.* Program costs are all reasonably and prudently incurred costs of developing and implementing the programs approved by the Board including a full return on invested capital. *N.J.S.A.* 48:3-98.1(d). When the Board directs an electric public utility to undertake energy efficiency, conservation, or renewable energy improvements, it "shall allow the recovery of program costs and

[1] The legislation is codified at *N.J.S.A*. 26:2C-45 *et seq*.
[2] Section 13 of the RGGI Legislation has been codified at *N.J.S.A.* 48:3-98.1 *et seq*.

incentive rate treatment pursuant to subsection b. of "[*N.J.S.A.* 48:3-98.1]." *N.J.S.A.* 48:3-98.1(a)(3).

6. An electric or gas public utility seeking cost recovery for any energy efficiency and conservation programs pursuant to *N.J.S.A.* 48:3-98.1 must file a petition with the Board. See *N.J.S.A.* 48:3-98.1(b). In determining the recovery of such program costs, the Board "…may take into account the potential for job creation from such programs, the effect on competition for such programs, existing market barriers, environmental benefits, and the availability of such programs in the marketplace." *Id.* The RGGI Legislation also provides that unless the Board issues a written order within 180 days after the filing of the petition approving, modifying or denying the requested recovery, the recovery requested by the utility shall be granted effective on the 181st day after the filing without further order by the Board. *Id.*

7. Within 120 days after enactment of the RGGI Legislation, the Board was required to issue an order that allows electric public utilities to offer energy efficiency and conservation programs in their respective service territories on a regulated basis. On May 12, 2008, the Board issued such an Order pursuant to *N.J.S.A.* 48:3-8.1(c) in BPU Docket No. EO08030164 ("120-Day RGGI Order").

8. As set forth in the 120-Day RGGI Order, the Board will allow electric public utilities to offer energy efficiency and conservation programs on a regulated basis provided that the utility files a petition and obtains Board approval for such programs and the mechanism for program cost recovery. See 120-Day RGGI Order at p. 6. The Board also established that certain information be filed with the Petition. This requested

information is set forth in the minimum filing requirements attached to the 120-Day RGGI Order as Exhibit A ("RGGI Minimum Filing Requirements").

9. The RGGI Minimum Filing Requirements set forth specific information that a utility must submit along with its petition. The RGGI Minimum Filing Requirements distinguish between a full or large scale program and a small scale or pilot program. For small scale programs and pilot programs, the RGGI Minimum Filing Requirements are reduced, given the limited nature of such programs, to allow for a more accelerated review and approval process. See 120-Day RGGI Order at p. 4. A small scale program is defined as one that would result in either a rate increase of less than one half of one percent to the average residential customer or an additional annual total revenue requirement of less than $5 million. A pilot program is one with a term of three years or less. *Id.* Both small scale and pilot programs are exempted from Section V of the RGGI Minimum Filing Requirement that an up-front cost/benefit analysis be submitted. *Id.*

10. The 120-Day RGGI Order also requires a utility, contemplating filing a petition for energy efficiency and/or conservation programs and related cost recovery mechanism, to meet with Board Staff and the New Jersey Division of Rate Counsel (Rate Counsel) at least 30-days prior to filing its petition to discuss the nature of the program and program cost recovery mechanism to be proposed in the petition, as well as, the RGGI Minimum Filing Requirements to be submitted along with the petition. (30 Day RGGI Pre-Filing Meeting) See 120-Day RGGI Order at p. 6. Should a utility seek to file for Board approval of a small scale program, the utility shall so notify Board Staff and Rate Counsel at the pre-filing meeting. *Id.* at p. 4. If the utility believes that it is unable to comply with a particular RGGI Minimum Filing Requirement, a detailed explanation for

such non-compliance should be discussed at the 30-Day Pre-Filing Meeting. *Id*. The RGGI Minimum Filing Requirements may be modified by Board Staff as determined on a case-by-case basis if public policy considerations deem specific requirements unnecessary or onerous for a particular program or class of programs. *Id.*

11. Once a petition has been filed with the Board, Board Staff shall have 30 days, commencing on the date the petition was filed, to determine whether the petition is administratively complete and, if it is not, advise the utility in writing that the petition is not administratively complete and set forth the deficiencies and the items required to remedy the deficiencies. *Id.* at p. 6.

12. In its Order dated July 1, 2008 ("July 1 Order"), in Docket Nos. EO08050326 and EO08060421[3], the Board ordered RECO and the State's other electric distribution companies ("EDCs") to submit demand response proposals for their service territories under Docket No. EO08050326 by August 1, 2008 for programs beginning June 1, 2009. The Board determined that the statewide goal would be 300 MW for the first year of the EDCs' demand response program and 600 MW by the end of the third year. The Board divided these demand response goals among the State's four EDCs on a pro-rated basis, based on each EDC's share of statewide load. RECO's share was assigned a first-year goal of 6 MW, based upon 2% of the statewide load. RECO's share of the three-year goal is 12 MW. The Company is submitting this Petition in response to the Board's July 1 Order.

13. Currently, RECO does not operate any demand response programs.

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[3] <u>I/M/O Demand Response Programs for the Period Beginning June 1, 2009 – Electric Distribution Company Programs</u>, Docket No. EO08050326; <u>I/M/O Demand Response Programs for the Period Beginning June 1, 2009 – Market-Based Programs</u>, Docket No. EO08060421.

RECO'S PROPOSED DEMAND RESPONSE PROGRAM

14. In order to achieve its assigned three-year demand response goal of 12 MW, as well as its first year goal of 6 MW, RECO seeks Board approval to implement a Demand Response Program ("DRP") comprised of the following sub-programs: an Air Conditioning Cycling ("AC Cycling") program and a Demand Response Incentive Program.

AC Cycling Proposal

15. RECO proposes to offer an AC Cycling Program with a goal of obtaining 3 MW of demand response over three years. The 3 MW goal will account for 25% of the Company's overall demand response three-year goal of 12 MW. The AC Cycling Program will involve enrollment of 3,000 customers over three years. Each customer will be targeted to save one kW. This A/C Cycling Program constitutes an expansion of a program previously proposed by RECO.

16. On June 19, 2007, in accordance with its Stipulation of Settlement in its most recent electric base rate case[4], the Company submitted to the Board a proposed AC Cycling program. RECO proposed to launch an AC Cycling program targeting 2,000 eligible participants over a five-year period (i.e., 2008 to 2012). For each participant, RECO proposed that it would provide and install new thermostats and a $50 up front participation incentive per installed unit. At least initially, RECO did not plan to offer a "per event" incentive. RECO's program assumed that there would be a maximum of 20 events called during a calendar year.

[4] This Stipulation of Settlement dated as of March 8, 2007 was approved by the Board in its Decision and Order dated March 22, 2007in I/M/O 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.

17. RECO estimated that the cost of implementing an AC Cycling program for 2,000 customers would be approximately $1,555,000 for five years of implementation or $311,000 annually. These costs would include the purchase of equipment, installation, customer incentives, marketing, maintenance, contractor fees, and Company administrative expenses. Participants would be targeted to save one kW each, for a total of 2 MW.

18. In its expanded AC Cycling Program proposed in the instant Petition, the Company plans to enroll approximately 3,000 customers over three years. While the AC Cycling Program is open to all of the Company's customers, RECO expects to market the AC Cycling Program primarily to residential and small commercial and industrial ("C&I") customers. The Company's definition of small business customers are those using less than 100 kW. According to the New Jersey Air Conditioner Cycling Program Report ("Report") prepared for the EDCs by Summit Blue Consulting, LLC, approximately 65% of eligible residential customers have central air conditioning. In RECO's case, this would amount to approximately 41,000 residential customers. Enrolling approximately 1,000 customers per year would require an annual participation rate of approximately 2.5%.

19. Consistent with the recommendation in the Report (i.e., Section E.5), RECO proposes to include small C&I customers that may be able to utilize the same equipment as residential customers. All customer participants in both the PJM and NYISO portions of RECO's service territory would be counted toward the participant target.

20. For each participant, RECO would provide and install new thermostats and provide a $50 up front participation incentive per installed unit, consistent with the plan proposed by the Report and adopted by other EDCs. RECO would offer only thermostats, not switches, in order to take advantage of the economies of scale associated with purchasing in conjunction with its affiliate, Consolidated Edison Company of New York, Inc. ("CECONY"). [5]

21. Pursuant to the recommendations of the Report (i.e., Section # 4.6.1), RECO proposes to initiate its program without a 'per event' incentive. After gaining more experience with operating an AC Cycling Program in its service territory, RECO will reconsider whether 'per event' incentives are necessary to meet its targeted participation levels. Electronic signals will be sent to each thermostat to trigger an event. Each thermostat will be programmed to receive this signal to cycle off for a half hour, cycle back on for a half hour, and then alternate between off and on cycles for the duration of an event. Events are estimated to last no longer than four hours.

22. The thermostats would be equipped with two-way communications capability, a system presently used by CECONY in its program. For customer convenience, this system allows for the customer to override the signal sent from the Company. The Report indicates about 10% override activity among Public Service Electric and Gas Company's residential customers and 20% among C&I customers evaluated in 2005. This included accidental or unintended overrides. CECONY experienced 10% override activity among residential participants during 2006.

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[5] CECONY reports that customer acceptance of thermostats and rejection of switches in its historical AC Cycling program, resulted in nearly all of their 20,000+ participants utilizing thermostats.

23. RECO will contract with the vendor currently operating an AC Cycling program for CECONY to achieve economies of scale, efficiencies and their ability to provide immediate start up for the program. Consistent with the proposed schedule in the Report and RECO's understanding of Board objectives, the tentative timeframe for launching the program will be in early 2009 for customer recruitment, with a goal of having the program operational by June 2009.

24. RECO estimates the cost of implementing an AC Cycling Program for 1,000 customers will be approximately $795,600 per year, or $2,386,800 to enroll 3,000 customers over three years. These costs include the purchase of equipment, installation, customer incentives, marketing, maintenance, contractor fees, and Company administrative expenses.

Demand Response Incentive Program

25. RECO proposes to obtain the additional 9 MW of demand response necessary to meet its three-year goal through demand response incentives provided to customers directly or through Curtailment Service Providers ("CSPs") selected by the Company through an RFP process.

26. As part of the RFP process, CSPs can propose to achieve demand response for PJM's Interruptible Load Response ("ILR") and Demand Response ("DR") programs through any means except AC Cycling programs directed to residential and small C&I customers. This lone exclusion is due to the fact that, as discussed above, RECO is proposing to implement its own AC Cycling Program. While CSPs can market to all customers served through PJM in its service territory, RECO expects that CSPs will market primarily to mid and large size C&I customers.

27. RECO is basing its proposal on the findings presented in November 2007 by the New Jersey Demand Response Working Group ("DRWG") that was charged by the Board with developing a method for obtaining additional demand response for the state, beyond which was being secured by PJM. RECO would adopt a payment schedule of $22.50 per MW-day, as recommended by the DRWG, as an incentive to the CSPs to secure load reduction. In exchange for an incentive, participating customers would curtail voluntarily their load when an event is called by PJM as part of PJM's ILR or DR programs.

28. The total three-year cost of the Demand Response Incentive Program would be approximately $250,800. The cost during the first year to obtain 5 MW would be $65,600. The cost during the second year to obtain 2 MW and maintain the first year's participation would be $83,600. The cost during the third year to obtain 2 MW and maintain the first and second years' participation would be $101,600. These costs include all customer incentives, outside contractor spending, and Company administrative and evaluation costs.

RGGI MINIMUM FILING REQUIREMENTS

29. On July 1, 2008, RECO participated in the required 30-Day RGGI Pre-Filing Meeting with Board Staff and Rate Counsel to discuss the nature of the Program and describe the Program cost recovery mechanism contemplated by the Company. RECO also informed Board Staff and Rate Counsel that the Company's Program would be considered both a small scale program and a pilot program, as defined in the 120-Day RGGI Order. Accordingly, the Company must submit the information set forth in Sections I, II, III and IV of the RGGI Minimum Filing Requirements. The Company is

not required to submit a cost/benefit analysis set forth in Section V of the RGGI Minimum filing requirements, but the July 1 Order requires a cost/benefit analysis. However, the July 1 Order requires the EDCs' proposals be specific in terms of projections, the cost effectiveness of each DR program component and that cost effectiveness will be a primary criteria in the Board's evaluation of the proposals.

30. RECO has not run a DR program in more than ten years. The programs that it did run in the early to mid-1990s occurred prior to RECO joining PJM. The CECONY program, which RECO is using in part as a model for its AC Cycling Program, is measured against energy prices in the NYISO, not PJM. The New Jersey EDC programs that have been in place for several years are using different equipment and therefore have lower costs. As such, cost effectiveness data relevant to these programs would not be applicable to or appropriate for RECO. The Demand Response Incentive Program is using an incentive rate agreed upon in a collaborative process and no detailed cost effectiveness analysis was undertaken in the process of agreeing on that incentive. RECO is undertaking an analysis of the cost effectiveness of these two programs which will examine cost data against projected PJM energy prices. RECO anticipates that it will be able to complete this analysis by August 30, 2008.

31. In the Company's view, certain additional RGGI Minimum Filing Requirements are not applicable to the proposed DRP. Specifically, regarding the filing of data set forth in *N.J.A.C.* 14:1-5.12(a) 5, it is the Company's position that its DRP is a new service offering. RECO currently does not have rates or tariffs that reflect these types of offerings, and the Company is not proposing to include the DRP in the

Company's overall base rates. Therefore, pursuant to *N.J.A.C.* 14:1-5.12(a) 6, the Company is not required to file the information contained in *N.J.A.C.* 14:1-5.12(a) 5.

32. Exhibit A attached to this Petition, and incorporated herein by reference, contains all of the applicable information required to be filed by RECO as set forth in the RGGI Minimum Filing Requirements.

COST RECOVERY MECHANISM

33. RECO requests, for purposes of the DRP, that the Board grant approval of recovery of all DRP costs. To recover its DRP costs on a current basis, RECO proposes establishing a RGGI Surcharge. Further, pursuant to the RGGI Legislation,[6] the Company is requesting that the carrying charge on its deferred balances for the DRP be set based upon RECO's overall weighted average cost of capital ("WACC") authorized by the Board in the most recent base rate case (i.e., 7.83%, based upon a return on equity of 9.75%),[7] together with the income tax effects.

34. The RGGI Surcharge will be calculated annually on a cents per kWh basis and will be applied to all of RECO's electric distribution customers. This charge would be published in a separate tariff leaf. This tariff leaf is attached as Exhibit B. The RGGI Surcharge would be set initially to recover estimated annual expenditures as approved by the Board. The RGGI Surcharge would be subject to deferred accounting, with interest, and would be reconciled on an annual basis.

35. The initiatives set forth in the Company's Demand Response Program may become eligible for ILR Credits issued by PJM. To the extent that any such ILR

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[6] *N.J.S.A.* 48:3-98.1 (b) and *N.J.S.A.* 48:3-98.1 (a)(3).

[7] <u>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</u>, BPU Docket No. ER06060483, Decision and Order Approving Stipulation and Adopting Initial Decision Dated March 22, 2007) (see, p. 3).

Credits, generated by the Company's DRP, are received by RECO, they will be credited to the RGGI Surcharge.

36. In order to provide flexibility in responding to market conditions and customer demand, RECO should be allowed to carry over any sub-program over or under spending into subsequent years, so long as the total spending for the Program does not exceed the three-year total. Furthermore, based upon market conditions and the level of market response to each sub-program during the initial year, RECO should be allowed to transfer Program funding between sub-programs in subsequent years in order to maximize demand response and Program resources.

37. Attached to this Petition as Exhibit C, and incorporated herein by reference, is a draft Form of Notice of Filing and of Public Hearings. This Form of Notice sets 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. One public hearing will be held in the Company's service territory. Concurrent with this *N.J.S.A.* 48:3-98.1 (b) filing with the Board, a Notice of this filing will be served on the County Executives and Clerks of all municipalities within the Company's service territory. A subsequent 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. Notice of this filing and two copies of the Petition will be served upon the Department of Law and Public Safety, 124 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.

38. RECO requests that the rates to be charged to recover all of the DRP costs be approved by the Board along with the DRP and cost recovery mechanism proposed in this filing within the 180 day review period. RECO also requests that the Board authorize the Company to implement the herein proposed rates on or about January 1, 2009.

REQUEST FOR REVIEW AND APPROVAL

39. In order to achieve the 180-day administrative review period, RECO respectfully requests that the Board retain jurisdiction of this matter and not transfer the filing to the Office of Administrative Law. RECO believes evidentiary hearings are not necessary or even required for the Board to approve this Program and related authorizations. The Company will work in good faith with all parties to arrive at a mutually acceptable resolution of any issues that may arise in this proceeding. As stated by the Board in the 120-Day RGGI Order, "The Board encourages all interested parties to work toward a settlement for the Board's consideration before expiration of the 180 day period." See 120 Day RGGI Order at p. 5. Depending on whether Rate Counsel or any other intervening party raises any issues, RECO is confident that these potential issues can be resolved through settlement or through written comments to the Board for decision.

40. The Board's July 1 Order specifies a uniform overall Procedural Schedule for all mandated EDC Demand Response filings. To the extent Board Staff anticipates establish individual schedules for individual company filings, RECO requests a Procedural Schedule Conference be convened and conducted by a Deputy Attorney General and a schedule be established that will enable the Board to issue a Final Order on

this matter in the shortest practical time frame but, in any event, no later than December 2008.

CONCLUSION AND REQUESTS FOR APPROVAL

For all the foregoing reasons, RECO respectfully requests that the Board retain jurisdiction of this matter and review and expeditiously issue an Order approving this Petition specifically finding that:

1. The DRP is in the public interest and that RECO is authorized to implement and administer these regulated utility services under the terms set forth in this Petition and accompanying Exhibits;

2. RECO is authorized to recover all costs requested herein associated with the DRP, which will be recovered through a RGGI Surcharge, that would be filed annually;

3. The carrying charge on its deferred balances for the DRP be set based upon RECO's overall WACC authorized by the Board in the most recent base rate case, together with the income tax effects;

4. The proposed rates and charges, as set forth herein, are just and reasonable and RECO is authorized to implement the rates proposed herein on or about January 1, 2009; and

5. The proposed RGGI Surcharge, set forth in the proposed amendment to RECO's Schedule for Electric Service, P.U.C. – ELECTRICITY, referred to herein as Exhibit B.

COMMUNICATIONS

Communications and correspondence related to the Petition should be sent as follows:

James C. Meyer, Esq.
Riker, Danzig, Scherer, Hyland & Perretti LLP
Headquarters Plaza
One Speedwell Avenue
P.O. Box 1981
Morristown, NJ 07962-1981

And

John L. Carley, Esq.
Assistant General Counsel
Consolidated Edison Company Of New York, Inc.
Law Department, Room 1815S
4 Irving Place
New York, NY 10003

And

Jane J. Quin
Director – Customer Energy Services
Orange and Rockland Utilities, Inc.
390 W. Route 59
Spring Valley, New York 10977.

Respectfully submitted,

ROCKLAND ELECTRIC COMPANY

By ______________________

James C. Meyer, Esq.
Riker, Danzig, Scherer, Hyland &
Perretti LLP
Headquarters Plaza
One Speedwell Avenue
P.O. Box 1981
Morristown, NJ 07962-1981

And

John L. Carley, Esq.
Assistant General Counsel
Consolidated Edison Company Of
New York, Inc.
Law Department, Room 1815-S
4 Irving Place
New York, NY 10003

Attorneys for Rockland Electric
Company

Dated: July 31, 2008

STATE OF NEW YORK)
: ss
COUNTY OF ROCKLAND)

JAMES J. O'BRIEN, of full age, being duly sworn according to law, on his oath deposes and says

1. I am the Vice President – Customer Service of Rockland Electric Company, the petitioner in the annexed Petition.

2. I have read the annexed Petition, and the matters and things contained therein are true to the best of my knowledge and belief.

James J. O'Brien

James J. O'Brien

Sworn to and subscribed to
Before me this 30 day
of July, 2008

JoAnn E. Dagele

JOANN E. DAGELE
Notary Public, State of New York
No. 01DA6005650
Qualified in Orange County
Commission Expires 4/20/2010

Certification of Service

I, John L. Carley, Assistant General Counsel of Consolidated Edison Company of New York, Inc., an affiliate of the Petitioner, Rockland Electric Company, hereby certify that copies of the Petition and its various attachments were served upon the Department of the Public Advocate, Division of Rate Counsel, and the Department of Law and Public Safety.

John L. Carley

EXHIBIT A

RGGI ORDER REQUIREMENTS

Requirements of RGGI Order:

I. **General Filing Requirements**:

a. The utility shall provide all filings, information and data pertaining to the specific program proposed, as set forth in applicable sections of N.J.A.C. 14:1-5:11 and N.J.A.C. 14:1-5.12.

i. As these are new service offerings under N.J.A.C. 48: 2-21.2, RECO is not required to provide data set forth in N.J.A.C. 14:1-5.12(a)5.

b. All filings shall contain information and financial statements for the proposed program in accordance with the applicable Uniform System of Accounts that is set forth in N.J.A.C. 14:1-5.12. The utility shall provide the Accounts and Account numbers that will be utilized in booking the revenues, costs, expenses and assets pertaining to each proposed program so that they can be properly separated and allocated from other regulated and/or other programs.

i. This information is provided in the testimony and exhibits of Kenneth Kosior.

c. The utility shall provide supporting explanations, assumptions, calculations and work papers for each proposed program and cost recovery mechanism petition filed under N.J.S.A. 48:3-98.1 and for all qualitative and quantitative analyses therein. The utility shall provide electronic copies of all materials and supporting schedules, with all inputs and formulae intact.

i. This information is provided in the testimony and exhibits of Jane Quin and Kenneth Kosior.

d. The utility shall file testimony supporting its petition.

   i. See the testimony of Jane Quin and Kenneth Kosior filed with the Petition.

e. For any small scale or pilot program, the utility shall only be subject to the requirements in this Section and Sections II, III, and IV. The utility shall, however, provide its estimates of costs and a list of data it intends to collect in a subsequent review of the benefits of the program. Information in Section V may be required for pilot and small programs if such programs are particularly large or complex. A "small scale" project is defined as one that would result in either a rate increase of less than a half of one percent of the average residential customer's bill or an additional annual total revenue requirement of less than $5 million. A pilot program shall be no longer than three years, but can be extended under appropriate circumstances.

   i. The Company's Demand Response Program has a projected Year 1 cost of $861,200, Year 2 cost of $879,200, and Year 3 cost of $897,200, for a three-year projected cost of $2,637,600. Specifics of these costs are provided in the testimony and exhibits of Jane Quin and Kenneth Kosior. Since the Demand Response Program will cost less than the $5 million annual maximum, and will have a three-year term, it qualifies as a pilot program. The Company intends to collect data in a subsequent review of the benefits of the Demand Response Program. For the AC Cycling Program, this data will include the number of participants; the number of customers overriding the system; the number, length and type of events that are called; the kW obtained from the participants for each event. The

Demand Response Incentive Program will be operated in conjunction with PJM, which will be conducting program tracking and providing details of program performance to the Company.

f. If the utility is filing for an increase in rates, charges, etc., or for approval of a program which may increase rates/charges to ratepayers in the future, the utility shall include a draft public notice with the petition and proposed publication dates.

i. A draft public notice is appended as Exhibit C of the Petition.

II. <u>Program Description</u>:

a. The utility shall provide a detailed description of each proposed program for which the utility seeks approval.

i. A detailed description of the proposed Demand Response Program is set forth in the testimony and exhibits of Jane Quin.

b. The utility shall provide a detailed explanation of the differences and similarities between each proposed program and existing and/or prior programs offered by the New Jersey Clean Energy Program, or the utility.

i. The Company's Demand Response Program has two components: an AC Cycling Program and a Demand Response Incentive Program. The Office of Clean Energy ("OCE") does not operate either type of program at present, nor is the Company aware that they have operated either type of program in the recent past. The Company operated a curtailable load program from 1988 – 1995 that yielded kW savings ranging from a low of 656 kW in 1988 (the inception year) and a high of 7,208 kW in 1993. The

Company also operated an AC Cycling program over 10 years ago, however the data from that program is outdated, with technologies and prices not relevant to today's marketplace. Both programs were operated prior to restructuring and prior to RECO's joining PJM. Consequently, the details of neither program are relevant to its proposal herein.

c. The utility shall provide a description of how the proposed program will complement and impact existing programs being offered by the utility and the New Jersey Clean Energy Program with all supporting documentation.

i. Neither RECO, nor the OCE, currently offers an AC Cycling or Demand Response Incentive Program, so the Company's Demand Response Program will have no impact on existing OCE or RECO programs. Both programs support statewide efforts to provide such programs to all customer classes. RECO's Demand Response Program is consistent with the goals of both RGGI and the EMP and therefore, complements OCE's existing programs by filling a gap therein.

d. The utility shall provide a detailed description of how the proposed program is consistent with and/or different from other utility programs or pilots in place or proposed with all supporting documentation.

i. The Company's AC Cycling Program is modeled after the residential and commercial and industrial ("C&I") programs that have been operated by the other New Jersey EDCs in the past and that of the Company's affiliate, Consolidated Edison Company of New York, Inc. ("CECONY"). As noted in the testimony of Jane Quin, a difference between the other EDCs' past programs and RECO's proposed AC Cycling Program is that RECO plans to offer more sophisticated two-way communications equipment to participants similar to a program offered by CECONY. This equipment will allow signals to be sent by RECO to a participant's equipment to cycle off if an event is called. Past EDC programs used only one-way communications signals that permitted thermostats to be cycled, but did not provide verification back to the EDC that cycling actually was taking place. A two-way communications system will facilitate the provision of this verification. In addition, in the future, a two-way system will provide real-time data to the Company. Similarities with past programs offered by the other EDCs is that the RECO proposal also will provide upfront incentive payments to participants, override capability and events called by PJM when systems are constrained. Detailed program descriptions are provided in the testimony and exhibits of Jane Quin.

e. The utility shall provide a detailed description of how the proposed program comports with New Jersey State policy as reflected in reports, including the New Jersey Energy Master Plan, or, pending issuance of the final Energy Master Plan, the draft Energy Master Plan, and the greenhouse gas emissions reports to be issued by the New Jersey Department of Environmental Protection pursuant to N.J.S.A. 26:2C-42(b) and (c) and N.J.S.A. 26:2C-43 of the Global Warming Response Act, N.J.S.A. 26:2C-37 et seq.

i. The proposed Demand Response Program is directly responsive to Goal 2 of the Draft Energy Master Plan ("Draft EMP") which is to reduce peak electricity demand. Specifically, Action Item 2 provides that financial incentives should be considered by the Board to encourage expanded participation in demand response programs, such as state incentives tied to PJM's demand response programs that pay customers to reduce their load during peak demand periods. RECO's Demand Response Incentive Program provides just this type of financial incentive. Action Item 2 also provides that demand response could be achieved by competitive demand response firms that contract with and/or aggregate intermediate and small customers. RECO's Demand Response Incentive Program will facilitate this type of aggregation. Action Item 2 further provides that demand response could be achieved through direct load control by the utilities. RECO's AC Cycling Program is a utility run direct load control program designed for residential and small C&I customers.

f. The utility shall provide the features and benefits for each proposed program including the following: (1) the target market and customer eligibility if incentives are to be offered; (2) the program offering and customer incentives; (3) the quality control method including inspection; (4) program administration; and (5) program delivery mechanisms.

i. The Company's proposed Demand Response Program is targeted to all customers in RECO's service territory. While the AC Cycling Program is open to all of the Company's customers, RECO expects to market the AC Cycling Program primarily to residential and small C&I customers, due to the level of incentives provided and the fact that the type of thermostat installed is not designed for large facilities. The Demand Response Incentive Program will provide customers with incentives to curtail their usage when events are called by the PJM. While Curtailment Service Providers ("CSPs") can market to all Company customers, and can aggregate smaller customers to participate as permitted by PJM, RECO expects that CSPs will market primarily to mid and large sized C&I customers. CSPs who are registered to participate in PJM's DR and/or ILR programs are eligible to participate as long as they are RECO customers or are registering RECO customers.

ii. The AC Cycling Program provides an upfront participant incentive of $50 and a free programmable thermostat to participate. The Demand Response Incentive Program will offer an incentive of $22.50 per MW day in addition to PJM incentives to participate. These programs are more fully described in the Program Description document attached to the testimony of Jane Quin.

iii. A customer satisfaction survey will be provided to each participant after the after their first year participating in the program to determine satisfaction with the program, including the installation process, ease of customer use of the system, and the results of the program. The survey will be sent to participants in both the AC Cycling Program and the Demand Response Incentive Program. Approximately 10% of participating customers in the AC Cycling Program will be inspected for proper installation of equipment. For the Demand Response Incentive

Program, PJM will be providing records of compliance with its ILR and DR programs for CSPs in RECO's program.

iv. The Demand Response Program will be administered by the Company in accordance with the program rules and application process described in the testimony and exhibits of Jane Quin.

v. Once the Board has approved the Demand Response Program, Petitioner will retain qualified implementation contractors to deliver the AC Cycling Program and the Demand Response Incentive Program. The Company plans to utilize the services of a contractor already operating an AC Cycling Program for RECO's affiliate, CECONY. The proposed contract will be provided to the Board and other interested parties by August 30, 2008. For the Demand Response Incentive Program, the Company plans to issue a Request for Proposals ("RFP") with terms and conditions consistent with the Program Descriptions. The proposed RFP will be provided to the Board and other interested parties by August 30, 2008.

g. The utility shall provide the criteria upon which it chose the program.

i. Board policy encourages statewide consistency in the design and implementation of demand response programs. One criteria employed by RECO in choosing the AC Cycling Program was consistency. RECO reviewed the previous AC Cycling / Direct Load Control filings submitted by both RECO and the other electric utilities in 2007 and based on that review expanded its previously filed AC Cycling proposal. Another criteria used by RECO in choosing the program was that in the Stipulation of Settlement dated as of March 8, 2007 and Board Order dated March 22, 2007 in BPU Docket No. ER06060483, RECO "agreed to work collaboratively with Board Staff and Rate Counsel to address the development and implementation of an AC Cycling Program that would be appropriate to RECO's service territory". Consequently, the AC Cycling Program meets RECO's prior commitment to develop and implement such a program. The Demand Response Incentive Program was chosen because: 1) the program that it is modeled after was the result of a collaborative process with interested stakeholders and Board Staff, and 2) it would incorporate a different customer segment than the AC Cycling Program, i.e., the mid and large sized C&I customers.

h. The utility shall provide the estimated program costs by the following categories: administrative (all utility costs), marketing/sales, training, rebates/incentives including inspections and quality control, program implementation (all contract costs) and evaluation and other.

i. For the AC Cycling Program, the program will be operated by an implementation contractor. The estimated costs will be $775,000 annually, and $2,325,000 for three years, including all components provided by the implementation contractor. Company administrative costs are estimated at $10,600 annually, and $31,800 over the three-year term. Company evaluation costs are estimated at $10,000 annually, and $30,000 over the three-year term. The Demand Response Incentive Program will be outsourced to CSPs, with anticipated costs of $45,000 for Year 1,

$63,000 for Year 2, and $81,000 for Year 3, or $189,000 for the three–year term Company administrative costs are estimated at $10,600 annually, and $31,800 over the three-year term. Company evaluation costs are estimated at $10,000 annually, and $30,000 over the three-year term. The total cost for the AC Cycling Program is estimated to be $2,386,800 and the total cost for the Demand Response Incentive program is estimated to be $250,800. Therefore, the total Demand Response program costs are estimated to be $2,637,600.

i. The utility shall provide the extent to which the utility intends to utilize employees, contractors or both to deliver the program and, to the extent applicable, the criteria the utility will use for contractor selection.

   i. The Company will retain an implementation contractor, as discussed in the testimony and exhibits of Jane Quin, to operate the AC Cycling Program and CSP(s) to implement the Demand Response Incentive Program. The Company plans to achieve economies of scale in the AC Cycling Program by utilizing the contractor currently performing similar work for its affiliated company, CECONY. The CSP(s) for the Demand Response Incentive Program will be selected as a result of an RFP process. Criteria for selection will include being registered to participate in PJM demand response programs. However, the Company may disqualify a CSP in Year Two depending on their compliance with demand response commitments in PJM's ILR or DR programs in Year One. The Company expects that 25% of the time of one Company employee will be required to accomplish the various administrative tasks associated with the proposed Demand Response Program.

j. In the event the program contemplates an agreement between the utility and its contractors and/or the utility and its ratepayers, copies of the proposed standard contract or agreement between the ratepayer and the utility, the contractor and the utility, and/or the contractor and the ratepayer shall be provided.

   i. The Company plans to enter into a contract with the qualified contractor it retains to implement the AC Cycling Program. The Company plans to solicit CSPs to implement the Demand Response Incentive Program by means of issuing an RFP. The Company will provide copies of these contractual documents and the RFP to the Board and other interested parties by August 30, 2008.

k. The utility shall provide a detailed description of the process for resolving any customer complaints related to these programs.

   i. The Company will attempt to resolve disputes with its customers informally in the first instance involving the implementation contractor where appropriate. The Company will select an ombudsman outside of the Customer Energy Services Group to participate in the dispute resolution process for disputes that are not readily resolved by Customer Energy Services and/or the implementation contractor. Disputes under the Demand Response Program that involve monetary claims or civil damages will be resolved in an appropriate court of law. Disputes that involve Petitioner's administration of the Demand Response Program that cannot be resolved informally will be resolved through the Board's existing process for customer complaints.

l. The utility shall describe the program goals, including number of participants on an annual basis and the energy savings, renewable energy generation and resource savings, both projected annually and over the life of the measures.

i. The goal of the RECO Demand Response Program is to achieve 6 MW during Year 1 and a total of 12 MW of demand reduction by Year 3. One thousand customer participants are targeted for the AC Cycling Program for each of three years, for a total of three thousand customers with 1,000 kW or 1 MW targeted for each year resulting in 3,000 kW or 3 MW from AC Cycling. The Demand Response Incentive program has a goal of adding 5 MW in year one and an additional 4 MW, bringing the demand response program total to 12 MW by Year 3. The specifics of how this goal will be achieved will be provided by the CSPs selected by the Company to implement the Demand Response Incentive Program.

m. Marketing – The utility shall provide the following: a description of where and how the proposed program/project will be marketed or promoted throughout the demographic segments of the utility's customer base, including an explanation of how prices and service for each proposed program/project will be conveyed to customers.

i. The Company will market the AC Cyling Program directly to its residential customers through its call center, bill inserts, print advertisements and its website. Radio and cable television advertising may be conducted if necessary to reach the program targets. In addition, the Company will provide informational brochures to its customers that will include all of the terms and conditions of the program. The Company expects to circulate drafts of its educational and marketing materials once the program is approved and the precise terms and conditions are known. Once CSPs are selected to implement the Demand Response Incentive Program, the Company will confer with such CSPs regarding marketing approaches and activities.

III **Additional Required Information**:

a. The utility shall describe whether the proposed programs will generate incremental activity in the energy efficiency/conservation/renewable energy marketplace and what, if any, impact on competition may be created, including any impact on employment, economic development and the development of new business with all supporting documentation. This shall include a breakdown of the impact on the employment within this marketplace as follows: marketing/sales, training, program implementation, installation, equipment, manufacturing and evaluation and other applicable markets. With respect to the impact on competition the analysis should include the competition between utilities and other entities already currently delivering the service in the market or new markets that may be created.

i. The AC Cycling Program will be implemented by a third party contractor who will secure the necessary installers for the program which may facilitate increased job growth in New Jersey. The Demand Response

Incentive program, by offering contracts pursuant to a competitive RFP process, will provide economic opportunities for demand response vendors in New Jersey which may facilitate increased job growth.

b. The utility shall provide a description of any known market barriers that may impact the program and address the potential impact on such known market barriers for each proposed program with all supporting documentation. This analysis shall include barriers across the various markets including residential (both single and multi-family), commercial and industrial (both privately owned and leased buildings), as well as between small, medium and large commercial and industrial markets. This should include both new development and retrofit or replacement upgrades across the market sectors.

i. By providing incentives, the AC Cycling Program will seek to overcome customers' reluctance to participate in demand response programs. Similarly, by facilitating customer participation in various demand response programs implemented through the Demand Response Incentive Program, the Company will be addressing customers' reluctance to participate in such programs and lack of understanding of how to react to demand response. In addition, customers may lack the tools necessary to react to a demand response event. Since CSPs will coordinate participation for customers, knowledge transfer between CSPs and customers will also be valuable.

c. The utility shall provide a qualitative/quantitative description of any anticipated environmental benefits associated with the proposed program and a quantitative estimate of such benefits for the program overall and for each participant in the program with all supporting documentation. This shall include an estimate of the energy saved in kWh and/or therms and the avoided air emissions, wastewater discharges, waste generation and water use or other saved resources.

i. The Company is unable to provide a quantitative analysis of such benefits because although the Demand Response Program calls for the availability of up to 12 MW of demand response, any avoided air emissions can only be measured with reference to when an event is called, for how long, and the type of generation it is displacing. Qualitatively, the Company's proposed Demand Response Program should contribute to a reduction of air emissions because these programs will displace traditional generation sources, most of which contribute to carbon emissions in the region.

d. To the extent known, the utility shall identify whether there are similar programs available in the existing marketplace and provide supporting documentation if applicable. This shall include those programs that provide other societal benefits to other under-served markets. This should include an analysis of the services already provided in the market place, and the level of competition.

i. RECO discusses the programs known to it in the existing marketplace, which includes the programs of the other EDCs and the program of CECONY in Section II(d) of this Exhibit.

e. The utility shall provide an analysis of the benefits or impacts in regard to Smart Growth.

i. Petitioner's Demand Response Program will not impact Smart Growth.

f. The utility shall propose the method for treatment of Renewable Energy Certificates ("REC") including solar RECs or any other certificate developed by the Board of Public Utilities, including Greenhouse Gas Emissions Portfolio and Energy Efficiency Portfolio Standards including ownership, and use of the certificate revenue stream(s).

   i. The Company does not expect that there will be any RECs generated by the Company's proposal.

g. The utility shall propose the method for treatment of any air emission credits and offsets, including Regional Greenhouse Gas Initiative carbon dioxide allowances and offsets including ownership, and use of the certificate revenue stream(s).

   i. The Company does not expect that its proposed Demand Response Program will generate any air emission credits or offsets accruing to RECO.

h. The utility shall analyze the proposed quantity and expected prices for any REC, solar REC, air emission credits, offsets or allowances or other certificates to the extent possible.

   i. Since the proposed programs will not generate any of these, no such analysis is necessary.

IV **<u>Cost Recovery Mechanism</u>**:

a. The utility shall provide appropriate financial data for the proposed program, including estimated revenues, expenses and capitalized investments, for each of the first three years of operations and at the beginning and end of each year of said three-year period. The utility shall include pro forma income statements for the proposed program, for each of the first three years of operations and actual or estimated balance sheets as at the beginning and end of each years of said three year period.

i. This information is provided as an exhibit in the testimony of Kenneth Kosior.

b. The utility shall provide detailed spreadsheets of the accounting treatment of the cost recovery including describing how costs will be amortized, which accounts will be debited or credited each month, and how the costs will flow through the proposed method of recovery of program costs.

i. This information is provided as an exhibit in the testimony of Kenneth Kosior.

c. The utility shall provide a detailed explanation, with all supporting documentation, of the recovery mechanism it proposes to utilize for cost recovery of the proposed program, including proposed recovery through the Societal Benefits Charge, a separate clause established for these programs, base rate revenue requirements, government funding reimbursement, retail margin, and/or other.

i. The Company proposes recovery of all program costs associated with its proposed Demand Response Program through establishment of a Regional Greenhouse Gas Initiative (“RGGI”) Surcharge. Details of this Surcharge are provided in the testimony and exhibits of Kenneth Kosior.

d. The utility’s petition for approval, including proposed tariff sheets and other required information, shall be verified as to its accuracy and shall be accompanied by a certification of service demonstrating that the petition was served on the Department of the Public Advocate, Division of Rate Counsel simultaneous to its submission to the Board.

i. This information is provided in the Petition.

e. The utility shall provide an annual rate impact summary by year for the proposed program, and an annual cumulative rate impact summary for all approved and proposed programs showing the impact of individual programs as well as the cumulative impact of all programs upon each customer class of implementing each program and all approved and proposed programs based upon a revenue requirement analysis that identifies all estimated program costs and revenues for each proposed program on an annual basis. The utility shall also provide an annual bill impact summary by year for each program, and an annual cumulative bill impact summary by year for all approved and proposed programs showing bill impacts on a typical customer for each class.

i. This information is provided in the testimony and exhibits of Kenneth Kosior.

f. The utility shall provide, with supporting documentation, a detailed breakdown of the total costs for the proposed program, identified by cost segment (capitalized costs, operating expense, administrative expense, etc.). This shall also include a detailed analysis and breakdown and separation of the embedded and incremental costs that will be incurred to provide the services under the proposed program with all supporting documentation.

   i. This information is provided in the testimony and exhibits of Kenneth Kosior.

g. The utility shall provide a detailed revenue requirement analysis that clearly identifies all estimated program costs and revenues for the proposed program on an annual basis, including effects upon rate base and pro forma income calculations.

   i. This information is provided in the testimony and exhibits of Kenneth Kosior.

h. The utility shall provide, with supporting documentation: (i) a calculation of its current capital structure as well as its calculation of the capital structure approved by the Board in its most recent electric and/or gas base rate cases, and (ii) a statement as to its allowed overall rate of return approved by the Board in its most recent electric and/or gas base rate cases.

   i. This information is provided in the testimony and exhibits of Kenneth Kosior.

i. If the utility is seeking carrying costs for a proposed program, the filing shall include a description of the methodology, capital structure, and capital cost rates used by the utility.

   i. RECO is seeking carrying costs on measures implemented for demand response and is requesting its weighted average cost of capital (“WACC”).

j. A utility seeking incentives or rate mechanism that decouples utility revenues from sales, shall provide all supporting justification, and rationale for incentives, along with supporting documentation, assumptions and calculations.

i. RECO is not seeking incentives for this program. RECO is not proposing a decoupling mechanism at this time.

V. <u>Cost/Benefit Analysis</u>

Does not apply as this is a pilot program.

EXHIBIT B

GENERAL INFORMATION

No. 30 REGIONAL GREENHOUSE GAS INITIATIVE (“RGGI”) SURCHARGE

The RGGI Surcharge shall be applied to the kWh usage on the bills of all customers served under this Schedule. The RGGI Surcharge shall include the revenue requirement, including current costs and any refund or recovery of prior period over- or under-collection balances, related to the Company’s Demand Response Program including the:

(a) Air Conditioning Cycling Program; and

(b) Demand Response Incentive Program.

The RGGI Surcharge to be effective on and after the date indicated below shall be set at 0.0102 cents per kWh including sales and use tax (“SUT”).

The difference between the actual monthly revenue requirement associated with the Demand Response Program and RGGI Surcharge recoveries will be deferred, with interest, for future recovery. Interest will be included in the deferred balance for both an over-collection and for an under-collection. Interest will be calculated on a net of tax basis based on the Overnight A2/P2 Non-financial Commercial Paper Interest Rate published by the Federal Reserve Board for the last business day of each month.

On October 1 of each year, the Company shall file with the Board the RGGI Surcharge to be effective for the twelve-month period commencing the following January 1. The RGGI surcharge shall be set to recover any prior period over- or under-recovered balances, including interest, and to provide current recovery of the forecasted revenue requirement associated with the Demand Response Program over the twelve-month period commencing the following January 1.

EXHIBIT C

NOTICE TO ROCKLAND ELECTRIC COMPANY CUSTOMERS

Notice of a Filing And Notice of Public Hearings For Proposed Demand Response Program And an Associated Cost Recovery Mechanism

TAKE NOTICE that, on August 1, 2008, Rockland Electric Company ("RECO" or "the Company") filed a Petition and supporting documentation with the New Jersey Board of Public Utilities ("Board", "BPU") in Docket Number EO08050326 seeking Board approval to implement and administer a RECO Demand Response Program ("Program") and to implement an associated cost recovery mechanism.

Under the Program, RECO is proposing to implement a small scale pilot program that will result in the investment of approximately $2.6 million over a three-year period. The Company proposes through this regulated service to make air conditioning cycling and other demand response programs available to all its customers.

RECO is requesting, for purposes of this small scale pilot program, that the Board grant approval of recovery of all program costs. Cost recovery would be via a separate rate mechanism called the Regional Greenhouse Gas Initiative ("RGGI") Surcharge to be filed each year. Further, pursuant to the RGGI legislation, the Company is requesting that the carrying charge on its deferred balances for the Program be set based upon RECO's weighted average cost of capital ("WACC") authorized by the Board in the Company's most recent base rate case, together with tax effects.

The proposed charges for customers are as follows:

	Present	**Present** (Incl. Sales and Use Tax)	**Proposed**	**Proposed** (Incl. Sales and Use Tax)
RGGI Surcharge- per kWh	0.0000¢	0.0000¢	0.0095¢	0.0102¢

The effect of the proposed RGGI Surcharge on typical residential electric bills, if approved by the Board, is illustrated below:

Residential Electric Service				
Typical Average Monthly Bill				
(Includes Sales and Use Tax)				
	Bill Amount		Increase	
	Present (1)	Proposed (2)	Amount	Percent
650 kWh average monthly use	$122.23	$122.29	$0.06	0.05
925 kWh average monthly use	172.85	172.94	0.09	0.05
1,500 kWh average monthly use	278.49	278.64	0.15	0.05

(1) Based upon Basic Generation Service Fixed Pricing (BGS-FP) and Delivery Rates in effect June 1, 2008 and assumes that the customer receives BGS-FP service from RECO.
(2) Same as (1) except includes RGGI Surcharge.

Any final rate adjustments with resulting changes in bill impacts found by the Board to be just and reasonable as the result of this filing may be modified and/or allocated by the Board in accordance with the provisions of *N.J.S.A.* 48:2-21 and for other good and legally sufficient reasons. Therefore, the above described charges may increase or decrease based upon the Board's decision.

Copies of the Company's August 1, 2008 filing are available for review at the Company's headquarters at 82 East Allendale Road, Saddle River, New Jersey 07458 and at the Board of Public Utilities, Two Gateway Center, Newark, New Jersey 07102.

The following date, times and location for public hearings have been scheduled on the above filing so that members of the public may present their views.

Date
Time
Location
Room
Street
City, New Jersey, Zip Code

In order to encourage full participation in this opportunity for public comment, please submit any requests for needed accommodations, including interpreters, listening devices or mobility assistance, 48 hours prior to the above hearings. Customers may file written comments with the Secretary of the Board of Public Utilities at Two Gateway Center, Newark, New Jersey 07102 ATTN: Kristi Izzo whether or not they attend the public hearings.

ROCKLAND ELECTRIC COMPANY

ROCKLAND ELECTRIC COMPANY
PROPOSED DEMAND RESPONSE PILOT PROGRAM
DIRECT TESTIMONY OF
JANE J. QUIN

Q. Please state your name and business address.

A. Jane J. Quin, 390 W. Route 59, Spring Valley, New York 10977.

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

A. I am Director – Customer Energy Services for Orange and Rockland Utilities, Inc. ("Orange and Rockland"), the parent company of Rockland Electric Company ("RECO" or the "Company").

Q. Please briefly outline your educational and business experience.

A. I received a Bachelor of Arts degree from the University of Michigan in 1977 and a Juris Doctorate degree from the University of Tulsa, College of Law, in 1985. My first employment was as an associate with the energy group of the Hall, Estill law firm in Tulsa, Oklahoma in 1985. I was subsequently employed as a senior associate with the energy group of the Baker & Botts law firm in Washington, D.C. from 1989 to 1993. I joined Orange and Rockland in 1994 as Attorney responsible for the Company's gas regulatory matters. In 1999, I accepted a position with the legal department at Consolidated Edison Company of New York, Inc. ("Con Edison") after the merger of Orange and Rockland and Con Edison, Inc. I represented both Orange and Rockland and Con Edison in gas and electric regulatory matters, including retail access issues, as Senior Attorney and Associate Counsel. In May 2005, I accepted the position of Director – Retail Access and Energy Services for Orange and Rockland. My title recently changed to Director – Customer Energy Services. I have participated in the preparation of testimony and exhibits in rate cases and regulatory proceedings in New York and Pennsylvania and at the Federal Regulatory Energy Commission. I previously testified before the New York State Public Service Commission ("NYPSC") in Case No. 05-G-1494, Case No. 06-E-1433 and Case No. 07-E-0949 and before the Pennsylvania Public Utility Commission in Docket No. P-00062205.

SUMMARY OF TESTIMONY

Q. What is the scope of your testimony?

A. In my testimony, I will be discussing the Company's proposal to initiate a Demand Response Program ("DRP"). The Company is submitting this Petition in response to the Board of Public Utilities' ("Board") Order dated July 1, 2008 ("July 1 Order"), in Docket Nos. EO08050326 and EO08060421. As discussed below, RECO has structured its proposed DRP as a pilot program for purposes of the Board's Regional Greenhouse Gas Initiative ("RGGI") filing requirements.

Q. Are you familiar with the information provided by the Company, set forth in Exhibit A to the Petition, to address the RGGI Minimum Filing Requirements?

A. Yes, I am familiar with the RGGI Minimum Filing Requirements. In addition, I am specifically familiar with and sponsor the information provided by the Company in Exhibit A to the Petition to address Section I a, d, e, and f, Section II and Section III of the RGGI Minimum Filing Requirements.

Q. What are the goals of the DRP?

A. As outlined in the July 1 Order, each electric distribution company ("EDC") operating in New Jersey is required to prepare and submit proposals for demand response programs that could be implemented by June 1, 2009, if approved by the Board. The July 1 Order established a statewide goal of reducing 300 MW for the first year of the program and 600 MW by the end of third year of the program. RECO's pro-rata share for the first year goal is 6 MW. The July 1 Order indicated that a DRP should provide opportunities for participation by all customers.

Q. What are the components of the Company's proposed DRP?

A. The Company proposes to offer two separate component programs in order to make the DRP available to all customer classes and to meet RECO's 6 MW share of the Board's first year demand response goal. Specifically, while both component programs are open to all the Company's customers, RECO expects to market its Air Conditioning Cycling ("AC Cycling") Program primarily to residential and small business customers and only to customers with central air conditioning. Similarly, RECO expects that the Demand Response Incentive Program will be targeted primarily to mid and large size commercial and industrial ("C&I") customers, some of whom would act as their own curtailment service providers and some of whom would participate through Curtailment Service Providers ("CSPs").

Q. Please describe the design of the AC Cycling component of the DRP.

A. The Company proposes offering an AC Cycling Program to achieve 1 MW of demand response in the first year and a total of 3 MW by the end of the third year. This proposal significantly enhances and accelerates the AC Cycling proposal that RECO filed with the Board in June 2007. In its previous filing, the Company planned to achieve demand response of 2 MW over a five year period. In its current AC Cycling proposal, the Company plans to enroll approximately 1,000 customers per year. Over a three year period, the plan is to enroll approximately 3,000 customers. With each participant targeted to save one kW, the AC Cycling Program is targeted to achieve demand response of 3 MW by the end of the three year period.

Q. What would the Company provide each participant in the AC Cycling Program?

A. For each participant, the Company would provide and install a new programmable thermostat and provide a $50 up front participation incentive per installed unit. The Company would offer thermostats with two-way communications' capability, a system now used by its affiliate, Consolidated Edison Company of New York, Inc. ("CECONY")

Q. What is the projected cost of the AC Cycling Program?

A. The Company expects to spend $795,600 per year for each of the three years of the proposed AC Cycling Program, for a total of $2,386,800. The annual costs consist of $775,000 for an implementation contractor that will operate the program. Services to be provided by the implementation contractor include purchase and installation of equipment, customer incentives, marketing, communications, contractor administration and equipment maintenance. In addition to the implementation contractor costs, $10,600 is included for Company administration and $10,000 for Company evaluation processes. Together these costs amount to $795,600 annually.

Q. How does the Company's proposal differ from AC Cycling programs currently being offered by other New Jersey EDCs?

A. Unlike RECO, the other New Jersey EDCs have operated AC Cycling programs for many years. The other EDCs have offered either switches or thermostats to their participating customers. The thermostats provided customers with one-way signal capability. The two-way communications capabilities of the thermostats provided by RECO will provide valuable two-way communications capability that should prove compatible with developing Advanced Metering Infrastructure ("AMI") technology in the state. The implementation of this technology once integrated with AMI technology will support the development of a smart grid system, allowing two-way communications to customer end use equipment that will enable targeted demand response programs and benefits. The Company also should achieve economies of scale by purchasing these thermostats in conjunction with CECONY.

Q. Please describe the design of the Demand Response Incentive component of the Company's proposed DRP.

A. The Company proposes to offer a Demand Response Incentive Program to achieve 5 MW in the first year, an additional 2 MW in year two, and an additional 2 MW in the third year, for a total of 9 MW over three years. This program would recruit eligible and interested mid and large size C&I

customers either on their own or through CSPs that would be solicited through a request for proposal ("RFP") process. CSPs would be authorized to recruit customers to participate in the program. The Company would pay the participating customer or CSPs $22.50 per MW day for demand response that is called by PJM under its Interruptible Load Response ("ILR") program or its Demand Response ("DR") program. The Company's proposal is based upon findings presented in November 2007 by the New Jersey Demand Response Working Group ("DRWG") that was charged by the Board with developing a method for obtaining additional demand response for the State, beyond that which was secured by the PJM. The Company would adopt the same $22.50 per MW day incentive payment schedule recommended by the DRWG. The Company incentive would be provided as an adder to the existing PJM incentives offered to customers in the ILR or DR programs, in order to attract further participation in the Company's service territory.

Q. Are there any limitations on the types of demand response programs that CSPs can propose to implement pursuant to the Demand Response Incentive Program?

A. CSPs will be precluded from implementing AC Cycling programs directed to residential and small business customers, since the Company already will be implementing such a program. Aside from that lone restriction, CSPs are not restricted in the measures that they promote in order to achieve demand response.

Q. What is the project cost of the Demand Response Incentive Program?

A. The Company expects to spend approximately $65,600 in the first year, $83,600 in the second year, and $101,600 in the third year, for a total of $250,800 over three years. Year One costs of $65,600 include $45,000 for incentive payments to CSPs to obtain 5 MW of demand response, $10,600 for Company administration and $10,000 for Company evaluation processes. Year Two costs of $83,600 include $63,000 for incentive payments to CSPs to retain the 5MW and obtain an additional 2 MW of demand response, $10,600 for Company administration and $10,000 for Company evaluation processes. Year Three costs of $101,600 include $81,000 for incentive payments to CSPs to retain the 7 MW and obtain an additional 2 MW of demand response, $10,600 for Company administration and $10,000 for Company evaluation.

Q. How does the Company's proposal differ from programs currently being offered by the other New Jersey EDCs?

A. To the Company's knowledge, there are no demand response incentive programs currently being offered by the other EDCs.

Q. How does the Company propose to recover the costs of the DRP?

A. The Company proposes that it be authorized by the Board to recover costs associated with the DRP through a RGGI Surcharge mechanism, as described in the testimony of Company witness Kenneth Kosior.

Q. How does the Company propose to measure the results of the DRP?

A. For the AC Cycling Program component, the Company will call one test event each summer to measure the actual demand response achieved. The Company also will measure the demand response achieved on any other event called.

For the Demand Response Incentive Program component, as part of the contracting process, the Company will require that CSPs document how they will achieve the demand response for which the Company will be contracting. If an event is called by PJM, the CSPs will provide both PJM and the Company with the appropriate information on the demand response actually achieved. The Company then will measure this information against the demand response required by the CSPs contract with the Company.

Q. Does the Company plan to measure customer satisfaction with the AC Cycling Program?

A. Yes. The Company will survey a sample of 10% of participating customers in November of each program year to ascertain customer satisfaction with the program. The Company reserves the right to seek the Board's permission to modify the AC Cycling Program depending on the results of such surveys.

Q. Does this conclude your testimony?

A. Yes, it does.

AIR CONDITIONER CYCLING PROGRAM
PROGRAM TYPE: DEMAND RESPONSE PROGRAM
ELIGIBLE CUSTOMERS: ALL
ELIGIBLE MEASURE(S): CENTRAL A/C

PROGRAM DESCRIPTION

The Air Conditioner (AC) Cycling Program is designed to reduce system peak demand by cycling customers' central air conditioning equipment during peak summer periods, i.e., May through October. Participants will receive a digital programmable thermostat with remote internet access valued at $300, a $50 check upon enrollment in the program, and two-way communication equipment that receives and responds to cycling signals. All customers will have the ability to override a curtailment cycling event. After gaining more experience with operating the program in our service territory, we will consider whether a "per event" incentive in necessary to meet targeted participation levels. The Program will initially target 1000 customers for each year over a three year period. The Company will primarily target residential and small business customers for the AC Cycling Program due to the level of incentives provided and the fact that the type of thermostat cycling equipment installed is not designed for large facilities. Additionally, the program is modeled, in part, after a similar program currently implemented by the Company's affiliate, Consolidated Edison Company of New York, Inc., and that program has been limited to and been successful at capturing residential and small business participation.

PROGRAM OBJECTIVE

The AC Cycling Program is designed to reduce summer peak demand by cycling customer's central air conditioner unit. Customers will be provided a digital programmable thermostat with remote internet access installed by a licensed contractor and a one-time monetary incentive. The performance of the two-way communication equipment, frequency of customer override, and demand reduction realized will be evaluated to determine the overall effectiveness of the Program. Information obtained in this pilot may be used to design a more comprehensive AC Cycling Program for wider participation in the future, as well as valuable insight to the cycling potential of other equipment. The Company reserves the right to call curtailment events at any time during the peak summer months, in order to assess customers' reactions and program acceptability.

IMPLEMENTATION PLAN

As soon as the Demand Response Plan is approved, the Company will begin a mass media campaign with bill inserts, website ads and print ads. The Company will partner with a qualified implementation contractor to administer the program, install thermostats and AC cycling equipment, host web based software that enables customers to set thermostats remotely via the internet, initiate curtailment cycling events upon Company direction, and measure program impacts. Events will be initiated by the Company in support of local distribution system reliability issues, PJM and NYISO system reliability issues (as appropriate for RECO's divisions), and may be called when the dry bulb temperature meets or exceeds 90 degrees. Customer literature will explain the Company's right to call curtailment events to test the operation of the equipment.

EVALUATION PLAN

IMPACT EVALUATION

The contractor will install two-way communication equipment on customer premises and have the ability to obtain the necessary load data to quantify the program impact by customer after a curtailment cycling event is called. The two-way communication equipment enables the contractor to identify customers who participate in the event and those who override the curtailment signal, thereby facilitating the quantification of actual demand reduction realized by event. Each thermostat will be programmed to receive a signal to cycle off for a half hour, cycle back on for half hour and then alternate during the event. Program impact evaluation will assess the effectiveness of each customer class separately and will be used to estimate the potential demand reduction to plan future wide scale AC cycling programs.

PROCESS EVALUATION

A sample of participating customers will be surveyed in November each year to ascertain customer satisfaction with the program. The results of this survey will be used to determine if any program design or implementation elements should be modified for future cycling programs.

PARTICIPATION AND BUDGET

PARTICIPANTS	**3,000**
BUDGET:	
COMPANY ADMIN	31,800
INCENTIVES	825,000
OUTSIDE SERVICES	1,500,000
EVALUATION	30,000
TOTAL BUDGET:	**$2,386,800**

DEMAND RESPONSE INCENTIVE PROGRAM

PROGRAM TYPE: DEMAND RESPONSE PROGRAM

ELIGIBLE CUSTOMERS: MID AND LARGE BUSINESS CUSTOMERS

ELIGIBLE MEASURE(S): DR INCENTIVES

PROGRAM DESCRIPTION

The Demand Response Incentive Program is designed to reduce system peak demand by providing customers with incentives to reduce electric usage during periods when demand response events are called by the PJM, i.e., June through September, beginning in 2009. Customer incentives will be provided through Curtailment Service Providers (CSPs) that choose to recruit customers to participate in the Program. RECO incentives will be paid in addition to those paid by PJM to increase demand response participation. The PJM will cooperate fully with RECO in implementing this Program. RECO will solicit interested CSPs through an RFP process. The Demand Response Incentive Program will be available to mid-sized and large C&I customers. Since RECO has not offered a Demand Response Incentive Program in its service territory, the Program will operate as a three year pilot designed to gauge customer acceptance and results that will assist in determining RECO's effectiveness in offering such a program.

PROGRAM OBJECTIVE

The Demand Response Incentive Program is designed to reduce summer peak demand by providing mid and large sized C&I customers with RECO financial incentives, in addition to incentives provided by PJM, to encourage greater participation in load reduction actions in the state. The Program is consistent with NJBPU and Energy Master Plan objectives to achieve greater demand response participation statewide. The Program offers eligible C&I customers first time RECO incentives to curtail load and gauge the benefits of participating in demand response programs.

IMPLEMENTATION PLAN

The Company will outsource the operation of the Demand Response Incentive Program by means of issuing an RFP solicitation to CSPs operating within New Jersey. Currently the PJM pays incentives for C&I customers to reduce load during summer peak periods. The Company proposes to pursue a program modeled after the findings of the NJBPU sponsored 2007 Demand Response Working Group (DRWG). The Company will issue an RFP to solicit curtailment service providers (CSPs) to obtain 5 MW of demand response during year one, 2 MW in year two, and 2 MW in year three. The Company will pay an incentive of $22.50 per MW day to customers participating in summer demand response, in addition to the incentive paid by PJM. By providing this additional incentive, the program will positively influence customers to participate in demand response programs. Although the Company expects the CSPs to primarily target mid and large sized customers for the program, any customer with compatible equipment that can register with PJM's Interruptible Load Response (ILR) or Demand Response (DR) programs can participate if registered by PJM. By pursuing a pilot program of this type, RECO seeks to gauge the value of such programs to its customers and its effect on achieving state policy goals. Results will drive future design and implementation of demand response programs within the RECO service territory. Although the Program will be operated by the CSPs, RECO will conduct evaluation at the conclusion of each season to determine if CSPs and customers performed as required by the program.

EVALUATION PLAN

Impact Evaluation

RECO will conduct an impact evaluation by determining the amount of load reduced once events have been completed vs. the amount required in contracts provided by the CSPs. These evaluations can be conducted throughout the peak load period from June - September and again at the end of each program year. The company will have the ability to monitor customer usage patterns to confirm load shedding during called periods.

PROCESS EVALUATION

A sample of 10% of participating customers will be surveyed in November each year to ascertain customer satisfaction with the program. The results of this survey will be used to determine if any program design or implementation elements should be modified for future demand response programs.

PARTICIPATION AND 3 YEAR BUDGET

BUDGET:	
COMPANY ADMIN	31,800
OUTSIDE SERVICES **EVALUATION**	189,000 30,000
TOTAL BUDGET:	**$250,800**

ROCKLAND ELECTRIC COMPANY
PROPOSED DEMAND RESPONSE PROGRAM
DIRECT TESTIMONY OF
KENNETH A. KOSIOR

Q. Please state your name and business address.

A. Kenneth A. Kosior, One Blue Hill Plaza, Pearl River, NY 10965.

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

A. I am Director – Financial Services for Orange and Rockland Utilities, Inc. ("Orange and Rockland"), the parent company of Rockland Electric Company ("RECO" or the "Company").

Q. Please briefly outline your educational and business experience.

A. I graduated from Pace University in 1976 with a Bachelor of Business Administration degree, having majored in Accounting. In June 1980, I received a Masters of Business Administration degree from Fairleigh Dickinson University, having majored in Accounting and Finance. After graduation from Pace, I was employed by Homa Company as a staff accountant.

I joined Orange and Rockland in July 1979 as an Associate Accountant advancing to Supervisor-Payroll, Supervisor & Manager-General Accounting where I had the responsibility of administering and supervising all employee related payroll records and subsequently the books and records of Orange and Rockland and its subsidiaries, Rockland Electric Company and Pike County Light & Power Company. In June 1989, I was promoted to Manager-Budgets and was responsible for the development and management of the operating and capital budgets. My additional duties included forecasting and analyzing the corporate financial statements. I was named Strategic Analysis Principal in October 1994 and became responsible for developing, analyzing and evaluating corporate direction and business opportunities. In June 1995, I was promoted to Director of Accounting, where I was responsible for the accounting functions of Orange and Rockland and its subsidiaries, including the consolidated financial statements. In July 1999, as a result of the merger involving Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland I was appointed Director-Financial Planning and Administration, now called Financial Services, responsible for providing the coordination for administration, financial, budget and regulatory activities between Con Edison and Orange and Rockland.

I have been a member of various accounting and finance committees of the Edison Electric Institute and the Pennsylvania Electric Association. In addition, I am a past Chairperson of the New Jersey Utilities Association Accounting and Finance Committee.

I have previously testified before New York Public Service Commission, the New Jersey Board of Public Utilities ("Board") and the Pennsylvania Public Utility Commission in numerous rate proceedings on behalf of Orange and Rockland and its subsidiaries.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the accounting for the

Company's proposed Demand Response Program, which as discussed in the testimony of Company witness Jane Quin, is comprised of two components, an Air Conditioning Cycling ("AC Cycling") Program and a Demand Response Incentive Program. RECO has structured its proposed Demand Response Program as a pilot program for purposes of the Board's Regional Greenhouse Gas Initiative ("RGGI") filing requirements. My testimony provides the accounting protocols that will be employed to record the costs associated with RECO's proposed Demand Response Program, and outlines the cost recovery mechanisms and reconciliations associated with the Demand Response Program.

A financial analysis of the costs and recoveries associated with the Demand Response Program, including a pro-forma income statement, a pro-forma balance sheet, the calculation of the return on program expenditures, and details concerning the Company's allowed rate of return, is included in Schedule KAK-1. The accounting entries are summarized in Schedule KAK-2.

Q. Are you familiar with the information provided by the Company, set forth in Exhibit A to the Petition, to address the RGGI Minimum Filing Requirements?

A. Yes, I am specifically familiar with and sponsor the information provided by the Company to address Section I b, c, and d, and Section IV of the RGGI Minimum Filing Requirements.

Q. Please discuss the costs of the Company’s proposed Demand Response Program.

A. As discussed by Company witness Quin, the Company proposes to operate the Demand Response Program over an initial three year pilot period. The costs associated with the Company’s proposed Demand Response Program will consist primarily of outside vendor costs for equipment purchases and installation, incremental internal administrative costs, program evaluation costs and customer incentives. The outside costs associated with the AC Cycling Program are expected to total $775,000 annually or $2.325 million over the three-year period. This three-year total includes the cost of customer incentives associated with the AC Cycling Program, which is expected to amount to approximately $825,000. The outside costs associated with the Demand Response Incentive Program are expected to amount to $189,000 over its three-year term, and will be incurred as follows: Year 1 -- $45,000; Year 2 -- $63,000; and Year 3 -- $81,000. The outside costs for both components of the Demand Response Program will be deferred and amortized as a regulatory asset and the amortization will be included in the Demand Response Program’s revenue requirement.

In addition, the Company estimates the internal incremental administration costs relating to the Demand Response Program at $21,200 annually for three years and the Demand Response Program evaluation costs at $20,000 annually for three years. These internal incremental costs and evaluation costs will be expensed as incurred (not deferred as a regulatory asset) and will be a component of the Demand Response Program's revenue requirement. There are no incremental capital costs associated with the Demand Response Program.

Q. Please discuss the accounting entries for each of these cost elements.

A. The following is a description of each cost element and the associated accounting entries.

(1) Outside Costs of the Demand Response Program will be recorded as regulatory assets.

182	Regulatory Asset - Energy Program	XXX	
131	Cash		XXX

(2) The regulatory asset will be amortized over ten years, with each month's spending amortized over the following 120 months. The amortization of the regulatory asset will be a component of the Demand Response Program's revenue requirement.

908	Customer Assistance Expense	XXX	
182	Regulatory Asset - Energy Program		XXX

(3) The incremental administrative costs associated with the Demand Response Program, including incremental administrative and general labor costs and Demand Response Program evaluation costs, will be expensed as incurred and will be a component of the Demand Response Program's revenue requirement.

908	Customer Assistance Expense	XXX	
131	Cash		XXX

Q. Please address the calculation of the Demand Response Program's revenue requirement.

A. Each month the Company will calculate a revenue requirement for the Demand Response Program. The monthly calculation of the revenue requirement will include all Demand Response Program costs including amortization of deferred Demand Response Program costs (the regulatory asset), internal incremental administrative costs, program evaluation costs, and a return on the balance of unrecovered Demand Response Program costs. The return component will be calculated using the Company's pre-tax overall weighted cost of capital as ordered by the Board in the Company's last base rate case (i.e., Docket No. ER06-060483), which equals 7.83% on an after-tax basis and 10.97% on a before tax basis, and is based on an equity ratio of 46.51% and an after-tax cost of equity of 9.75%. The revenue requirement will be calculated as follows:

\+ (Net Investment * Cost of Capital)
\+ Amortization Expense
\+ Administrative Costs
\+ Program Evaluation Costs
<u>- Program Investment Repayments (if any)</u>
= Revenue Requirement

The Net Investment in this calculation is defined as the gross Demand Response Program costs to date, less accumulated amortization, less accumulated deferred income taxes applicable to the Demand Response Program.

Q. How will the costs of RECO's Demand Response Program be recovered from customers?

A. A RGGI Surcharge will be implemented specifically to recover the costs associated with the Company's Demand Response Program. The RGGI Surcharge will be set annually based on the Company's forecasted revenue requirement associated with the Demand Response Program, adjusted for any prior period over or under recoveries including interest, and a forecast of the Company's kWh deliveries to customers for the period in which the RGGI Surcharge will be in effect. The resulting rate in cents per kWh will then be increased to reflect Sales and Use Tax ("SUT").

Q. How will any over/under collection of revenue be treated?

A. Each month the actual revenue collected through the RGGI Surcharge will be compared to that month's revenue requirement (as defined above). The difference will be deferred as a regulatory asset or regulatory liability with an offsetting charge to expense.

For an under collection the entry will be:

182	Regulatory Asset – RGGI Surcharge	XXX	
908	Customer Assistance Expense		XXX

For an over collection the entry will be:

908	Customer Assistance Expense	XXX	
254	Regulatory Liability – RGGI Surcharge		XXX

A carrying charge will be included in the deferred balance for both an over collection and for an under collection. The carrying charge will be based on the Overnight A2/P2 Non-financial Commercial Paper Interest Rate published by the Federal Reserve Board for the last business day of each month.

For an under collection the entry will be:

182	Regulatory Asset – RGGI Surcharge	XXX	
431	Interest Expense		XXX
419	Other Income		XXX

For an over collection the entry will be:

426.5	Other Deductions	XXX	
431	Interest Expense		XXX
254	Regulatory Liabilities – RGGI Surcharge		XXX

At the end of each year the balances in the Regulatory Asset/Liability – RGGI Surcharge account will be included in the forecasted revenue requirement.

Q. How will the tax effect of timing differences be handled?

A. Deferred income taxes will be recorded for all tax-book timing differences that are a result of the Demand Response Program. Timing differences will result from the amortization of deferred Demand Response Program costs and any expense related to under/over collections.

Q. Has the Company proposed amendments to its electric tariff to implement the RGGI Surcharge?

A. Yes. A draft tariff leaf reflecting the proposed RGGI Surcharge is attached as Exhibit B to the Petition.

Q. What is the initial level of the RGGI Surcharge?

A. Based on a first year revenue requirement of $163,848 for the Demand Response Program, the initial RGGI Surcharge will be 0.0102 cents per kWh.

Q. What impact will this RGGI Surcharge have on customers' electric bills?

A. It has a very small impact. At rates effective June 1, 2008, the monthly electric bill for a typical RECO residential customer with an average annualized monthly usage of 925 kWh is $172.85. The RGGI Surcharge would increase this bill by $0.09, from $172.85 to $172.94, or by 0.05%.

Q. Does this conclude your testimony?

A. Yes, it does.

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Financial Summary

Pilot Program Period	3	Years
Amortization Period	10	Years
Equity Ratio	46.51%	
Cost of Equity	9.75%	
Pre-Tax WACC	10.97%	
Effective Tax Rate	40.92%	
Interest Expense	3.29%	
Whtd After Tax Cost of Equity	4.53%	

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	Cumulative
Expenditures													
A/C Cycling Program	$775,000	$775,000	$775,000										
Demand Response Incentive Program	$45,000	$63,000	$81,000										
	$820,000	$838,000	$856,000										
Cumulative Expenditures	$820,000	$1,658,000	$2,514,000										
Amortization - 2009 Expenditures	$82,000	$82,000	$82,000	$82,000	$82,000	$82,000	$82,000	$82,000	$82,000	$82,000			
Amortization - 2010 Expenditures		$83,800	$83,800	$83,800	$83,800	$83,800	$83,800	$83,800	$83,800	$83,800	$83,800		
Amortization - 2011 Expenditures			$85,600	$85,600	$85,600	$85,600	$85,600	$85,600	$85,600	$85,600	$85,600	$85,600	
Cumulative Amortization	**$82,000**	**$247,800**	**$499,200**	**$750,600**	**$1,002,000**	**$1,253,400**	**$1,504,800**	**$1,756,200**	**$2,007,600**	**$2,259,000**	**$2,428,400**	**$2,514,000**	
Gross Expenditures	$820,000	$1,658,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	
Accumulated Amortization	$82,000	$247,800	$499,200	$750,600	$1,002,000	$1,253,400	$1,504,800	$1,756,200	$2,007,600	$2,259,000	$2,428,400	$2,514,000	
Net Expenditures	$738,000	$1,410,200	$2,014,800	$1,763,400	$1,512,000	$1,260,600	$1,009,200	$757,800	$506,400	$255,000	$85,600	$0	
Accumulated Deferred Tax	$301,990	$577,054	$824,456	$721,583	$618,710	$515,838	$412,965	$310,092	$207,219	$104,346	$35,028	$0	
Under/(Over) Recovery Balance	$436,010	$833,146	$1,190,344	$2,484,983	$2,130,710	$1,776,438	$1,422,165	$1,067,892	$713,619	$359,346	$120,628	$0	
Return Requirement	$47,830	$91,395	$130,579	$272,599	$233,736	$194,873	$156,009	$117,146	$78,283	$39,420	$13,233	$0	
Equity Portion of Return Requirement	$33,466	$63,949	$91,366	$190,737	$163,544	$136,352	$109,159	$81,967	$54,774	$27,582	$9,259	$0	
Equity Portion of Return - After Tax	$19,772	$37,781	$53,979	$112,687	$96,622	$80,557	$64,491	$48,426	$32,361	$16,295	$5,470	$0	

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Revenue	$163,848	$291,854	$417,295	$502,675	$490,971	$452,108	$413,245	$374,382	$335,518	$296,655	$186,565	$87,587
Expenses:												
Amortization	$82,000	$165,800	$251,400	$251,400	$251,400	$251,400	$251,400	$251,400	$251,400	$251,400	$169,400	$85,600
Administrative Costs	21,200	21,200	21,200	-	-	-	-	-	-	-	-	-
Evaluation Costs	20,000	20,000	20,000	-	-	-	-	-	-	-	-	-
Interest Expense	7,182	20,905	33,330	60,538	76,027	64,356	52,686	41,015	29,344	17,673	7,906	1,987
Deferred Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Taxable Income	$33,466	$63,949	$91,366	$190,737	$163,544	$136,352	$109,159	$81,967	$54,774	$27,582	$9,259	$0
Federal and State Taxes	$13,694	$26,168	$37,387	$78,049	$66,922	$55,795	$44,668	$33,541	$22,414	$11,286	$3,789	$0
Net Income	$19,772	$37,781	$53,979	$112,687	$96,622	$80,557	$64,491	$48,426	$32,361	$16,295	$5,470	$0

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Program Expenditures (Page 1 of 2)

Program Expenditures

CUSTOMER INCENTIVE & OUTSIDE SPENDING 2009	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009 TOTAL SPENDING
A/C Cycling	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$0	$0	$775,000
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$22,500	$22,500	$45,000
TOTAL	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$22,500	$22,500	**$820,000**

CUSTOMER INCENTIVE & OUTSIDE SPENDING 2010	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	2010 TOTAL SPENDING
A/C Cycling	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$0	$0	$775,000
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$31,500	$31,500	$63,000
TOTAL	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$31,500	$31,500	**$838,000**

CUSTOMER INCENTIVE & OUTSIDE SPENDING 2011	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	2011 TOTAL SPENDING	Cumuluative Program SPENDING
A/C Cycling	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$0	$0	$775,000	**$2,514,000**
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$40,500	$40,500	$81,000	
TOTAL	$193,750	$193,750	$193,750	$193,750	$0	$0	$0	$0	$0	$0	$40,500	$40,500	**$856,000**	**$2,514,000**

ADMINISTRATIVE SPENDING 2009	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	2009 TOTAL SPENDING
A/C Cycling	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$10,600
Demand Response Incentive	$0	$0	$0	$0	$0	$2,700	$2,700	$2,700	$2,500	$0	$0	$0	$10,600
	$883	$883	$883	$883	$883	$3,583	$3,583	$3,583	$3,383	$883	$883	$883	**$21,200**

ADMINISTRATIVE SPENDING 2010	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	2010 TOTAL SPENDING
A/C Cycling	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$10,600
Demand Response Incentive	$0	$0	$0	$0	$0	$2,700	$2,700	$2,700	$2,500	$0	$0	$0	$10,600
	$883	$883	$883	$883	$883	$3,583	$3,583	$3,583	$3,383	$883	$883	$883	**$21,200**

ADMINISTRATIVE SPENDING 2011	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	2010 TOTAL SPENDING	TOTAL ADMIN SPENDING
A/C Cycling	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$883	$10,600	$63,600
Demand Response Incentive	$0	$0	$0	$0	$0	$2,700	$2,700	$2,700	$2,500	$0	$0	$0	$10,600	
	$883	$883	$883	$883	$883	$3,583	$3,583	$3,583	$3,383	$883	$883	$883	**$21,200**	**$63,600**

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Program Expenditures (Page 2 of 2)

EVALUATION SPENDING 2009	**Jan-09**	**Feb-09**	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**	**Aug-09**	**Sep-09**	**Oct-09**	**Nov-09**	**Dec-09**	**2009 TOTAL SPENDING**
A/C Cycling	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$10,000
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$0	$10,000
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$10,000	$5,000	**$20,000**

EVALUATION SPENDING 2010	**Jan-10**	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**2010 TOTAL SPENDING**
A/C Cycling	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$10,000
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$0	$10,000
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$10,000	$5,000	**$20,000**

EVALUATION SPENDING 2011	**Jan-11**	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**	**2011 TOTAL SPENDING**	**TOTAL EVALUATION SPENDING**
A/C Cycling	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$10,000	$60,000
Demand Response Incentive	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$5,000	$0	$10,000	
	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,000	$10,000	$5,000	**$20,000**	**$60,000**

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Surcharge (Page 1 of 2)

Surcharge

June 2009 - May 2010	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Cust. Incentive/Outside Spending	$7,040	$6,525	$5,884	$5,640	$5,983	$7,115	$8,439	$8,594	$7,625	$6,407	$5,944	$6,803
Project Spending												
Administrative Costs*	$1,820	$1,687	$1,521	$1,458	$1,547	$1,839	$2,182	$2,222	$1,971	$1,657	$1,537	$1,759
Evaluation Costs*	$1,717	$1,592	$1,435	$1,376	$1,459	$1,735	$2,058	$2,096	$1,860	$1,563	$1,450	$1,659
Interest	$617	$572	$515	$494	$524	$623	$739	$753	$668	$561	$521	$596
Equity	$2,873	$2,663	$2,402	$2,302	$2,442	$2,904	$3,444	$3,507	$3,112	$2,615	$2,426	$2,776

January 2010 - December 2010	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Cust. Incentive/Outside Spending	$14,444	$13,086	$12,357	$11,964	$12,105	$13,982	$16,636	$17,480	$15,839	$12,840	$12,035	$13,033
Project Spending												
Administrative Costs*	$1,847	$1,673	$1,580	$1,530	$1,548	$1,788	$2,127	$2,235	$2,025	$1,642	$1,539	$1,666
Evaluation Costs*	$1,742	$1,579	$1,491	$1,443	$1,460	$1,687	$2,007	$2,109	$1,911	$1,549	$1,452	$1,572
Interest	$1,821	$1,650	$1,558	$1,509	$1,526	$1,763	$2,098	$2,204	$1,997	$1,619	$1,517	$1,643
Equity	$5,571	$5,047	$4,766	$4,615	$4,669	$5,393	$6,416	$6,742	$6,109	$4,952	$4,642	$5,026

January 2011 - December 2011	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Cust. Incentive/Outside Spending	$21,592	$19,715	$18,638	$17,110	$17,226	$22,215	$25,752	$27,232	$23,350	$20,661	$18,035	$19,873
Project Spending												
Administrative Costs*	$1,821	$1,663	$1,572	$1,443	$1,453	$1,873	$2,172	$2,296	$1,969	$1,742	$1,521	$1,676
Evaluation Costs*	$1,718	$1,568	$1,483	$1,361	$1,370	$1,767	$2,049	$2,166	$1,858	$1,644	$1,435	$1,581
Interest	$2,863	$2,614	$2,471	$2,268	$2,284	$2,945	$3,414	$3,610	$3,096	$2,739	$2,391	$2,635
Equity	$7,847	$7,165	$6,774	$6,218	$6,261	$8,073	$9,359	$9,897	$8,486	$7,509	$6,555	$7,222

Surcharge

June 2009 - May 2010	TOTAL EXPENSES	Surcharge Rate per Kwh	Surcharge Rate Including SUT per KWH
Cust. Incentive/Outside Spending	$82,000		
Project Spending			
Administrative Costs*	$21,200		
Evaluation Costs*	$20,000		
Interest	$7,182		
Equity	$33,466		
	$81,848		
	$163,848	0.000095	0.000102

January 2010 - December 2010	TOTAL EXPENSES	Surcharge Rate per Kwh	Surcharge Rate Including SUT per KWH
Cust. Incentive/Outside Spending	$165,800		
Project Spending			
Administrative Costs*	$21,200		
Evaluation Costs*	$20,000		
Interest	$20,905		
Equity	$63,949		
	$126,054		
	$291,854	0.000164	0.000176

January 2011 - December 2011	TOTAL EXPENSES	Surcharge Rate per Kwh	Surcharge Rate Including SUT per KWH
Cust. Incentive/Outside Spending	$251,400		
Project Spending			
Administrative Costs*	$21,200		
Evaluation Costs*	$20,000		
Interest	$33,330		
Equity	$91,366		
	$165,895		
	$417,295	0.000233	0.000249

	2009	2010	2011	2012
Administrative	25.90%	16.8%	12.8%	0.0%
Marketing	24.44%	15.9%	12.1%	0.0%
Interest	8.77%	16.6%	20.1%	0.0%
Equity	40.89%	50.7%	55.1%	0.0%
TOTAL	100%	100%	100%	0%

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Deferred Taxes

Deferred Tax

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Expenditures	$820,000	$838,000	$856,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
Cumulative Expenditures	$820,000	$1,658,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000
Accumulated Amortization	$82,000	$247,800	$499,200	$750,600	$1,002,000	$1,253,400	$1,504,800	$1,756,200	$2,007,600	$2,259,000	$2,428,400	$2,514,000
Accumulated Deferred Tax	$301,990	$577,054	$824,456	$721,583	$618,710	$515,838	$412,965	$310,092	$207,219	$104,346	$35,028	$0
Unrecovered Balance	$518,010	$833,146	$1,190,344	$1,041,817	$893,290	$744,762	$596,235	$447,708	$299,181	$150,654	$50,572	$0
Return Rate	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%	10.97%
Return on Average Unrecovered Balance	$28,413	$74,110	$110,987	$122,432	$106,139	$89,846	$73,553	$57,260	$40,966	$24,673	$11,037	$2,774
Accumulated Deferred Taxes												
Cumulative Expenditures	$820,000	$1,658,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000	$2,514,000
Cumulative Amortization Expense	$82,000	$247,800	$499,200	$750,600	$1,002,000	$1,253,400	$1,504,800	$1,756,200	$2,007,600	$2,259,000	$2,428,400	$2,514,000
Difference	738,000	1,410,200	2,014,800	1,763,400	1,512,000	1,260,600	1,009,200	757,800	506,400	255,000	85,600	0
Effective Tax Rate	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%	40.92%
Deferred Tax Expense	$301,990	$275,064	$247,402	($102,873)	($102,873)	($102,873)	($102,873)	($102,873)	($102,873)	($102,873)	($69,318)	($35,028)
Accumulated Deferred Taxes	$301,990	$577,054	$824,456	$721,583	$618,710	$515,838	$412,965	$310,092	$207,219	$104,346	$35,028	$0

Capitalization and Cost of Capital As Approved by the NJBPU
in Rockland Electric Company Base Rate Case, Docket
No. ER06 060483

	Amount ($000's)	Ratio	Cost Rate	Weighted Average Cost of Capital After Tax	Weighted Average Cost of Capital Pre-Tax
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%	9.75%	4.53%	7.68%
Total	$ 805,427	100%		7.83%	10.97%

ROCKLAND ELECTRIC COMPANY
Proposed Demand Response Pilot Program
Pro Forma Balance Sheet

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assets												
Regulatory Asset	820,000	1,658,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000	2,514,000
Less: Accumulated Amortization	82,000	247,800	499,200	750,600	1,002,000	1,253,400	1,504,800	1,756,200	2,007,600	2,259,000	2,428,400	2,514,000
Net Regulatory Asset	738,000	1,410,200	2,014,800	1,763,400	1,512,000	1,260,600	1,009,200	757,800	506,400	255,000	85,600	0
Total Asset	738,000	1,410,200	2,014,800	1,763,400	1,512,000	1,260,600	1,009,200	757,800	506,400	255,000	85,600	0
Liabilities and Capital												
Deferred Income Taxes	301,990	577,054	824,456	721,583	618,710	515,838	412,965	310,092	207,219	104,346	35,028	0
Capitalization:												
Long Term Debt	214,474	409,825	585,530	512,470	439,409	366,349	293,288	220,228	147,167	74,107	24,877	(0)
Short Term Debt	18,748	35,825	51,185	44,798	38,411	32,025	25,638	19,251	12,865	6,478	2,175	(0)
Common Equity	202,788	387,496	553,629	484,549	415,469	346,389	277,309	208,229	139,149	70,069	23,521	(0)
Total Capitalization	436,010	833,146	1,190,344	1,041,817	893,290	744,762	596,235	447,708	299,181	150,654	50,572	(0)
Total Liabilities and Capital	738,000	1,410,200	2,014,800	1,763,400	1,512,000	1,260,600	1,009,200	757,800	506,400	255,000	85,600	0

ROCKLAND ELECTRIC COMPANY
Air Conditioning Cycling Program
Demand Response Program

Accounting Entries

Entry	Acct.	Description	Debit	Credit
1		To defer direct program expenditures		
	182	Regulatory Asset – Energy Program	XXX	
	131	Cash		XXX
2		To amortize direct program expenditures over 10 years		
	908	Customer Assistance Expense	XXX	
	182	Regulatory Asset – Energy Program		XXX
3		To record incremental administrative costs		
	908	Customer Assistance Expense	XXX	
	131	Cash		XXX
4		To record monthly RGGI Surcharge		
	142	Customer Accounts Receivable	XXX	
	400	Operating Revenue		XXX
5		To record any over/under recovery of program costs		
	182	Regulatory Asset – RGGI Surcharge	XXX	
	254	Regulatory Liability – RGGI Surcharge		XXX
	908	Customer Assistance Expense	XXX	XXX
6		To record a carrying cost on any over/under recovered RGGI Surcharge balance		
	182	Regulatory Asset – RGGI Surcharge	XXX	
	254	Regulatory Liability – RGGI Surcharge		XXX
	419	Other Income		XXX
	426.5	Other Income Deductions	XXX	
	431	Interest Expense	XXX	XXX