UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1
APPLICATION OR DECLARATION
UNDER THE
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Consolidated Edison, Inc.
4 Irving Place
New York, New York 10003

(Name of company filing this statement
and address of principal executive offices)

None

(Name of top registered holding company parent
of each applicant or declarant)

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INTRODUCTION

Pursuant to Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935 (the "Act"), Consolidated Edison, Inc. ("CEI"), a New York public utility holding company, hereby requests that the Securities and Exchange Commission ("SEC" or "Commission") authorize the acquisition of all of the issued and outstanding securities of Orange and Rockland Utilities, Inc. ("Orange and Rockland"), a New York public utility company and a holding company, pursuant to the terms of the Agreement and Plan of Merger among Orange and Rockland, CEI and C Acquisition Corp., dated as of May 10, 1998 (the "Merger Agreement"). CEI owns all of the common stock of Consolidated Edison Company of New York, Inc. ("Con Edison"), a New York electric and gas utility company under the Act. CEI is exempt from all provisions of the Act except Section 9(a)(2) thereof pursuant to Section 3(a)(1). Orange and Rockland is an electric and gas utility company and a holding company which is exempt from registration under the Act pursuant to an order of the Commission issued under Section 3(a)(2). Orange and Rockland owns two public utility subsidiaries, Rockland Electric Company ("RECO"), a New Jersey corporation that is an electric utility company under the Act, and Pike County Light & Power Company ("Pike"), a Pennsylvania corporation that is an electric and gas utility company under the Act. C Acquisition Corp. is a New York corporation and a wholly-owned subsidiary of CEI. Pursuant to the terms of the Merger Agreement, C Acquisition Corp. will be merged with and into Orange and Rockland, and Orange and Rockland will be the surviving corporation in the Merger and become a wholly-owned subsidiary of CEI, which is a New York corporation.

The Merger is expected to produce benefits to investors and consumers and will meet all applicable standards of the Act. Among other things, CEI believes that the Merger offers significant strategic and financial benefits to each company and their respective shareholders, as well as to the communities in which they provide service. Through coordinated operations and joint infrastructure investment, Con Edison and Orange and Rockland will be able to improve the operations of the combined public utility systems. The adjacent gas and electric service territories will permit the generation of synergies and operating efficiencies that would not be available absent the Merger. Moreover, both companies are operating in an increasingly competitive utility industry and are in the process of divesting large portions of their generating assets to create competition. Those divestiture processes will continue after the Merger. The expected benefits of the Merger are discussed in detail in Item 3 below.

For purposes of this Application, CEI and Orange and Rockland, and their operating public utility subsidiaries, may be referred to collectively as "the Companies."

I. ITEM 1. DESCRIPTION OF THE PROPOSED TRANSACTION

A. Description of the Parties and the New York Power Pool

1. CEI

CEI was organized in 1997 as a New York corporation and currently is a public utility holding company exempt from all provisions of the Act except Section 9(a)(2). CEI owns all of the issued and outstanding common stock of Con Edison, a public utility company organized and existing as a corporation under the laws of the State of New York. Con Edison supplies electric service in all of New York City (except part of the Borough of Queens) and most of Westchester County, New York, an approximate 660 square mile service territory with a population of more than 8 million. It also supplies gas in the Boroughs of Manhattan and the Bronx and parts of the Borough of Queens and Westchester County, New York, and steam in part of Manhattan. Con Edison is regulated by the New York State Public Service Commission ("NYPSC") as to retail rates, service, accounts, issuance of securities and in other respects. The Federal Energy Regulatory Commission ("FERC") has jurisdiction over Con Edison under the Federal Power Act ("FPA") in connection with electric transmission facilities and operations, wholesale sales of power and related transactions. Con Edison's principal executive office is 4 Irving Place, New York, New York, 10003.

Con Edison has the following subsidiaries:

(a) Davids Island Development Corporation ("Davids Island") is organized and existing as a corporation under the laws of the State of New York. It owns real property acquired as a possible site for an electric generating plant in Dutchess and Columbia Counties in New York State. It is in the process of disposing of the property. Davids Island is a wholly-owned subsidiary of Con Edison.

(b) D.C.K. Management Corporation is a corporation organized and existing under the laws of the State of New York that owns real property in the City of New York. It is a wholly-owned subsidiary of Con Edison.

(c) Con Edison also owns a 28.8 percent interest in Honeoye Storage Corporation, a New York corporation that owns and operates a gas storage facility in upstate New York.

Other CEI subsidiaries are:

(a) Consolidated Edison Solutions, Inc. ("CES") is a wholly-owned subsidiary of CEI, organized in the State of New York that provides wholesale and retail energy and related services. CES has a 33 1/3 percent fully diluted, interest in Inventory Management & Distribution Company, Inc. ("IMD"), an energy marketing firm organized and existing under the laws of the State of Delaware. IMD's principal place of business is 5599 San Felipe, Suite 870, Houston, Texas, 77056. CES also has a 14.4 percent interest in Remote Source Lighting International, Inc. ("RSLI"), a lighting technology company organized in the State of Delaware. Its principal place of business is 32961 Calle Perfecto, San Juan Capastrano, California 92675.

(b) Consolidated Edison Development, Inc. ("CEDI") is wholly-owned by CEI and organized and existing under the laws of the State of New York. It is in the business of investing in foreign and domestic energy and other infrastructure projects and marketing of Con Edison's technical services. CEDI has five direct subsidiaries: (i) Con Edison Development, Guatemala, Ltd. ("CEGL"), organized under the laws of the Cayman Islands and in the business of investing in energy projects in Central America; (ii) IEP Global Development, LLC (of which CEDI owns 50 percent), a limited liability company organized in Delaware to develop and acquire electric power generation, transmission and distribution projects outside of the United States; (iii) Consolidated Edison Leasing, Inc., a corporation organized in Delaware and formed to invest in lease transactions, which owns an undivided leasehold interest in a power plant in Holland through the Roca Facility Trust No. 2; (iv) CED Ada, Inc., a Delaware corporation, which owns an approximate 96 percent interest in CED/DELTA Ada, LLC, a Delaware limited liability company, which owns a 49.5 percent limited partnership interest and a 0.5 percent general partnership interest in Ada Cogeneration Limited Partnership ("ACLP") (ACLP owns a 30 megawatt gas-fired qualifying cogeneration facility under the Public Utility Regulatory Policies Act of 1978 in Ada, Michigan) and (v) Carson Acquisition, Inc., a Delaware corporation ("Carson Acquisition") which owns an approximate 47.75 percent interest in each of CMD Carson GP, LLC and CMD Carson, LLC, each a Delaware limited liability company, which in turn own, in the aggregate, all of the limited partnership and general partnership interest in Carson Cogeneration Company, a California limited partnership ("Carson Cogen"). Carson Cogen is a lessee of a leasehold interest in a 42 megawatt qualifying cogeneration facility in Carson, California.

CEDI owns all of the issued and outstanding shares of Con Edison Development Guatemala Acquisition and Finance, Ltd. ("CEDGAF"), a corporation organized under the laws of the Cayman Islands. At present, CEDGAF is a shell corporation, meaning that it has no assets or operations. It was organized in connection with a potential investment in Guatemala, which was never made.

(c) Consolidated Edison Energy, Inc. is a wholly-owned subsidiary of CEI, organized under the laws of the State of New York to invest in, operate and market the output of electric energy supply facilities in the United States and to provide specialized wholesale energy services in the electric power and natural gas markets.

(d) Consolidated Edison Communications, Inc. ("CECI") is a wholly-owned subsidiary of CEI, organized in the State of New York in late 1997 to own, operate or invest in facilities used for telecommunications or otherwise to compete in the telecommunications industry.

CEI's common stock is listed on the New York Stock Exchange. As of October 31, 1998, CEI had outstanding 233,186,794 common shares ($.10 par value). The issued and outstanding shares of Con Edison number 235,489,650 ($2.50 par value), all of which are held by CEI.

For the twelve months ended September 30, 1998, CEI's total operating revenues were $7.22 billion, of which approximately $5.74 billion were derived from electric operations, $1 billion from gas operations, $355 million from the steam business, and $113 million were from non-utility businesses. Consolidated assets of CEI at September 30, 1998, were approximately $14.5 billion. A more detailed summary of information concerning CEI and its subsidiaries is contained in the combined CEI and Con Edison Annual Report on Form 10-K for the year ended December 31, 1997,/1/ and Quarterly Reports on Form 10-Q for the quarters ended March 31, 1998, June 30, 1998, and September 30, 1998, which are incorporated herein by reference.

In September 1997, the NYPSC approved a settlement agreement among Con Edison, the Staff of the NYPSC and other parties ("the Con Edison Settlement Agreement") providing for: (i) a transition to a competitive electric market through the development of a "retail access" plan, (ii) a rate plan providing for substantial retail rate reductions through March 31, 2002, (iii) a reasonable opportunity to recover "strandable costs," and (iv) the divestiture by Con Edison to

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/1/ CEI was formed in late 1997 and became the parent holding company for Con Edison effective January 1, 1998. Thus, there are no 1997 figures for CEI that differ from those reported for Con Edison.

unaffiliated third parties of at least 50 percent of its New York City fossil-fueled electric generating capacity. See Exhibit K-1 to this Application.

Pursuant to the Con Edison Settlement Agreement, Con Edison submitted a divestiture plan for its fossil-fueled electric generation in New York City. The NYPSC approved Con Edison's electric generation Divestiture Plan in orders issued July 21, and August 5, 1998. Under the Divestiture Plan, Con Edison will auction off in-City electric generation to unaffiliated third parties in three bundles:

- 1,434 MW consisting of the Arthur Kill generating station and Astoria gas turbines ("Arthur Kill bundle");

- 2,168 MW consisting of the Ravenswood generating station and gas turbines ("Ravenswood bundle"); and

- 1,858 MW consisting of the Astoria generating station plus the Gowanus and Narrows turbines ("Astoria bundle").

No purchaser may purchase more than one of the three bundles. Closing on the sales of these three bundles is expected in the second half of 1999.

Under its Steam System Plan, announced on April 15, 1998, Con Edison will auction off the remainder of its electric generation in New York City in a fourth bundle, consisting of 463 MW of units that produce electricity and steam for Con Edison's steam delivery system ("Steam - electric bundle"). Con Edison plans to close on the sales of the fourth bundle by the end of 1999.

The NYPSC, in a July 21, 1998 Order, gave Con Edison the option of having its unregulated affiliate participate in the auction to purchase one of the initial three bundles. On

July 24, 1998, Con Edison advised the NYPSC that its affiliate would forego its right to participate in the auction./2/ Accordingly, Con Edison plans to divest all of its in-City generation to third parties.

In addition, Con Edison is in the process of divesting its 810 MW interest in the Bowline Point generating station ("Bowline Station") located in Orange and Rockland's territory as part of Orange and Rockland's auction of its generation, as described below. Similarly, Con Edison has agreed to divest its 400 MW interest in the Roseton station located in Central Hudson Gas and Electric Corporation's service area in conjunction with Central Hudson's divestiture auction. As a result of the divestitures described above, Con Edison no longer will own dispatchable generation resources./3/ Con Edison will, however, retain an obligation to serve load in its service territory. In order to serve that load, Con Edison will purchase capacity and energy in the competitive market.

2. Orange and Rockland

Orange and Rockland and its public utility subsidiaries supply electricity and gas to a service territory covering approximately 1,350 square miles. The eastern boundary of the service area extends along the west bank of the Hudson, directly across the river from the service

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/2/ Con Edison's relinquishment of its affiliate's right to participate in the auction was based on certain understandings as to the treatment of any gain on the sales. On August 5, 1998, the NYPSC approved Con Edison's proposal in this regard, subject to one modification, which Con Edison accepted on August 10, 1998. Con Edison, accordingly, is proceeding with the divestiture.

/3/ Con Edison will retain its interests in a nuclear power generating facility. It is expected that Con Edison's nuclear facility will operate whenever it is available and be bid into the generation market at an incremental price reflecting the "to go" costs.

territory of Con Edison. Orange and Rockland's New York electric and gas service territory includes all of Rockland County, most of Orange County and part of Sullivan County. In New Jersey, RECO supplies electricity to the northern parts of Bergen and Passaic Counties and small areas in the northeastern and northwestern parts of Sussex County. Pike supplies electricity and gas to the northeastern corner of Pike County, Pennsylvania. Orange and Rockland, RECO and Pike jointly operate a single fully integrated electric production and transmission system serving parts of New York, New Jersey and Pennsylvania. Orange and Rockland's principal executive office is One Blue Hill Plaza, Pearl River, New York 10965.

Orange and Rockland and its public utility subsidiaries furnish electric service to approximately 269,000 customers in 96 communities with an estimated population of 681,000 and gas service to approximately 114,000 customers in 57 communities with an estimated population of 482,000. Approximately 77 percent of Orange and Rockland's consolidated energy sales are from Orange and Rockland, with 21 percent of consolidated energy sales generated from RECO in New Jersey and approximately 1 percent of consolidated energy sales from Pike in Pennsylvania.

Orange and Rockland is regulated by the NYPSC. RECO is regulated by the New Jersey Board of Public Utilities ("NJBPU") and Pike is regulated by the Pennsylvania Public Utility Commission ("PaPUC") as to retail rates, service and accounts, issuance of securities and in other respects as to service provided in those individual states. FERC has jurisdiction under the FPA over certain of the electric facilities and operations of Orange and Rockland and its subsidiaries.

Orange and Rockland has three wholly-owned non-utility subsidiaries, Clove Development Corporation ("Clove"), a New York corporation, and O&R Energy Development, Inc. and O&R Development, Inc., both Delaware corporations. Clove holds approximately 5,200 acres of real estate, located primarily in the Mongaup Valley region of Sullivan County, New York. O&R Development, Inc., which was formed to promote industrial and corporate development in Orange and Rockland's service territory by providing improved sites and buildings, owns approximately 200 acres of land, which are being marketed for sale. O&R Energy Development, Inc. is an inactive corporation.

RECO has two wholly-owned non-utility subsidiaries, Enserve Holdings, Inc. ("Enserve") and Saddle River Holdings Corp. ("SRH"), both Delaware corporations. Enserve has two wholly-owned non-utility subsidiaries, Palisades Energy Services, Inc., an energy service provider and Compass Resource, Inc. ("Compass"), both Delaware corporations. SRH has two wholly-owned non-utility subsidiaries, NORSTAR Holdings, Inc. ("NHI") and Atlantic Morris Broadcasting, Inc. ("AMB"), both Delaware corporations. Compass and AMB are inactive corporations. NHI has two wholly-owned non-utility subsidiaries, NORSTAR Management, Inc. ("NMI"), and Millbrook Holdings, Inc. ("Millbrook"), both Delaware corporations. Millbrook holds a leasehold interest in non-utility real estate in Morris County, New Jersey. NMI is the sole general partner of a Delaware limited partnership, NORSTAR Energy Limited Partnership ("NORSTAR Partnership"), a gas marketing company that is discontinuing operations, of which NHI is the sole limited partner. The NORSTAR Partnership is the majority owner of NORSTAR Energy Pipeline Company, LLC, a Delaware limited liability company, which is inactive.

For the twelve months ended September 30, 1998, Orange and Rockland's total operating revenues on a consolidated basis were approximately $643,281,000 and total utility operating revenues were $642,524,000, of which approximately $496 million was derived from electric sales and $146 million from gas sales./4/ As noted above, 21 percent of total utility revenues is generated from New Jersey, approximately 1 percent is from Pennsylvania, and the balance is from operations in New York. Consolidated assets of Orange and Rockland and its subsidiaries at September 30, 1998, were approximately $1.3 billion. A more detailed summary of information concerning Orange and Rockland and its subsidiaries is contained in Orange and Rockland's Annual Report on Form 10-K for the year ended December 31, 1997, and Orange and Rockland's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1998, June 30, 1998, and September 30, 1998, which are incorporated herein by reference.

Orange and Rockland's common stock (par value $5.00 per share) (the "Common Stock") is listed on the New York Stock Exchange. The Common Stock outstanding as of October 31, 1998, numbered 13,519,866.

Orange and Rockland filed a plan ("Final Divestiture Plan") to divest all of its electric generation facilities pursuant to NYPSC divestiture orders. By orders issued April 16, 1998, and May 26, 1998, the NYPSC approved Orange and Rockland's Final Divestiture Plan. See Exhibit K-2

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/4/ All intercompany balances and transactions have been eliminated.

to this Application. Orange and Rockland's Final Divestiture Plan provides for the divestiture of 100 percent of Orange and Rockland's generating assets by auction.

On November 24, 1998, Orange and Rockland agreed to sell all of its electric generating facilities, including its one-third interest in the Bowline Station, to Southern Energy, Inc., a subsidiary of The Southern Company. Also included in this sale is Con Edison's two-thirds interest in the Bowline Station. The sale price for all the generating facilities is approximately $480 million, with Orange and Rockland's share being approximately $345 million. Orange and Rockland anticipates that this sale will be completed by April 30, 1999. The benefits of Orange and Rockland's restructuring to its customers will not be reduced as a result of the Merger. Orange and Rockland's customers will benefit from the restructuring and receive additional benefits from the Merger.

3. The New York Power Pool

Con Edison and Orange and Rockland are members of the New York Power Pool ("NYPP"), a cooperative association consisting of the major electric utilities operating in the State of New York. NYPP is a "tight" power pool through which its members agree to coordinate their operations by operating their systems in parallel, by consulting on design, use and construction of capacity, by scheduling repair outages and by providing support to each other in meeting generating capacity and energy transmission needs. NYPP has a centralized computer system that monitors the available capacity on the system and the demand for energy of all of the NYPP members to determine which sources of capacity should be used to reliably provide economic energy to meet customer demand. Through this process, NYPP coordinates the dispatch of the least cost to meet the demand for power. Under the current NYPP structure, each member utility owns and controls its separate transmission system. Access to those systems is available through each utility's open access transmission tariff.

NYPP has filed with the FERC a plan to reorganize and establish an Independent System Operator ("NYISO") that will control transmission assets in New York, as well as operate a power exchange. Under the present NYPP structure, NYPP dispatches the least cost generating facility to meet demand. In the future, NYISO will operate on a bid price basis. Generating units will bid into the hourly energy markets at a particular price. Whether any given facility is dispatched will depend on its bid price, not the cost of the unit. NYISO members and non-members also may make purchases outside of the power exchange and schedule those purchases with the NYISO (bilateral agreements). The transmission owning members of NYPP will continue to own, maintain and operate their transmission facilities but will relinquish operational control over their transmission facilities to the NYISO, and the NYISO will provide transmission service to members and non-members pursuant to a pool-wide, open access transmission tariff.

Thus, the NYISO will administer both the transmission tariff and the energy market. The NYISO will identify system constraints and dispatch generating units, based on information supplied by generators, to meet load, provide necessary ancillary services and accommodate bilateral transactions. The NYISO proposal contains "locational-based marginal pricing," which is designed to encourage market participants to use the most efficient resources available and to alleviate transmission constraints. Locational-based marginal pricing will be available to all market participants and will provide incentives for the efficient use of the transmission system.

After divestiture, Con Edison and Orange and Rockland will purchase capacity and energy in the regional market to serve their respective load requirements.

Following the Merger, Con Edison and Orange and Rockland will continue to be members of NYPP and will continue to coordinate operations in accordance with applicable NYPP procedures. In addition, since Con Edison and Orange and Rockland are divesting the bulk of their generation assets, the Companies will jointly purchase capacity and energy to meet their obligations to serve native load. Upon the implementation of the NYISO, the purchases - through the NYISO coordinated energy market, neighboring power exchanges, and bilateral agreements - will replace, for the combined companies, the arrangement for economic dispatch of utility-owned generation that has prevailed under the NYPP. The Companies will make purchases to meet their aggregate load service obligations, taking advantage of savings through larger purchasing power and a joint purchasing plan. This combined purchasing arrangement will ensure that both Companies are served by the lowest cost reliable power available and thus achieve economies of scale and function not available absent the Merger.

B. Description of the Merger

1. Background of the Merger

On March 25, 1997, Orange and Rockland, the NYPSC staff and other parties entered into an agreement providing for the settlement of Orange and Rockland's Rate and Restructuring Plan which had been previously filed with the NYPSC. The agreement, which was subject to NYPSC approval, provided for a global settlement involving generating assets, retail access, a base rate freeze and stranded cost recovery.

The NYPSC considered the agreement in September 1997. The NYPSC expressed concerns about the terms of the agreement and directed the parties to resume negotiations to address those concerns. The NYPSC also encouraged Orange and Rockland to divest its generating assets as soon as possible. Subsequently, after retaining independent expert consultants to provide additional financial, legal and regulatory analysis and, after extensive negotiations with the NYPSC staff and other parties to the proceeding, on November 6, 1997, Orange and Rockland entered into an Electric Rate and Restructuring Plan ("Restructuring Plan") that provided, among other things, for the divestiture of all of Orange and Rockland's generating assets. The Restructuring Plan is attached to this Application as Exhibit K-2. The Board of Directors of Orange and Rockland also retained Donaldson, Lufkin & Jenrette ("DLJ"), Orange and Rockland's primary financial advisor, to advise the Board regarding the Restructuring Plan and Orange and Rockland's strategic options following the possible sale of the generating assets.

In November 1997, the Board of Orange and Rockland, after reviewing the information provided by DLJ (which, consistent with the conclusions of its other financial consultant, recommended that Orange and Rockland sell its generating assets by auction), determined to sell the generating assets and approved the Restructuring Plan. DLJ discussed with the Board the current competitive environment in the utility industry, noting that Orange and Rockland faced deregulation and regulatory risks, a consolidating industry and limited growth prospects, all of which could erode shareholder value. In light of this, DLJ reviewed with the Board certain strategic alternatives assuming the generating assets were sold, including a possible sale of the company. After discussion, the Board authorized Orange and Rockland management and DLJ to explore the possibility of combining the company with another entity, either through the sale of the company or some other strategic combination, so that the Board could determine whether it would be in the best interests of Orange and Rockland and its shareholders to continue as only a transmission and distribution company following the sale of the generating assets.

From November 1997 through December 1997, a number of potential strategic partners, primarily with interests in the utility industry, were contacted in order to determine whether any of those entities would be interested in considering either merging with or acquiring Orange and Rockland. Those entities that expressed an interest in continuing to review the possibility of such a transaction were asked to sign a confidentiality agreement with Orange and Rockland. On December 24, 1997, Con Edison executed such an agreement./5/ In January 1998, after sharing certain information regarding Orange and Rockland with the interested parties, including CEI, Orange and Rockland requested that such parties provide non-binding indications of interest, specifying the price ranges within which such parties believed they might be able to pursue a transaction. These non-binding indications of interest were requested to assist the Orange and Rockland Board in evaluating whether it would be in the best interests of Orange and Rockland and its shareholders for Orange and Rockland to: a) continue as only a transmission and distribution company following the sale of the generating assets, or b) enter into a business combination with another party.

On February 3 and 4, 1998, preliminary, non-binding letters of interest were received from certain of the entities that had expressed interest in acquiring or merging with Orange and

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/5/ On January 1, 1998, Con Edison became a subsidiary of CEI.

Rockland. CEI's letter was dated February 4, 1998. The preliminary, non-binding letters of interest were evaluated by Orange and Rockland management, an Ad Hoc Committee of independent directors (the "Ad Hoc Committee") formed by the Orange and Rockland Board to review such business combinations, and the Orange and Rockland Board. At a meeting of the Orange and Rockland Board held on February 5, 1998, the Board further reviewed, with representatives of DLJ, the preliminary indications of interest received. The Board considered, among other things, the terms of each of the non-binding proposals, including the proposed value to be received by Orange and Rockland's shareholders and the structure of a proposed transaction. After discussion, the Board determined to permit a limited number of the parties who expressed interest (the "Interested Parties"), including CEI, to meet with management of Orange and Rockland and conduct due diligence.

During the period February through April 1998, the Interested Parties performed due diligence on Orange and Rockland and met with management. During these months, the Ad Hoc Committee and the Orange and Rockland Board had meetings with management, DLJ and Orange and Rockland's legal counsel to discuss the ongoing due diligence and the status of the process and to continue to consider whether it would be in the best interests of Orange and Rockland and its shareholders for the company to: a) continue as only a transmission and distribution company following the sale of the generating assets, or b) enter into a business combination with another party. In order to assist the Board in its consideration of whether it was in the best interests of the company and its shareholders to continue as a transmission and distribution company or enter into a business combination, the Board decided to send draft merger agreements to each of the Interested Parties in April 1998. In order to provide the Board with a clear indication of the terms that the Interested Parties would consider in a business combination with Orange and Rockland, the Interested Parties were instructed to submit mark-ups of the merger agreement that would indicate the terms pursuant to which such party would enter into a business combination with Orange and Rockland.

Between May 1 and May 4, 1998, proposals were received from each of the Interested Parties, including CEI. Each proposal included a draft merger agreement, which contained the terms of the proposed merger, and which was revised to include any changes that would be necessary for the Interested Party to enter into a binding agreement with Orange and Rockland.

On May 4, 5 and 6, 1998, the Ad Hoc Committee, Orange and Rockland's management, DLJ and Orange and Rockland's legal counsel considered the proposals that had been received. On May 7, 1998, both the Ad Hoc Committee and the Orange and Rockland Board met to discuss and consider the proposals that had been received. Following its deliberations, the Orange and Rockland Board authorized management, together with DLJ and Orange and Rockland's legal counsel, to proceed with negotiations with respect to the proposal submitted by CEI so that the Board could determine whether it would be in the best interests of Orange and Rockland and its shareholders for Orange and Rockland to: a) continue as only a transmission and distribution company following the sale of the generating assets, or b) enter into a business combination with CEI.

On May 8 and 9, 1998, representatives of Orange and Rockland's management, DLJ and Orange and Rockland's legal counsel negotiated the terms of the Merger Agreement with CEI and the legal counsel for CEI.

On May 10, 1998, the Board of Orange and Rockland held a special meeting to review the terms of the transaction that had been negotiated with CEI. After presentations by the Ad Hoc Committee, DLJ and Orange and Rockland's legal counsel and full discussion and analysis by the Board, the Board, by unanimous vote: (i) determined that it was in the best interests of Orange and Rockland and its shareholders for Orange and Rockland to enter into a business combination with CEI, (ii) determined that the terms of the Merger were fair to, and in the best interests of, the shareholders of Orange and Rockland, and (iii) authorized, approved and adopted the proposed agreement and plan of merger and the transactions contemplated thereby and the execution and delivery of the Merger Agreement. Later that evening, Orange and Rockland, CEI and C Acquisition Corp. executed and delivered the Merger Agreement and certain related agreements.

2. Description of the Merger Agreement

Pursuant to the Merger Agreement among Orange and Rockland, CEI and C Acquisition Corp., Orange and Rockland will be merged with and into C Acquisition Corp., with Orange and Rockland continuing as the surviving corporation and becoming a wholly-owned subsidiary of CEI.

The Merger will be effected through the purchase of Orange and Rockland stock. Each share of Orange and Rockland common stock will be cancelled and converted into the right to receive $58.50 in cash, without interest ("the Merger Consideration") payable to the holder of such share upon surrender. Any Orange and Rockland common stock owned by Orange and Rockland as treasury stock or by CEI will be cancelled and no payment will be due to such holders. All preferred stock and preference stock of Orange and Rockland will be redeemed, prior to the effective date of the Merger, at a redemption price equal to the respective amount set forth in Orange and Rockland's restated Certificate of Incorporation, together with all dividends accrued and unpaid to the date of redemption. The transaction is expected to be taxable to stockholders of Orange and Rockland for Federal income tax purposes. The Merger Agreement is subject to customary closing conditions, including receipt of approval of the holders of Orange and Rockland's Common Stock and the approval of various state and Federal regulatory agencies, including the Commission. Orange and Rockland held a meeting of its common stockholders on August 24, 1998, and the requisite two-third votes of its stockholders approved the Merger.

The Merger will become effective at the time specified in the certificate of merger (the "Effective Time") that is delivered and filed by the Department of State of the State of New York. Such filing will be made on or as promptly as practicable following the closing date under the Merger Agreement, which will take place not later than the second business day after the satisfaction or waiver of all of the conditions set forth in the Merger Agreement or such other time as agreed to by the parties.

CEI will designate a Paying Agent to effect the payment of consideration for the Merger. As soon as practicable after the Effective Time, the Paying Agent will mail to each holder of record of a certificate or certificates (which immediately prior to the Effective Time represented outstanding shares of Common Stock of Orange and Rockland that were cancelled and became instead the right to receive the consideration for the Merger) instructions for effecting the surrender of the certificates in exchange for the Merger Consideration. Upon surrender of the certificates, the holders will be entitled to receive the Merger Consideration. Until surrendered, each certificate will be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration. No interest will be paid or will accrue on the Merger Consideration payable to holders of certificates.

Upon completion of the Merger, Orange and Rockland will be a wholly-owned subsidiary of CEI. Orange and Rockland's subsidiaries, including its two utility subsidiaries, RECO and Pike, will remain Orange and Rockland Subsidiaries. The Merger is currently expected to close in April 1999.

At the Effective Time of the Merger, CEI will establish an advisory board, with equal numbers of CEI and Orange and Rockland members, who will provide advice and input regarding the implementation of the Merger and the ongoing operations of Con Edison and Orange and Rockland. CEI will elect one new member to its Board of Directors who previously was a member of the Board of Directors of Orange and Rockland. Following the consummation of the Merger, CEI will maintain a subsidiary office in Rockland County as the headquarters of Orange and Rockland for at least three years following the Merger. CEI has committed to make charitable contributions to the communities within the service area of Orange and Rockland and its public utility subsidiaries on a level consistent with the contributions provided over the two years before the Effective Time.

Pursuant to the Merger Agreement, from and after the Effective Time, Orange and Rockland, as a subsidiary of CEI, will indemnify, to the fullest extent permitted by applicable law, each person who was at the date of the Merger Agreement, or who has been at any time prior to the execution date of the Merger Agreement, or who becomes prior to the Effective Time, (i) a director or officer, or (ii) an employee covered by Orange and Rockland as of the date of the Merger Agreement (to the extent of coverage extended as of such date) of Orange and Rockland or any of its subsidiaries with respect generally to their service to Orange and Rockland. Such rights to indemnification will continue in full force and effect for at least six years from the Effective Time. Orange and Rockland, as a subsidiary of CEI, also will maintain in effect, for at least six years after the Effective Time, policies of directors' and officers' insurance equivalent in all material respects to those maintained by or on behalf of Orange and Rockland and its subsidiaries on May 10, 1998.

CEI will cause Orange and Rockland, as a subsidiary of CEI, to honor (i) all collective bargaining agreements of Orange and Rockland, and (ii) the provisions regarding employee benefit plans, contracts, agreements (including all in effect as of the date of the Merger Agreement that apply to any current or former employee or director of Orange and Rockland). Subject to applicable law and obligations under collective bargaining agreements, for three years following the consummation of the Merger, any workforce reduction will be made on a fair and equitable basis as determined by Orange and Rockland without regard to whether prior employment was with Orange and Rockland, CEI or any of their subsidiaries, and with due consideration to prior experience and skills. Generally, any employee whose employment is terminated or whose job is eliminated during such period will be eligible to participate on a fair and equitable basis in the job opportunity and employee placement programs offered by CEI, Orange and Rockland or any of their subsidiaries for which they are eligible. The Merger Agreement provides that all service under any Orange and Rockland benefit plan will be recognized, accrued or credited under such plan after the consummation of the Merger - and that employees will be given credit for service with Orange and Rockland under CEI's benefit plans for purposes of eligibility and vesting, but not for benefit accrual purposes or eligibility for early retirement purposes under defined benefit pension plans, and not to the extent crediting such service would result in duplication of benefits. Although not addressed in the Merger Agreement and subject to (i) changes that may result from periodic reviews of the pension and benefit plans of other employers and evolving business practices and (ii) applicable law and collective bargaining agreements, CEI and Orange and Rockland currently intend that all employees who were employees of Orange and Rockland immediately before the Effective Time who transfer from Orange and Rockland and its subsidiaries to Con Edison will receive credit for benefit accrual and eligibility for early retirement purposes for service with Orange and Rockland that is equivalent to that of such employees who do not transfer, with offsets as may be appropriate to avoid duplication of benefits. Employees also will be given credit for service with Orange and Rockland under CEI's severance plans for purposes of calculating the amount of each employee's severance benefits. Finally, CEI will cause Orange and Rockland to maintain, for at least one year, benefits to the Orange and Rockland employees that are no less favorable than the benefits such employees enjoyed before the Merger. The Orange and Rockland severance plan also will be maintained by CEI for one year following the closing date of the Merger.

The Merger may be terminated by (i) mutual consent of the parties and (ii) by either party if the Merger is not consummated by November 30, 1999 (subject to an automatic extension of six months if the requisite statutory approvals have not been obtained by that date, but all other conditions have been fulfilled or are capable of being fulfilled), or (iii) by a non-breaching party if there occurs a material breach of any representation, warranty, covenant or agreement contained in the Merger Agreement, which is not cured within twenty business days after receipt of notice to the other party. The Merger Agreement provides that if the Merger is terminated because of a party's material breach of its representations and warranties or a material failure to perform and comply with its agreements and covenants, then the defaulting party will pay the other party up to $5 million for its out-of-pocket expenses incurred in connection with the Merger.

II. ITEM 2: FEES, COMMISSIONS AND EXPENSES

The fees, commissions and expenses to be paid or incurred, directly or indirectly, by Con Edison and Orange and Rockland, in connection with the Merger, are estimated to total approximately $18 million, including investment bankers' fees of approximately $11 million. Below are listed the approximated fees:

Accountant's fees	175,000
Financial advisory and information services fees	340,000
Legal fees and expenses relating to the Act	250,000
Economic consulting fees	373,000
Other legal fees and expenses	5,000,000
Other	100,000
Shareholder communications and proxy solicitations	117,000
Investment bankers' fees and expenses	
Salomon Smith Barney	4,590,000
Donaldson, Lufkin & Jenrette	6,320,000
Consulting fees relating to human resources, public relations, etc.	400,000
Miscellaneous	600,000
Total	$18,265,000

III. ITEM 3: APPLICABLE STATUTORY PROVISIONS

The following sections of the Act are directly or indirectly applicable to the proposed Merger: Sections 9(a)(2) and 10. To the extent other sections of the Act or the Commission's rules under the Act are deemed applicable to the Merger, such sections and rules should be considered to be included in this section of the Application.

Section 9(a)(2) of the Act makes it unlawful, without prior approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding company, or will by virtue of such acquisition become such an affiliate." Since Orange and Rockland and its public utility subsidiaries will, by virtue of the proposed Merger, become affiliates of CEI, Section 9(a)(2) requires approval by the Commission under Section 10.

As set forth more fully below, the Merger meets all of the applicable requirements of Section 10 of the Act and should be approved by the Commission:

- The Merger will not create detrimental interlocking relations or concentration of control.
- The consideration to be paid to Orange and Rockland shareholders is fair and reasonable.
- The Merger will not result in an unduly complex capital structure.
- The Merger is consistent with Sections 8 and 11 of the Act.
- The Merger tends towards the economic and efficient development of an integrated electric utility system and an integrated gas utility system.

- The Merger is in the public interest and the interest of investors and consumers.

- The Merger complies with all applicable State laws.

A. The Merger Meets the Requirements of Section 10(b) of the Act

Section 10(b) of the Act provides that if an acquisition satisfies the requirements of subsection (f), the Commission shall approve the acquisition unless the Commission finds that:

> (1) such acquisition will tend towards interlocking relations or concentration of control of public utility companies of a kind or to an extent detrimental to the public interest or the interest of investors or consumers;
>
> (2) in the case of an acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or
>
> (3) such acquisition will unduly complicate the capital structure of the holding company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding company system.

1. Section 10(b)(1) -- Interlocking Relations

Section 10(b)(1) directs the Commission to approve an acquisition unless it finds that such acquisition will tend toward interlocking relations "of a kind or to an extent detrimental to" the public interest or the interests of investors or consumers. Accordingly, an acquisition does not offend Section 10(b)(1) merely because it causes interlocking relations. Any merger, by its nature, results in interlocking relations between previously unrelated companies. As the Commission has recognized, such relationships are necessary to integrate the merging entities.

Northeast Utils., HCAR 25221, 47 S.E.C. Docket 1270 (Dec. 21, 1990), modified on other grounds, HCAR No. 25273 (Mar. 15, 1991), aff'd sub nom. City of Holyoke Gas & Elec. Dep't v. SEC, 972 F.2d 358 (D.C. Cir. 1992).

The Merger will not result in interlocking relations that are detrimental to any of the interests protected by Section 10(b)(1). The Merger Agreement provides that the Board of Directors of CEI will be modified to include one member who previously was a member of the Board of Directors of Orange and Rockland. Following the Merger, the Orange and Rockland Board of Directors will be elected by CEI. An advisory board, with equal numbers of CEI and Orange and Rockland members, will be established to provide advice and input regarding implementation of the Merger. These relationships are necessary to integrate the combined companies and achieve the objectives of the Merger. The Merger will create efficiencies and economies that will benefit both consumers and investors. The combined companies will continue to be regulated by the NYPSC, the regulations of which are specifically designed to protect the public interest. Similarly, the NJBPU and the PaPUC will continue to regulate RECO's operations in New Jersey and Pike's operations in Pennsylvania, respectively, in the public interest. Accordingly, the Merger will not harm, but will instead promote the interests protected by Section 10(b)(1).

2. Section 10(b)(1) -- Concentration of Control

Section 10(b)(1)'s concern with concentration of control is directed at avoiding an "excess of concentration and bigness" while preserving "opportunities for economies of scale, the elimination of duplicate facilities and activities, the sharing of production capacity and reserves and generally more efficient operations." In re American Elec. Power Co., 46 S.E.C.

1299, 1309 (1978). When applying Section 10(b)(1) to utility acquisitions, the Commission must determine if the acquisition will create the type of structure or combination at which the Act is specifically directed. In re Vermont Yankee Nuclear Corp., 43 S.E.C. 693, 700 (1968), rev'd on other grounds, 413 F.2d 1052 (D.C.Cir 1969). As discussed below, the Merger does not create a "huge complex and irrational system," but instead takes advantage of economies of scale and efficiencies that benefit both investors and consumers. American Electric Power Co., 46 S.E.C. at 1309.

a. Size

While the combination of Con Edison, Orange and Rockland, RECO and Pike will create somewhat larger electric and gas utility systems, these systems will not exceed the economies of scale of current electric generation and transmission or gas distribution technology. If approved, the CEI utility subsidiaries will serve approximately 3.3 million electric customers in New York, New Jersey and Pennsylvania and approximately 1.1 million gas customers in New York and Pennsylvania. As of September 30, 1998, CEI's assets totaled about $14.5 billion, the combined consolidated assets of CEI and Orange and Rockland totaled approximately $16 billion and for the year ended September 30, 1998, CEI's operating revenues totaled about $7.22 billion and combined operating revenues totaled $7.8 billion. This represents approximately an eight percent increase in revenues and assets compared with CEI's existing system.

The Commission has approved combinations resulting in similarly-sized and larger utility systems. See TUC Holding Co., HCAR 26749, 65 S.E.C. Docket 301 (Aug. 1, 1997) (combination of Texas Utilities Company and ENSERCH Corporation, combined assets at time of acquisition of approximately $24 billion); Houston Indus., Inc., HCAR 26744, 65 S.E.C. Docket 83 (July 24, 1997) (combination of Houston Industries, Inc. and NorAm Energy Corp., combined assets at time of acquisition of approximately $16 billion); Entergy Corp., HCAR 25952, 55 S.E.C. Docket 2035 (Dec. 17, 1993) (acquisition of Gulf States Utilities Co., combined assets in excess of $22 billion). Following the Merger, CEI will be a mid-size holding company and its operations will not exceed the economies of scale of current electric generation and transmission technology, or provide undue power and control to CEI in the region in which it will provide service.

b. Efficiencies and Economies

In Centerior Energy Corp., the Commission stated that a "determination of whether to prohibit enlargement of a system by acquisition is to be made on the basis of all the circumstances, not on the basis of size alone." Centerior Energy Corp., HCAR 24073, 35 S.E.C. Docket 769, 771 (April 29, 1986). In addition, in the SEC Staff's 1995 Report, the Division of Investment Management recommended that the Commission approach its analysis of mergers and acquisitions in a flexible manner with emphasis on whether the merger creates an entity subject to effective regulation and is beneficial for shareholders and customers as opposed to focusing on rigid, mechanical tests. The Regulation of Public-Utility Holding Companies, Division of Investment Management Report, at 73-74, dated June 1995 (hereinafter referred to as Division Report).

By virtue of the Merger, CEI's consolidated utility revenues will increase by less than ten percent; its operations will not exceed the economies of current electric and gas utility technology, or provide undue power and control to CEI in the region in which Con Edison and Orange and Rockland operate. The companies will be in the position to realize the "opportunities for economies of scale, the elimination of duplicate facilities . . . and generally more efficient operations." American Elec. Power Co., 46 S.E.C. at 1309. Among other things, the Merger is expected to create operational and administrative economies, savings in facility maintenance and emergency coordination, and other administrative and general savings. In addition, as a result of the Merger, Con Edison and Orange and Rockland and its utility subsidiaries are expected to be better positioned to remain competitive as the utility industry restructures. These factors should prove beneficial to the interests of investors and consumers as well as the public interest in general. The expected economies and efficiencies from the consolidation of Con Edison and Orange and Rockland, as well as the competitive position of CEI after the Merger, are described in more detail later in this Application.

c. Competitive Effects

The Merger will not have an adverse affect on competition. Section 10(b)(1) also requires the Commission to consider the possible anticompetitive effects of a proposed combination. Entergy Corp., 55 S.E.C. Docket at 2041, citing Municipal Elec. Ass'n v. SEC, 413 F.2d 1052, 1056-57 (D.C. Cir. 1969.) Orange and Rockland is divesting all of its generating assets. Con Edison also is divesting the bulk of its generating facilities to at least three separate buyers. Thus, the Merger does not result in an increase in market concentration for generation. Both Con Edison and Orange and Rockland are participants in the NYISO, which will insure that transmission will be provided on a non-discriminatory basis to all customers and competitors.

A full competition analysis was provided in the application of Con Edison and Orange and Rockland for approval of the Merger under Section 203 of the Federal Power Act, which was filed with the FERC on September 9, 1998. This analysis was set forth in the testimony of Dr. William H. Hieronymus, who found that since Orange and Rockland is divesting all of its generating resources, there will be no increase in market concentration from the Merger. Under the FERC's Merger Policy Statement, which is based on the Department of Justice's Horizontal Merger Guidelines, Dr. Hieronymus found that the Merger passes all of the screening criteria.

On January 27, 1999, the FERC issued an order approving the Merger. Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc., Docket No. EC98-62-000, 86 FERC (P) 61,064 (1999). The FERC evaluated the potential competitive consequences of the Merger in light of the criteria established in its Merger Policy Statement. The FERC review included an analysis of horizontal and vertical market power issues. Based on the record, including applicants' mitigation commitments and generation divestiture plans, the FERC found that the Merger raises no competitive concerns.

This Commission previously has relied upon the expertise of other federal regulators in determining if a proposed transaction has anti-competitive effects, and the D.C. Circuit has upheld the Commission's ability to "watchfully defer[]" to other regulators. City of Holyoke Gas & Elec. Dep't v. SEC, 972 F.2d at 363-64. Applicant hereby respectfully requests that the SEC watchfully defer to the competitive analysis set forth in the FERC order approving the Merger.

For the reasons described above, the Merger will not "tend toward interlocking relations or the concentration of control" of public utility companies, of a kind or to the extent detrimental to the public interest or the interests of consumers or investors within the meaning of Section 10 of the Act.

3. Section 10(b)(2) -- The Consideration Is Fair and Reasonable

The Commission may not approve the proposed acquisition of Orange and Rockland by CEI under Section 10(b)(2) if it finds that the consideration to be paid in connection with the acquisition, including all fees, commissions and other remuneration, is "not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of . . . the utility assets underlying the securities to be acquired. . . ." In considering whether or not a price meets such standard, the Commission has considered whether the price was decided as the result of arms-length negotiations, whether the parties' boards of directors approved the purchase price, the opinions of investment bankers and the earnings, dividends, book and market value of the shares of the company to be acquired. Ohio Power, HCAR 16753 (June 8, 1970); Southern Co., HCAR 24579 (Feb. 12, 1988); Entergy Corp., HCAR 25952 (Dec. 17, 1993).

CEI believes that the standards of Section 10(b)(2) regarding consideration for the Merger are satisfied. The purchase price for the common stock of Orange and Rockland was negotiated at arms-length between Orange and Rockland and CEI. These negotiations were accompanied by extensive due diligence, analysis and evaluation of all of the assets and goodwill of Orange and Rockland as well as the liabilities and business prospects of Orange and Rockland. (See Section II(B)(1) of this Application for the background and description of the negotiations leading to the Merger.) As noted by the Commission in In re Ohio Power Co., 44 S.E.C. 340 (1970), prices arrived at through arms-length negotiations are particularly persuasive evidence that Section 10(b)(2) is satisfied.

The Merger has been approved by the boards of directors of both CEI and Orange and Rockland and by the affected public shareholders of Orange and Rockland (approval by CEI's shareholders is not required). The acquisition was approved by the CEI Board of Directors on April 28, 1998, consistent with its fiduciary duties to protect the interests of the CEI shareholders. The Merger was approved by the Orange and Rockland Board of Directors on May 10, 1998. The Orange and Rockland shareholders voted for approval and adoption of the Merger Agreement on August 20, 1998.

Nationally recognized investment bankers for both Orange and Rockland and CEI have reviewed extensive information concerning the Companies and the Merger and have opined that the consideration to be paid to the Orange and Rockland common stockholders is fair. The opinion letter of Salomon Smith Barney ("SSB") for CEI found that, considering all of the facts, the consideration to be paid for the common stock of Orange and Rockland is fair from a financial point of view to CEI. DLJ, Orange and Rockland's financial advisor, similarly found that the consideration was fair from a financial point of view to the holders of Orange and Rockland common stock. In rendering their fairness opinions, both DLJ and SSB performed a number of analyses relevant to the reasonableness of the purchase price and its relation to the investment, in and earning capacity of, the utility assets of both CEI and Orange and Rockland. These analyses considered, among other things, the pro forma effect of the Merger on earnings, dividends and cash flow, and the respective contributions of CEI and Orange and Rockland in terms of assets, earnings, dividends, cash flow and businesses. Both SSB and DLJ considered public and non-public historical and projected financial information and forecasts related to the earnings, assets, business, dividends, cash flow and prospects of CEI and Orange and Rockland; historical market prices and trading activity of the common stock of the companies and certain publicly traded companies deemed similar; and other information, as more fully described in their opinion letters included with this Application as Exhibits H-1 and H-2.

In light of these opinions and an analysis of all relevant factors, the purchase price falls within the range of reasonableness, and the consideration for the Merger bears a fair relation to the sums invested in, and the earning capacity of, the utility assets of Orange and Rockland and its subsidiaries.

4. The Fees Associated With the Merger Are Reasonable

CEI believes that the overall fees, commissions and expenses incurred and to be incurred in connection with the Merger are reasonable and fair relative to other mergers and the anticipated benefits of the Merger to the public, the investors and the consumers, and such fees are consistent with recent precedent and otherwise meet the standards of Section 10(b)(2).

As set forth in Item 2 of this Application, CEI expects that the total fees, commissions and expenses associated with the Merger to be incurred by CEI and Orange and Rockland together will be approximately $18 million. Similar expenses have been incurred in other mergers and acquisitions. For example, Union Electric and Central Illinois Public Service Company incurred together approximately $21.8 million in fees, expenses and commissions in connection with their combination into Ameren Corporation; Public Service Company of Colorado and Southwestern Public Service Company incurred together $23.5 million in fees and associated expenses in connection with their combination into New Century Energies, Inc.; Texas Utilities and ENSERCH incurred together $37.2 million in fees, commissions and expenses in connection with their combination into TUC Holding Company; Houston Industries and NorAm incurred together $32 million in fees, commissions and expenses in connection with their combination into Houston Industries, Inc.; The Cincinnati Gas and Electric Company and PSI Resources incurred together $47.1 million in fees, commissions and expenses in connection with their combination into CINergy Corp.; Northeast Utilities alone incurred $46.5 million in fees, expenses and commissions in connection with its acquisition of Public Service Company of New Hampshire; and Entergy alone incurred $38 million in fees in connection with its acquisition of Gulf States Utilities - all of which amounts were approved by the Commission as reasonable.

CEI believes that the fees paid to the financial consultants SSB and DLJ, which are included in the total estimate of fees of $18 million, are fair and reasonable. By letter of April 28, 1994 ("the SSB Engagement Agreement"), Con Edison engaged Salomon Brothers, Inc., now SSB, as a financial advisor to assist the senior management of Con Edison in identifying and/or evaluating regulated utility acquisitions, and under the agreement was specifically requested to assist in exploring the possibility of a business combination with Orange and Rockland. The Board of Directors selected SSB as a financial advisor because SSB, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions. SSB is familiar with Con Edison, having provided certain investment banking services to Con Edison from time to time, and having acted as its financial advisor in connection with, and having participated in certain of the negotiations leading to, the Merger. Pursuant to the SSB Engagement Letter, Con Edison engaged SSB as its financial advisor in connection with the potential acquisition of Orange and Rockland. Pursuant to the terms of the SSB Engagement Letter, CEI agreed to pay SSB $250,000 upon CEI's commencement of substantive negotiations with Orange and Rockland, an additional fee of $375,000 upon execution of the Merger Agreement, an additional fee of $375,000 upon receipt of Orange and Rockland's shareholder approval, and an additional fee of $4,590,000, less the amounts previously paid, on closing of the transaction. In addition CEI has agreed to reimburse SSB for out-of-pocket expenses (including the reasonable fees and expenses of counsel) incurred by SSB in connection with its engagement, and to indemnify SSB and certain related parties against certain liabilities, including liabilities under the Federal securities laws relating to, or arising out of, its rendering of services under the SSB Engagement Letter.

Pursuant to terms of an engagement letter between Orange and Rockland and DLJ dated December 2, 1997, (the "DLJ Engagement Letter"), Orange and Rockland has agreed to pay DLJ: (i) a retainer fee of $250,000, (ii) an opinion fee of $500,000, (iii) a fee of $1,250,000 upon the execution of the Merger Agreement, (iv) a fee of $750,000 upon shareholder approval of the Merger, and (v) a Merger fee equal to $6,320,000 (0.8 percent of the aggregate consideration payable in the Merger) less previously paid fees. In addition, Orange and Rockland also has agreed to reimburse DLJ for all out-of-pocket expenses (including the reasonable fees and expenses of counsel) incurred by DLJ in connection with its engagement, and to indemnify DLJ and certain related persons against certain liabilities, including liabilities under the Federal securities laws relating to or arising out of its rendering of services under the DLJ Engagement Letter.

5. The Capital Structure Is Not Unduly Complex

Section 10(b)(3) of the Act requires the Commission to determine if the Merger will unduly complicate CEI's capital structure or will be detrimental to the public interest, the interests of investors or consumers or the proper functioning of CEI's system.

As a result of the Merger, Orange and Rockland shareholders will receive cash for surrendering their Orange and Rockland common stock which will then be cancelled. All preferred stock and preference stock of Orange and Rockland will be redeemed. C Acquisition Corp. will merge with Orange and Rockland, with Orange and Rockland being the surviving corporation and a wholly-owned subsidiary of CEI. There will be no minority common stock interest remaining in Orange and Rockland. The only voting securities of CEI that will be publicly held after the Merger will be CEI common stock. The only class of voting securities of CEI's direct and indirect utility and non-utility subsidiaries will be common stock, except for 1,915,319 shares of Con Edison's $5 Preferred Stock, each of which has one vote per share, and, in all but a few cases, issued and outstanding shares of such common stock will be held by CEI or a subsidiary of CEI. CEI will hold, through its current subsidiaries, the interests described in Item 1 of this Application.

Set forth below are summaries of the historical capital structure of CEI and Orange and Rockland as of December 31, 1997, and the pro forma consolidated capital structure of CEI after the Merger as of March 31, 1998.

CAPITAL STRUCTURE FOR CEI/6/
(in thousands)

	12/31/97	as of 3/31/98
Common Shareholder Equity	$ 5,930,079	$ 5,780,924
Preferred Stock Subject to Mandatory Redemption	84,550	84,550
Preferred Stock	318,018	318,018
Long Term Debt	4,188,906	4,198,152
Total Capitalization	10,437,003	10,297,094
Total Noncurrent Liabilities	146,016	150,613
Total Current Liabilities	1,548,257	1,166,085
Total Deferred Credits	2,591,242	2,577,183
Total	$14,722,518	$14,190,975

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/6/ To the extent CEI has outstanding short-term debt, CEI typically pays off its short-term debt within a short period of time, and therefore short-term debt is not reflected in CEI's financial statements.

CAPITAL STRUCTURE FOR Orange and Rockland
(in thousands)

	12/31/97	3/31/98
Common Stock Equity	$ 376,319	$ 377,463
Non Redeemable Stock	43,223	43,220
Long Term Debt	356,637	356,637
Total Capitalization	766,179	777,320
Total Noncurrent Liabilities	65,189	63,838
Total Current Liabilities	228,725	197,155
Total Deferred Credits	217,916	217,559
Total	$1,288,009	$1,255,872

PRO FORMA COMBINED CAPITAL STRUCTURE FOR CEI (unaudited)
(in thousands)

	1997
Common Stock Equity	$ 5,695,836
Preferred Stock Subject to Mandatory Redemption	84,550
Preferred Stock	318,018
Long Term Debt	4,198,152
Total Capitalization	10,493,365
Total Noncurrent Liabilities	150,613
Total Current Liabilities	1,181,388
Total Deferred Credits	2,577,183
Total	$14,402,549

The capital structure of CEI after the Merger will not be unduly complicated and will be substantially similar to capital structures approved by the Commission in other orders. See e.g., LG&E Energy Corp., HCAR 26866 (Apr. 30, 1998); Conectiv, Inc., HCAR 26832 (Feb. 25, 1998); Centerior Energy Corp., 35 S.E.C. Docket 769; Midwest Resources, Inc., HCAR 25159, 47 S.E.C. Docket 252 (Sept. 26, 1990).

CEI's pro forma consolidated common equity to total capitalization rate of 48.7 percent comfortably exceeds the traditionally acceptable 30 percent level. Northeast Utils., HCAR 25221, 47 S.E.C. Docket at 1284.

Section 10(b)(3) also requires the Commission to determine whether the proposed combination will be detrimental to the public interest, the interests of investors or consumers or the proper functioning of the CEI system. The combination of Con Edison and Orange and Rockland is entirely consistent with the interests of the public, investors, consumers and the proper functioning of the holding company system. Con Edison and Orange and Rockland already are interconnected at several points and their operations will be integrated to take advantage of efficiencies and economies that would not be possible absent the Merger. Further, CEI, Con Edison and Orange and Rockland will remain reporting companies subject to the continuous disclosure requirements of the 1934 Act following consummation of the Merger. The Merger will make Con Edison and Orange and Rockland strong competitors in the emerging energy market, which is good for both consumers and investors. For these reasons, the Applicants believe that the Merger will be in the public interest and the interests of investors and consumers, and will not be detrimental to the proper functioning of the CEI holding company system.

As set forth more fully later in this Application, the Merger is expected to result in cost savings and synergies, and will improve the efficiencies of the utility systems. The Merger, therefore, will be in the public interest and will not be detrimental to the proper functioning of the resulting holding company system.

B. The Merger Meets the Requirements of Section 10(c)

Section 10(c) of the Act provides that, notwithstanding the provisions of Section 10(b), the Commission shall not approve:

1) an acquisition of securities or utility assets, or any other interest, which is unlawful under the provisions of section 8 or is detrimental to the carrying out of the provisions of section 11; or

2) the acquisition of securities or utility assets of a public utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system . . . .

1. Section 10(c)(1)

a. Compliance with Section 8

Section 8 prohibits registered holding companies from acquiring properties which would result in combined gas and electric operations in the same area without the authorization of the appropriate state commission, where state law prohibits or requires authorization for such combined operations. Section 8 applies only to registered holding company systems and thus, by its terms, is not applicable to CEI or Orange and Rockland and its subsidiaries or the Merger. However, even if it applied to exempt holding companies, the Merger would not be unlawful as there is no such law, regulation or policy against combination companies in the affected states. Accordingly, the Merger will not be unlawful under Section 8 of the Act, and the portion of Section 10(c)(1) relating to Section 8 is satisfied.

b. No Detriment to the Carrying Out of Section 11

Section 11 of the Act contains the integration and simplification requirements of the Act applicable to registered holding companies. Specifically, Section 11 mandates that the Commission require each registered holding company to limit operations of its holding company system to a single integrated public utility system, and certain "functionally related" businesses, unless the provisions of subsection 11(b)(1)(A) - (C) (the "ABC" Clauses) permit ownership of additional public utility systems.

The term "Integrated public utility system" is defined in Section 2(a)(29) to mean:

> As applied to electric utility companies, a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantage of localized management, efficient operation, and the effectiveness of regulation;

and

> (B) As applied to gas utility companies, a system consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation; Provided, That gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region.

Based upon these provisions, the SEC has determined that a single integrated public utility system may be either an integrated electric utility system or an integrated gas utility system, but not both. SEC v. New England Elec. Sys., 384 U.S. 176, 178 n.7 (1966). An integrated electric utility system must satisfy four criteria. The electric properties, which may be owned by more than one subsidiary, must be: (1) physically interconnected or capable of such interconnection; (2) economically operated as a single interconnected and coordinated system;

(3) confined in its operations to single region; and (4) not so large as to impair the advantages of localized management, efficient operations or the effectiveness of regulation. See, e.g., Environmental Action, Inc. v. SEC, 895 F.2d 1255, 1263 (9th Cir. 1990) (citing In re Elec. Energy Inc., 38 S.E.C. 658, 668 (1958.) An integrated gas utility system need not be physically interconnected and thus must satisfy three criteria: (1) substantial economies through operation as a single coordinated system; (2) confinement to a single region (subsidiaries deriving gas from a common source of supply may be included in a single region); and (3) not so large as to impair the advantages of localized management, efficient operation and effectiveness of regulation. See, e.g., Consolidated Natural Gas Co., HCAR 25040, 45 S.E.C. Docket 672 (Feb. 14, 1990); MCN Corp., HCAR 26576, 45 S.E.C. Docket 2379 (Sept. 14, 1996).

Section 10(c)(1) does not require that exempt holding companies meet the strict integration requirements of Section 11, but acquisitions by exempt holding companies should not be detrimental to the carrying out of Section 11. See Gaz Metro., Inc., HCAR 26170, 58 S.E.C. Docket 189, 193 (Nov. 23, 1994) ("Section 10(c)(1)'s requirement that the acquisition not be "detrimental" to the carrying out of the provisions of Section 11 does not mandate that the latter section's integration requirements be met. Exempt holding companies are not directly subject to Section 11(b)(1)'s integration standards.") (citation omitted.) The Commission has previously determined that a holding company may acquire utility assets that will not, when combined with the acquiring company's existing utility assets, make up an integrated system or fully comply with the ABC Clauses, provided that there is de facto integration of contiguous utility properties and the holding company will be exempt from registration under Section 3 of the Act following the acquisition. TUC Holding Co., HCAR 26749, 65 S.E.C. Docket 301 (Aug. 1, 1997).

Because CEI will remain exempt from registration under Section 3 following the acquisition of Orange and Rockland, CEI is not required to show that the electric system of Con Edison will be integrated with the electric system of Orange and Rockland, or that the gas system of Con Edison will be integrated with the gas system of Orange and Rockland in accordance with applicable statutory criteria. Thus, consistent with TUC Holdings Co., CEI requests the Commission to evaluate this Application based upon compliance with the de facto integration standard and the fact that CEI will be exempt under Section 3 following the acquisition of Orange and Rockland.

Under this "de facto" integration standard, the Commission need not address the question of whether the degree of integration that will exist between the two companies would satisfy the integration standard of Section 11. Indeed, CEI specifically requests that the Commission not address that question vis-a-vis this Application. The issue of how utilities that have divested their generation may satisfy the integration standard is an important policy issue, because this Commission presumably does not want to discourage pro-competitive divestiture. Thus, the issue should be addressed only where it is material and where all of the relevant facts and policy implications can be examined. Accordingly, for purposes of this Application, CEI asks the Commission to assume that CEI's electric and gas systems will not be integrated following the Merger, without prejudice to CEI's rights to later show that they meet the integration standard.

In the following discussion, CEI presents information about the electric and gas systems that is more than ample to support a finding of de facto integration of all systems. This information is organized in accordance with the statutory integration criteria. A summary of the basis for CEI's claim of eligibility for exemption pursuant to Section 3 is also presented.

(1) The Electric Utility Systems

(a) Physical Interconnections

Con Edison and Orange and Rockland have adjacent electric service territories that are physically interconnected. The Companies are directly interconnected at three locations, two in New York and one in New Jersey. In New York, the Companies are interconnected at the Ramapo substation via two 345-138 kV transformers and at West Haverstraw via one 345-138 kV transformer. In New Jersey, the Companies are directly interconnected via a 345-138 kV transformer at South Mahwah. See Exhibit E-1.

The Companies jointly own 29.2 miles of transmission consisting of a double circuit 345 kV tower line that runs from Con Edison's wholly-owned Ramapo substation east to the Rockland/Westchester County line at the Hudson River. Con Edison and Orange and Rockland, as tenants in common, own 85 percent and 15 percent undivided interest, respectively in those 345 kV circuits. Con Edison and Orange and Rockland also jointly own, as tenants in common, the property that supports the double circuit 345 kV ties between Ramapo and the New York/New Jersey state line. The Companies jointly own (66 1/3 percent - Con Edison, 33 1/3 percent - Orange and Rockland) the Bowline Point generating facility and the 345kV transmission line and substation connecting Bowline Point to the above-mentioned transmission facilities. As described above, Orange and Rockland and Con Edison have agreed to sell Bowline Point to a subsidiary of the Southern Company.

(b) Operation of the Electric Systems

Orange and Rockland, RECO and Pike jointly operate a single integrated electric production and transmission system serving New York, New Jersey and Pennsylvania. Power supply agreements between Orange and Rockland and RECO and Orange and Rockland and Pike reflect and provide for the integrated operation of the system as a single electric production and transmission system, and for the allocation of system costs among the three jurisdictions according to their pro rata use of the system. The power supply agreements are FERC-approved tariffs and are regulated by FERC pursuant to its jurisdiction under the Federal Power Act. Transmission of the energy produced on the Orange and Rockland system to the various load centers is accomplished by an interconnected interstate transmission grid. The physical plant constructed to perform the power delivery function is operated as a single power delivery system for the pro rata benefit of the three companies, even though portions of it are owned by whichever of the three companies in whose territory the facilities are located.

Con Edison operates a combination electric and gas utility system that generates, transmits and distributes electricity and delivers natural gas to three million customers in New York City and Westchester County. The Con Edison service territory encompasses about 660 square miles and lies within two contiguous areas consisting of The City of New York (except for the Rockaway Peninsula) and most of Westchester County. Within the service area Con Edison furnishes retail electric service to all members of the general public subject to compliance with the company's tariff on file with the NYPSC. To fulfill its responsibilities under its franchise, Con Edison owns or leases and operates electric generation, transmission and distribution facilities located within the service area. The company uses such facilities, as well as interests in certain other properties, to serve the present and expected needs of customers within the service area.

Con Edison and Orange and Rockland also operate as a part of an interconnected and coordinated regional system through their membership in NYPP, which is a "tight" power pool. Their generating assets are centrally dispatched through NYPP procedures. Upon implementation of the NYISO, operational control of certain transmission facilities of Con Edison and Orange and Rockland will be transferred to the NYISO and controlled as part of the NYISO system. In addition, the NYISO energy markets will operate on a bid price basis and the dispatch of any facility will depend upon its bid. Bilateral contracts outside of the bid markets also will be permitted and will be scheduled by the NYISO. Following divestiture of their generating assets, Con Edison and Orange and Rockland will still have to meet their respective retail load obligations. They will accomplish this by jointly purchasing and scheduling the delivery of capacity and energy on an economic basis.

Following the Merger, the Companies are planning to jointly purchase capacity and energy to provide for their aggregate loads on a centralized basis, thereby optimizing the aggregate cost of electricity. This function will be conducted largely by Con Edison's

Megawatthour Store./7/ Projected electricity needs of the Companies will be provided to the Megawatthour Store, which will purchase the best group of resources to meet the aggregate load.

If the NYISO is operating its open access transmission tariff prior to the effective date of the Merger, transmission service over both the Con Edison and the Orange and Rockland systems will be provided through the NYISO tariff. In the event the NYISO tariff is not in place as of the effective date of the Merger, the Companies have submitted to the FERC a joint open access transmission tariff. That joint tariff provides for service across the transmission systems of Con Edison and Orange and Rockland at a single price, and provides a single point of contact for obtaining transmission service across the system.

Under the NYISO proposal, the NYISO will have operational control over key transmission facilities; however, the NYISO will not own or physically operate the facilities. Certain key transmission facilities will be maintained and operated by the transmission owner under the direction and control of the NYISO. Other facilities whose status may have an effect on reliability are operated and controlled by the transmission owner. Any changes in the status of such facilities must be communicated to the NYISO. Thus, the Companies will continue to have control and responsibility for the maintenance and reliability of their transmission facilities.

(c) Same Area or Region

The electric properties of Con Edison and Orange and Rockland are located primarily in adjoining counties in southern New York. The electric properties of RECO in New Jersey and Pike in Pennsylvania are directly contiguous with the New York properties of Orange and

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/7/ The Megawatthour Store is Con Edison's internal power marketing department.

Rockland. Thus, the electric assets of the system are adjacent and contiguous and located in southern New York, northern New Jersey and one adjoining county in Pennsylvania. Thus, the electric systems will be confined to the same area or region.

(d) The Size of the Electric Systems

The Commission has approved the formation of registered and exempt holding companies far larger than the combination produced by the Merger. The combined electric systems will operate principally in New York, with smaller operations in Pennsylvania and New Jersey. Management focus will not be impaired by the Merger. A member of the Orange and Rockland Board of Directors will be added to the CEI Board of Directors. The Companies expect that the Merger will result in more efficient operations. Following consummation of the Merger, the electric systems of CEI will continue to be regulated by the New York, New Jersey and Pennsylvania public service commissions. The FERC will continue to regulate matters within its jurisdiction as well. Regulatory oversight of the Companies will not change. Thus, the size of the electric systems will not be so large as to impair the advantages of localized management, efficient operations or the effectiveness of regulation.

(2) The Gas Utility Systems

(a) Operation of the Systems

As shown on Exhibit E-1, the existing gas service areas of Con Edison and Orange and Rockland are adjacent; however, they are separated by the Hudson River. Due to that separation, the existing gas systems are not directly interconnected. The gas systems will realize economies of scale and purchasing synergies while preserving the advantages of localized management and the effectiveness of regulation.

The Companies share access to market and supply area locations through several pipelines. The Companies plan to coordinate and jointly manage their portfolios of supply and storage and to combine and centralize their gas transportation function. The Companies also intend to engage in joint and coordinated gas purchasing and planning. However, the gas distribution operations of the Companies will continue to be separate.

(b) Single Region or Area

The gas systems will be confined to several counties in southern New York and a very small portion of northeastern Pennsylvania. The gas properties of Con Edison and Orange and Rockland are adjacent and separated only by the Hudson River. The gas assets of Pike are adjacent to Orange and Rockland's service area. Thus, following the Merger, the gas systems of CEI will be confined to a single region.

In addition to being located within the same area, the gas systems also will share a number of common sources of supply. Historically, in determining whether two distant gas companies share a "common source of supply," the Commission has placed substantial importance on whether the gas supply of the two companies is derived from the same gas producing area (or basins), recognizing that significant economies and efficiencies are achieved through the coordination and management of gas supply. The Commission also has considered whether the two companies are served by a common pipeline.

As indicated in the following table, Con Edison and Orange and Rockland obtain a substantial amount of gas from the same basins. In 1997, Con Edison and Orange and Rockland purchased 84 percent and 58 percent, respectively, of their gas supply for retail operations from the Gulf Coast basin. In 1998, purchases from the Gulf Coast Basin are expected to be

84 percent for Con Edison and 54 percent for Orange and Rockland. The projections for 1999 estimate Con Edison's purchases from the Gulf Coast Basin at 77 percent and Orange and Rockland's at 48 percent. Con Edison and Orange and Rockland also make significant purchases from the Canadian Basin; Con Edison's purchases for 1997, 1998 and 1999 are approximately 15 percent, while Orange and Rockland's purchases are approximately 38 percent.

ANNUAL SUPPLY PURCHASES
(w/o GENERATION)
(BCF)

SUPPLY BASIN	ANNUAL PURCHASES -- CORE MARKET					
	1997		1998		1999	
	ORU	CON ED	ORU	CON ED	ORU	CON ED
Gulf Coast	13.9	109.3	11.8	109.3	9.3	69.7
Midcontinent	0.0	0.0	0.0	0.0	0.0	0.0
Appalachia	0.9	0.5	0.9	0.5	0.9	0.5
Canadian	9.1	20.0	9.1	20.1	9.1	20.1
TOTAL	23.9	129.9	21.8	129.9	19.3	90.3

Con Edison, Orange and Rockland and Pike also obtain transportation services from several of the same interstate gas pipelines. Con Edison, Orange and Rockland and Pike take service from Algonquin Gas Transmission, Tennessee Gas Pipeline, National Fuel and Texas Eastern Transmission. The Companies do not use hubs to purchase gas. The supply area locations that the Companies have access to are: Henry, LA; Lebanon, OH; Louisiana; National

Fuel; South Texas; Niagara, NY; and Leidy, PA. As noted above, the Companies intend to coordinate and jointly manage their portfolios of supply and storage.

(c) The Size of the Gas Systems

The gas systems will be managed under the overall direction of the CEI Board of Directors which will remain unchanged except for the addition of one new member from the Orange and Rockland Board of Directors. As discussed in Item 3, Section B.2 of this Application, the Merger will result in more efficient operations. Finally, the Merger will not impair the effectiveness of regulation since the gas systems will continue to be regulated by the state public utility commissions. Thus, the Merger of the gas systems will not have an adverse effect on localized management, efficient operations or effective regulation.

(3) "De Facto" Integration of the Electric and Gas Systems

In TUC Holding Co., the Commission addressed the acquisition of a gas utility by an exempt electric holding company. The Commission stated:

> Section 11(b)(1) makes provision for the acquisition and retention of more than one integrated system only if the requirements of section 11(b)(1)(A)--(C) ("ABC Clauses") are satisfied. By its terms, however, section 11(b)(1) applies only to registered holding companies. The Commission has previously determined that a holding company may acquire utility assets that will not, when combined with the acquiring company's existing utility assets, make up an integrated system or fully comply with the ABC clauses, provided that there is a de facto integration of contiguous utility properties and the holding company will be exempt from registration under section 3 of the Act following the acquisition.

TUC Holding Co., 65 S.E.C. Docket at 305-06 (footnote omitted).

In applying this standard to the combination of a purely electric utility system with a purely gas utility system, the Commission explained:

> In this matter there will be a de facto integration of the combined utility properties. The respective service territories of the TUC and ENSERCH systems generally overlap. The two systems will be coordinated administratively. The combination offers TUC and ENSERCH a means to compete more effectively in the emerging energy services business, and it does not appear that the merger will give rise to any of the abuses, such as ownership of scattered utility properties, inefficient operations, lack of local management or evasion of state regulation, that section 11(b)(1) and the Act generally were intended to address. The merger of the two companies should have no effect upon the ability of state and local ratemaking authorities to carry out their statutory duties. Accordingly, the Commission does not find that the proposed acquisition would be detrimental to the carrying out of section 11, so that section 10(c)(1) of the Act is satisfied.

Id. at 306 (footnotes omitted).

In BL Holdings Corp., HCAR 26875 (May 15, 1998), the SEC stated that the creation of a combination utility system with unified gas operations and an electric generation company met the standards of the Act. Relying on TUC Holding Co. the order states:

> In this matter, there will be de facto integration of the separate gas and electric systems . . . The two systems will be coordinated administratively. BL Holding anticipates forming one or more service companies that will provide certain common utility and administrative services to BL Holding, Gas East, T&D Managers and Genco. It does not appear that the combination will give rise to any of the abuses, like ownership of scattered utility properties, inefficient operations, lack of local management or evasion of state regulation, that section 11 (b)(1) and the Act were intended to address. The Transactions should have no effect upon the ability of state ratemaking authorities to carry out their statutory duties. Accordingly, the Commission does not find that the proposed acquisition would be detrimental to the carrying out of section 11, so that section 10(c)(1) of the Act is satisfied.

Id. (footnotes omitted).

Other recent cases in this area demonstrate the Commission's recognition of the changes in the energy industry. In New Century Energies, for example, the Commission stated that the gas and electric industries are converging and that separation of such businesses could cause the separated entities to be weaker competitors. 65 SEC Docket at 288. The SEC in approving the acquisition of KU Energy by LG&E accepted that the combination of a combination utility system exempt under Section 3 of the Act with an electric utility system would result in a stronger financial competitor in the emerging total energy market. LG&E Energy Corp., HCAR 26866 (April 30, 1998). Finally, the SEC noted in its order approving the BL Holdings acquisition that the applicants had asserted that the combination would create the opportunity for strategic, financial and operational benefits in the form of greater financial strength and financial flexibility. BL Holdings, HCAR 26875, at 15.

Con Edison and Orange and Rockland each presently coordinate the operations of their respective electric and gas properties. The gas and electric service areas of each company overlap and the systems share a number of coordinated functions, including joint gas and electric billing, meter reading, emergency management and resources, customer service and credit and billing services. Thus, the existing gas and electric systems of each company already are "de facto" integrated.

After the Merger, the Companies will also engage in the coordination of administrative, corporate and purchasing functions related to the electric and gas systems. The Companies expect to combine administrative and corporate functions in common areas such as treasury, human resources, insurance and risk management, accounting, legal, regulatory and government affairs, environmental health and safety, business development, corporate communications, information technology and purchasing functions. As noted earlier, the Companies also intend to engage in joint and coordinated purchasing of power and gas to meet aggregate demand of the systems in the most economical manner. During emergencies the Companies will coordinate operations and maintenance to expedite restoration of service.

Following the Merger, the electric and gas systems of CEI will continue to largely overlap and will be located in adjacent service areas on opposite sides of the Hudson River. The systems will reap many benefits available from coordination of combined resources, while preserving local control and state regulation.

Based upon the foregoing, the combination will result in the de facto integration of the electric and gas utility systems of Orange and Rockland with the electric and gas utility systems of CEI. Consistent with BL Holdings Corp., the service territories of the Companies are adjacent to one another. The electric systems are physically interconnected and jointly own transmission facilities. The gas systems obtain substantial quantities of gas from the same supply areas and are served by the same pipelines. The systems will be coordinated administratively and through joint purchasing arrangements for power and gas to serve aggregate loads. The consolidation of administrative and corporate functions is expected to provide efficiencies and economies. The Merger will not give rise to any of the abuses, like ownership of scattered properties, inefficient operations, lack of local management or evasion of state regulation, that Section 11(b)(1) and the Act was intended to address.

(4) Exemption of CEI Following the Merger

Following consummation of the Merger, CEI and Orange and Rockland will continue to be entitled to exemptions under Section 3 of the Act. CEI will remain an exempt holding company under Section 3(a)(1) of the Act and continue to file an annual statement on Form U-3A-2, while Orange and Rockland will continue to rely on the Commission's order exempting Orange and Rockland from registration based on its status as a holding company which is predominantly a public utility company under Section 3(a)(2) of the Act./8/

[i] 3(a)(1) Exemption for CEI

CEI will continue to be entitled to an exemption under Section 3(a)(1) of the Act. Section 3(a)(1) of the Act authorizes the Commission to exempt any holding company:

> if such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominantly intrastate in character and carry on their businesses substantially in a single State in which such holding company and every such subsidiary company thereof are organized.

Under Section 3(a)(1) of the Act, in order for a holding company to qualify for an exemption, each of its "material" subsidiaries must be predominantly intrastate in nature and carry out their businesses "substantially" in a single state in which the holding company and each material subsidiary are organized. Wisconsin Electric Power Co., 28 S.E.C. 906 (1948). Under

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/8/ The Commission held that Orange and Rockland was entitled to an exemption under Section 3(a)(2) of the Act in In the Matter of Rockland Light and Power Company, 1 SEC 354 (1936). Subsequently, Rockland Light and Power Company became Orange and Rockland Utilities, Inc.

an informal SEC guideline, a utility subsidiary is material if it contributes more than ten percent of the consolidated utility revenues of the holding company. A second guideline provides that a utility subsidiary operates substantially in a single state if no more than about 20% of the utility's operations are out of state. Hawes, Utility Holding Companies, Clark, Boardman Company, Ltd., 1987 at (S) 3-04.

Following the Merger, CEI will have four public utility subsidiaries: Con Edison, Orange and Rockland, RECO and Pike. The contribution of each utility subsidiary to CEI's consolidated utility revenues based on 1997 figures is shown below.

		($000)
CEI consolidated utility revenues (pre-Merger)		6,740,000
Orange and Rockland consolidated utility revenues (pre-Merger)		642,000
CEI consolidated utility revenues (post-Merger)		7,382,000
Con Edison utility revenues		6,740,000
Orange and Rockland utility revenues		494,000
RECO utility revenues		141,000
Pike utility revenues		6,420
Percent of total:	Con Edison	91.30%
	Orange and Rockland	6.70%
	RECO	1.91%
	Pike	0.09%

Post-Merger CEI will continue to be entitled to an exemption under section 3(a)(1), because each of its material subsidiaries will remain predominantly intrastate in character and carry on its operations substantially in a single state in which CEI and such subsidiaries are organized.

Con Edison will remain a material subsidiary of CEI post Merger, because approximately 91.3 percent of CEI's consolidated utility revenues will be derived from Con Edison's operations. Since Con Edison is a material subsidiary of CEI, it is necessary to consider whether Con Edison is predominantly intrastate in character and carries on its business substantially in the state in which CEI and Con Edison are organized.

CEI and Con Edison both are New York corporations. Con Edison's retail electric and gas service areas are exclusively in New York, and all of its generating and transmission assets are located in New York. Con Edison makes only a small number of wholesale sales, and the majority of those sales are in New York or at the New York border, and thus are intrastate in character. Clearly, Con Edison is predominantly, if not exclusively, intrastate in character and carries out its business substantially in New York. Thus, Con Edison meets the requirements of Section 3(a)(1).

Orange and Rockland will not be a material subsidiary of CEI, because it will contribute approximately 6.7 percent of CEI's consolidated utility revenues post-Merger. Since Orange and Rockland will not be a material subsidiary, it is not necessary to show that Orange and Rockland is predominantly intrastate in character. Nevertheless, Orange and Rockland is organized in New York and its electric and gas service areas are confined to three counties in New York. Thus, Orange and Rockland is predominantly intrastate in character and carries on its operations substantially in New York.

Post-Merger, RECO will contribute less than two percent of CEI's consolidated utility revenues. Thus, RECO is not a material subsidiary of CEI and is not required to be incorporated in or operate in New York. Pike's revenues will constitute less than 0.09 percent of CEI's consolidated utility revenues. Clearly, Pike, like RECO, will not be a material subsidiary of CEI under Section 3(a)(1) and need not be incorporated in or operate in the same state as CEI.

In view of the foregoing, CEI will be entitled to an exemption under section 3(a)(1) following the Merger, because CEI and each of its material subsidiaries will be predominantly intrastate in character and carry on their businesses substantially in a single state in which CEI and each such subsidiary are organized.

[ii] 3(a)(2) Exemption for Orange and Rockland

Following the Merger, Orange and Rockland will continue to rely on the Commission's order granting Orange and Rockland an exemption under Section 3(a)(2) of the Act./9/ Section 3(a)(2) of the Act provides that the Commission may issue an order exempting a holding company from registration under the Act if:

> such holding company is predominantly a public utility company whose operations, as such, do not extend beyond the State in which it is organized and States contiguous thereto.

Under this subsection, the SEC has held that the utility activities of the subsidiaries can be about 50% of the activity (revenues, assets) of the holding company (gross-to-gross test). Houston Industries Incorporated, HCAR No. 35-26744 (1997). In granting the exemption to Orange and Rockland in 1936, the Commission observed that sales at retail by Orange and Rockland amounted to 81 percent of the gross revenues of the consolidated Orange and Rockland

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/9/ In the Matter of Rockland Light and Power Co., 1 SEC 354 (1936).

system and that 78 percent of the electricity and 93 percent of the gas sold by the entire system was sold by the parent company.

Today, Orange and Rockland remains a public utility company organized and operating exclusively in New York, with public utility subsidiaries operating in the contiguous states of New Jersey and Pennsylvania. Orange and Rockland still produces approximately 77 percent of the revenues of the consolidated system. The ratio of the revenues of RECO and Pike to those of Orange and Rockland is approximately 28.2 percent. The ratio of the assets of RECO and Pike to those of Orange and Rockland is approximately 16 percent./10/

As shown above, there has been no material change in the operations of Orange and Rockland and its subsidiaries since the Commission granted Orange and Rockland an exemption in 1936. Nor will the Merger materially affect the operations of Orange and Rockland. Orange and Rockland will continue to operate predominantly as a public utility company in the State of New York. RECO and Pike will continue to operate in New Jersey and Pennsylvania, respectively. There will not be a significant change in the gross-to-gross test comparing the revenues of RECO and Pike to those of Orange and Rockland. Thus, it is appropriate for Orange and Rockland to continue to rely on the Commission's order granting Orange and Rockland an exemption from the Act under Section 3(a)(2).

[iii] Effect of Divestiture

As explained earlier, both Con Edison and Orange and Rockland have plans to divest generating assets. CEI believes that the utility revenues of its operating subsidiaries will not be

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/10/ Orange and Rockland has total assets of $1.2 billion. RECO has assets of approximately $186 million and Pike has assets of approximately $9.2 million.

materially affected by the planned divestitures. It is expected that Con Edison and Orange and Rockland and its subsidiaries will continue to make substantial sales of electric power to customers within their service areas. Retail choice is not expected to have a disproportionate effect on either the utility revenues of Con Edison or Orange and Rockland and its operating subsidiaries. Thus, Orange and Rockland, RECO and Pike will remain non-material subsidiaries of CEI following divestiture; Con Edison will continue its operations substantially in New York; and CEI will continue to qualify for exemption under Section 3(a)(1).

Similarly, the effect of divestiture is not expected to effect Orange and Rockland's eligibility for exemption under Section 3(a)(2). Orange and Rockland will continue to make sales at retail in New York on a level comparable to its present sales, and neither RECO or Pike own any generating facilities. Thus, the gross-to-gross ratio of revenues post divestiture is expected to be comparable to the current ratio. The book value of the Orange and Rockland assets to be divested is approximately $289 million./11/ If that amount is removed from Orange and Rockland's books, the gross-to-gross ratio changes from 16 percent to 19 percent. That ratio clearly is well within the range considered acceptable by the SEC.

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/11/ Orange and Rockland's Annual Report for 1997 at page 23. (The total net book value of the plant assets to be sold is $269 million. In addition, fuel and material and supplies inventories, with a carrying value of $20 million, will be included with the sale.)

[iv] The "Unless and Except" Clause

Section 3 of the Act provides for the exemptions from registration described above, and requires that the Commission grant the exemptions, "unless and except insofar as it finds the exemption detrimental to the public interest or the interest of investors or consumers."

CEI submits that the Merger will not be detrimental to the public interest or the interests of consumers or investors. The Merger cannot go forward without the approval of affected state regulatory commissions and the Federal Energy Regulatory Commission. As demonstrated above, CEI and Orange and Rockland will be well within the guidelines of Section 3(a)(1) and 3(a)(2). Only 2% of CEI's consolidated utility revenues will be derived from out-of-state operations, and CEI does not have significant investments in non-utility businesses. This Application demonstrates that the Merger is expected to produce benefits to investors and consumers. There is simply no basis for invoking the unless and except clause on the record presented.

Based on the foregoing, the Merger satisfies the requirements of Section 10(c)(1). The combination will result in the de facto integration of the electric and gas utility systems of Orange and Rockland with the adjacent electric and gas utility systems of CEI. CEI and Orange and Rockland will continue to be eligible for exemption under Section 3 following the Merger. Moreover, the acquisition will not go forward without the approval of the New York, New Jersey and the Pennsylvania public service commissions. The Merger does not reduce or eliminate the regulation of the CEI consolidated systems. Thus, there is no effect on the local regulation that is of concern under the Act. Finally, CEI does not believe that the acquisition and operation of these utility systems will pose any other concerns to the public interest or the interests of investors or consumers than those already addressed or that are likely to be raised in the state proceedings. For these reasons, no adverse finding is required under Section 10(c)(1).

2. Section 10(c)(2) -- Economic and Efficient Development of an Integrated Public Utility System

Section 10(c)(2) of the Act requires that the Merger tend toward the economical and efficient development of an integrated public utility system, thereby serving the public interest. The Commission previously has determined that where a holding company will be exempt from registration under Section 3 of the Act following an acquisition of non-integrating utility assets, it is sufficient for purposes of Section 10(c)(2) to find benefits to one integrated system. BL Holdings Corp., HCAR 26875, at 14.

Section 2(a)(29) has distinct definitions for a gas utility system and an electric utility system. Therefore, the Commission historically has taken the position that gas and electric properties together cannot constitute a single integrated public utility system. SEC v. New England Elec. Sys., 384 U.S. 176, 178 n.7 (1965). Nevertheless, Commission authority is equally clear that Section 10(c)(2) does not limit Commission approval to acquisitions resulting in only one integrated system:

> we have indicated in the past that acquisitions may be approved even if the combined system will not be a single integrated system. Section 10(c)(2) requires only that the acquisition tend "towards the economical and the efficient development of an integrated public-utility system."

Gaz Metro. Inc., HCAR 26170, at 192, quoting In re Union Elec. Co., HCAR 18368 (Apr. 10, 1974), aff'd mem. sub nom., City of Cape Girardeau, Missouri v. SEC, 521 F.2d 324 (D.C. Cir. 1975). See also, New Century Energies, HCAR 26748 (Aug. 1, 1997)

The Merger will make available rate savings above and beyond the substantial savings captured for customers by the Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan and the transition to competition. The combined systems will be able to offer customers in adjacent service areas gas and/or electric service to meet their energy needs at competitive prices. The Companies will engage in joint purchasing to serve their retail load obligations, combining their purchasing power to achieve economies and synergies through the elimination of duplicative functions and improved purchasing power. Further, the Merger will create savings in the form of combined administrative and corporate functions that will reduce the cost of service to both Con Edison's and Orange and Rockland's customers. These savings will accrue to both gas and electric customers.

Thus, the Merger clearly satisfies the requirement of Section 10(c)(2) as it tends toward the economic and efficient development of several integrated public utility systems by benefiting the electric and gas utility systems through cost savings and synergies.

The Merger will produce economies and efficiencies more than sufficient to satisfy the standards of Section 10(c)(2) of the Act. Although some of the anticipated economies and efficiencies will be fully realized only in the longer term, it is proper to consider them in determining whether the standards of Section 10(c)(2) are met. See In re American Elec. Power Co., 46 S.E.C. at 1320-21. Although some potential benefits cannot be precisely estimated, such benefits also are entitled to be considered in the Commission's 10(c)(2) determination. "[S]pecific dollar forecasts of future savings are not necessarily required; a demonstrated potential for economies will suffice even when these are not precisely quantifiable." Centerior Energy Corp., 35 S.E.C. Docket at 775 (footnote omitted).

CEI estimates that the nominal dollar value, net of costs to achieve the Merger, of non-fuel savings from the Merger to be approximately $467.6 million over ten years. These savings come from the elimination of duplicate corporate and administrative programs and greater efficiencies in operations and business processes. The synergy savings are expected to be derived primarily from labor costs savings to be realized through combined operations in common areas such as the treasury, human resources, insurance and risk management, accounting, regulatory and government affairs, environmental health and safety, business development, corporate communications, information technology, legal and purchasing functions. The expected savings are summarized below:

SUMMARY OF SAVINGS
($ in thousands)

Labor	$334,690
Facilities	19,594
Corporate and Administrative	105,828
Purchasing Economies (Non-Fuel)	48,162
Gas Supply (Support Activities)	3,341
	511,636
	(44,060)*
	$467,576

* Costs to achieve

The coordination between the Companies will be effective in meeting the challenges of the increasingly competitive environment in the utility industry in both the gas and electric sectors, due to economies of scale and more efficient operations. By creating the economies of scale in both utility systems, CEI and Orange and Rockland believe that the combined utility systems will create the opportunity for strategic, financial and operational benefits from customers in the form of lower rates over the long term and for shareholders in the form of greater financial strength and financial flexibility. As described above, the Merger will make available rate savings above and beyond the substantial savings to be realized by customers under each company's restructuring plan.

3. Section 10(f)

Section 10(f) provides that:

> The Commission shall not approve any acquisition as to which an application is made under this section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of section 11.

As described below under Item 4 of this Application, Regulatory Approvals, and as evidenced by the filings before the public service authorities of New York, New Jersey and Pennsylvania, CEI and Orange and Rockland and its subsidiaries intend to comply with all applicable state laws related to the Merger.

IV. ITEM 4: REGULATORY APPROVALS

Set forth below is a summary of the regulatory approvals that CEI and Orange and Rockland have obtained or expect to obtain in connection with the Merger.

A. Antitrust

The Hart-Scott-Rodino Act ("HSR Act") and the rules and regulations of that Act provide that certain mergers (including this Merger) may not be consummated until certain information has been submitted to the Department of Justice ("DOJ") and the Federal Trade Commission ("FTC") and a specified waiting period has been satisfied. CEI and Orange and Rockland submitted their respective notification and report forms and all required information to the DOJ and FTC on January 26, 1999.

If the Merger is not consummated within 12 months after the expiration of the HSR Act waiting period, then CEI and Orange and Rockland would be required to submit new information to the DOJ and the FTC, and a new HSR Act waiting period would have to expire or be terminated before the Merger could be consummated.

B. Federal Energy Regulatory Commission

Section 203 of the Federal Power Act ("FPA") provides that no public utility shall sell or otherwise dispose of its jurisdictional facilities or directly or indirectly merge or consolidate such facilities with those of any other person or acquire the securities of any other public utility, without first obtaining the approval from the FERC. Under section 203 of the FPA, the FERC will approve a merger if it finds that such merger is "consistent with the public interest." In reviewing a merger, the FERC generally evaluates whether the merger will adversely affect competition, whether it will adversely affect rates, and whether it will impair the effectiveness of regulation. Con Edison and Orange and Rockland also are subject to the jurisdiction of the FERC under section 205 of the FPA with respect to certain wholesale electric sales and transmission services. On September 9, 1998, an application was filed with the FERC requesting the required approvals from the FERC. That application is filed with this Application as Exhibit D-1.

On January 27, 1999, the FERC issued an order approving the Merger. Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc., Docket No. EC98-62-000, 86 FERC (P) 61,064 (1999). Based on the record before it, including applicants' mitigation commitments and generation divestiture plans, the FERC found that the Merger raises no competitive concerns. The FERC also concluded that the Merger will not adversely affect rates, or the manner or extent to which FERC or the relevant state commissions regulate the transactions and facilities of the merged entities. The FERC approved the applicants' proposal to use the "purchase' method of accounting to record the Merger and found that the applicants' proposal to account for the goodwill on the books of CEI is also acceptable and consistent with FERC precedents. A copy of the FERC order approving the Merger is included in Exhibit D-5.

By separate order issued January 27, 1999, in Docket No. ER98-4510-000, the FERC conditionally accepted for filing on an interim basis, a single-system open access transmission tariff filed by Con Edison and Orange and Rockland in conjunction with their application for approval of the Merger. Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc., 86 FERC (P) 61,063 (1999). The applicants requested that the interim tariff be made effective upon consummation of the Merger and that it remain in effect until the

NYISO open access transmission tariff takes effect. The FERC accepted the interim tariff to become effective on the date of consummation of the Merger. However, the FERC also stated that if the NYISO tariff becomes effective prior to the date of consummation of the Merger, the proposed interim tariff is unnecessary and is dismissed accordingly. A copy of the FERC order accepting the proposed tariff is included in Exhibit D-5.

C. State Public Utility Commissions

New York

Con Edison and Orange and Rockland are seeking approval of the NYPSC under Section 70 of the Public Service Law for CEI to acquire the stock of Orange and Rockland as contemplated in, and pursuant to, the terms of the Merger Agreement. Con Edison and Orange and Rockland also have sought NYPSC approval under Section 108 of the Public Service Law for a certificate of merger. Such approvals only will be given if it is demonstrated that the Merger is in the public interest. The approvals requested by Con Edison and Orange and Rockland in their joint petition to the NYPSC include modifications to the restructuring plans of both Companies to reflect the corporate structure that will result upon consummation of the Merger. The joint petition proposes adopting cost allocation and accounting procedures for transactions between and among CEI and its subsidiaries that are consistent with procedures approved by the NYPSC in the Con Edison and Orange and Rockland restructuring plans. Con Edison and Orange and Rockland filed their joint petition with the NYPSC on June 22, 1998. That joint petition is provided to the Commission as Exhibit D-2 to this Application.

New Jersey

RECO is subject to the jurisdiction of the NJBPU, and thus the NJBPU's approval also is required pursuant to New Jersey Stat. Ann. 48:2-51.1 and New Jersey Stat. Ann. 48:3-10. The NJBPU, pursuant to its statutory mandate, will evaluate the impact of the acquisition on competition, on the rates of affected ratepayers, on the employees of the affected utilities, and on the provision of safe and adequate utility service at just and reasonable rates. In reviewing mergers and acquisitions, the NJBPU has utilized a "no harm" standard rather than a positive benefits standard. A petition requesting approval of the Merger was filed on July 2, 1998.

Pennsylvania

The Merger also must be approved by the PaPUC pursuant to Section 1102 of the Pennsylvania Public Utility Code, which requires a Pennsylvania utility (Pike) to obtain the PaPUC's approval, by certificate of public convenience, before it may transfer property used and useful in the public service. In determining whether to grant such a certificate, the PaPUC will consider whether a public benefit will result from the proposed merger or acquisition. A petition requesting PaPUC approval was filed by Pike on July 2, 1998. The PaPUC established a separate proceeding to consider the application. On December 8, 1998, the Pennsylvania Office of Consumer Advocate and Pike notified the PaPUC that they had agreed in principle to settle completely this proceeding. A formal settlement agreement was filed with the PaPUC on January 19, 1999.

Except as set forth above, no other state or local regulatory body or agency and no other Federal commission or agency has jurisdiction over the Merger proposed herein.

V. ITEM 5: PROCEDURE

The Commission respectfully is requested to issue and publish, not later than February 10, 1999, the requisite notice under Rule 23 with respect to the filing of this Application, such notice to specify a date not later than March 3, 1999, by which comments must be entered and a date not later than March 31, 1999, as the date after which an order of the Commission granting and permitting this Application to become effective may be entered by the Commission.

It is submitted that a recommended decision by a hearing or other responsible officer of the Commission is not needed for approval of the Application. The Division of Investment Management may assist in the preparation of the Commission's decision. There should be no waiting period between the issuance of the Commission's order and the date on which it is to become effective.

VI. ITEM 6: EXHIBITS AND FINANCIAL STATEMENTS

Exhibits

B-1 The Merger Agreement

C-1 The Orange and Rockland Proxy Statement dated July 17, 1998 and incorporated herein by reference, File No. 1-4315

D-1 Application submitted to the Federal Energy Regulatory Commission

D-2 Application submitted to the New York State Public Service Commission

D-3 Application submitted to the New Jersey Board of Public Utilities

D-4	Application submitted to the Pennsylvania Public Utility Commission
D-5	Orders of the above-mentioned agencies (to be submitted by amendment) (A)(P) Orders of the Federal Energy Regulatory Commission
E-1(P)	A map showing the interconnections and the relationship of the utility properties of CEI and Orange and Rockland
F-1	Preliminary Opinion of Counsel (to be submitted by amendment)
F-2	Past-tense Opinion of Counsel (to be submitted by amendment)
G-1	Financial Data Schedule (see Exhibit 27)
H-1	Opinion of Salomon Smith Barney
H-2	Opinion of Donaldson, Lufkin and Jenrette Securities Corporation
I-1	Annual Report of CEI on Form 10-K for the year ended December 31, 1997 (File No. 1-4514 and incorporated herein by reference)
I-2	Annual Report of Con Edison on Form 10-K for the year ended December 31, 1997 (File No. 1-1217 and incorporated herein by reference)
I-3	Annual Report of Orange and Rockland on Form 10-K for the year ended December 31, 1997 (File No. 1-4315 and incorporated herein by reference)
I-5	Orange and Rockland Annual Report to Shareholders (File No. 1-4315 and incorporated herein by reference)
I-6	Quarterly Report of CEI on Form 10-Q for the quarter ended March 31, 1998 (File No. 1-4514 and incorporated herein by reference)
I-7	Quarterly Report of CEI on Form 10-Q for the quarter ended June 30, 1998 (File No. 4514 and incorporated herein by reference)
I-8	Quarterly Report of CEI on Form 10-Q for the quarter ended September 30, 1998 (File No. 1514 and incorporated herein by reference)
I-9	Quarterly Report of Con Edison on Form 10-Q for the quarter ended March 31, 1998 (File No. 1-1217 and incorporated herein by reference)
I-10	Quarterly Report of Con Edison on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-1217 and incorporated herein by reference)

I-11 Quarterly Report of Con Edison on Form 10-Q for the quarter ended September 30, 1998 (File No. 1-1217 and incorporated herein by reference)

I-12 Quarterly Report of Orange and Rockland on Form 10-Q for the quarter ended March 31, 1998 (File No. 1-4315 and incorporated herein by reference)

I-13 Quarterly Report of Orange and Rockland on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-4315 and incorporated herein by reference)

I-14 Quarterly Report of Orange and Rockland on Form 10-Q for the quarter ended September 30, 1998 (File No. 1-4315 and incorporated herein by reference)

J Notice of the Merger

K-1 Con Edison Settlement Agreement (Amended and Restated Agreement and Settlement, between Con Edison and the Staff of the New York Public Service Commission, designated in Con Edison's Current Report on Form 8-K, dated September 23, 1997 (File No. 1- 1217 as Exhibit 10)

K-2 Orange and Rockland Electric Rate and Restructuring Plan dated November 6, 1997

L-1(P) Organization Charts of CEI and Orange and Rockland Pre-Merger, and CEI Post-Merger

EX 27 Financial Data Schedule

Financial Statements

FS-1 CEI Unaudited Pro Forma Combined Condensed Balance Sheet as of March 31, 1998

FS-2 CEI Unaudited Pro Forma Combined Condensed Statement of Income for the 12 months ended March 31, 1998

FS-3 CEI Consolidated Balance Sheet as of March 31, 1998

FS-4 CEI Consolidated Statement of Income for the 12 months as of March 31, 1998

FS-5 Con Edison Consolidated Balance Sheet as of March 31, 1998

FS-6 Con Edison Consolidated Statement of Income for the 12 months ended as of March 31, 1998, and the last three fiscal years

FS-7 Orange and Rockland Consolidated Balance Sheet as of March 31, 1998

FS-8   Orange and Rockland Consolidated Statement of Income for the 12 months ended March 31, 1998, and the last three fiscal years

FS-9   RECO Consolidated Balance Sheet as of March 31, 1998

FS-10   RECO Consolidated Statement of Income for the 12 months ended as of March 31, 1998, and the last three fiscal years

FS-11   Pike Consolidated Balance Sheet as of March 31, 1998

FS-12   Pike Consolidated Statement of Income

VII. ITEM 7: INFORMATION AS TO ENVIRONMENTAL EFFECTS

Review and approval of the Merger is not a "major federal action significantly affecting the quality of the human environment" within the meaning of Section 102(2)(C) of the National Environmental Policy Act, 42 U.S.C. (S) 4321 et seq. (1994). The Commission's approval of this Application, the expiration of the applicable waiting period under the HSR Act, the review by the appropriate state regulatory bodies and the FERC will not result in changes in the operations of Orange and Rockland or Con Edison that would have any impact on the environment. No Federal agency is preparing an environmental impact statement with respect to this matter.

VIII. SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, the undersigned company has duly caused this Application to be signed on its behalf by the undersigned thereunto duly authorized.

Respectfully submitted,
Consolidated Edison, Inc.
4 Irving Place
New York, New York 10003

By:___________________________
Peter A. Irwin
Its Attorney

By:___________________________
J. A. Bouknight, Jr.
Its Attorney

PRO-FORMA
CONSOLIDATED EDISON, INC. (CEI)
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 1998

	CEI MARCH 31, 1998 ACTUAL	ORANGE & ROCKLAND UTILITIES, INC. AND SUBSIDIARIES MARCH 31, 1998 ACTUAL	ADJUSTMENTS		PRO FORMA*
ASSETS		(Thousands of Dollars)			
Utility plant, at original cost					
Electric	$11,805,558	$1,048,587			$12,854,145
Gas	1,759,293	232,771			1,992,064
Steam	582,332				582,332
General	1,210,805	64,570			1,275,375
Total	15,357,988	1,345,928			16,703,916
Less: Accumulated depreciation	4,481,414	480,773			4,962,187
Net	10,876,574	865,155			11,741,729
Construction work in progress	284,725	70,121			354,846
Nuclear fuel assemblies and components, less accumulated amortization	103,690				103,690
Net utility plant acquisition adjustment			437,708	(c)	437,708
Net utility plant	11,264,989	935,276	437,708		12,637,973
Current assets					
Cash and temporary cash investments	198,257	4,771	(71,730)	(d)	131,298
Accounts receivable - customer, less allowance for uncollectible accounts (a)	561,655	60,555			622,210
Other receivables (b)	44,983	9,690	(1,246)	(e)	53,427
Regulatory accounts receivable	3,888				3,888
Fuel, at average cost	38,985	6,530			45,515
Gas in storage, at average cost	31,137	3,245			34,382
Materials and supplies, at average cost	192,698	15,438			208,136
Prepayments	189,146	25,831			214,977
Other current assets	16,700	39,923			56,623
Total current assets	1,277,449	165,983	(72,976)		1,370,456
Investments and nonutility property	331,970	10,505			342,475
Deferred charges					
Deferred pension and other postretirement benefits		8,051			8,051
Enlightened Energy program costs	102,349				102,349
Unamortized debt expense	138,262	10,979			149,241
Recoverable fuel costs	25,613	(6,018)			19,595
Power contract termination costs	69,594	12,625			82,219
Other deferred charges	254,270	41,642	35,200	(c)	331,112
Total deferred charges	590,088	67,279	35,200		692,567
Net Assets of Discontinued Operations		1,476			1,476
Regulatory asset-future federal income taxes	938,053	75,353			1,013,406
Total	$14,402,549	$1,255,872	$399,932		$16,058,353

The accompanying notes to the pro forma are an integral part of this statement.

PRO-FORMA
CONSOLIDATED EDISON, INC. (CEI)
CONSOLIDATED INCOME STATEMENT
FOR THE TWELVE MONTHS ENDED MARCH 31, 1998

	CEI ACTUAL 1998	ORANGE & ROCKLAND UTILITIES, INC. AND SUBSIDIARIES ACTUAL 1998	ADJUSTMENTS	PRO FORMA*
		(Thousands of Dollars)		
OPERATING REVENUES				
Electric	$5,657,948	$478,468		$6,136,416
Gas	1,038,031	149,370		1,187,401
Steam	365,011			365,011
Non-utility	72,654	698		73,352
TOTAL OPERATING REVENUES	7,133,644	628,536		7,762,180
OPERATING EXPENSES				
Purchased power	1,355,129	62,631		1,417,760
Fuel	580,024	73,121		653,145
Gas purchased for resale	490,325	82,159		572,484
Other operations	1,122,458	145,314	8,800 (c)	1,276,572
Maintenance	478,600	33,618		512,218
Depreciation and amortization	507,921	35,045	11,223 (c)	554,189
Taxes, other than federal income tax	1,178,391	96,648		1,275,039
Federal income tax	377,796	22,916	(19,670)(j)	381,042
TOTAL OPERATING EXPENSES	6,090,644	551,452	353	6,642,449
OPERATING INCOME	1,043,000	77,084	(353)	1,119,731
OTHER INCOME (DEDUCTIONS)				
Investment income	14,082			14,082
Allowance for equity funds used during construction	3,161	22		3,183
Other income less miscellaneous deductions	(4,082)	2,187		(1,895)
Taxes other than income taxes		(274)		(274)
Federal income tax	(2,674)	102		(2,572)
TOTAL OTHER INCOME	10,487	2,037		12,524
INCOME BEFORE INTEREST CHARGES	1,053,487	79,121	(353)	1,132,255
Interest on long-term debt	318,464	24,417	47,400 (i)	390,281
Other interest	13,916	9,248		23,164
Allowance for borrowed funds used during construction	(1,561)	(1,772)		(3,333)
NET INTEREST CHARGES	330,819	31,893	47,400	410,112
LOSS FROM DISCONTINUED OPERATIONS		(10,834)		(10,834)
NET INCOME	722,668	36,394	(47,753)	711,309
PREFERRED STOCK DIVIDEND REQUIREMENTS	(18,276)	(2,800)		(21,076)
NET INCOME FOR COMMON STOCK	$ 704,392	$ 33,594	($47,753)	$ 690,233
COMMON SHARES OUTSTANDING - AVERAGE (000)	235,195	13,616	(13,616)	235,195
BASIC AND DILUTED EARNINGS PER SHARE - CONTINUING OPERATIONS	$ 2.99	$ 3.27		$ 2.98
- DISCONTINUED OPERATIONS		($0.80)		($0.05)
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 2.105	$ 2.580		$ 2.105

* Assumes $790 million long-term debt issuance and sale at a 6% interest rate.

CONSOLIDATED EDISON, INC.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 1998, DECEMBER 31, 1997 AND MARCH 31, 1997

	As At		
	March 31, 1998	Dec. 31, 1997	March 31, 1997
	(Thousands of Dollars)		
ASSETS			
UTILITY PLANT, AT ORIGINAL COST			
Electric	$ 11,805,558	$ 11,743,745	$ 11,678,164
Gas	1,759,293	1,741,562	1,665,996
Steam	582,332	576,206	538,924
General	1,210,805	1,203,427	1,160,419
Total	15,357,988	15,264,940	15,043,503
Less: Accumulated depreciation	4,481,414	4,392,377	4,371,046
Net	10,876,574	10,872,563	10,672,457
Construction work in progress	284,725	292,218	309,315
Nuclear fuel assemblies and components, less accumulated amortization	103,690	102,321	100,720
NET UTILITY PLANT	11,264,989	11,267,102	11,082,492
CURRENT ASSETS			
Cash and temporary cash investments	198,257	183,458	94,903
Funds held for refunding of debt	--	328,874	--
Accounts receivable - customer, less allowance for uncollectible accounts of $22,705, $21,600 and $21,535	561,655	581,163	570,595
Other receivables	44,983	60,759	36,497
Regulatory accounts receivable	3,888	(1,682)	60,954
Fuel, at average cost	38,985	53,697	45,946
Gas in storage, at average cost	31,137	37,209	22,660
Materials and supplies, at average cost	192,698	191,759	203,675
Prepayments	189,146	75,516	170,852
Other current assets	16,700	16,457	15,453
TOTAL CURRENT ASSETS	1,277,449	1,527,210	1,221,535
INVESTMENTS AND NONUTILITY PROPERTY	331,970	292,397	193,894
DEFERRED CHARGES			
Enlightened Energy program costs	102,349	117,807	128,204
Unamortized debt expense	138,262	126,085	128,234
Recoverable fuel costs	25,613	98,301	52,389
Power contract termination costs	69,594	80,978	46,848
Other deferred charges	254,270	239,559	289,795
TOTAL DEFERRED CHARGES	590,088	662,730	645,470
REGULATORY ASSET-FUTURE FEDERAL INCOME TAXES	938,053	973,079	967,977
TOTAL	$ 14,402,549	$ 14,722,518	$ 14,111,368

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED EDISON, INC.

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 1998, DECEMBER 31, 1997 AND MARCH 31, 1997

	As At		
	March 31, 1998	Dec. 31, 1997	March 31, 1997
	(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Common stock, authorized 500,000,000 shares; outstanding 235,489,650 shares, 235,489,650 shares and 235,008,078 shares	$ 1,482,351	$ 1,482,351	$ 1,478,647

Retained earnings	4,531,810	4,484,703	4,322,562
Capital stock expense	(36,966)	(36,975)	(34,831)
TOTAL COMMON SHAREHOLDERS' EQUITY	5,977,195	5,930,079	5,766,378
Preferred stock			
Subject to mandatory redemption			
7.20% Series I	47,500	47,500	47,500
6-1/8% Series J	37,050	37,050	37,050
TOTAL SUBJECT TO MANDATORY REDEMPTION	84,550	84,550	84,550
Other preferred stock			
$ 5 Cumulative Preferred	175,000	175,000	175,000
5-3/4% Series A	7,061	7,061	7,061
5-1/4% Series B	13,844	13,844	13,844
4.65% Series C	15,330	15,330	15,330
4.65% Series D	22,233	22,233	22,233
6% Convertible Series B	--	--	4,519
TOTAL OTHER PREFERRED STOCK	233,468	233,468	237,987
TOTAL PREFERRED STOCK	318,018	318,018	322,537
Long-term debt	4,198,152	4,188,906	4,239,066
TOTAL CAPITALIZATION	10,493,365	10,437,003	10,327,981
NONCURRENT LIABILITIES			
Obligations under capital leases	39,180	39,879	41,958
Other noncurrent liabilities	111,433	106,137	81,800
TOTAL NONCURRENT LIABILITIES	150,613	146,016	123,758
CURRENT LIABILITIES			
Long-term debt due within one year	200,000	529,385	103,762
Accounts payable	377,799	440,114	352,461
Customer deposits	163,983	161,731	159,176
Accrued taxes	107,989	65,736	109,052
Accrued interest	66,557	85,613	67,706
Accrued wages	80,509	82,556	78,300
Other current liabilities	184,551	183,122	145,787
TOTAL CURRENT LIABILITIES	1,181,388	1,548,257	1,016,244
PROVISIONS RELATED TO FUTURE FEDERAL INCOME TAXES AND OTHER DEFERRED CREDITS			
Accumulated deferred federal income tax	2,308,092	2,307,835	2,299,747
Accumulated deferred investment tax credits	161,490	163,680	170,290
Other deferred credits	107,601	119,727	173,348
TOTAL DEFERRED CREDITS	2,577,183	2,591,242	2,643,385
TOTAL	$ 14,402,549	$ 14,722,518	$ 14,111,368

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED EDISON, INC.

CONSOLIDATED INCOME STATEMENT

FOR THE TWELVE MONTHS ENDED MARCH 31, 1998 AND 1997

	1998	1997
	(Thousands of Dollars)	
OPERATING REVENUES		
Electric	$ 5,657,948	$ 5,523,800
Gas	1,038,031	1,063,225
Steam	365,011	391,494
Non-utility	72,654	159,480
TOTAL OPERATING REVENUES	7,133,644	7,137,999
OPERATING EXPENSES		
Purchased power	1,355,129	1,321,564
Fuel	580,024	540,741
Gas purchased for resale	490,325	618,553
Other operations	1,122,458	1,165,863
Maintenance	478,600	447,944
Depreciation and amortization	507,921	487,713
Taxes, other than federal income tax	1,178,391	1,165,187
Federal income tax	377,796	383,731
TOTAL OPERATING EXPENSES	6,090,644	6,131,296
OPERATING INCOME	1,043,000	1,006,703
OTHER INCOME (DEDUCTIONS)		
Investment income	14,082	8,527
Allowance for equity funds used during construction	3,161	4,755
Other income less miscellaneous deductions	(4,082)	(7,812)
Federal income tax	(2,674)	811
TOTAL OTHER INCOME	10,487	6,281
INCOME BEFORE INTEREST CHARGES	1,053,487	1,012,984
Interest on long-term debt	318,464	312,203
Other interest	13,916	16,893
Allowance for borrowed funds used during construction	(1,561)	(2,270)
NET INTEREST CHARGES	330,819	326,826
NET INCOME	722,668	686,158
PREFERRED STOCK DIVIDEND REQUIREMENTS	(18,276)	(18,429)
NET INCOME FOR COMMON STOCK	$ 704,392	$ 667,729
COMMON SHARES OUTSTANDING - AVERAGE (000)	235,195	234,987
BASIC AND DILUTED EARNINGS PER SHARE	$ 2.99	$ 2.84
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ 2.105	$ 2.085
CON EDISON SALES		
Electric (Thousands of kilowatthours)		
Con Edison customers	37,626,512	36,962,401
Delivery service to NYPA and others	8,826,642	8,718,372
Service for municipal agencies	831,459	723,899
Total sales in service territory	47,284,613	46,404,672
Off-system sales (A)	2,536,590	4,068,429
Gas (dekatherms)		
Firm (B)	90,659,667	93,211,622
Off-peak firm/interruptible	23,248,182	21,656,329
Total sales to Con Edison customers	113,907,849	114,867,951
Transportation of customer-owned gas		
NYPA	15,425,100	7,487,843
Others	9,526,866	6,268,814
Off-system sales	15,785,892	10,949,867
Total sales and transportation	154,645,707	139,574,475
Steam (Thousands of pounds)	26,267,547	28,271,763

(A) Includes 865,683 and 1,617,564 thousands of kWh, respectively, subsequently purchased by Con Edison for sale to its customers.

(B) Includes firm transportation for customer aggregation.

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

BALANCE SHEET

AS AT MARCH 31, 1998, DECEMBER 31, 1997 AND MARCH 31, 1997

	As At		
	March 31, 1998	Dec. 31, 1997	March 31, 1997
	(Thousands of Dollars)		
ASSETS			
UTILITY PLANT, AT ORIGINAL COST			
Electric	$ 11,805,558	$ 11,743,745	$ 11,678,164
Gas	1,759,293	1,741,562	1,665,996
Steam	582,332	576,206	538,924
General	1,210,805	1,203,427	1,160,419
Total	15,357,988	15,264,940	15,043,503
Less: Accumulated depreciation	4,481,414	4,392,377	4,371,046
Net	10,876,574	10,872,563	10,672,457
Construction work in progress	284,725	292,218	309,315
Nuclear fuel assemblies and components, less accumulated amortization	103,690	102,321	100,720
NET UTILITY PLANT	11,264,989	11,267,102	11,082,492
CURRENT ASSETS			
Cash and temporary cash investments	98,216	183,458	94,903
Funds held for refunding of debt	--	328,874	--
Accounts receivable - customer, less allowance for uncollectible accounts of $22,372, $21,600 and $21,535	541,322	581,163	570,595
Other receivables	43,780	60,759	36,497
Regulatory accounts receivable	3,888	(1,682)	60,954
Fuel, at average cost	38,985	53,697	45,946
Gas in storage, at average cost	29,577	37,209	22,660
Materials and supplies, at average cost	192,698	191,759	203,675
Prepayments	188,321	75,516	170,852
Other current assets	16,688	16,457	15,453
TOTAL CURRENT ASSETS	1,153,475	1,527,210	1,221,535
INVESTMENTS AND NONUTILITY PROPERTY	244,370	292,397	193,894
DEFERRED CHARGES			
Enlightened Energy program costs	102,349	117,807	128,204
Unamortized debt expense	138,262	126,085	128,234
Recoverable fuel costs	25,613	98,301	52,389
Power contract termination costs	69,594	80,978	46,848
Other deferred charges	254,270	239,559	289,795
TOTAL DEFERRED CHARGES	590,088	662,730	645,470
REGULATORY ASSET-FUTURE FEDERAL INCOME TAXES	938,053	973,079	967,977
TOTAL	$ 14,190,975	$ 14,722,518	$ 14,111,368

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED EDISON COMPANY OF NEW YORK INC.

BALANCE SHEET

AS AT MARCH 31, 1998, DECEMBER 31,1997 AND MARCH 31, 1997

	As At		
	March 3l, 1998	Dec. 31, 1997	March 31, 1997
	(Thousands of Dollars)		
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Common Stock	$ 1,482,351	$ 1,482,351	$ 1,478,647
Retained earnings	4,335,539	4,484,703	4,322,562

Capital stock expense	(36,966)	(36,975)	(34,531)
TOTAL COMMON SHAREHOLDERS' EQUITY	5,780,924	5,930,079	5,766,378
Preferred stock			
Subject to mandatory redemption			
7.20% Series I	47,500	47,500	47,500
6-1/8% Series J	37,050	37,050	37,050
TOTAL SUBJECT TO MANDATORY REDEMPTION	84,550	84,550	84,550
Other preferred stock			
$ 5 Cumulative Preferred	175,000	175,000	175,000
5-3/4% Series A	7,061	7,061	7,061
5-1/4% Series B	13,844	13,844	13,844
4.65% Series C	15,330	15,330	15,330
4.65% Series D	22,233	22,233	22,233
6% Convertible Series 8	-	-	4,519
TOTAL OTHER PREFERRED STOCK	233,468	233,468	237,987
TOTAL PREFERRED STOCK	318,018	318,018	322,537
Long-term debt	4,198,152	4,188,906	4,239,066
TOTAL CAPITALIZATION	10,297,094	10,437,003	10,327,981
NONCURRENT LIABILITIES			
Obligations under capital leases	39,180	39,879	41,958
Other noncurrent liabilities	111,433	106,137	81,800
TOTAL NONCURRENT LIABILITIES	150,613	146,016	123,758
CURRENT LIABILITIES			
Long-term debt due within one year	200,000	529,385	103,762
Accounts payable	356,606	440,114	352,461
Customer deposits	163,983	161,731	159,176
Accrued taxes	116,795	65,736	109,052
Accrued interest	66,557	85,613	67,706
Accrued wages	80,509	82,556	78,300
Other current liabilities	181,635	183,122	145,787
TOTAL CURRENT LIABILITIES	1,166,085	1,548,257	1,016,244
PROVISIONS RELATED TO FUTURE FEDERAL INCOME TAXES AND OTHER DEFERRED CREDITS			
Accumulated deferred federal income tax	2,308,092	2,307,835	2,299,747
Accumulated deferred investment tax credits	161,490	163,680	170,290
Other deferred credits	107,601	119,727	173,348
TOTAL DEFERRED CREDITS	2,577,183	2.591,242	2,643,385
TOTAL	$ 14,190,975	$ 14,722,518	$ 14,111,368

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

INCOME STATEMENT

FOR THE TWELVE MONTHS ENDED MARCH 31, 1998 AND 1997

	1998	1997
	(Thousands of Dollars)	
OPERATING REVENUES		
Electric	$ 5,660,384	$ 5,523,800
Gas	1,038,575	1,063,225
Steam	365,415	391,494
TOTAL OPERATING REVENUES	7,064,374	6,978,519
OPERATING EXPENSES		
Purchased power	1,344,276	1,321,564
Fuel	580,024	540,741
Gas purchased for resale	421,216	460,143
Other operations	1,114,224	1,162,695
Maintenance	478,600	447,944
Depreciation and amortization	507,079	487,599
Taxes, other than federal income tax	1,178,237	1,165,125
Federal income tax	384,910	384,260
TOTAL OPERATING EXPENSES	6,008,566	5,970,071
OPERATING INCOME	1,055,808	1,008,448
OTHER INCOME (DEDUCTIONS)		
Investment income	11,753	7,734
Allowance for equity funds used during construction	3,160	4,755
Other income less miscellaneous deductions	(17,979)	(9,293)
Federal income tax	2,836	1,340
TOTAL OTHER INCOME	(230)	4,536
INCOME BEFORE INTEREST CHARGES	1,055,578	1,012,984
Interest on long-term debt	318,464	312,203
Other interest	13,916	16,893
Allowance for borrowed funds used during construction	(1,561)	(2,270)
NET INTEREST CHARGES	330,819	326,826
NET INCOME	724,759	686,158
PREFERRED STOCK DIVIDEND REQUIREMENTS	(18,276)	(18,429)
NET INCOME FOR COMMON STOCK	$ 706,483	$ 667,729
CON EDISON SALES		
Electric (Thousands of kilowatthours)		
Con Edison customers	37,626,512	36,962,401
Delivery service to NYPA and others	8,826,642	8,718,372
Service for municipal agencies	831,459	723,899
Total sales in service territory	47,284,613	46,404,672
Off-system sales (A)	2,536,590	4,068,429
Gas (dekatherms)		
Firm (B)	90,659,667	93,211,622
Off-peak firm/interruptible	23,248,182	21,656,329
Total sales to Con Edison customers	113,907,849	114,867,951
Transportation of customer-owned gas		
NYPA	15,425,100	7,487,843
Others	9,526,866	6,268,814
Off-system sales	15,785,892	10,949,867
Total sales and transportation	154,645,707	139,574,475
Steam (Thousands of pounds)	26,267,547	28,271,763

(A) Includes 865,683 and 1,617,564 thousands of kWh, respectively, subsequently purchased by Con Edison for sale to its customers.
(B) Includes firm transportation for customer aggregation.

The accompanying notes are an integral part of these financial statements.

ORANGE AND ROCKLAND UTILITIES, INC.

CONSOLIDATED BALANCE SHEETS

ASSETS

(THOUSANDS OF DOLLARS)

	MARCH 31, 1998
UTILITY PLANT:	
Electric	$883,109
Gas	231,915
Common	64,502
Utility Plant in Service	1,179,526
Less accumulated depreciation	427,990
Net Utility Plant in Service	751,536
Construction work in progress	67,317
Net Utility Plant	818,853
NONUTILITY PROPERTY AND INVESTMENTS:	
Nonutility property	264
Less accumulated depreciation, depletion and amortization	166
Investment in subsidiary companies	115,992
Net Nonutility Property	116,090
CURRENT ASSETS:	
Cash and cash equivalents	2,482
Temporary cash investments	0
Customer accounts receivable, less allowance for uncollectible accounts of $2,312	48,950
Accrued utility revenue	17,550
Other accounts receivable, less allowance for uncollectible accounts of $226	8,690
Receivable from associated companies	11,086
Materials and supplies (at average cost)	18,852
Prepaid property taxes	22,275
Prepayments and other current assets	22,562
Total Current Assets	152,447
DEFERRED DEBITS:	
Income tax recoverable in future rates	67,359
Deferred revenue taxes	4,170
Deferred pension and other postretirement benefits	2,049
IPP settlement costs	10,387
Unamortized debt expense (amortized over term of securities)	8,914
Other deferred debits	23,387
Total Deferred Debits	116,266
TOTAL	$1,203,656

ORANGE AND ROCKLAND UTILITIES, INC.

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

(THOUSANDS OF DOLLARS)

	March 31, 1998
CAPITALIZATION:	
Common stock (13,518,737 shares outstanding)	$ 67,594
Premium on capital stock	132,300
Capital stock expense	(6,030)
Retained earnings	183,625

Total Common Stock	377,489
Non-redeemable preferred stock (428,443 shares outstanding)	42,844
Non-redeemable cumulative preference stock (11,548 shares outstanding)	376
Total Non-Redeemable Stock	43,220
Long-term debt	314,022
Total Capitalization	734,731
NON-CURRENT LIABILITIES:	
Reserve for claims and damages	4,011
Postretirement benefits	6,414
Pension costs	44,841
Obligations under capital leases	1,600
Total Non-current Liabilities	56,866
CURRENT LIABILITIES:	
Long-term debt and obligations due within one year	143,685
Accounts payable	37,795
Payable to associated companies	81
Accrued Federal income and other taxes	8,281
Refundable fuel and gas costs	7,502
Refunds to customers	808
Other current liabilities	22,801
Total Current Liabilities	220,953
DEFERRED TAXES AND OTHER:	
Deferred Federal income taxes	169,011
Deferred investment tax credits	12,149
Accrued IPP settlement agreements	0
Accrued Order 636 transition costs	1,340
Other deferred credits	8,606
Total Deferred Taxes and Other	191,106
Total	$ 1,203,656

ORANGE AND ROCKLAND UTILITIES, INC.
Consolidated Statement of Income

	For the Year Ended			
	March 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
OPERATING REVENUES:				
Electric	331,539	333,689	336,509	321,737
Gas	149,103	168,331	176,319	140,033
Electric sales to other utilities	78,446	78,743	74,457	70,854
Total Utility Revenues	559,088	580,763	587,285	532,624
Diversified activities	0	0	0	0
Total Operating Revenues	559,088	580,763	587,285	532,624
OPERATING EXPENSES:				
Operations:				
Fuel used in electric production	72,611	70,298	57,745	70,495
Electricity purchased for resale	62,414	65,276	73,539	53,557
Gas purchased for resale	82,105	99,418	101,754	71,602
Other expenses of operation	117,541	116,534	121,199	105,792
Maintenance	29,613	31,589	31,840	36,025
Depreciation and amortization	30,500	31,305	27,732	33,043
Taxes other than income taxes	77,943	78,676	78,919	74,229
Federal income taxes	19,192	20,194	22,860	22,682
Total Operating Expenses	491,919	513,290	515,588	467,425
INCOME FROM OPERATIONS	67,169	67,473	71,697	65,199
OTHER INCOME AND DEDUCTIONS:				
Allowance for other funds used during construction	0	0	0	9
Investigation and litigation costs	490	(2,167)	(1,385)	(5,575)
Other - net	(170)	(75)	(2,256)	(589)
Equity in earnings of subsidiary companies	(2,218)	(7,896)	5,050	5,163
Taxes other than income taxes	(209)	(206)	(184)	(99)
Federal income taxes	814	1,745	1,279	3,038
Total Other Income and Deductions	(1,293)	(8,599)	2,504	1,947
INCOME FROM OPERATIONS	65,876	58,874	74,201	67,146
INTEREST CHARGES:				
Interest on long-term debt	20,139	20,116	20,844	23,186
Other interest	10,003	9,392	6,283	4,905
Amortization of debt premium and expense - net	1,079	1,208	1,321	1,252
Allowance for borrowed funds used during construction	(1,739)	(1,348)	(550)	(770)
Total Interest Charges	29,482	29,368	27,898	28,573
NET INCOME	36,394	29,506	46,303	38,573
Dividends on preferred and preference stock, at required times	2,800	2,800	3,024	3,135
Earnings applicable to common stock	33,594	26,706	43,279	35,438
Average number of common shares outstanding	13,615,538	13,649,079	13,653,952	13,653,613
Earnings per average common share outstanding	2.47	1.96	3.17	2.60

ROCKLAND ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

(THOUSANDS OF DOLLARS)

	MARCH 31, 1998
UTILITY PLANT:	
Electric	$158,398
Less accumulated depreciation	50,748
Net Utility Plant in Service	107,650
Construction work in progress	2,652
Net Utility Plant	110,302
NONUTILITY PROPERTY AND INVESTMENTS:	
Nonutility property	118
Less accumulated depreciation, depletion and amortization	20
Net Nonutility Property	98
CURRENT ASSETS:	
Cash and cash equivalents	20,415
Temporary cash investments	0
Customer accounts receivable, less allowance for uncollectible accounts of $265	11,229
Accrued utility revenue	1,850
Other accounts receivable, less allowance for uncollectible accounts of $79	943
Receivable from associated companies	227
Materials and supplies (at average cost)	6,103
Prepaid property taxes	25
Prepayments and other current assets	590
Total Current Assets	41,382
DEFERRED DEBITS:	
Income tax recoverable in future rates	7,386
Deferred revenue taxes	6,271
Deferred pension and other postretirement benefits	5,927
IPP settlement costs	2,078
Unamortized debt expense (amortized over term of securities)	2,017
Other deferred debits	9,192
Total Deferred Debits	32,871
NET ASSETS OF DISCONTINUED OPERATIONS:	1,476
TOTAL	$186,129

ROCKLAND ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

(THOUSANDS OF DOLLARS)

	MARCH 31, 1998
CAPITALIZATION:	
Common stock (112,000 shares outstanding)	$11,200
Capital stock expense	(20)
Retained earnings	86,498
Total Common Stock	97,678

Long-term debt	39,931
Total Capitalization	137,609
NON-CURRENT LIABILITIES:	
Reserve for claims and damages	176
Postretirement benefits	6,693
Capital lease obligations	4
Total Non-current Liabilities	6,873
CURRENT LIABILITIES:	
Long-term debt and obligations due within one year	0
Accounts payable	986
Payable to associated companies	10,529
Accrued Federal income and other taxes	2,309
Refunds to customers	457
Other current liabilities	2,098
Total Current Liabilities	16,379
DEFERRED TAXES AND OTHER:	
Deferred Federal income taxes	22,091
Deferred investment tax credits	2,075
Accrued IPP settlement agreements	0
Other deferred credits	1,102
Total Deferred Taxes and Other	25,268
Total	$186,129

ROCKLAND ELECTRIC COMPANY
Statement of Income

	For the Year Ended			
	March 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
		(Thousands of Dollars)		
OPERATING REVENUES:				
Electric	135,489	136,203	134,848	133,038
Diversified activities	52	17	0	4
Total Operating Revenues	135,541	136,220	134,848	133,042
OPERATING EXPENSES:				
Operations:				
Electricity purchased for resale	67,027	69,075	68,724	67,116
Fuel used in electric production	416	(1,059)	(2,754)	(1,374)
Other expenses of operation	28,881	28,243	27,642	27,020
Maintenance	3,641	3,504	4,686	4,959
Depreciation and amortization	4,198	4,169	4,072	4,032
Taxes other than income taxes	18,081	19,674	19,395	19,010
Federal income taxes	3,611	3,513	3,234	2,917
Total Operating Expenses	125,855	127,119	124,999	123,680
INCOME FROM OPERATIONS	9,686	9,101	9,849	9,362
OTHER INCOME AND DEDUCTIONS:				
Allowance for other funds used during construction	21	40	20	18
Investigation and litigation costs	133	(568)	(399)	(1,578)
Other - net	1,703	1,005	690	1,064
Equity in earnings of subsidiary companies	0	0	0	0
Taxes other than income taxes	(64)	(63)	(61)	(64)
Federal income taxes	(479)	39	(608)	282
Total Other Income and Deductions	1,314	453	(358)	(278)
INCOME FROM OPERATIONS	11,000	9,554	9,491	9,084
INTEREST CHARGES:				
Interest on long-term debt	2,613	2,841	3,118	3,176
Other interest	197	(349)	(127)	(75)
Amortization of debt premium and expense - net	324	309	138	139
Allowance for borrowed funds used during construction	(33)	(42)	(12)	(25)
Total Interest Charges	3,101	2,759	3,117	3,215
INCOME FROM CONTINUING OPERATIONS	7,899	6,795	6,374	5,869
Discontinued Operations:				
Operating income (loss) - net of taxes	(2,140)	(6,738)	(1,844)	(807)
Estimated loss on disposal	(8,694)	(8,694)	0	0
Income (Loss) from Discontinued Operations	(10,834)	(15,432)	(1,844)	(807)
Earnings applicable to common stock	(2,935)	(8,637)	4,530	5,062
Average number of common shares outstanding	112,000	112,000	112,000	112,000
Earnings per average common share outstanding	(26.21)	(77.12)	40.45	45.20

PIKE COUNTY LIGHT & POWER COMPANY
Balance Sheets

Assets

	March 31, 1998
UTILITY PLANT:	
Electric	$7,307,305
Gas	855,422
Common	68,406
Utility Plant in Service	8,231,133
Less accumulated depreciation	2,035,181
Net Utility Plant in Service	6,195,952
Construction work in progress	152,882
Net Utility Plant	6,348,834
NONUTILITY PROPERTY AND INVESTMENTS:	
Nonutility property	39,365
Less accumulated depreciation, depletion and amortization	15,226
Net Nonutility Property	24,139
CURRENT ASSETS:	
Cash and cash equivalents	308,125
Temporary cash investments	0
Customer accounts receivable, less allowance for uncollectible accounts of $50,453	376,632
Accrued utility revenue	448,141
Other accounts receivable, less allowance for uncollectible accounts of $500	29,729
Receivable from associated companies	4,179
Materials and supplies (at average cost)	257,247
Prepaid property taxes	1,623
Prepayments and other current assets	285,751
Total Current Assets	1,711,427
DEFERRED DEBITS:	
Income tax recoverable in future rates	608,101
Deferred revenue taxes	25,015
Deferred pension and other postretirement benefits	74,164
IPP settlement costs	159,221
Unamortized debt expense (amortized over term of securities)	47,682
Other deferred debits	245,202
Total Deferred Debits	1,159,385
TOTAL	$9,243,785

PIKE COUNTY LIGHT & POWER COMPANY
Balance Sheets

Capitalization and Liabilities

	March 31, 1998
CAPITALIZATION:	
Common stock (2,740 shares outstanding)	$ 137,000
Premium on capital stock	500,000
Retained earnings	2,919,779
Total Common Stock	3,556,779

Long-term debt	2,683,500
Total Capitalization	6,240,279
NON-CURRENT LIABILITIES:	
Postretirement benefits	99,056
Total Non-current Liabilities	99,056
CURRENT LIABILITIES:	
Long-term debt and obligations due within one year	0
Accounts payable	25,497
Payable to associated companies	1,294,555
Accrued Federal income and other taxes	1,173
Refundable fuel and gas costs	160,340
Refunds to customers	28,000
Other current liabilities	105,691
Total Current Liabilities	1,615,256
DEFERRED TAXES AND OTHER:	
Deferred Federal income taxes	1,180,276
Deferred investment tax credits	65,758
Accrued IPP settlement agreements	0
Accrued Order 636 transition costs	0
Other deferred credits	43,160
Total Deferred Taxes and Other	1,289,194
Total	$9,243,785

PIKE COUNTY LIGHT & POWER COMPANY
Consolidated Statement of Income

	For the Year Ended			
	March 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995
OPERATING REVENUES:				
Electric	5,392,213	5,305,996	5,225,782	5,335,218
Gas	837,941	840,434	766,852	686,075
Total Operating Revenues	6,230,154	6,146,430	5,992,634	6,021,293
OPERATING EXPENSES:				
Operations:				
Electricity purchased for resale	2,684,560	2,783,220	2,864,554	2,731,272
Fuel used in electric production	95,549	22,238	(74,450)	(79,130)
Gas purchased for resale	591,378	591,214	473,542	443,148
Other expenses of operation	1,371,030	1,328,893	1,175,132	998,025
Maintenance	352,914	180,763	106,139	202,383
Depreciation and amortization	220,897	223,759	204,317	181,720
Taxes other than income taxes	371,893	374,067	333,277	367,350
Federal income taxes	78,668	122,075	189,282	258,685
Total Operating Expenses	5,766,889	5,626,229	5,271,793	5,103,453
INCOME FROM OPERATIONS	463,265	520,201	720,841	917,840
OTHER INCOME AND DEDUCTIONS:				
Allowance for other funds used during construction	0	0	81	0
Investigation and litigation costs	5,848	(26,069)	(16,380)	(64,953)
Other - net	(5,147)	(4,413)	(3,525)	102,601
Taxes other than income taxes	(1,094)	(1,082)	(639)	(433)
Federal income taxes	771	11,971	(9,395)	(11,205)
Total Other Income and Deductions	378	(19,593)	(29,858)	26,010
INCOME FROM OPERATIONS	463,643	500,608	690,983	943,850
INTEREST CHARGES:				
Interest on long-term debt	258,615	258,615	258,615	258,615
Other interest	26,545	29,638	51,415	69,794
Amortization of debt premium and expense - net	3,291	3,291	3,291	3,291
Allowance for borrowed funds used during construction	(478)	(44)	(4,033)	(4,735)
Total Interest Charges	287,973	291,500	309,288	326,965
Net Income	175,670	209,108	381,695	616,885
Average number of common shares outstanding	2,740	2,740	2,740	2,740
Earnings per average common share outstanding	64.11	76.32	139.30	225.14

EXHIBIT B-1

AGREEMENT AND PLAN OF MERGER

among

Orange and Rockland Utilities, Inc.

Consolidated Edison, Inc.

and

C Acquisition Corp.

Dated as of May 10, 1998

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AGREEMENT AND PLAN OF MERGER (the "Agreement"), dated as of May 10, 1998 (referred to herein as the "date hereof"), by and among Orange and Rockland Utilities, Inc. (the "Company"), a New York corporation, Consolidated Edison, Inc., a New York corporation ("CEI"), and C Acquisition Corp., a New York corporation (the " Merger Subsidiary").

WHEREAS, the Company and CEI have determined that it would be in their respective best interests and in the interests of their respective shareholders to effect the transactions contemplated by this Agreement; and

WHEREAS, in furtherance thereof, the respective Boards of Directors of the Company, Merger Subsidiary and CEI have approved this Agreement and the merger of Merger Subsidiary with and into the Company (the " Merger").

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

THE MERGER

Section 1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.3), the separate existence of Merger Subsidiary shall cease and Merger Subsidiary shall be merged with and into the Company in accordance with the laws of the State of New York. The Company shall be the surviving corporation in the Merger, shall continue its corporate existence under the laws of the State of New York, and, following the Effective Time, the Company shall become a wholly owned subsidiary of CEI and shall succeed to and assume all the rights and obligations of Merger Subsidiary in accordance with the New York Business Corporation Law (the " NYBCL"). The effects and consequences of the Merger shall be as set forth in Section 1.2. The surviving corporation after the Merger is sometimes referred to as the " Surviving Corporation."

Section 1.2 Effects of the Merger. At the Effective Time, (a) the Restated Certificate of Incorporation of the Company in effect immediately prior to the Effective Time shall be the certificate of incorporation of the Surviving Corporation until thereafter amended, (b) the by-laws of the Company in effect immediately prior to the Effective Time shall be the by-laws of the Surviving Corporation after the Effective Time until duly amended, and (c) the Merger shall have all the effects provided by the NYBCL. As of the Effective Time, each of the directors of the Company shall resign and the directors of the Merger Subsidiary at the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and the by-laws of the Surviving Corporation.

Section 1.3 Effective Time of the Merger. Subject to the provisions of this Agreement, on the Closing Date (as defined in Section 3.1), a certificate of merger shall be executed and delivered for filing, with the order of the New York State Public Service Commission (the " NYPSC") approving the Merger attached thereto, by the Company and Merger Subsidiary to the Department of State of the State of New York pursuant to the NYBCL. The Merger shall become effective at the time specified in the certificate of merger so delivered and filed by the Department of State of the State of New York (the " Effective Time").

ARTICLE II

TREATMENT OF SHARES

Section 2.1 Effect on Capital Stock of the Company and the Merger Subsidiary. As of the Effective Time, by virtue of the Merger and without any action on the part of any holder of any capital stock of the Company or Merger Subsidiary:

(a) Conversion of Capital Stock of the Company. Each issued and outstanding share of Common Stock, $5 par value per share, of the Company (the " Company Common Stock"), in each case not owned directly or through a wholly owned Subsidiary (as defined in Section 4.1) by the Company or CEI, issued and outstanding immediately prior to the Effective Time shall be cancelled and shall be converted into the right to receive cash in the amount of $58.50 (the " Merger Consideration") payable, without interest, to the holder of such share of Company Common Stock, upon surrender, in the manner provided in Section 2.2 hereof, of the certificate formerly evidencing such share.

(b) Cancellation of Treasury Stock and Certain Company Common Stock. Any shares of Company Common Stock that are owned by the Company as treasury stock or by CEI or by any wholly owned Subsidiary of the Company or CEI shall be cancelled and retired and shall cease to exist and no Merger Consideration or other consideration shall be delivered in exchange therefor, and each holder of a certificate formerly representing any such shares shall cease to have any rights with respect thereto.

(c) Redemption of Company Preferred Stock. Prior to the Effective Time, the Board of Directors of the Company shall call for redemption all outstanding shares of Company Preferred Stock (as defined in Section 4.3), at a redemption price equal to the amount set forth in the Restated Certificate of Incorporation of the Company, together with all dividends accrued and unpaid to the date of such redemption. All shares of Company Preferred Stock shall be redeemed so that no such shares shall be deemed to be outstanding at the Effective Time.

(d) Redemption of Company Preference Stock. Prior to the Effective Time, the Board of Directors of the Company shall call for redemption all outstanding shares of Company Preference Stock (as defined in Section 4.3), at a redemption price equal to the amount set forth in the Restated Certificate of Incorporation of the Company, together with all dividends accrued and unpaid to the date of such redemption. All shares of Company Preference Stock shall be redeemed so that no such shares shall be deemed to be outstanding at the Effective Time.

(e) Capital Stock of Merger Subsidiary. Each issued and outstanding share of Common Stock, $0.01 par value per share, of Merger Subsidiary (" Merger Subsidiary Common Stock") (of which, as of the date hereof, 1,000 shares are issued and outstanding, each entitling the holder thereof to vote on the approval of this Agreement and the transactions contemplated hereby), shall be converted into one fully paid and nonassessable share of Common Stock, $5 par value, of the Surviving Corporation.

Section 2.2 Surrender of Shares.

(a) Deposit with Paying Agent. Prior to the Effective Time, the Company and CEI shall mutually designate a bank or trust company to act as agent (the " Paying Agent") for the holders of shares of Company Common Stock in connection with the Merger to receive the funds to which holders of shares of Company Common Stock shall become entitled pursuant to Section 2.1(a). From time to time at, immediately prior to or after the Effective Time, CEI shall make available to the Paying Agent immediately available funds in amounts and at the times necessary for the payment of the Merger Consideration upon surrender of Certificates (as defined in Section 2.2(b)) in accordance with Section 2.2(b), it being understood that any and all interest or other income earned on funds made available to the Paying Agent pursuant to this Section 2.2(a) shall belong to and shall be paid (at the time provided for in Section 2.2(d)) to CEI. Any such funds deposited with the Paying Agent by CEI shall be invested by the Paying Agent as directed by CEI.

(b) Exchange Procedure. As soon as practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a certificate or certificates (the " Certificates") which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the " Cancelled Shares") that were cancelled and became instead the right to receive the Merger Consideration pursuant to Section 2.1: (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon actual delivery of the Certificates to the Paying Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate to the Paying Agent for cancellation (or to such other agent or agents as may be appointed by agreement of CEI and the Company), together with a duly executed letter of transmittal and such other documents as the Paying Agent shall require, the holder of such Certificate shall be entitled to receive the Merger Consideration in exchange for each share of Company Common Stock formerly evidenced by such Certificate which such holder has the right to receive pursuant to the provisions of this Article II. In the event of a transfer of ownership of Cancelled Shares which is not registered in the transfer records of the Company, the Merger Consideration may be given to a transferee if the Certificate representing such Cancelled Shares is presented to the Paying Agent, accompanied by all documents required to evidence and effect such transfer and by evidence satisfactory to the Paying Agent that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 2.2, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration as contemplated by this Section 2.2. No interest shall be paid or will accrue on the Merger Consideration payable to holders of Certificates pursuant to the provisions of this Article II.

(c) Closing of Transfer Books; Rights of Holders of Company Common Stock. From and after the Effective Time, the stock transfer books of the Company shall be closed and no registration of any transfer of any capital stock of the Company shall thereafter be made on the records of the Company. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be cancelled and exchanged for the Merger Consideration, as provided in this Section 2.2. From and after the Effective Time, the holders of shares of Company Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of Company Common Stock, except as otherwise provided herein or by applicable law.

(d) Termination of Paying Agent. At any time commencing one year after the Effective Time, CEI shall be entitled to require the Paying Agent to deliver to it any funds which had been made available to the Paying Agent and not disbursed to holders of shares of Company Common Stock (including, without limitation, all interest and other income received by the Paying Agent in respect of all funds made available to it), and thereafter such holders shall be entitled to look to CEI (subject to abandoned property, escheat and other similar laws) only as general creditors thereof with respect to any Merger Consideration that may be payable upon due surrender of the Certificates held by them. Notwithstanding the foregoing, neither CEI, the Surviving Corporation nor the Paying Agent shall be liable to any holder of a share of Company Common Stock for any Merger Consideration delivered in respect of such share to a public official pursuant to any abandoned property, escheat or other similar law. If any Certificates shall not have been surrendered prior to the thirty-first day of December in the fifth calender year after the Effective Time (or immediately prior to such earlier date on which any payment pursuant to this Article II would otherwise escheat to or become the property of any Governmental Authority (as defined in Section 4.4(c))), the payment in respect of such Certificate shall, to the extent permitted by applicable law, become the property of CEI, free and clear of all claims or interest of any person (as defined below) previously entitled thereto. As used in this Agreement, the term " person" shall mean any natural person, corporation, general or limited partnership, limited liability company, joint venture, trust, association or entity of any kind.

ARTICLE III

THE CLOSING

Section 3.1 Closing. The closing of the Merger (the " Closing") shall take place at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, New York 10022 at 10:00 A.M., local time, on the second business day immediately following the date on which the last of the conditions set forth in Article VIII hereof is fulfilled or waived, or at such other time, date and place as the Company and CEI shall mutually agree (the " Closing Date").

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as set forth in the schedule delivered by the Company on the date hereof (the "Company Disclosure Schedule") and making reference to the particular subsection of this Agreement to which exception is being taken, the Company represents and warrants to CEI as follows:

Section 4.1 Organization and Qualification. The Company and each of the Company Subsidiaries (as defined below) is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify, individually or in the aggregate, would not have a Company Material Adverse Effect. For purposes of this Agreement, "Company Material Adverse Effect" shall mean any change, effect, event, occurrence or state of facts (i) that is, or reasonably would be expected to be, materially adverse to the business, assets, financial condition, results of operations or prospects of the Company and the Company Subsidiaries taken as a whole or (ii) that would prevent, or reasonably be expected to prevent, the Company from performing its obligations under this Agreement or prevent the consummation of the transactions contemplated hereby. As used in this Agreement, (a) the term " Subsidiary" of a person shall mean any corporation or other entity (including partnerships and other business associations) of which at least a majority of the voting power represented by the outstanding capital stock or other voting securities or interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity (or, if there are no such voting interests, 50% or more of the equity interests of which) shall at the time be held, directly or indirectly, by such person, and (b) the term " Company Subsidiary" shall mean a Subsidiary of the Company.

Section 4.2 Subsidiaries. Section 4.2 of the Company Disclosure Schedule sets forth a list, as of the date hereof, of (a) all the Company Subsidiaries and (b) all other entities in which the Company has an aggregate equity investment in excess of $2 million. All of the issued and outstanding shares of capital stock of each Company Subsidiary are validly issued, fully paid, nonassessable and free of preemptive rights, and are owned, directly or indirectly, by the Company free and clear of any pledges, liens, claims, encumbrances, security interests, charges and options of any nature whatsoever (collectively, " Liens") and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of any such capital stock) and there are no outstanding subscriptions, options, calls, contracts, voting trusts, proxies or other commitments, understandings, restrictions, arrangements, rights or warrants, including any right of conversion or exchange under any outstanding security, instrument or other agreement, obligating any such Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of its capital stock or obligating it to grant, extend or enter into any such agreement or commitment.

Section 4.3 Capitalization. As of the date hereof, the authorized capital stock of the Company consists of 50,000,000 shares of Company Common Stock, 1,000,000 shares of Cumulative Preferred Stock, issuable in series, par value $100.00 per share (" Company Preferred Stock"), and 1,500,000 shares of Cumulative Preference Stock, issuable in series, without par value (" Company Preference Stock"). At the close of business on April 30, 1998, (i) 13,518,779 shares of Company Common Stock were issued and outstanding, and 16,931 shares of Company Common Stock were reserved for conversion of Company Preference Stock, (ii) 428,443 shares of Company Preferred Stock were issued and outstanding, (iii) 11,518 shares of Company Preference Stock were issued and outstanding, (iv) no bonds, debentures, notes or other indebtedness having the right to vote (or convertible into securities having the right to vote) on any matters on which stockholders may vote (" Voting Debt") were issued or outstanding and (v) no shares of Company Common Stock were held by the Company in its treasury. Since April 30, 1998, the Company has not issued any shares of Company Common Stock or of any other class or series of capital stock or any Voting Debt, other than shares of Company Common Stock issued upon conversion of Company Preference Stock. As of the date hereof, all outstanding shares of Company Common Stock, Company Preferred Stock and Company Preference Stock are validly issued, fully paid and nonassessable and are not subject to preemptive rights. As of the Closing Date, all outstanding shares of Company Common Stock will be validly issued, fully paid and nonassessable and will not be subject to preemptive rights. As of the date hereof, there are no options, warrants, calls, rights, commitments or agreements of any character to which the Company or any Company Subsidiary is a party or by which it is bound obligating the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or any Voting Debt securities of the Company or any Company Subsidiary or obligating the Company or any

Company Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. At the Effective Time, there will be no option, warrant, call, right, commitment or agreement obligating the Company or any Company Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, any shares of capital stock or any Voting Debt of the Company or any Company Subsidiary, or obligating the Company or any Company Subsidiary to grant, extend or enter into any such option, warrant, call, right, commitment or agreement.

Section 4.4 Authority; Non-Contravention; Statutory Approvals; Compliance.

(a) Authority. The Company has all requisite power and authority to enter into this Agreement and, subject to the receipt of the Company Shareholders' Approval (as defined in Section 4.14) and the applicable Company Required Statutory Approvals (as defined in Section 4.4(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject to obtaining the Company Shareholders' Approval. This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery hereof by the other signatories hereto, constitutes the legal, valid and binding obligation of the Company enforceable against it in accordance with its terms.

(b) Non-Contravention. The execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby will not, in any respect, violate, conflict with or result in a breach of any provision of, or constitute a default (with or without notice or lapse of time or both) under, or result in the termination or modification of, or accelerate the performance required by, or result in a right of termination, cancellation or acceleration of any obligation, or the loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of the Company or any of the Company Subsidiaries (any such violation, conflict, breach, default, right of termination, modification, cancellation or acceleration, loss or creation is referred to herein as a " Violation" with respect to the Company and such term when used in Article V has a correlative meaning with respect to CEI) pursuant to any provisions of (i) the certificate of incorporation, by-laws or similar governing documents of the Company or any of the Company Subsidiaries, (ii) subject to obtaining the Company Required Statutory Approvals and the receipt of the Company Shareholders' Approval, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to the Company or any of the Company Subsidiaries or any of their respective properties or assets (other than (x) municipal consents and franchises and (y) immaterial consents, approvals, orders, authorizations, actions, registrations, declarations or filings, including with respect to communications systems, zoning, name change, occupancy and similar routine regulatory approvals) or (iii) subject to obtaining the third-party consents set forth in Section 4.4(b) of the Company Disclosure Schedule (the " Company Required Consents"), any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, standstill agreement, contract, lease or other instrument, obligation or agreement of any kind to which the Company or any of the Company Subsidiaries is a party or by which they or any of their properties or assets may be bound or affected (other than municipal consents or franchises), except in the case of clause (iii) for any such Violation which, individually or in the aggregate, would not have a Company Material Adverse Effect.

(c) Statutory Approvals. No declaration, filing, registration with, notice to, authorization, permit, order, consent or approval (other than immaterial consents, approvals, orders, authorizations, actions, registrations, declarations or filings, including with respect to communications systems, zoning, name change, occupancy and similar routine regulatory approvals) of, any court, federal, state, local or foreign governmental, administrative, or regulatory body (including a stock exchange or other self-regulatory body) or authority (each, a " Governmental Authority") is necessary for the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except those described in Section 4.4(c) of the Company Disclosure Schedule (the " Company Required Statutory Approvals," it being understood that references in this Agreement to "obtaining" such Company Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, permits, orders, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) Compliance. Except as disclosed in the Company SEC Reports (as defined in Section 4.5) filed prior to the date hereof, neither the Company nor any of the Company Subsidiaries is in violation of, is, to the knowledge of the Company, under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable Environmental Law (as defined in Section 4.12(b)(ii))) of any Governmental Authority, except for possible violations which individually or in the aggregate would not have a Company Material Adverse Effect. Except as disclosed in the Company SEC Reports filed prior to the date hereof, the Company and the Company Subsidiaries have all permits, licenses, franchises and other governmental authorizations, consents and approvals necessary to conduct their businesses as presently conducted which are material to the operation of the businesses of the Company and the Company Subsidiaries (other than certain municipal consents and franchises). The Company and each of the Company Subsidiaries is not in breach or violation of or in default in the performance or observance of any term or provision of, and no event has occurred which, with lapse of time or action by a third party, could result in a default by the Company or any Company Subsidiary under (i) their respective certificates of incorporation or by-laws or (ii) any contract, commitment, agreement, indenture, mortgage, loan agreement, note, lease, bond, license, approval or other instrument to which it is a party or by which the Company or any Company Subsidiary is bound or to which any of their respective properties or assets are subject, except in the case of this clause (ii) for possible violations, breaches or defaults which individually or in the aggregate would not have a Company Material Adverse Effect. All utility rates charged by the Company and its utility Subsidiaries have been and continue to be made pursuant to lawfully filed tariffs and contracts.

Section 4.5 Reports and Financial Statements. (a) The filings (other than immaterial filings) required to be made by the Company and the Company Subsidiaries since January 1, 1993 under the Securities Act of 1933, as amended (the " Securities Act"); the Securities Exchange Act of 1934, as amended (the " Exchange Act"); the Public Utility Holding Company Act of 1935, as amended (the " 1935 Act"); the Federal Power Act (the " Power Act"); and applicable state public utility laws and regulations have been filed with the Securities and Exchange Commission (the " SEC"), the Federal Energy Regulatory Commission (the " FERC"), or the appropriate state public utilities commission, as the case may be, including all forms, statements, reports, tariffs, contracts, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, and complied, as of their respective dates, in all material respects with all applicable requirements of the applicable statutes and the rules and regulations thereunder. The Company has made available to CEI a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed with the SEC by the Company pursuant to the requirements of the Securities Act or Exchange Act since January 1, 1993 (the " Company SEC Reports"). As of their respective dates, the Company SEC Reports did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim financial statements (including the notes thereto) of the Company included in the Company SEC Reports (collectively, the " Company Financial Statements") have been prepared in accordance with United States generally accepted accounting principles (" GAAP") as applied to a regulated utility, applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended, subject, in the case of the unaudited interim financial statements, to normal, recurring audit adjustments. True, accurate and complete copies of the Restated Certificate of Incorporation and by-laws of the Company, as in effect on the date hereof, are included (or incorporated by reference) in the Company SEC Reports.

(b) Franchises. The Company and the Company utility Subsidiaries own or have sufficient rights and consents to use under existing franchises, easements, leases, and license agreements all properties, rights and assets necessary for the conduct of their business and operations as currently conducted, except where the failure to own or have sufficient rights to such properties, rights and assets would not have, individually or in the aggregate, a Company Material Adverse Effect. To the knowledge of the Company, no other private corporation can commence public utility operations in any part of the territories now served by the Company or its wholly owned utility Subsidiaries, Rockland Electric Company ("RECO") and Pike County Light & Power Company ("Pike"), respectively, without obtaining a certificate of public convenience and necessity from the applicable state utility commission.

Section 4.6 Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports filed prior to the date hereof, since December 31, 1997, the Company and each of the Company Subsidiaries have conducted their respective businesses only in the ordinary course of business consistent with past practice and there has not been, and no fact or condition exists which, individually or in the aggregate, would have a Company Material Adverse Effect. From December 31, 1997 through the date hereof there has not been (i) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any capital stock of the Company, other than (A) regular quarterly dividends of $.645 per share on Company Common Stock and (B) dividends payable on Company Preferred Stock and Company Preference Stock in accordance with their terms, (ii) any split, combination or reclassification of any capital stock of the Company or any of the Company Subsidiaries or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for any capital stock of the Company or any of the Company Subsidiaries or (iii) except insofar as required by a change in GAAP, any change in accounting methods, principles or practices by the Company or any of the Company Subsidiaries materially affecting their respective assets, liabilities or businesses.

Section 4.7 Litigation. There (a) are no claims, suits, actions or proceedings before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the knowledge of the Company, threatened, nor are there, to the knowledge of the Company, any investigations or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against, relating to or affecting the Company or any of the Company Subsidiaries which, individually or in the aggregate, would have a Company Material Adverse Effect, (b) have not been any significant developments since December 31, 1997 with respect to any disclosed claims, suits, actions, proceedings, investigations or reviews that, individually or in the aggregate, would have a Company Material Adverse Effect and (c) are no judgments, decrees, injunctions, rules or orders of any court, governmental department, commission, agency, instrumentality or authority or any arbitrator applicable to the Company or any of the Company Subsidiaries except for such that, individually or in the aggregate, would not have a Company Material Adverse Effect.

Section 4.8 Proxy Statement. None of the information supplied or to be supplied by or on behalf of the Company for inclusion or incorporation by reference in the proxy statement, in definitive form, relating to the meeting of holders of Company Common Stock to be held in connection with the Merger (the " Proxy Statement") will, at the date mailed to the Company shareholders and at the time of the meeting of the holders of Company Common Stock to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

Section 4.9 Tax Matters.

Except as to any items that would not, individually or in the aggregate, have a Company Material Adverse Effect:

(a) The Company and each of the Company Subsidiaries has (i) filed all Federal, state, local and foreign income and other tax returns or reports (including declarations of estimated tax) required to be filed by it, (ii) paid all taxes of any nature whatsoever (together with any related penalties and interest) (any of the foregoing being referred to herein as a " Tax"), that are shown on such Tax returns as due and payable on or before the date hereof, and (iii) paid all Taxes otherwise required to be paid.

(b) There are no claims or assessments pending against the Company or any of the Company Subsidiaries for any alleged deficiency in Tax, and the Company does not know of any threatened Tax claims or assessments against the Company or any of the Company Subsidiaries.

(c) The Company has established adequate accruals for Taxes and for any liability for deferred Taxes in the Company Financial Statements in accordance with GAAP.

(d) There are no Liens for Taxes (other than for current Taxes not yet due and payable) on the assets of the Company or any Company Subsidiary.

(e) The Federal income Tax returns of the Company, each Company Subsidiary and any affiliated, consolidated, combined or unitary group that includes the Company or any Company Subsidiary either have been examined and settled with the Internal Revenue Service or closed by virtue of the expiration of the applicable statute of limitations for all years through 1994.

(f) None of the Company or any Company Subsidiary shall be required to include in a taxable period ending after the Effective Time an amount of taxable income attributable to income that accrued in a prior taxable period but was not recognized in any prior taxable period as a result of the installment method of accounting, the completed contract method of accounting, the long-term contract method of accounting, the cash method of accounting or Section 481 of the Code or comparable provisions of state, local or foreign Tax law.

(g) From December 31, 1997 through the date hereof, there have not been any Tax elections, any settlements or compromises of any income Tax liability or any changes in Tax attributes.

Section 4.10 Employee Matters; ERISA.

(a) Section 4.10(a) of the Company Disclosure Schedule hereto contains a true and complete list of each deferred compensation and each bonus or other incentive compensation, stock purchase, stock option and other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended (" ERISA")); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of Section 3(2) of ERISA); each employment, retention, consulting, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated (an " ERISA Affiliate"), that together with the Company would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA, or to which the Company or an ERISA Affiliate is party, whether written or oral, for the benefit of any employee or former employee of the Company or any Company Subsidiary (the " Company Plans").

(b) With respect to each Company Plan, the Company has heretofore delivered or made available to CEI true and complete copies of each of the following documents:

(i) a copy of the Company Plan and any amendments thereto;

(ii) a copy of the two most recent annual reports on Internal Revenue Service Form 5500 and actuarial reports, if required under ERISA, and the most recent report prepared with respect thereto in accordance with Statement of Financial Accounting Standards No. 87;

(iii) a copy of the most recent Summary Plan Description required under ERISA with respect thereto;

(iv) if the Company Plan is funded through a trust or any third party funding vehicle, a copy of the trust or other funding agreement and the latest financial statements thereof and all related agreements; and

(v) the most recent determination letter or pending determination letter received from the Internal Revenue Service with respect to each Company Plan intended to qualify under Section 401 of the Internal Revenue Code of 1986, as amended (the " Code").

(c) No liability under Title IV or Section 302 of ERISA has been incurred by the Company or any ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a material risk to the Company or any ERISA Affiliate of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation (" PBGC") (which premiums have been paid when due). No Company Plan has, to the knowledge of the Company, engaged in a "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA), no Company Plan subject to Title IV of ERISA (a " Title IV Company Plan") has been terminated by the PBGC or has been the subject of a "reportable event" (as defined in Section 4043 of ERISA and the regulations thereunder) for which the 30-day notice requirement has not been waived and the Company has not received any notice of intent by PBGC to terminate any such plan.

(d) With respect to each Title IV Company Plan, the present value of accrued benefits under such plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such plan's actuary with respect to such plan did not exceed, as of its latest valuation date, the then current value of the assets of such plan allocable to such accrued benefits.

(e) No Title IV Company Plan or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each Title IV Company Plan ended prior to the Closing Date nor has there been any application for waiver of the minimum funding standards imposed by Section 412 of the Code. All contributions required to be made with respect to any Company Plan on or prior to the Closing Date have been timely made or are reflected on the balance sheet.

(f) No Title IV Company Plan is a "multiemployer plan", as defined in Section 3(37) of ERISA, nor is any Title IV Company Plan a plan described in Section 4063(a) of ERISA.

(g) Each Company Plan has been operated and administered in all material respects in accordance with its terms and applicable law, including but not limited to ERISA and the Code, the rules and regulations thereunder and all applicable collective bargaining agreements and each Company Plan intended to be "qualified" under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service to such effect. To the knowledge of the Company, there is no fact, condition or set of circumstances existing that could adversely affect such favorable determination. To the Company's knowledge, there are no investigations pending in respect of any Company Plan by any Governmental Authority.

(h) Each Company Plan intended to be "qualified" within the meaning of Section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under Section 501(a) of the Code.

(i) No Company Plan provides medical, surgical, hospitalization, death or similar benefits (whether or not insured) for employees or former employees (or their beneficiaries) of the Company or any Company Subsidiary for periods extending beyond their respective dates of retirement or other termination of service, other than (i) coverage mandated by applicable law, (ii) death benefits under any "pension plan," or (iii) benefits the full cost of which is borne by the current or former employee (or his beneficiary).

(j) No amounts payable under the Company Plans will fail to be deductible for federal income tax purposes by virtue of Section 280G of the Code.

(k) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of the Company or any ERISA Affiliate to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer. Schedule 4.10(k) of the Company Disclosure Schedule sets forth estimates prepared by the Company of the amounts reasonably expected to be paid to participants in any Company Plan (or by which any of their benefits may be increased or accelerated) as a result solely of (i) the execution of this Agreement, (ii) the obtaining of the Company Shareholders' Approval and (iii) termination or constructive termination of any officer or director's employment with the Company or any Company Subsidiary. For purposes of the preceding sentence, the determination of the amounts set forth in Schedule 4.10(k) is based upon each employee's current compensation, outstanding awards and benefits accrued (as applicable) and on such other factors as the Company, taking into account applicable law and regulations, deems reasonable and appropriate.

(l) There are no pending, threatened or anticipated claims by or on behalf of any Company Plan, by any employee or beneficiary covered under any such Company Plan, or otherwise involving any such Company Plan (other than routine claims for benefits).

Section 4.11 Labor and Employee Relations.

(a) As of the date hereof, except as disclosed in the Company SEC Reports filed prior to the date hereof, (i) except for the existing collective bargaining agreement between the Company and Local Union No. 503 of the International Brotherhood of Electrical Workers effective June 1, 1997 through May 31, 2000, neither the Company nor any of the Company Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization and (ii) to the knowledge of the Company, there is no current union representation question involving employees of the Company or any of the Company Subsidiaries, nor does the Company know of any activity or proceeding of any labor organization (or representative thereof) or employee group to organize any such employees, except to the extent such, individually or in the aggregate, would not have a Company Material Adverse Effect.

(b) Except as disclosed in the Company SEC Reports filed prior to the date hereof or except to the extent such, individually or in the aggregate, would not have a Company Material Adverse Effect, (i) there is no unfair labor practice, employment discrimination or other charge, claim, suit, action or proceeding against the Company or any of the Company Subsidiaries pending, or to the knowledge of the Company, threatened before any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, (ii) there is no strike, lockout or material dispute, slowdown or work stoppage pending or, to the knowledge of the Company, threatened against or involving the Company, and (iii) there is no proceeding, claim, suit, action or governmental investigation pending or, to the knowledge of the Company, threatened in respect of which any director, officer, employee or agent of the Company or any of the Company Subsidiaries is or may be entitled to claim indemnification from the Company or such Company Subsidiary pursuant to their respective certificates of incorporation or by-laws or as provided in the indemnification agreements listed in Section 4.11(b) of the Company Disclosure Schedule or any other indemnification agreements.

Section 4.12 Environmental Protection.

(a) Except as set forth in the Company SEC Reports filed prior to the date hereof:
i.
(i) Compliance. The Company and each of the Company Subsidiaries is in compliance with all applicable Environmental Laws except where the failure to so comply, individually or in the aggregate, would not have a Company Material Adverse Effect, and neither the Company nor any of the Company Subsidiaries has received any communication (written or oral) reasonably grounded in fact, from any person or Governmental Authority that alleges that the Company or any of the Company Subsidiaries is not in such compliance with applicable Environmental Laws. To the knowledge of the Company, compliance with all applicable Environmental Laws will not require the Company or any Company Subsidiary to incur costs, beyond those currently budgeted for the three Company fiscal years beginning with January 1, 1998, that, individually or in the aggregate, would have a Company Material Adverse Effect, including, but not limited to, the costs of pollution control equipment that are known or anticipated to be required in the future.

(ii) Environmental Permits. (A) The Company and each of the Company Subsidiaries has obtained or has applied for all environmental, health and safety permits and governmental authorizations (collectively, the " Environmental Permits") necessary for the construction of their facilities or the conduct of their operations except where the failure to so obtain, individually or in the aggregate, would not have a Company Material Adverse Effect, (B) all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval except where the failure of such Environmental

Permits to be in good standing or to have filed a renewal application on a timely basis would not, individually or in the aggregate, have a Company Material Adverse Effect, (C) the Company and the Company Subsidiaries are in material compliance with all terms and conditions of the Environmental Permits, except where failure to so comply, individually or in the aggregate, would not have a Company Material Adverse Effect and (D) neither the Company nor any of the Company Subsidiaries has been advised by any Governmental Authority of any potential change in the terms and conditions of the Environmental Permits either prior to or upon their renewal, except for such potential changes as would not, individually or in the aggregate, have a Company Material Adverse Effect.

(iii) Environmental Claims. There are no Environmental Claims (as defined in Section 4.12(b)(i)) which would, individually or in the aggregate, have a Company Material Adverse Effect pending or, to the knowledge of the Company, threatened, (A) against the Company or any of the Company Subsidiaries, (B) to the knowledge of the Company, against any person or entity whose liability for any Environmental Claim the Company or any of the Company Subsidiaries has or may have retained or assumed either contractually or by operation of law, or (C) against any currently owned, leased or managed, in whole or in part, real or personal property or operations of the Company or any of the Company Subsidiaries or, to the knowledge of the Company, against any formerly owned, leased or managed, in whole or in part, real or personal property or operations of the Company or any of the Company Subsidiaries.

(iv) Releases. The Company has no knowledge of any Releases (as defined in Section 4.12(b)(iv)) of any Hazardous Material (as defined in Section 4.12(b)(iii)) that would be reasonably likely to form the basis of any Environmental Claim against the Company or any of the Company Subsidiaries, or against any person or entity whose liability for any Environmental Claim the Company or any of the Company Subsidiaries has or may have retained or assumed either contractually or by operation of law except for any Environmental Claim which, individually or in the aggregate, would not have a Company Material Adverse Effect.

(v) Predecessors. The Company has no knowledge, with respect to any predecessor of the Company or any of the Company Subsidiaries, of any Environmental Claim which, individually or in the aggregate, would have a Company Material Adverse Effect pending or threatened, or of any Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim which, individually or in the aggregate, would have a Company Material Adverse Effect.

(b) Definitions. As used in this Agreement:

(i) "Environmental Claim" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation (written or oral) by any person or entity (including any Governmental Authority), alleging potential liability (including, without limitation, potential responsibility for or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from (A) the presence, Release or threatened Release into the environment of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of the Company Subsidiaries; or (B) circumstances forming the basis of any violation or alleged violation of any Environmental Law or (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials or the presence of or exposure to any electromagnetic fields.

(ii) "Environmental Laws" means all federal, state and local laws, rules, regulations, orders, decrees, judgments or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to noise levels, Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(iii) "Hazardous Materials" means (A) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls (" PCBs"); (B) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," or words of similar import under any Environmental Law and (C) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which the Company or any of the Company Subsidiaries operates.

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

Section 4.13 Regulation as a Utility. As of the date hereof, the Company, pursuant to an order, dated March 27, 1936, of the SEC, has been exempted, from all of the provisions of the 1935 Act, except Section 9(a)(2) thereof relating to the acquisition of securities of other public utility companies. The Company is regulated as a public utility in the State of New York and in no other state. RECO is regulated as a public utility in the State of New Jersey and in no other state. Pike is regulated as a public utility in the State of Pennsylvania and in no other state. Except as set forth in this Section neither the Company nor any "subsidiary company" or "affiliate" (as each such term is defined in the 1935 Act) of the Company is subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by the Federal government of the United States, any other state in the United States or any foreign country.

Section 4.14 Vote Required. Provided that the NYPSC approves the Merger prior to the Effective Time, the approval of the Merger by the holders of two-thirds of all outstanding shares of Company Common Stock (the " Company Shareholders' Approval") is the only vote of the holders of any class or series of the capital stock of the Company or any of the Company Subsidiaries required to approve this Agreement, the Merger and the other transactions contemplated hereby.

Section 4.15 State Anti-Takeover Statutes. Assuming the accuracy of the representation of CEI set forth in Section 5.8, neither Section 912 nor Article 16 of the NYBCL nor any provision of Article Eighth of the Company's Restated Certificate of Incorporation is applicable to the transactions contemplated by this Agreement. To the knowledge of the Company, no other state anti-takeover statute is applicable to the Company's participation in the Merger or in the other transactions contemplated hereby.

Section 4.16 Opinion of Financial Advisor. The Company has received the opinion of Donaldson, Lufkin & Jenrette Securities Corporation (" DLJ"), dated the date hereof, to the effect that, as of the date hereof, the Merger Consideration is fair from a financial point of view to the holders of Company Common Stock.

Section 4.17 Insurance. The Company and each of the Company Subsidiaries is, and has been continuously since January 1, 1993, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business as conducted by the Company and the Company Subsidiaries during such time period. Neither the Company nor any of the Company Subsidiaries has received any notice of cancellation or termination with respect to any insurance policy of the Company or any of the Company Subsidiaries. The insurance policies of the Company and each of the Company Subsidiaries are valid and enforceable policies.

Section 4.18 Discontinued Business . NORSTAR Management, Inc. and its Subsidiaries and the business formerly conducted by them have ceased operations (the " Discontinued Business") and, except for liabilities reflected in the Company Financial

Statements, neither the Company nor any the Company Subsidiary, other than NORSTAR Management, Inc. and its Subsidiaries, has any liabilities or obligations with respect to such business and no creditor of the Discontinued Business has any recourse against the Company or any Company Subsidiary other than NORSTAR Management, Inc. and its Subsidiaries.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF CEI

Except as set forth in the schedule delivered by CEI on the date hereof (the " CEI Disclosure Schedule") and making reference to the particular subsection of this Agreement to which exception is being taken, CEI represents and warrants to the Company as follows:

Section 5.1 Organization and Qualification. Each of CEI, Consolidated Edison Company of New York, Inc., a New York corporation ("CECONY"), and the Merger Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority, and has been duly authorized by all necessary approvals and orders to own, lease and operate its assets and properties to the extent owned, leased and operated and to carry on its business as it is now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its assets and properties makes such qualification necessary other than in such jurisdictions where the failure so to qualify, individually or in the aggregate, would not have a CEI Material Adverse Effect. For purposes of this Agreement, "CEI Material Adverse Effect" shall mean any change, effect, event, occurrence or state of facts (i) that is, or reasonably would be expected to be, materially adverse to the business, assets, financial condition, results of operations or prospects of CEI and its Subsidiaries (the " CEI Subsidiaries") taken as a whole or (ii) that would prevent, or reasonably be expected to prevent, CEI from performing its obligations under this Agreement or prevent the consummation of the transactions contemplated hereby.

Section 5.2 Authority; Non-Contravention; Statutory Approvals; Compliance

(a) Authority. Each of CEI and the Merger Subsidiary has all requisite power and authority to enter into this Agreement and, subject to the receipt of the applicable CEI Required Statutory Approvals (as defined in Section 5.2(c)), to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation by each of CEI and the Merger Subsidiary of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of CEI and the Merger Subsidiary. This Agreement has been duly and validly executed and delivered by each of CEI and the Merger Subsidiary and, assuming the due authorization, execution and delivery hereof by the other signatories hereto, constitutes the legal, valid and binding obligation of each of CEI and the Merger Subsidiary enforceable against it in accordance with its terms.

(b) Non-Contravention. The execution and delivery of this Agreement by CEI and the Merger Subsidiary does not, and the consummation of the transactions contemplated hereby will not, result in a Violation pursuant to any provisions of (i) the certificate of incorporation, by-laws or similar governing documents of CEI or the Merger Subsidiary, (ii) subject to obtaining the CEI Required Statutory Approvals, any statute, law, ordinance, rule, regulation, judgment, decree, order, injunction, writ, permit or license of any Governmental Authority applicable to CEI or the Merger Subsidiary or any of their respective properties or assets (other than immaterial consents, approvals, orders, authorizations, actions, registrations, declarations or filings, including with respect to communications systems, zoning, name change, occupancy and similar routine regulatory approvals) or (iii) any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, standstill agreement, contract, lease or other instrument, obligation or agreement of any kind to which CEI or the Merger Subsidiary is a party or by which they or any of their respective properties or assets may be bound or affected, except in the case of clause (iii) for any such Violation which, individually or in the aggregate, would not have a CEI Material Adverse Effect.

(c) Statutory Approvals. No declaration, filing or registration with, notice to, authorization, permit, order, consent or approval (other than immaterial consents, approvals, orders, authorizations, actions, registrations, declarations or filings, including with respect to communications systems, zoning, name change, occupancy and similar routine regulatory approvals) of, any Governmental Authority is necessary for the execution and delivery of this Agreement by each of CEI and the Merger Subsidiary or the consummation by each of CEI and the Merger Subsidiary of the transactions contemplated hereby, except those described in Section 5.2(c) of the CEI Disclosure Schedule (the " CEI Required Statutory Approvals," it being understood that references in this Agreement to "obtaining" such CEI Required Statutory Approvals shall mean making such declarations, filings or registrations; giving such notices; obtaining such authorizations, permits, orders, consents or approvals; and having such waiting periods expire as are necessary to avoid a violation of law).

(d) Compliance. Except as disclosed in CEI SEC Reports (as defined in Section 5.3) filed prior to the date hereof, neither CEI nor the Merger Subsidiary is in violation of, is under investigation with respect to any violation of, or has been given notice or been charged with any violation of, any law, statute, order, rule, regulation, ordinance or judgment (including, without limitation, any applicable Environmental Law) of any Governmental Authority, which would prevent CEI from consummating the transactions contemplated by this Agreement.

Section 5.3 Litigation. Except as disclosed in each report, schedule, registration statement and definitive proxy statement filed with the SEC by CEI or CECONY pursuant to the requirements of the Securities Act or Exchange Act since January 1, 1993 (as such documents have since the time of their filing been amended, the "CEI SEC Reports") filed prior to the date hereof, there are no claims, suits, actions or proceedings by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator, pending or, to the knowledge of CEI, threatened, nor are there, to the knowledge of CEI, any investigations or reviews by any court, governmental department, commission, agency, instrumentality or authority or any arbitrator pending or threatened against relating to or affecting CEI or the Merger Subsidiary which, in each case, would prevent CEI from consummating the transactions contemplated by this Agreement.

Section 5.4 Proxy Statement. None of the information supplied or to be supplied by or on behalf of CEI for inclusion or incorporation by reference in the Proxy Statement will, at the date mailed to the Company shareholders and at the time of the meeting of the holders of Company Common Stock to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 5.5 Regulation as a Utility. As of the date hereof, neither CEI nor any "subsidiary company" or "affiliate" (as each such term is defined in the 1935 Act) of CEI is subject to regulation as a public utility holding company, public utility or public service company (or similar designation) by the Federal government of the United States, any state in the United States or any foreign country.

Section 5.6 No Vote Required. No vote of holders of any class or series of the capital stock of CEI is necessary to approve this Agreement, the Merger or the other transactions contemplated hereby.

Section 5.7 Financing. CEI has or will have available, prior to the Effective Time, sufficient cash in immediately available funds to pay the Merger Consideration pursuant to Article II hereof and to consummate the Merger and the other transactions contemplated hereby.

Section 5.8 Ownership of Company Common Stock. As of the date hereof, neither CEI nor any of its Affiliates (excluding for such purposes officers and directors of CEI and the CEI Subsidiaries) (i) beneficially owns (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, or (ii) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of capital stock of the Company.

ARTICLE VI

CONDUCT OF BUSINESS PENDING THE MERGER

Except as set forth in the Company Disclosure Schedule and making references to the particular subsection of this Agreement to which exception is being taken:

Section 6.1 Covenants of the Company. After the date hereof and prior to the Effective Time or earlier termination of this Agreement, the Company agrees as follows, each as to itself and to each of the Company Subsidiaries, except as expressly contemplated or permitted in this Agreement or to the extent CEI shall otherwise consent in writing, which decision regarding consent shall be made as soon as reasonably practical:

(a) Ordinary Course of Business. The Company shall, and shall cause the Company Subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and in compliance in all material respects with all applicable laws and regulations and use all commercially reasonable efforts to preserve intact their respective present business organizations and goodwill, preserve the goodwill and relationships with customers, suppliers and others having business dealings with them and, subject to prudent management of work force needs and ongoing programs currently in force, keep available the services of their respective present officers and employees, provided, however, (i) that nothing shall prohibit the Company from divesting its generation assets in accordance with terms that are equivalent in all material respects to the terms in the Order Adopting Terms of Settlement with the New York State Public Service Commission, issued and effective November 26, 1997 (the " Settlement Agreement") and the Final Divestiture Plan dated February 3, 1998 and the Order Authorizing the Process For Auctioning of Generation Plant and Rejecting Joint Agreement, issued and effective April 16, 1998 (collectively, the " Final Divestiture Plan") and (ii) neither the Company nor any Company Subsidiary shall enter into any new line of business. Notwithstanding the above and notwithstanding any other provision in Section 6.1 (other than Section 6.1(l)), the Company and any of the Company Subsidiaries may make equity infusions into a Company Subsidiary (other than NORSTAR Management, Inc. and its Subsidiaries) (i) to the extent required by law or a state regulatory commission or (ii) to the extent that equity infusions into the Company Subsidiaries do not exceed $10 million in the aggregate.

(b) Dividends. The Company shall not, and shall not permit any of the Company Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of their respective capital stock other than to the Company or the Company Subsidiaries and other than regular quarterly dividends on Company Common Stock with usual record and payment dates not, during any period of any fiscal year, in excess of the dividends for the comparable period of the prior fiscal year, (ii) split, combine or reclassify any of their respective capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of their respective capital stock or (iii) redeem, repurchase or otherwise acquire any shares of their respective capital stock, other than (A) redemptions, purchases or acquisitions required by the respective terms of any series of Company Preferred Stock or Company Preference Stock, or (B) for the purpose of funding employee stock ownership plans and dividend reinvestment programs in accordance with past practice. Notwithstanding the foregoing, the Company may redeem Company Preferred Stock pursuant to the provisions of Section 2.1(c) and the Company may redeem Company Preference Stock pursuant to the provisions of Section 2.1(d). The last record date of the Company on or prior to the Effective Time which relates to a regular quarterly dividend on Company Common Stock shall be prior to the Effective Time.

(c) Issuance of Securities. The Company shall not, and shall not permit any of the Company Subsidiaries to, issue, agree to issue, deliver, sell, award, pledge, dispose of or otherwise encumber or authorize or propose the issuance, delivery, sale, award, pledge, disposal or other encumbrance of, any shares of their capital stock of any class or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares or convertible or exchangeable securities, other than any issuances of capital stock of any Company Subsidiary to the Company or any wholly-owned Company Subsidiary (other than, in each case, NORSTAR Management, Inc. and its Subsidiaries).

(d) Charter Documents. The Company shall not amend or propose to amend its Restated Certificate of Incorporation or by-laws or other comparable organizational documents of any Company Subsidiary.

(e) No Acquisitions. The Company shall not, nor shall the Company permit any of the Company Subsidiaries to: (i) acquire, or publicly propose to acquire, or agree to acquire, by merger or consolidation with, or by purchase or otherwise, an equity interest in or a substantial portion of the assets of, any business or any corporation, partnership, association or other business organization or division thereof, or (ii) otherwise acquire or agree to acquire a material amount of assets, except in the case of this clause (ii) only, in the ordinary course of business consistent with past practice or (iii) alter (through merger, liquidation, reorganization, restructuring or in any other fashion) the corporate structures or ownership of the Company or any of the Company Subsidiaries.

(f) No Dispositions. Except (i) for the Company divesting its generation assets in accordance with the terms and conditions set forth in the Settlement Agreement and the Final Divestiture Plan, (ii) for Clove Development Corporation, a wholly owned subsidiary of the Company, divesting at fair market value, its real estate, primarily located in Sullivan County, New York, (iii) for O&R Energy Development, Inc., a wholly owned subsidiary of the Company, divesting at fair market value its real estate, primarily located in Orange County, New York, and (iv) for the Company or the Company Subsidiaries making dispositions at fair market value of less than $10 million in sales price and indebtedness assumed by the acquiring party and its Affiliates, singularly or in the aggregate during any fiscal year, the Company shall not, nor shall the Company permit any of the Company Subsidiaries to, sell or dispose of any of their respective assets other than dispositions in the ordinary course of its business consistent with past practice. As used in this Agreement, the term "Affiliate," except where otherwise defined herein, shall mean, as to any person, any other person which directly or indirectly controls, or is under common control with, or is controlled by, such person. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise). The Company (i) shall consult with CEI with respect to significant decisions relating to the divestiture of the generation assets and transactions in connection therewith prior to taking any action with respect to any such decision or entering into any such transaction and (ii) shall take into account the views of CEI with respect to such action or transaction. The Company shall use its best efforts to enter into a definitive agreement to divest its generation assets in accordance with the Settlement Agreement and the Final Divestiture Plan on or prior to May 1, 1999 and use its best efforts to consummate the divestiture of its generation assets as soon as practicable after entering into such agreement. The Company shall conduct such divestiture on terms that are equivalent in all material respects to the terms set forth in the Final Divestiture Plan, including divesting all liabilities, arising out of, related to or otherwise associated with such generation assets, including all environmental liabilities (other than environmental liabilities relating to off-site storage or disposal of Hazardous Materials associated with the generating assets) and all liabilities with respect to fuel purchase contracts relating to such generation assets. Unless ordered pursuant to law or regulation, the Company shall not materially modify or amend, or propose to enter into any agreement to modify or amend the Settlement Agreement or the Final Divestiture Plan or conduct any negotiations with the NYPSC or any other Governmental Authority in connection with any such proposed modification or amendment. If so ordered, the Company shall consult with CEI prior to taking or agreeing to take any such action. The Company and the Company Subsidiaries shall not pay out, distribute, invest (except that the Company and the Company Subsidiaries may invest in the ordinary course of business in a manner that would not otherwise be prohibited by any of the provisions of this Section 6.1) or otherwise make use of the proceeds resulting from the divestiture of its generation assets except as expressly permitted by the provisions of this Section 6.1.

(g) Cooperation, Notification. The Company shall (i) confer on a regular and frequent basis with one or more representatives of CEI to discuss, subject to applicable law, material operational matters and the general status of its ongoing operations, (ii) promptly notify CEI of any significant changes in its business, properties, assets, condition (financial or other), results of operations or prospects, (iii) promptly notify CEI of property sales by the Company Subsidiaries in excess of $10 million and shall discuss with CEI use of proceeds from such sales to the extent that such proceeds exceed $10 million, (iv) promptly advise CEI of (A) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect, (B) the failure by it to comply in any material respect with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement and (C) any change or event which, individually or in the aggregate, has had or would have a Company Material Adverse Effect (provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement) and (v) promptly provide CEI with copies of all filings made by the Company or any of the Company Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(h) Third-Party Consents. The Company shall, and shall cause the Company Subsidiaries to, use all reasonable best efforts to obtain all Company Required Consents. The Company shall promptly notify CEI of any failure or prospective failure to obtain any such consents and, if requested by CEI, shall provide copies of all Company Required Consents obtained by the Company to CEI.

(i) No Breach, Etc. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, voluntarily take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(j) Tax-Exempt Status. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, take any action that would likely jeopardize the qualification of the Company's outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt pollution control bonds under Section 103(b) (4) of the Internal Revenue Code of 1954, as amended, prior to the Tax Reform Act of 1986.

(k) Tax Matters. The Company shall not (i) make or rescind any material express or deemed election relating to Taxes without the prior written consent of CEI, which consent shall not be unreasonably withheld, (ii) settle or compromise any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to

Taxes without the prior written consent of CEI or (iii) change in any material respect any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its federal income tax return for the taxable year ending December 31, 1996, except as may be required by applicable law.

(l) Capital Expenditures. Except (i) as required by law, or (ii) as reasonably deemed necessary by the Company after consulting with CEI following a catastrophic event, such as a major storm, the Company shall not, and the Company shall not permit any of the Company Subsidiaries to, make capital expenditures during any fiscal year in excess of 110% of the amount budgeted for such fiscal year by the Company for capital expenditures.

(m) Indebtedness. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial statement condition of another person or entity or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice (such as the issuance of commercial paper, the use of credit facilities existing as of the date hereof or hedging activities undertaken in order to hedge a balance sheet asset or liability and not for speculative purposes), (ii) guarantees or "keep well" or other agreements in favor of wholly-owned Subsidiaries (other than NORSTAR Management, Inc. and its Subsidiaries) in the ordinary course of business consistent with past practice and not aggregating more than $5 million, (iii) other indebtedness or "keep well" or other agreements not aggregating more than $5 million, (iv) arrangements between the Company and the wholly-owned Company Subsidiaries (other than NORSTAR Management, Inc. and its Subsidiaries) or among the wholly-owned Company Subsidiaries (other than NORSTAR Management, Inc. and its Subsidiaries), (v) in connection with the refunding of existing long-term indebtedness at maturity or at a lower cost of funds, (vi) in connection with the redemption of Company Preferred Stock as set forth in Section 2.1(c), (vii) in connection with the redemption of Company Preference Stock as set forth in Section 2.1(d), (viii) as may be necessary in connection with capital expenditures permitted by Section 6.1(l).

(n) Compensation, Benefits. Except as may be required by applicable law, the Company shall not, and the Company shall not permit any of the Company Subsidiaries to, (i) enter into, adopt or amend or increase the amount or accelerate the payment or vesting of any benefit or amount payable under, any Company Plan or any other employee benefit plan or other contract, agreement, commitment, arrangement, plan, trust, fund or policy maintained by, contributed to or entered into by the Company or any of the Company Subsidiaries (other than any adoption or amendment to, or change of, any Company Plan that, individually or in the aggregate, does not result in any material expense to the Company and the Company Subsidiaries taken as a whole); (ii) increase, or enter into any contract, agreement, commitment or arrangement to increase in any manner, the compensation or fringe benefits, or otherwise to extend, expand or enhance the engagement, employment or any related rights, of any director, officer or other employee of the Company or any of the Company Subsidiaries, except for normal promotion and compensation (including incentive compensation) increases and hiring and discretionary award grants in the ordinary course of business that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company or any of the Company Subsidiaries; (iii) enter into or amend any employment, severance, retention, consulting or special pay arrangement with respect to the termination of employment or other similar contract, agreement or arrangement with any director or officer or other employee other than, with respect only to employees who are not officers or directors, in the ordinary course of business consistent with past practice or (iv) enter into any collective bargaining agreement or other labor union contract or written agreement or amend in any material manner any such agreement or contract to which the Company or any of the Company Subsidiaries is a party, except as required by law, in which case the Company shall consult with CEI prior to taking any required action.

(o) 1935 Act. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to engage in any activities which would cause a change in its status, or that of the Company Subsidiaries, under the 1935 Act.

(p) Accounting. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or GAAP.

(q) Affiliate Transactions. Subject to the other restrictions set forth in this Section 6.1, the Company shall not permit any of the Company Subsidiaries to, enter into any material agreement or arrangement with any of their respective Affiliates (except wholly owned Subsidiaries other than NORSTAR Management, Inc. and its Subsidiaries), on terms materially less favorable to such party than could be reasonably expected to have been obtained with an unaffiliated third-party on an arm's length basis.

(r) Rate Matters. Subject to applicable law, the Company shall, and shall cause the Company Subsidiaries to, (i) discuss with CEI any changes in its or the Company Subsidiaries' rates or the services it provides or charges (other than pass-through fuel and gas rates or charges), standards of service or accounting from those in effect on the date hereof, and obtain CEI's approval prior to proposing, agreeing to or making any material changes with respect thereto and (ii) subject to the preceding clause (i), consult with CEI prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent with governmental regulators, whether written or oral, formal or informal, with respect thereto. The Company will consult with CEI before making any filing to change its rates or the services it provides on file with the FERC that would have a material adverse effect on the benefits associated with the business combination provided for herein.

(s) Contracts. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use reasonable business efforts to renew any contract or agreement to which the Company or the Company Subsidiary is a party, which is material to the Company and the Company Subsidiaries taken as a whole, or waive, release or assign any material rights or claims therein.

(t) Insurance. The Company shall, and shall cause the Company Subsidiaries to, maintain with financially responsible insurance companies insurance in such amounts and against such risks and losses as are customary for companies engaged in the electric and gas utility industry and employing methods of generating electric power and fuel sources similar to those methods employed and fuels used by the Company or the Company Subsidiaries.

(u) Permits. The Company shall, and shall cause the Company Subsidiaries to, use reasonable efforts to maintain in effect all existing governmental permits which are material to the operations of the Company or the Company Subsidiaries.

(v) Discharge of Liabilities. The Company shall not, and the Company shall not permit any of the Company Subsidiaries to, pay, discharge, settle, compromise or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) material to the Company and the Company Subsidiaries taken as a whole, other than the payment, discharge, settlement, compromise or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company SEC Reports filed prior to the date hereof, or incurred in the ordinary course of business consistent with past practice.

Section 6.2 Covenants of CEI . After the date hereof and prior to the Effective Time or earlier termination of this Agreement, CEI agrees as follows, as to itself and to each of CEI Subsidiaries, except to the extent the Company shall otherwise consent in writing, which decision regarding consent shall be made as soon as reasonably practical:

(a) Cooperation, Notification. CEI shall (i) promptly advise the Company of (A) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect and (B) the failure by it to comply in any material respect with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement (provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement) and (ii) promptly provide the Company with copies of all filings made by CEI or any of CEI Subsidiaries with any state or federal court, administrative agency, commission or other Governmental Authority in connection with this Agreement and the transactions contemplated hereby.

(b) No Breach, Etc. CEI shall not and CEI shall not permit any of the CEI Subsidiaries to, voluntarily take any action that would or is reasonably likely to result in a material breach of any provision of this Agreement or in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

ARTICLE VII

ADDITIONAL AGREEMENTS

Section 7.1 Access to the Company's Information. Upon reasonable notice, the Company shall, and shall cause the Company Subsidiaries to, afford to the officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives (collectively, " Representatives") of CEI reasonable access, during normal business hours throughout the period prior to the Effective Time, to all of its properties, books, contracts, commitments and records (including, but not limited to, tax returns) and, during such period, the Company shall, and shall cause the Company Subsidiaries to, furnish promptly to CEI and its Representatives (i) access to each report, schedule and other document filed or received by the Company or any of the Company Subsidiaries pursuant to the requirements of federal or state securities laws or filed with or sent to the SEC, the FERC, the Department of Justice, the Federal Trade Commission, the New York Department of Environmental Conservation or any other federal or state regulatory agency or commission and (ii) access to all information concerning the Company, the Company Subsidiaries, and their respective directors, officers and shareholders and such other matters as may be reasonably requested by CEI or its Representatives in connection with any filings, applications or approvals required or contemplated by this Agreement or for any other reason related to the transactions contemplated by this Agreement. Subject to obtaining customary indemnities, the parties shall promptly furnish to each other such information as may be reasonably requested, including audited financial statements and other financial information, and take such other action as may be reasonably necessary and otherwise fully cooperate with each other in the preparation of any registration statement under the Securities Act and other documents necessary in connection with the issuance of securities (subject to Section 6.1(c) and 6.1(m) in the case of issuances by the Company or any Company Subsidiary). Each party shall, and shall cause its Subsidiaries and Representatives to, hold in strict confidence all documents and information concerning the other furnished to it in connection with the transactions contemplated by this Agreement in accordance with the Confidentiality Agreement, dated December 17, 1997, between the Company and CEI (the " Confidentiality Agreement"). No review pursuant to this Section 7.1 shall have an effect for the purpose of determining the accuracy of any representation or warranty given by any of the parties hereto to any of the other parties hereto.

Section 7.2 Proxy Statement. The parties will prepare and file with the SEC as soon as practicable after the date hereof the Proxy Statement. Each of the parties hereto shall furnish all information concerning itself which is required or customary for inclusion in the Proxy Statement. The information provided by any party hereto for use in the Proxy Statement shall be true and correct in all material respects without omission of any material fact which is required to make such information not false or misleading. No representation, covenant or agreement is made by any party hereto with respect to information supplied by any other party for inclusion in the Proxy Statement. No filing of, or amendment or supplement to, the Proxy Statement will be made by the Company without providing CEI with the opportunity to review and comment thereon. If at any time prior to the Effective Time any information relating to the Company or CEI, or any of their respective Affiliates, officers or directors, should be discovered by the Company or CEI which should be set forth in an amendment or supplement to the Proxy Statement, so that the Proxy Statement would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and, to the extent required by law, disseminated to the stockholders of the Company.

Section 7.3 Regulatory Matters.

(a) HSR Filings. Each party hereto shall, as soon as practicable after the date hereof, file or cause to be filed with the Federal Trade Commission and the Department of Justice any notifications required to be filed by their respective "ultimate parent" companies under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the " HSR Act"), and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Such parties will use their reasonable best efforts to respond on a timely basis to any requests for additional information made by either of such agencies.

(b) Other Regulatory Approvals. Each party hereto shall cooperate and use its reasonable best efforts to promptly prepare and file all necessary documentation and to effect all necessary applications, notices, petitions, filings and other documents and use its reasonable best efforts to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to obtain the Company Required Statutory Approvals and CEI Required Statutory Approvals; provided, however, that the Company shall not be required to take any action in connection with the obtaining of such permits, consents, approvals and authorizations that would have, or, insofar as reasonably can be foreseen, is likely to have, a Company Material Adverse Effect and CEI shall not be required to take any action in connection with the obtaining of such permits, consents, approvals and authorizations that would have, or, insofar as reasonably can be foreseen, is likely to have a CEI Material Adverse Effect or a Company Material Adverse Effect.

(c) For each facility that is potentially an "industrial establishment" (as that term is defined by the New Jersey Industrial Site Recovery Act (" ISRA")) and is owned or operated by the Company or a Company Subsidiary that is subject to ISRA as a result of this Agreement, the Company or the Company Subsidiary that owns or operates such facility shall, prior to the Closing Date, obtain a written determination from the New Jersey Department of Environmental Protection that such facility is not an industrial establishment, or that such facility is otherwise exempted or excluded from coverage under ISRA (collectively a " non-applicability determination") and with respect to any facility for which a non-applicability determination cannot be obtained, either (i) obtain an approved Negative Declaration or No Further Action Letter (as such terms are defined by ISRA); (ii) obtain an approved Remedial Action Workplan (as such term is defined by ISRA); or (iii), if a Negative Declaration, No Further Action Letter, or approved Remedial Action Workplan cannot be obtained prior to the Closing Date, obtain and execute a Remediation Agreement permitting the consummation of the transactions contemplated by this Agreement. The Company shall provide to CEI all relevant correspondence, data and submissions to or from the New Jersey Department of Environmental Protection.

Section 7.4 Approval of the Company Shareholders. The Company shall, as soon as practicable after the date hereof (i) take all steps necessary to duly call, give notice of, convene and hold a meeting of its shareholders (the " Company Meeting") for the purpose of securing the Company Shareholders' Approval, (ii) distribute to its shareholders the Proxy Statement in accordance with applicable federal and state law and with its Restated Certificate of Incorporation and by-laws, (iii) subject to Section 7.10, recommend to its shareholders the approval of the Merger, this Agreement and the transactions contemplated hereby and (iv) cooperate and consult with CEI with respect to each of the foregoing matters. Without limiting the generality of the foregoing but subject to its rights to terminate this Agreement pursuant to Section 9.1(g), the Company agrees that its obligations pursuant to the first sentence of this Section 7.4 shall not be affected by the commencement, public proposal, public disclosure or communication to the Company of any Acquisition Proposal.

Section 7.5 Directors' and Officers' Indemnification.

(a) Indemnification. To the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, the Surviving Corporation shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who is now, or has been at any time prior to the date hereof, or who becomes prior to the Effective Time, (x) an officer or director or (y) an employee covered as of the date hereof (to the extent of the coverage extended as of the date hereof) of any of the Company or any Company Subsidiary (each an " Indemnified Party" and collectively, the " Indemnified Parties") against (i) all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the first proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of the Company or any Company Subsidiary (the " Indemnified Liabilities"), and (ii) all Indemnified Liabilities to the extent they are based on or arise out of or pertain to the transactions contemplated by this Agreement, in each case, to the extent permitted by Section 722(a) of the NYBCL. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), (i) the Surviving Corporation shall pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel shall be reasonably satisfactory to the Surviving Corporation, promptly after statements therefor are received and otherwise advance to such Indemnified Party upon request, reimbursement of documented expenses reasonably incurred, in either case to the extent not prohibited by the NYBCL upon receipt of an undertaking by or on behalf of such director or officer to repay such amounts as and to the extent required by the NYBCL, (ii) the Surviving Corporation will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under the NYBCL and the certificate of incorporation or by-laws of the Surviving Corporation shall be made by independent counsel mutually acceptable to the Surviving Corporation and the Indemnified Party; provided, however, that the Surviving Corporation shall not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld) and provided further that no indemnification shall be made if such indemnification is prohibited by the proviso to the first sentence of Section 721 of the NYBCL. The Indemnified Parties as a group may retain only one law firm with respect to each related matter except to the extent that such law firm would have, in the opinion of such law firm, under applicable standards of professional conduct then prevailing under the laws of the State of New York, a conflict of interest in representing any particular Indemnified Party.

(b) Insurance. For a period of six years after the Effective Time, the Surviving Corporation shall cause to be maintained in effect policies of directors and officers' liability insurance equivalent to those maintained by the Company prior to the Effective Time for the benefit of those persons who are currently covered by such policies on terms no less favorable than the terms of such current insurance coverage.

(c) Successors. In the event the Surviving Corporation or any of its successors or assigns (i) consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any person or entity, then and in either such case, proper provisions shall be made so that the successors and assigns of the Surviving Corporation, as applicable, shall assume the obligations set forth in this Section 7.5.

(d) Survival of Indemnification. To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification as of the date hereof in favor of the employees, agents, directors and officers of the Company and the Company Subsidiaries with respect to their activities as such prior to the Effective Time, as provided in their respective certificates of incorporation and by-laws in effect on the date hereof, or otherwise in effect on the date hereof, shall survive the Merger and shall continue in full force and effect for a period of not less than six years from the Effective Time.

(e) Benefit. The provisions of this Section 7.5 are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party, his or her heirs and his or her representatives.

Section 7.6 Public Announcements. Subject to each party's disclosure obligations imposed by law, the Company and CEI will cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby and shall not issue any public announcement or statement with respect hereto or thereto without the consent of the other party (which consent shall not be unreasonably withheld).

Section 7.7 Standstill Agreements; Confidentiality Agreements. Except for the Company's ability to enter into, amend, modify, waive any provision of, enforce and terminate, if necessary, the confidentiality agreements relating to the sale of the generation assets, (i) during the period from the date of this Agreement through the Effective Time, the Company shall not, and shall not permit any Company Subsidiary, to terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which it or any Company Subsidiary is a party and (ii) during such period, the Company shall enforce, to the fullest extent permitted under applicable law, the provisions of any such agreement, including by obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof in any court of the United States of America or of any state having jurisdiction.

Section 7.8 Employee Agreements and Workforce Matters.

(a) Certain Employee Agreements. CEI shall cause the Surviving Corporation and its Subsidiaries to honor all collective bargaining agreements in effect as of the date hereof, and, subject to Section 7.9, CEI shall cause the Surviving Corporation and its Subsidiaries to honor all contracts, agreements and commitments (including all Company Plans) of the Company as in effect on the date hereof that apply to any current or former employee or current or former director of the Company; provided, however, that this undertaking is not intended to prevent CEI or the Surviving Corporation and its Subsidiaries from exercising their rights with respect to such contracts, agreements, collective bargaining agreements and commitments in accordance with their terms, including, without limitation, any right to amend, modify, suspend, revoke or terminate any such contract, agreement, collective bargaining agreement or commitment or portion thereof.

(b) Workforce Matters. Subject to applicable law and obligations under applicable collective bargaining agreements, for a period of 3 years following the Effective Time, any reductions in workforce in respect of employees of the Surviving Corporation and its Subsidiaries shall be made on a fair and equitable basis as determined by the Surviving Corporation, without regard to whether employment was with the Company or the Company Subsidiaries or CEI or CEI Subsidiaries and with due consideration to prior experience and skills, and any employee whose employment is terminated or job is eliminated during such period shall be entitled to participate on a fair and equitable basis as determined by CEI or the Surviving Corporation in the job opportunity and employment placement programs offered by CEI or the Surviving Corporation or any of their Subsidiaries for which they are eligible. Any workforce reductions carried out following the Effective Time by the Surviving Corporation and its Subsidiaries shall be done in accordance with all applicable collective bargaining agreements and all laws and regulations governing the employment relationship and termination thereof including, without limitation, the Worker Adjustment and Retraining Notification Act and regulations promulgated thereunder, and any comparable state or local law.

Section 7.9 Employee Benefit Plans.

(a) Service Credit. All service under any Company Plan that was recognized, accrued or credited under such Company Plan immediately preceding the Effective Time shall continue to be recognized, accrued or credited for all relevant purposes under such Company Plan as of and at all times following the Effective Time. Subject to obligations under applicable law and applicable collective bargaining agreements, all employees of the Company and its Subsidiaries who were employees immediately prior to the Effective Time (the " Affected Employees") shall be given credit for all service with the Company or its Subsidiaries (and service credited by the Company or such Subsidiary), to the same extent as such service was credited for such purpose by the Company or such Subsidiary, under (a) all employee benefit plans, programs and policies, and fringe benefits of CEI or the Surviving Corporation (if any) in which they first become participants on or after the Effective Time, for purposes of eligibility and vesting but not for benefit accrual purposes or eligibility for early retirement purposes under defined benefit pension plans and not to the extent crediting such service would result in duplication of benefits and (b) severance plans for purposes of calculating the amount of each Affected Employee's severance benefits. To the extent permissible under the terms thereof and required by applicable law, CEI and the Surviving Corporation shall (i) waive all limitations as to preexisting conditions exclusions and waiting periods with respect to participation and coverage requirements applicable to the Affected Employees under any welfare benefit plans that such employees may be eligible to participate in after the Closing Date, other than limitations or waiting periods that are already in effect with respect to such employees and that have not been satisfied as of the Closing Date under any welfare benefit plan maintained for the Affected Employees immediately prior to the Closing Date, and (ii) provide each Affected Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans that such employees are eligible to participate in after the Closing Date. Nothing in this Section shall be deemed to require the employment of any Affected Employee to be continued for any particular period of time after the Closing Date.

(b) Continuation of Benefits. Subject to applicable law and obligations under applicable collective bargaining agreements, CEI shall cause the Surviving Corporation to maintain for a period of at least one year after the Closing Date, without interruption, such employee compensation, welfare and benefit plans, programs, policies and fringe benefits as will, in the aggregate, provide benefits to the Affected Employees that are no less favorable than those provided pursuant to such employee compensation, welfare and benefit plans, programs, policies and fringe benefits of the Company and its Subsidiaries, as in effect on the Closing Date; provided, however, that CEI shall cause the Surviving Corporation to, for one year following the Closing Date, continue the Company Severance Pay Plan (the " Severance Plan") in full force and effect to the same extent that such Severance Plan is in effect on the Closing Date.

(c) Effect of the Merger. The consummation of the Merger shall not be treated as a termination of employment of any Affected Employee for purposes of any Company Plan.

(d) Continuation of Agreements. CEI shall cause the Surviving Corporation to, as of the Closing Date, honor and be solely responsible for the employment, severance, consulting and retention agreements set forth in Section 7.9 of the Company Disclosure Schedule.

Section 7.10 No Solicitations by the Company.

(a) From and after the date hereof, (i) the Company will not, and will not authorize or permit any of its Representatives to, directly or indirectly, solicit, initiate or encourage (including by way of furnishing information) or take any other action to facilitate knowingly any inquiries or the making of any proposal which constitutes or may reasonably be expected to lead to an Acquisition Proposal (as defined herein) from any person, or engage in any discussion or negotiations relating thereto and (ii) neither the Board of Directors of the Company nor any committee thereof shall (A) withdraw or modify, or propose publicly to withdraw or modify, in a manner adverse to CEI, the approval or recommendation by such Board of Directors or such committee of the Merger or this Agreement, (B) approve or recommend, or propose publicly to approve or recommend, any Acquisition Proposal, or (C) cause the Company or any Company Subsidiary to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, an " Acquisition Agreement") related to any Acquisition Proposal; provided, however, that the Company may, at any time prior to receipt of the Company Shareholders' Approval (the " Company Applicable Period"), (i) in response to an Acquisition Proposal which was not solicited by it or its Representatives and which did not otherwise result from a breach of this Section 7.10, if the Board of Directors of the Company (x) reasonably believes in good faith, after consultation with its financial advisors, that an Acquisition Proposal may be a Superior Proposal (as defined herein) and (y) determines in good faith, after consultation with its financial advisors and outside counsel, that failing to take such action could reasonably be expected to be a breach of its fiduciary duties to the Company's shareholders under applicable law, and subject to providing prior written notice of its decision to take such action to CEI (the "Company Notice") and compliance with Section 7.10(c), for a period of twenty business days following delivery of the Company Notice, (1) furnish information with respect to the Company and its Subsidiaries to any person making a Superior Proposal pursuant to a customary confidentiality agreement (as determined by the Company after consultation with outside counsel) and (2) participate in discussions or negotiations regarding such Superior Proposal (provided, in each case, that the Company shall be permitted to deliver only one Company Notice with respect to each person making an Acquisition Proposal), (ii) comply with Rule 14e-2 promulgated under the Exchange Act with regard to a tender or exchange offer (provided that, except in connection with a termination of this Agreement pursuant to clause (iii) of this proviso, neither the Company nor its Board of Directors nor any committee thereof shall withdraw or modify, or propose publicly to withdraw or modify, its position with respect to this Agreement or the Merger or approve or recommend, or propose publicly to approve or recommend, an Acquisition Proposal), and/or (iii) in the event that during the Company Applicable Period the Board of Directors of the Company reasonably believes in good faith, after consultation with financial advisors and outside counsel, (x) that it has received an Acquisition Proposal that constitutes a Superior Proposal and (y) that failure to terminate this Agreement and accept such Superior Proposal could reasonably be expected to be a breach of its fiduciary duties to the Company's shareholders under applicable law, by action of the Board of Directors of the Company (subject to this sentence and Section 9.1(g)), terminate this Agreement (and, following the exercise of such termination right, withdraw or modify in any adverse manner its approval or recommendation of this Agreement or the Merger, and approve or recommend any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any such Company Subsidiary, other than the transactions contemplated by this Agreement), but only at a time that is during the Company Applicable Period and is after the third business day following CEI's receipt of written notice advising CEI that the Board of Directors of the Company is prepared to accept a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal. The Company shall immediately cease and terminate any existing solicitation, initiation, encouragement, activity, discussion or negotiation with any persons conducted heretofore by the party or its Representatives with respect to the foregoing.

(b) As used herein, (i) "Acquisition Proposal" shall mean any inquiry, proposal or offer from any person relating to any direct or indirect acquisition or purchase of a business (a " Material Business") that constitutes 15% or more of the net revenues, net income or the assets (including equity securities) of the Company and the Company Subsidiaries, taken as a whole, or 15% or more of any class of voting securities of the Company or any Company Subsidiary owning, operating or controlling a Material Business, any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of voting securities of the Company or any such Company Subsidiary, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company or any such Company Subsidiary, other than the transactions contemplated by this Agreement; provided, however, that no transaction permitted pursuant to Section 6.1(f) shall be deemed an Acquisition Proposal for any purpose and (ii) a " Superior Proposal" shall mean any proposal made by a third party to acquire, directly or indirectly, including pursuant to a tender offer, exchange offer, merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction, for consideration consisting of cash and/or securities, more than 50% of the combined voting power of the shares of Company Common Stock then outstanding or all or substantially all the assets of the Company which the Board of Directors of the Company determines in its good faith judgment (based on the written advice of a financial advisor of nationally recognized reputation) to be more favorable to the Company's shareholders (taking into account any changes to the financial terms of this Agreement proposed by CEI in response to such proposal and all financial and strategic considerations, including relevant legal, financial, regulatory and other aspects of the proposal and the third party making such proposal and the conditions and the prospects for completion of such proposal, the strategic direction and benefits sought by the Company and any changes to this Agreement proposed by CEI in response to such proposal) than the Merger and the other transactions contemplated by this Agreement.

(c) The Company shall promptly advise CEI orally and in writing of the receipt of any Superior Proposal and of the receipt of any inquiry with respect to or which the Company reasonably believes could lead to any Superior Proposal. The Company shall promptly advise CEI orally and in writing of the identity of the person making any such Superior Proposal or inquiry and of the material terms of any such Superior Proposal and of any material changes thereto.

Section 7.11 Board of Directors; Advisory Board. The Board of Directors of CEI will take such action as may be necessary (including increasing the size of the Board of Directors of CEI) to appoint to the Board of Directors of CEI after the Effective Time, effective at the Effective Time, one person selected by the Nominating Committee of CEI, who (i) is a member of the Board of Directors of the Company as of the date hereof, (ii) is willing to serve on the Board of Directors of CEI and (iii) would be eligible under CEI's by-laws and applicable resolutions of CEI's Board of Directors to be so nominated for election to the Board of Directors of CEI at the next annual meeting of CEI following the Effective Time. At the Effective Time, CEI shall cause the Surviving Corporation to establish an advisory board that will consist of approximately equal numbers of individuals designated by the Company and designated by CEI, which advisory board will provide advice and input regarding the implementation of the Merger and the ongoing operations of the Surviving Corporation.

Section 7.12 Post-Merger Operations.

(a) Corporate Offices. The Surviving Corporation shall maintain a subsidiary office at a Rockland County, New York location, as the headquarters of the Company subsidiary for three years following the Merger.

(b) Charities. The parties agree that provision of charitable contributions and community support in the service areas of the Company and the Company Subsidiaries serves a number of important goals. After the Effective Time, CEI shall cause the Surviving Corporation to provide, directly or indirectly, charitable contributions and community support within the service areas of the Company and each of the Company utility Subsidiaries at levels substantially comparable to and no less than the levels of charitable contributions and community support provided by the Company and the Company utility Subsidiaries within their service areas within the two-year period immediately prior to the Effective Time.

Section 7.13 Expenses. Subject to Section 9.3, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses, except that each of CEI and the Company shall bear and pay one-half of the costs and expenses incurred for the filings of the premerger notification and report forms under the HSR Act (including filing fees) and for expert witnesses retained for the purpose of advising and supporting joint regulatory filings.

Section 7.14 Further Assurances. Each party will, and will cause its Subsidiaries to, execute such further documents and instruments and take such further actions as may reasonably be requested by any other party in order to consummate the Merger in accordance with the terms hereof, including the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated by this Agreement, including seeking to have any stay or temporary restraining order entered by any court or other Governmental Authority vacated or reversed.

Section 7.15 Shareholder Litigation. Each of the Company and CEI shall give the other the reasonable opportunity to participate in the defense of any shareholder litigation against the Company or CEI, as applicable, or any of their respective directors relating to the transactions contemplated by this Agreement.

ARTICLE VIII

CONDITIONS

Section 8.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, except, to the extent permitted by applicable law, that such conditions may be waived in writing pursuant to Sections 9.5 and 9.6 by the joint action of the parties hereto:

(a) Shareholder Approvals. The Company Shareholders' Approval shall have been obtained.

(b) No Injunction. No temporary restraining order or preliminary or permanent injunction or other order by any federal or state court preventing consummation of the Merger shall have been issued and be continuing in effect, and the Merger and the other transactions contemplated hereby shall not have been prohibited under any applicable federal or state law or regulation.

(c) Statutory Approvals. The Company Required Statutory Approvals and CEI Required Statutory Approvals shall have been obtained at or prior to the Effective Time and such approvals shall have become Final Orders (as defined below). A " Final Order" means action by the relevant regulatory authority which has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied.

Section 8.2 Conditions to Obligation of CEI to Effect the Merger. The obligation of CEI to effect the Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by CEI in writing pursuant to Sections 9.5 and 9.6:

(a) Performance of Obligations of the Company. The Company (and/or its appropriate Subsidiaries) will have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement which are required to be performed by it at or prior to the Effective Time.

(b) Representations and Warranties. The representations and warranties of the Company set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without giving effect to any materiality qualification or standard contained in any such representations and warranties) which, individually or in the aggregate, would not have a Company Material Adverse Effect.

(c) Closing Certificates. CEI shall have received a certificate signed by the chief financial officer of the Company, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 8.2(a) and Section 8.2(b) have been satisfied.

(d) Company Material Adverse Effect. No Company Material Adverse Effect shall have occurred and there shall exist no fact or circumstance which would have a Company Material Adverse Effect.

(e) Company Required Consents. The Company Required Consents the failure of which to obtain would have a Company Material Adverse Effect shall have been obtained.

(f) Statutory Approvals. The Company Required Statutory Approvals and CEI Required Statutory Approvals shall have been obtained and shall have become Final Orders and such Final Orders shall not impose terms or conditions, which, individually or in the aggregate, would have (i) a Company Material Adverse Effect or (ii) a CEI Material Adverse Effect.

(g) Redemption of Company Preference Stock. The Company shall have redeemed all outstanding shares of Company Preference Stock in accordance with the provisions of Section 2.1(d).

Section 8.3 Conditions to Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger shall be further subject to the satisfaction, on or prior to the Closing Date, of the following conditions, except as may be waived by the Company in writing pursuant to Sections 9.5 and 9.6:

(a) Performance of Obligations of CEI. CEI (and/or its appropriate Subsidiaries) will have performed in all material respects its agreements and covenants contained in or contemplated by this Agreement which are required to be performed by it at or prior to the Effective Time.

(b) Representations and Warranties. The representations and warranties of CEI set forth in this Agreement shall be true and correct (i) on and as of the date hereof and (ii) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for representations and warranties that expressly speak only as of a specific date or time which need only be true and correct as of such date or time) except in each of cases (i) and (ii) for such failures of representations or warranties to be true and correct (without giving effect to any materiality qualification or standard contained in any such representations and warranties) which, individually or in the aggregate, would not have a CEI Material Adverse Effect.

(c) Closing Certificates. The Company shall have received a certificate signed by the chief financial officer of CEI, dated the Closing Date, to the effect that, to the best of such officer's knowledge, the conditions set forth in Section 8.3(a) and Section 8.3(b) have been satisfied.

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

Section 9.1 Termination. This Agreement may be terminated at any time prior to the Closing Date, whether before or after the Company Shareholders' Approval contemplated by this Agreement:

(a) by mutual written consent of the Company and CEI;

(b) by CEI or the Company, if any state or federal law, order, rule or regulation is adopted or issued, which has the effect, as supported by the written opinion of outside counsel for such party, of prohibiting the Merger, or by any party hereto if any court of competent jurisdiction in the United States or any state shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Merger, and such order, judgment or decree shall have become final and nonappealable;

(c) by CEI or the Company, by written notice to the other party, if the Effective Time shall not have occurred on or before November 30, 1999 (the " Initial Termination Date"); provided, however, that the right to terminate the Agreement under this Section 9.1(c) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before this date; and provided, further, that if on the Initial Termination Date the conditions to the Closing set forth in Sections 8.1(c) and/or 8.2(f) shall not have been fulfilled but all other conditions to the Closing shall be fulfilled or shall be capable of being fulfilled, then the Initial Termination Date shall be extended to May 31, 2000;

(d) by CEI or the Company, by written notice to the other, if the Company Shareholders' Approval shall not have been obtained at a duly held Company Meeting, including any adjournments thereof;

(e) by CEI, by written notice to the Company, if there shall have been any breach of any representation or warranty, or any breach of any covenant or agreement of the Company hereunder, which breaches individually or in the aggregate would have a Company Material Adverse Effect, and such breach shall not have been remedied within 20 business days after receipt by the Company of notice in writing from CEI, specifying the nature of such breach and requesting that it be remedied or CEI shall not have received adequate assurance of a cure of such breach within such 20 business-day period;

(f) by the Company, by written notice to CEI, if there shall have been any breach of any representation or warranty, or any breach of any covenant or agreement of CEI hereunder, which breaches individually or in the aggregate would have a CEI Material Adverse Effect, and such breach shall not have been remedied within 20 business days after receipt by CEI of notice in writing from the Company, specifying the nature of such breach and requesting that it be remedied or the Company shall not have received adequate assurance of a cure of such breach within such 20 business-day period;

(g) by the Company, in accordance with clause (iii) of the proviso to the first sentence of Section 7.10(a); provided that, in order for the termination of this Agreement pursuant to this paragraph (g) to be deemed effective, the Company shall have complied with all provisions of Section 7.10, including the notice provisions therein, and with the applicable requirements, including the payment of the Termination Fee (as defined in Section 9.3(a)), of Section 9.3;

Section 9.2 Effect of Termination. In the event of termination of this Agreement by either the Company or CEI pursuant to Section 9.1 there shall be no liability on the part of either the Company or CEI or their respective officers or directors hereunder, except that Section 7.13, Section 9.2 and Section 9.3, the agreement contained in the next to last sentence of Section 7.1, Section 10.2 and Section 10.8 shall survive the termination.

Section 9.3 Termination Fee; Expenses.

(a) Termination Fee Payable by the Company. If this Agreement (i) is terminated by the Company pursuant to Section 9.1(g) or (ii) is terminated by the Company or CEI pursuant to Section 9.1(d) as a result of the Company Shareholders' Approval not being obtained and at or prior to the Company Meeting (or any subsequent meeting of the Company's shareholders at which it is proposed that the Merger be approved) there shall have been an Acquisition Proposal (whether or not conditional and whether or not such offer shall have been rejected or shall have been withdrawn prior to the time of such termination or of the meeting) and, solely in the case of any termination described in this clause (ii) of this paragraph (a), within two and one-half years of such termination the Company or any Company Subsidiary enters into any Acquisition Agreement or consummates any Acquisition Proposal (provided, that for the purposes of this Section 9.3(a)(ii) the terms " Acquisition Agreement" and " Acquisition Proposal" shall have the meanings assigned to such terms in Section 7.10 except that the references to "15%" in the definition of "Acquisition Proposal" in Section 7.10 shall be deemed to be references to "35%"), then, in each case, the Company shall immediately pay to CEI by wire transfer of same day funds a termination fee equal to $25 million in cash (the " Termination Fee").

(b) Payment of Expenses. If this Agreement is terminated pursuant to Section 9.1(d) or 9.1(e), then the Company shall promptly (but not later than ten business days after receiving notice of termination) pay to CEI in cash by wire transfer of same day funds an amount equal to all documented out-of-pocket expenses and fees incurred by CEI (including, without limitation, fees and expenses payable to all legal, accounting, financial, and other professionals arising out of, in connection with or related to the transactions contemplated by this agreement) not in excess of $5 million. If this Agreement is terminated pursuant to Section 9.1(f), then CEI shall promptly (but not later than ten business days after receiving notice of termination), pay to the Company in cash by wire transfer of same day funds an amount equal to all documented out-of-pocket expenses and fees incurred by the Company (including, without limitation, fees and expenses payable to all legal, accounting, financial, and other professionals arising out of, in connection with or related to the transactions contemplated by this agreement) not in excess of $5 million. The Company and CEI each agree that notwithstanding any provisions in this Agreement to the contrary, including Section 9.2, each of the Company and CEI retain their remedies at law or in equity with respect to breaches of this Agreement and that no termination which results from the breach by a party of any of its representations, warranties, covenants or agreements set forth in this Agreement shall relieve such party of any liability or damages, including any such case in which a Termination Fee is, or any expenses of CEI or the Company in connection with the transactions contemplated by this Agreement are, payable pursuant to this Section 9.3 to CEI or the Company, as the case may be (the " Injured Party"), to the extent any such liability or damage suffered by the Injured Party exceeds the amount of any Termination Fee and/or any expenses payable pursuant to this Section 9.3 to the Injured Party.

(c) Expenses. The parties agree that the agreements contained in this Section 9.3 are an integral part of the transactions contemplated by this Agreement and constitute liquidated damages and not a penalty. Notwithstanding anything to the contrary contained in this Section 9.3, if one party fails to promptly pay to the other any fees or expenses due under Sections 9.3(a) or (b), in addition to any amounts paid or payable pursuant to such sections, the defaulting party shall pay the costs and expenses (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fees or expenses at the publicly announced prime rate of The Chase Manhattan Bank from the date such fees or expenses were required to be paid.

Section 9.4 Amendment. This Agreement may be amended by the Boards of Directors of the parties hereto, at any time before or after the Company Shareholders' Approval and prior to the Effective Time, but after the Company Shareholders' Approval, no such amendment which under applicable law would require the further approval of the Company's shareholders shall be made without obtaining such approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

Section 9.5 Waiver. At any time prior to the Effective Time, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) subject to the first sentence of Section 9.4, waive compliance with any of the agreements or conditions contained herein, to the extent permitted by applicable law. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

Section 9.6 Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 9.1, an amendment of this Agreement pursuant to Section 9.4 or an extension or waiver pursuant to Section 9.5 shall, in order to be effective, require, in the case of the Company or CEI, action by its Board of Directors, or a duly authorized committee of its Board of Directors to the extent permitted by law.

ARTICLE X

GENERAL PROVISIONS

Section 10.1 Non-Survival; Effect of Representations and Warranties. No representations or warranties in this Agreement shall survive the Effective Time.

Section 10.2 Brokers. The Company represents and warrants that, except for DLJ, whose fees have been disclosed to CEI prior to the date hereof, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. The Company has made available to CEI prior to the execution of this Agreement a copy of the engagement letter of DLJ and, other than as set forth in such engagement letter, has no understanding or agreement with DLJ regarding any fees or expenses in connection with the Merger or the transactions contemplated by this Agreement. CEI represents and warrants that, except for Salomon Smith Barney, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of CEI.

Section 10.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given (a) when delivered personally, (b) when sent by reputable overnight courier service, or (c) when telecopied (which is confirmed by copy sent within one business day by a reputable overnight courier service) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(i) If to the Company, to

Orange and Rockland Utilities, Inc.
One Blue Hill Plaza
Pearl River, New York 10965

Attn: D. Louis Peoples

Telecopy: (914) 577-6910
(914) 352-6000

with a copy to

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022
Attn: Sheldon Adler, Esq.

Telecopy: (212) 735-2000
Telephone: (212) 735-3000

and

(ii) if to CEI, to

Consolidated Edison, Inc.
4 Irving Place
New York, New York 10003

Attn: Mr. Kevin Burke
John D. McMahon, Esq.

Telecopy: (212) 677-0601
Telephone: (212) 460-1110

with a copy to

Cravath, Swaine & Moore
825 Eighth Avenue
New York, New York 10019
Attn: George W. Bilicic, Jr., Esq.

Telecopy: (212) 474-3700

Telephone: (212) 474-1000

Section 10.4 Miscellaneous. This Agreement (including the documents and instruments referred to herein) and the Confidentiality Agreement (other than paragraph 11 thereof relating to the parties' standstill obligations) (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof (including paragraph 11 of the Confidentiality Agreement relating to the parties' standstill obligations) other than the agreement between the Company and CECONY with respect to the divestiture of their respective interests in the Bowline Point Generating Station, (b) shall not be assigned by operation of law or otherwise and (c) shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts executed in and to be fully performed in such State, without giving effect to its conflicts of law rules or principles. The Company hereby waives the restrictions applicable to CEI pursuant to paragraph 11 of the Confidentiality Agreement relating to the parties' standstill obligations provided, however that such waiver shall lapse and the provisions of paragraph 11 of the Confidentiality Agreement will be binding on CEI if (i) this Agreement is terminated by CEI and (ii) the Termination Fee is required to be paid pursuant to Section 9.3(a) to CEI (subject, in such case, to payment of the Termination Fee). If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provisions is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

Section 10.5 Interpretation. When a reference is made in this Agreement to Sections or Exhibits, such reference shall be to a Section or Exhibit of this Agreement, respectively, unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

Section 10.6 Counterparts; Effect. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same agreement and each of which shall only become effective when one or more counterparts have been signed by each party and delivered to the other parties.

Section 10.7 Parties' Interest; No Third Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for rights of Indemnified Parties as set forth in Section 7.5, nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 10.8 Waiver of Jury Trial. Each party to this Agreement waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in respect of any action, suit or proceeding arising out of or relating to this Agreement.

Section 10.9 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the Borough of Manhattan in the City of New York or, if such court does not have jurisdiction, in any New York state court located in the Borough of Manhattan in the City of New York, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any federal court located in the Borough of Manhattan in the City of New York or, if such court does not have jurisdiction, any New York state court located in the Borough of Manhattan in the City of New York in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a federal court located in the Borough of Manhattan in the City of New York or, if such court does not have jurisdiction, any New York state court located in the Borough of Manhattan in the City of New York.

IN WITNESS WHEREOF, each of the Company, CEI and the Merger Subsidiary have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

Orange and Rockland Utilities, Inc.

By: /s/ D. L. Peoples

Name: Denton Louis Peoples
Title: Vice Chairman and Chief Executive Officer

Consolidated Edison, Inc.

By: /s/ Joan S. Freilich

Name: Joan S. Freilich
Title: Executive Vice President and Chief Financial Officer

C Acquisition Corp.

By:/s/ Kevin Burke

Name: Kevin Burke
Title: President

EXHIBIT D-1

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc.	)))	Docket No. EC98-___________-000

APPLICATION OF CONSOLIDATED EDISON COMPANY OF NEW YORK, INC. AND ORANGE AND ROCKLAND UTILITIES, INC. AND ITS JURISDICTIONAL SUBSIDIARIES FOR APPROVAL OF MERGER AND RELATED AUTHORIZATIONS

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September 9, 1998

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Consolidated Edison Company of	)	
New York, Inc. and Orange and	)	
Rockland Utilities, Inc.	)	Docket No. EC98-___________-000

APPLICATION OF CONSOLIDATED EDISON COMPANY
OF NEW YORK, INC. AND ORANGE AND ROCKLAND
UTILITIES, INC. AND ITS JURISDICTIONAL SUBSIDIARIES
FOR APPROVAL OF MERGER AND RELATED AUTHORIZATIONS

I. INTRODUCTION

Pursuant to section 203 of the Federal Power Act ("FPA"),/1/ and part 33 of the regulations of the Federal Energy Regulatory Commission ("FERC" or "Commission"),/2/ Consolidated Edison Company of New York, Inc. ("Con Edison"), a wholly-owned subsidiary of Consolidated Edison, Inc. ("CEI"), and Orange and Rockland Utilities, Inc. ("Orange and Rockland"), on behalf of itself and its wholly-owned jurisdictional utility subsidiaries (collectively, the "Applicants"), submit this Application for the Commission's approval of CEI's stock purchase acquisition of Orange and Rockland (the "Merger") and for related authorizations. The Applicants' schedule provides for consummation of the Merger on or about March 31, 1999. This Application includes all information and exhibits required pursuant to part 33 of the Commission's regulations and the Commission's December 1996

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/1/ 16 U.S.C. (S) 824b (1994).

/2/ 18 C.F.R. (S) 33 (1998).

Merger Policy Statement ("Policy Statement")./3/ The Agreement and Plan of Merger, dated as of May 10, 1998 (the "Merger Agreement"), is included in Exhibit H.

Pursuant to the Merger Agreement, Orange and Rockland will merge with a special purpose subsidiary wholly owned by CEI. Orange and Rockland will survive the Merger and retain its existing subsidiaries. Orange and Rockland shall thereafter continue its operations as a wholly-owned subsidiary of CEI separate from CEI's wholly-owned public utility subsidiary, Con Edison.

As demonstrated in this Application and accompanying testimony and exhibits, the Merger is consistent with the public interest. Moreover, the Merger is consistent with the current restructuring of the electric utility industry, including state-level retail choice proposals and the Commission's Independent System Operator ("ISO") policies. Accordingly, the Applicants respectfully request that the Commission promptly approve the Merger, without a hearing,/4/ and issue all other necessary related authorizations./5/

/3/ Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592, Docket No. RM96-6-000, 61 Fed. Reg. 68,595 (Dec. 30, 1996), III FERC Stats. & Regs., Regulations Preambles (P) 31,044 (1996) ("Policy Statement").

/4/ If a hearing is ordered, the Applicants respectfully request that the Commission limit the hearing to specifically identified issues and conduct it under procedures that will allow the Commission to issue its final order sufficiently in advance of the expected March 31, 1999 closing date.

/5/ The Applicants are concurrently filing with this Application: (1) a joint open access transmission tariff ("joint OATT") that will provide access to the transmission facilities of Con Edison and Orange and Rockland at single system rates and under terms and conditions consistent with the pro forma tariff set forth in Order No. 888 and modified in Order Nos. 888-A and 888-B; Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (May 10, 1996), [Regs. Preambles 1991-1996] FERC Stats. & Regs. (P) 31,036 (1996), order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 (Mar. 14, 1997), III FERC Stats. & Regs. (P) 31,048 (1997), order on reh'g, Order No. 888-B, 62 Fed. Reg. 64,688 (Dec. 9,

(Continued...)

II. EXECUTIVE SUMMARY

The Applicants expect the Merger to produce significant benefits resulting from operating efficiencies, mostly in the administrative areas of the companies, and economies of scale. The combined resources of Con Edison and Orange and Rockland will contribute to overall business success in many areas, including utility operations, product development, and corporate services. The Merger is expected to lower the costs of providing energy and related services when compared to the stand-alone costs of Con Edison and Orange and Rockland, and will improve the efficiency of the combined companies by increasing the customer base and providing synergies.

In accordance with the Policy Statement, this Application, together with the supporting testimony and exhibits, demonstrate that the Merger will not create anticompetitive effects, increase customer rates, or impair the effectiveness of regulation.

A. THE MERGER WILL NOT ADVERSELY AFFECT COMPETITION

Orange and Rockland is a relatively small utility that has agreed to divest all of its owned generation. Its divestiture plan has been approved by the New York Public Service Commission ("NYPSC"), and its auction process is already under way, with winning bidders to be selected on or about October 15, 1998. Because CEI is acquiring a company (Orange and Rockland) that is divesting all of its owned generation, the Merger will not increase concentration in generation. Thus, it will have no adverse effect on competition for

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1997), 81 FERC (P) 61,248 (1997), order on reh'g, Order No. 888-C, 82 FERC (P) 61,046 (1998) (together, "Order No. 888"); and (2) revised Standards of Conduct for Orange and Rockland consistent with the Commission's Order No. 889 and promulgated as Rule 37.4, 18 C.F.R. (S) 37.4 (1998).

sales of electricity. Moreover, the Merger is taking place in an environment of decreasing concentration and increasing competition in generation. The fact that Con Edison also is divesting essentially all of its non-nuclear generation facilities and that both Orange and Rockland and Con Edison will be participants in the New York ISO ("NYISO") supports the conclusion that the Merger will not harm competition.

1. HORIZONTAL EFFECTS

The Applicants applied the merger screening criteria set forth in Appendix A to the Policy Statement to several scenarios -- each making a different assumption about the timing of the Merger closing vis-a-vis the completion of Orange and Rockland's and Con Edison's generation divestitures. Applicants also analyzed the capacity market that will exist under the NYISO rules. The results demonstrate that after the Orange and Rockland generation divestiture, expected to be completed by May 31, 1999, the Merger passes the Commission's screening criteria by an ample margin even if the Con Edison generation divestiture has not yet occurred.

To the extent that the Merger closes before Orange and Rockland's generation divestiture is completed, the screening criteria for Total and Uncommitted Capacity are met; however, the screening criteria for Economic and Available Capacity would be exceeded by a modest amount in some periods. The Applicants' analysis demonstrates that they will not possess the ability or the incentive to exercise market power in the event that there is a brief interim period prior to Orange and Rockland's divestiture. Nonetheless, to eliminate any possible market power concerns, the Applicants have proposed interim mitigation measures to be in effect in the event that there is a brief interval between the Merger closing and the completion of Orange and Rockland's generation divestiture. This interim period is expected to be only two months.

2. INTERIM MITIGATION MEASURES

To eliminate any possible market power concerns during any such interim period, the Applicants have committed that during any such interim they will: (1) bid all of their respective generation that is sold in the wholesale energy market at a capped bid that is effectively its variable costs; (2) bid all of their respective generation that is sold in the NYISO capacity market at a capped bid that is its avoidable capacity costs; and (3) maintain the availability of this generation at historical levels. These interim measures will assure that the Applicants cannot exercise market power. Thus, the Merger readily passes all of the Appendix A screens post-Orange and Rockland's divestiture and market power concerns are completely eliminated in the interim.

3. VERTICAL EFFECTS

The Merger will not create or enhance vertical market power. The primary vertical issue on which the Commission has focused in mergers involving electric/gas distribution companies has been whether the merger will give the merged company an increased incentive or ability to manipulate fuel supplies to favor its own gas generation over that of its rivals. There are several reasons why the Merger plainly will have no such effect.

First, the Applicants have no market power over fuel supplies. Neither owns any gas production facilities or any significant storage facilities. Orange and Rockland does not even engage in the gas marketing business, and Con Edison is a small player. Thus, a generation competitor would have no difficulty in purchasing commodity gas from a multiplicity of sellers. Second, the Applicants own no long-haul gas transportation facilities and do not have market power over the transportation of gas to potential competitors in the relevant downstream electric markets. Third, the Applicants today are local gas distribution companies subject to state public utility commission regulation. The Merger will make no change in this status or their incentives. Fourth, the Applicants are divesting essentially all of the gas-fired generation to which they provide distribution service. Thus, the Merger will not give either company any gas generation that it could discriminatorily favor, even hypothetically. Finally, the Applicants are subject to code of conduct requirements before the Commission and the NYPSC that provide further assurance that no vertical concerns will arise.

For these reasons, and others described in the supporting testimony, the concerns that the Commission focused on in the Enova/Pacific Enterprises merger/6/ are not present here. The Merger does not create or enhance vertical market power.

4. CONCLUSION

This is clearly a merger that will not harm competition. With Orange and Rockland divesting all of its generation and Con Edison divesting essentially all of its non-nuclear generation, the merged company will essentially be a wires company -- one that, as a result of the combination of the contiguous systems, will be a more efficient transmission provider. The Commission need not delay approval of this efficiency-enhancing Merger until Orange and Rockland's divestiture is completed. There will be separate FPA section

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/6/ San Diego Gas & Elec. Co., 79 FERC (P) 61,372 (1997), aff'd, 83 FERC (P) 61,199 (1998).

203 applications filed as part of that divestiture in which FERC will have a full opportunity to assure that any purchaser of Orange and Rockland's assets meets the public interest and market power standards incorporated in the Policy Statement. Rather, the Commission should promptly approve the Merger without a hearing in accordance with the Policy Statement, thereby sending a signal that merging firms that are divesting the bulk of their generation will receive the same expeditious treatment as other merger applicants.

B. THE MERGER WILL NOT SUBJECT CUSTOMERS TO INCREASED RATES

The Merger will not adversely affect wholesale sales rates because Con Edison has no wholesale requirements customers and Orange and Rockland's only wholesale requirements contracts are with its wholly-owned public utility subsidiaries, Rockland Electric Company ("RECO") and Pike County Light & Power Company ("Pike"). Customers of RECO and Pike will have a choice of supplier under retail access plans effective May 1, 1999. This creates the equivalent of an "open season" for those customers.

The Merger will not adversely affect transmission rates because the NYISO Open Access Transmission Tariff ("the ISO tariff"), which will supersede the individual OATTs of Con Edison and Orange and Rockland, is expected to be in effect prior to the consummation of the Merger. In the event that the Merger is consummated prior to the effective date of the ISO tariff, the Applicants propose to provide transmission service under the joint OATT filed concurrently with this Application.

The joint OATT charges non-pancaked transmission rates based on the zone to which power is delivered. Under the joint OATT, the service areas of Con Edison and Orange and Rockland are treated, for rate purposes, as separate zones. Customers will pay one transmission rate, based on the point of delivery or point of departure, and will not pay any additional charge to transmit power through or across the other zone. The use of this zonal approach (which does not result in any additional charges for customers during an interim period) is consistent with Commission precedent in other merger proceedings.

C. THE MERGER WILL NOT IMPAIR THE EFFECTIVENESS OF COMMISSION AND STATE REGULATION

The Merger will not impair state or federal regulation. The Merger will not shift authority from the Commission to the Securities and Exchange Commission ("SEC") because post-merger, CEI and Orange and Rockland will remain exempt public utility holding companies under the Public Utility Holding Company Act of 1935 ("PUHCA"). Thus, post-merger transactions between Con Edison and Orange and Rockland and their affiliates will remain subject to the Commission's oversight and policies. In the unlikely event that the SEC were to require CEI to become a registered holding company, the Applicants commit that, for FERC ratemaking purposes, they will follow FERC's policies regarding the treatment of costs and revenues associated with intra-company services.

The Applicants have filed petitions requesting the public utility commissions in the relevant state jurisdictions -- New York, New Jersey, and Pennsylvania -- to approve the Merger. The Merger thus will not impair state regulation.

Because the Merger satisfies all of the requirements of FPA section 203, the Commission's regulations, and the Policy Statement, the Commission should find it to be consistent with the public interest and approve it on an expedited basis.

III. THE APPLICANTS

A. CEI, CON EDISON, AND THEIR SUBSIDIARIES

1. CEI AND CON EDISON

CEI was organized in 1997, and is a New York corporation. It is an exempt public utility holding company under section 3(a)(1) of PUHCA. On January 1, 1998, CEI became the holding company for Con Edison, and presently owns all of Con Edison's issued and outstanding common stock. Con Edison is a New York corporation with its principal place of business at 4 Irving Place, New York, New York 10003, and is a public utility under the FPA.

Con Edison supplies electric service in all of New York City (except part of the Borough of Queens) and most of Westchester County, New York to approximately three million customers. The Con Edison system has a projected peak load of 9,585 MW in 1998. Currently, Con Edison provides retail access to approximately 1,000 MW of customer load, with another 1,000 MW to have retail access on April 1, 1999, and the balance gaining access thereafter. Con Edison also supplies gas to approximately one million customers in the Boroughs of Manhattan, the Bronx and parts of the Borough of Queens and Westchester County, New York, and steam to approximately 1,900 customers in part of Manhattan.

The NYPSC regulates Con Edison's retail rates, service, accounts, issuance of securities, and certain other aspects of its business. Pursuant to the FPA, the Commission has jurisdiction over certain of Con Edison's electric and gas utility facilities and operations, wholesale sales of power, and related transactions.

2. CON EDISON SUBSIDIARIES

Con Edison has two wholly-owned subsidiaries that own real property in New York State: Davids Island Development Corporation, and D.C.K. Management Corporation. Con Edison owns a 28.8 percent interest in Honeoye Storage Corporation, a New York corporation, which owns and operates a gas storage facility in western New York. This facility constitutes less than one percent of the storage capacity in the region.

3. OTHER CEI SUBSIDIARIES

Consolidated Edison Solutions, Inc. ("CES") is a New York corporation and a wholly-owned subsidiary of CEI. CES provides wholesale and retail energy and related services. CES also has: (a) a 33 1/3 percent interest in Inventory Management & Distribution Company, Inc., an energy marketing firm incorporated in Delaware with its principal place of business in Houston, Texas; and (b) a 14.4 percent interest in Remote Source Lighting International, Inc., a lighting technology company incorporated in Delaware, with its principal place of business in Morrisville, North Carolina.

Consolidated Edison Development, Inc. ("CEDI") is a New York corporation and a wholly-owned subsidiary of CEI. CEDI invests in foreign and domestic energy and other infrastructure projects and markets Con Edison's technical services. CEDI has four direct subsidiaries: (a) Con Edison Development, Guatemala, Ltd., a Cayman Islands corporation that invests in energy projects in Central America; (b) IEP Global Development, LLC, a limited liability Delaware corporation (of which CEDI owns a 50 percent interest) that develops and acquires electric power generation, transmission, and distribution projects outside of the United States; (c) Consolidated Edison Leasing, Inc., a Delaware corporation that invests in lease transactions; and (d) CED Ada, Inc. ("CEDA"), a Delaware corporation. CEDA owns an approximate 96 percent interest in CED/DELTA Ada, LLC, a Delaware limited liability company, which in turn owns a 49.5 percent limited partnership interest and a 5 percent general partnership interest in Ada Cogeneration Limited Partnership ("ACLP"), a Michigan limited partnership. ACLP owns a 30 megawatt gas-fired cogeneration facility located in Ada, Michigan.

CEDI owns all of the issued and outstanding shares of Carson Acquisition, Inc. ("Carson Acquisition"), a Delaware corporation. The purpose of Carson Acquisition is to own an approximate 47.75 percent interest in a series of limited liability companies, which will in turn acquire and own all of the limited partnership and general partnership interest in Carson Cogeneration Company ("Carson Cogen"), a California limited partnership. Carson Cogen is a lessee of a leasehold interest in a 42 megawatt cogeneration facility in Carson, California. This acquisition is expected to close in September 1998./7/

Consolidated Edison Energy, Inc. ("CEE") is a New York corporation and a wholly-owned subsidiary of CEI. CEE was formed in late 1997, to invest in, operate, and market, the output of electric energy supply facilities in the United States and to provide specialized wholesale energy services in the electric power and natural gas markets.

/7/ CEDI also owns all of the issued and outstanding shares of Con Edison Development Guatemala Acquisition and Finance, Ltd. ("CEDGAF"), a corporation organized under the laws of the Cayman Islands. At present, CEDGAF is a shell corporation, meaning that it has no assets or operations. It was organized in connection with a potential investment in Guatemala, which was never made.

Consolidated Edison Communications, Inc. ("CECI") is a New York corporation and a wholly-owned subsidiary of CEI. CECI was formed in late 1997, to own, operate, and invest in facilities used for telecommunications or otherwise to compete in the telecommunications industry.

4. CON EDISON'S FACILITIES PRE-DIVESTITURE

ELECTRIC GENERATION: As of early 1999, prior to its divestitures, Con Edison will have 7,001 MW of capacity that it owns and operates, 1,292 MW of entitlements to jointly owned units, 2,059 MW of non-utility generation, and 733 MW of other contracts, including a contract for 208 MW of the output of the Indian Point 3 and Poletti stations from the New York Power Authority ("NYPA") that expires during 1999.

TRANSMISSION AND DISTRIBUTION: Con Edison's transmission system has approximately 432 miles of overhead circuits and 378 miles of underground circuits, most of which operate at 138 kV and 345 kV. It has approximately 267 miles of radial subtransmission circuits operating at 138 kV. Con Edison has 14 transmission substations, which are supplied by circuits operating at 69 kV and above and have a total transformer capacity of 15,731 MVA. All of Con Edison's transmission facilities are located in New York City and Westchester, Orange, Rockland, Putnam, and Dutchess Counties in New York State. Con Edison owns various electric distribution substations and facilities located throughout New York City and Westchester County, New York. Con Edison's distribution system includes 293 distribution substations, with a transformer capacity of 20,168 MVA, 32,368 miles of overhead distribution lines, and 87,455 miles of underground distribution lines.

GAS FACILITIES: Con Edison distributes natural gas to its customers through approximately 4,200 miles of mains and 367,000 service lines.

STEAM FACILITIES: Con Edison generates steam for distribution in the Borough of Manhattan in New York City at three steam-electric stations and five "steam-only" plants. Con Edison supplies steam to its customers through approximately 86 miles of transmission and distribution mains.

5. CON EDISON'S GENERATION DIVESTITURES

The NYPSC approved Con Edison's electric generation Divestiture Plan in orders issued July 21, and August 5, 1998. Under the Plan, Con Edison will auction off its electric generation in three bundles:

- 1,434 MW consisting of the Arthur Kill generating station and Astoria gas turbines ("Arthur Kill bundle");
- 2,168 MW consisting of the Ravenswood generating station and gas turbines ("Ravenswood bundle"); and
- 1,858 MW consisting of the Astoria generating station plus the Gowanus and Narrows turbines ("Astoria bundle").

No purchaser may purchase more than one of the three bundles. Closing on the sales of these three bundles is expected by the end of the first quarter of 1999.

Under its Steam System Plan, announced on April 15, 1998, Con Edison will auction off the remainder of its generation in New York City in a fourth bundle, consisting of 463 MW of units that produce electricity and steam for Con Edison's steam delivery system ("Steam electric bundle"). Con Edison plans to close on the sales of the fourth bundle by the end of 1999.

The NYPSC, in its July 21, 1998 Order, gave Con Edison the option of having its unregulated affiliate participate in the auction to purchase one of the initial three bundles. On July 24, 1998, Con Edison advised the NYPSC that its affiliate would forego its right to participate in the auction./8/ Accordingly, Con Edison plans to divest all of its in-City generation to third parties. As part of its Divestiture Plan, Con Edison expects to transfer certain step-up transformers and other jurisdictional facilities. Thus, the transfers ultimately will require the Commission's approval under FPA section 203.

In addition, Con Edison will divest its 810 MW interest in Orange and Rockland's Bowline Point generating station as part of Orange and Rockland's auction of its generation. Similarly, Con Edison has announced its intention to divest its 400 MW interest in Central Hudson Gas & Electric Corporation's Roseton station in conjunction with Central Hudson's divestiture auction.

B. ORANGE AND ROCKLAND AND ITS SUBSIDIARIES

1. ORANGE AND ROCKLAND AND ITS UTILITY SUBSIDIARIES

Orange and Rockland, a New York corporation, is an electric and gas distribution utility that provides service to about 200,000 electric and 114,000 gas customers in New York in a service area covering all of Rockland County, most of Orange County, and part of Sullivan County. Orange and Rockland's historic peak load is 1143 MW. All of

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/8/ Con Edison's relinquishment of its affiliates' right to participate in the auction was based on certain understandings as to the treatment of any gain on the sales. On August 5, 1998, the NYPSC approved Con Edison's proposal in this regard, subject to one modification, which Con Edison accepted on August 10, 1998. Con Edison, accordingly, is proceeding with the divestiture.

Orange and Rockland's customers are eligible for retail access for energy supplies, and they will become eligible for retail access for capacity on May 1, 1999.

Orange and Rockland wholly owns two public utility subsidiaries, RECO, a New Jersey corporation, and Pike, a Pennsylvania corporation. RECO supplies electricity to about 67,000 customers in New Jersey in the northern parts of Bergen and Passaic Counties and small areas in northern Sussex County. Pike supplies electricity to about 4,100 customers and gas to about 1,000 customers in the northeastern corner of Pike County, Pennsylvania.

Orange and Rockland is regulated by the NYPSC, RECO by the New Jersey Board of Public Utilities, and Pike by the Pennsylvania Public Utility Commission ("PAPUC") as to retail rates, service, and accounts, and issuance of securities, and in other respects as to service provided in those individual states. The Commission has jurisdiction under the FPA over certain of the electric and gas facilities and operations of Orange and Rockland and its subsidiaries and related transactions.

2. OTHER ORANGE AND ROCKLAND SUBSIDIARIES

Orange and Rockland has two wholly-owned, active non-utility subsidiaries, Clove Development Corporation ("Clove"), a New York corporation, and O&R Development, Inc., a Delaware corporation. Clove owns real property primarily in the Montaup Valley region of Sullivan County, New York. O&R Development, Inc. promotes industrial and corporate development in Orange and Rockland's service territory by providing improved sites and buildings. RECO has subsidiaries engaged in energy services, real estate, and interstate pipeline transmission./9/

3. ORANGE AND ROCKLAND'S FACILITIES PRE-DIVESTITURE

ELECTRIC GENERATION: Prior to divestiture, Orange and Rockland has approximately 965 MW of owned and operated generating capacity (including 374 MW of coal-fired capacity, 473 MW of oil/gas steam, 43 MW of hydro, and 74 MW of combustion turbines). In addition, Orange and Rockland has 19 MW of non-utility generation ("NUG") contracts and 325 MW of firm purchases (300 MW of which are summer only and expire in 2000).

TRANSMISSION AND DISTRIBUTION: Orange and Rockland and its two utility subsidiaries, RECO and Pike, own, in whole or in part, and operate 617 circuit miles of transmission lines, 78 substations, 84,509 in-service line transformers, 4,967 pole miles of overhead distribution lines, and 2,271 miles of underground distribution lines. Except for one substation in Grahamsville, New York, the foregoing transmission and distribution facilities are located in the New York, New Jersey, and Pennsylvania service territories of Orange and Rockland, RECO, and Pike respectively.

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/9/ RECO has two wholly-owned, non-utility subsidiaries, Saddle River Holdings, Corp. and Enserve Holdings, Inc., both Delaware corporations. Enserve Holdings has three wholly-owned, non-utility subsidiaries, Palisades Energy Services, Inc., an energy service provider, Compass Resource, Inc., and NORSTAR Holdings, Inc. ("NHI"), all Delaware corporations. NHI has two wholly-owned, non-utility subsidiaries, NORSTAR Management, Inc. ("NMI"), a gas marketing company that is discontinuing operations, and Millbrook Holdings, Inc., which leases non-utility real estate in Morris County New Jersey, both Delaware corporations. NMI is the sole general partner of a Delaware limited partnership, NORSTAR Energy Limited Partnership, of which NHI is the sole limited partner. The NORSTAR partnership is the majority owner of NORSTAR Energy Pipeline Company, LLC, a Delaware limited liability company.

GAS FACILITIES: Orange and Rockland's consolidated gas operations include three propane air gas plants at Middletown, Orangeburg, and Suffern, New York, which together have a combined capacity of 30,600 Mcf per day of natural gas equivalent. Orange and Rockland's consolidated gas distribution system includes 1,758 miles of mains.

4. ORANGE AND ROCKLAND'S GENERATION DIVESTITURES

Orange and Rockland is in the process of divesting all of its owned generation. This includes the divestiture of Con Edison's portion of the Bowline Point station. The NYPSC approved Orange and Rockland's divestiture plan on April 16, 1998. The divestiture plan is proceeding on the following schedule:

. Offering Memorandum/Bidders Information	June 1, 1998
. Submittal of Non-Binding Bids	Aug. 3, 1998
. Selection of Winning Bidder(s)	Oct. 15, 1998
. Final Closing	May 31, 1999

Orange and Rockland will seek all necessary regulatory approvals promptly after selecting the winning bidder(s)./10/ Because Orange and Rockland's sales will involve the transfer of FERC-jurisdictional substations and transmission facilities, they will require the Commission's approval under FPA section 203. In addition, the NYPSC has directed Orange and Rockland to certify to the NYPSC that the winning bidder(s) comply with the

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/10/ Orange and Rockland has packaged its generation in four bundles: one covering its Lovett station, one for the Bowline Point station, one for its hydroelectric facilities, and one for its gas turbines. Bidders may bid on any or all of the bundles.

Policy Statement./11/ Thus, prospective purchasers will have to satisfy both state and federal authorities on market power issues.

After the divestiture, Orange and Rockland will own no generating resources. It will have only 19 MW of NUG contracts, 25 MW of purchases from NYPA's Blenheim-Gilboa pumped storage facility, and a purchase contract with Public Service Electric and Gas Company ("PSE&G") for 300 MW that expires in 2000, and is only of value as summer capacity. Orange and Rockland will be essentially a small transmission and distribution company.

C. INTERRELATIONSHIP OF THE APPLICANTS' ELECTRIC SYSTEMS

Con Edison and Orange and Rockland have contiguous electric service territories that share interconnected transmission facilities. They jointly own 29.2 miles of transmission consisting of a double circuit 345 kV tower line that runs from Con Edison's wholly-owned Ramapo substation east to the Rockland/Westchester County line at the Hudson River. Con Edison and Orange and Rockland, as tenants in common, own an 85 percent and 15 percent undivided interest, respectively, in those 345 kV circuits. Con Edison and Orange and Rockland also jointly own, as tenants in common, the property that supports the double circuit 345 kV ties between Ramapo and the New York/New Jersey state line. The companies jointly own (66 2/3 percent by Con Edison, 33 1/3 percent by Orange and Rockland) the Bowline Point generating facility and the 345 kV transmission line and substation connecting the Bowline facility to the above-mentioned transmission facilities.

/11/ Case No. 96-E-0900, Order Authorizing the Process for Auctioning of Generation Plant and Rejecting Joint Agreement, at 11-12 (Apr. 16, 1998).

Orange and Rockland is also interconnected with its subsidiaries, RECO and Pike; they jointly operate a single fully-integrated electric transmission system. Orange and Rockland is party to Power Supply Agreements with each of RECO and Pike that are FERC-approved rate schedules. As discussed below, the Merger will not adversely affect those rate schedules.

IV. DESCRIPTION OF THE MERGER

As a result of deregulation and other changes, the electric and gas industries are increasingly competitive. Like many other industry participants, Con Edison and Orange and Rockland have carefully observed these changes to determine how best, as the Commission phrased it in the Policy Statement, to "reposition themselves in response to the emerging competitive business landscape."/12/ CEI and Orange and Rockland concluded that the affiliation of their utility operations would substantially improve efficiencies and create synergies that would make them more competitive, to the benefit of the customers that they serve, and accordingly entered into the Merger Agreement. The Boards of Directors of CEI and Orange and Rockland have approved the Merger Agreement, as reflected in Exhibit A to this Application. The respective obligations of CEI and Orange and Rockland to effect the Merger are subject to express conditions set forth in the Merger Agreement, including that the parties obtain all necessary regulatory approvals and the approval of the Merger by two-thirds of Orange and Rockland's issued and outstanding common stock. At a meeting of Orange and Rockland's shareholders on August 20, 1998, the Merger received the requisite shareholder approval.

/12/ Policy Statement at 30,111.

As set forth in the Merger Agreement, the Merger is a straightforward stock purchase transaction. A special-purpose, wholly-owned subsidiary of CEI, C Acquisition Corp., will merge into Orange and Rockland, with Orange and Rockland to be the surviving corporation. Each issued and outstanding share of Orange and Rockland common stock will be cancelled in the Merger and converted into the right of the holder thereof to receive $58.50. Each share of C Acquisition Corp. will be converted into one share of the surviving corporation, Orange and Rockland./13/ Upon completion of the Merger, Orange and Rockland will be a wholly-owned subsidiary of CEI. Orange and Rockland's subsidiaries, including its two utility subsidiaries, RECO and Pike, shall remain Orange and Rockland subsidiaries. Going forward, CEI currently expects to retain Con Edison and Orange and Rockland as separate utilities operating under their respective names./14/ The Merger is scheduled to close on or about March 31, 1999.

After the Merger, CEI will establish an advisory board, with approximately equal numbers of CEI and Orange and Rockland members, to provide advice regarding the implementation of the Merger and CEI's post-Merger operations. CEI will select one director, who was serving on Orange and Rockland's Board of Directors at the time of the Merger Agreement, to serve on CEI's Board. CEI will also maintain a subsidiary office in

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/13/ The Fairness Opinions that CEI and Orange and Rockland obtained in connection with the Merger are included as Attachment 1 to this Application.

/14/ Although Con Edison and Orange and Rockland intend to continue to operate as stand-alone utilities after the Merger, there may from time-to-time be opportunities to achieve savings from joint procurement of power. Included in the Merger-related submissions to the NYPSC, which are contained in Exhibit G to this Application, is a proposed procedure for such joint procurement. As the proposed arrangement, if effectuated, will not have a sale-for resale feature, it should not be subject to the Commission's jurisdiction.

Rockland County as Orange and Rockland's headquarters for at least three years following the Merger. CEI has pledged to make charitable contributions to the communities within the service territories of Orange and Rockland and its two public utility subsidiaries at a level consistent with Orange and Rockland's and such subsidiaries' contributions in the two years preceding the consummation of the Merger.

V. THE MERGER IS CONSISTENT WITH THE PUBLIC INTEREST

In order to approve an application for a merger, the Commission must find that the merger "will be consistent with the public interest."/15/ In the Policy Statement, the Commission explained that it would evaluate three factors - -- the effect of the merger on competition, rates, and regulation -- in determining whether a proposed merger was consistent with the public interest. As demonstrated in this Application and the supporting testimony and exhibits, the Merger will not adversely effect competition, rates, or regulation. Therefore, the Commission should approve it.

A. EFFECT ON COMPETITION

1. HORIZONTAL EFFECTS

Under the Commission's Policy Statement, the horizontal effects of a merger are initially evaluated via HHI screening criteria./16/ These screening criteria measure the extent to which a merger affects concentration in generation in order "to identify proposed

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/15/ 16 U.S.C. (S) 824b(a).

/16/ The "HHI" is a measure of market concentration that is calculated by summing the squares of the market shares of market participants. Thus, a market with five sellers each having a market share of 20 percent has an HHI of 2000 (20 squared is 400 and 400+400+400+400+400 = 2000). The Guidelines' screening criteria focus on the increase in HHI resulting from a particular merger.

mergers that clearly will not harm competition."/17/ Because Orange and Rockland already is divesting its generation, the Merger will not cause any material increase in market concentration./18/ Accordingly, as demonstrated in the testimony of Dr. William H. Hieronymus, who presents the Applicants' competitive analysis, with Orange and Rockland's divestiture the Merger readily passes all of the Policy Statement's screens. It therefore falls into the category of mergers that plainly will not harm competition and can be approved without the necessity of a hearing.

Although the divestiture of all of Orange and Rockland's generation is itself sufficient for the Merger to pass the Commission's screening criteria, two additional key facts amplify the conclusion that the Merger will not harm competition. First, Con Edison also is divesting the bulk of its generating facilities. Under Con Edison's NYPSC-approved Divestiture Plan, its in-City electric generation will be sold to at least three separate buyers. Second, the companies are and will remain full participants in the NYISO structure and have subscribed to the ISO tariff. Thus, Con Edison's divestiture will further deconcentrate the market,/19/ and the merged companies' participation in the NYISO will assure that transmission will be provided on a non-discriminatory basis to all customers and competitors.

/7/ Policy Statement at 30,111.

/8/ After its divestiture, the only remaining Orange and Rockland generating resource will be a small amount of purchases from facilities that it does not control.

/19/ The Divestiture Plan packages Con Edison's in-City fossil electric generation into three major bundles. Con Edison is also divesting a smaller fourth bundle containing generation associated with its steam system. The Divestiture Plan provides that no purchaser may own any more than one of the three major bundles. Thus, under the Plan, there will be three separate independent competitors owning these assets, resulting in market deconcentration.

A. APPENDIX A SCREENING ANALYSIS

Dr. Hieronymus' analysis shows that the Merger passes the Policy Statement's HHI screens by an ample margin. There may be a short period of time, however, between the date the Merger is consummated and the date Orange and Rockland completes its divestiture. The Merger is expected to close on March 31, 1999. Orange and Rockland expects to close its divestiture on or about May 31, 1999. In the event that such a brief interim occurs, the screening criteria for Economic and Available Capacity (the measures relevant to energy markets) would be exceeded in some time intervals. As Dr. Hieronymus observes, during this interim period the Applicants will still be substantial net purchasers of electricity. Thus, they will have no incentive to attempt to increase the price of energy. Nonetheless, to eliminate any possible market power concerns, even theoretical ones, the Applicants propose interim measures that will place a variable cost-based cap on all energy bids of their generating resources and will require that those resources be made available at their historic levels.

As to capacity, the Appendix A screening criteria for Total and Uncommitted Capacity will be passed even prior to Orange and Rockland's divestiture, as will the Commission's traditional screening criteria for the absence of capacity market power. Thus, under all of the Commission's traditional screening criteria, Applicants will have no ability during any such interim period to increase the price of capacity. As explained below, Dr. Hieronymus also went beyond the four measures in the Policy Statement to assess the capacity market that will exist under the NYISO rules. He found that while the Commission's screening criteria will likely be met, it is possible that HHI safe harbor levels could be slightly exceeded for the NYISO capacity market prior to Orange and Rockland's divestiture under certain unlikely conditions. Although Dr. Hieronymus concludes that under the Commission's traditional criteria, the Applicants would have no market power in such event, to eliminate any doubt or debate, the Applicants propose interim measures that will place an avoidable cost-based cap on bids from their generating resources into the NYISO capacity market and that accordingly will eliminate any possible issue of capacity market power in the interim prior to Orange and Rockland's divestiture.

In sum, the Commission's horizontal market power screens are readily passed upon post-Orange and Rockland divestiture, and, in the interim, any possible concerns would be eliminated.

(I) THE RELEVANT MARKETS

Consistent with Commission precedent, Dr. Hieronymus defines the relevant product markets as long and short-term capacity and non-firm energy. Pursuant to the Policy Statement, Dr. Hieronymus performed an HHI screening analysis for Total Capacity, Uncommitted Capacity, Economic Capacity, and Available Economic Capacity. He performed his analysis of Total Capacity and Uncommitted Capacity taking into account the Applicants and their direct interconnections. For Economic Capacity and Available Economic Capacity, Dr. Hieronymus identified two relevant geographic markets: (1) the East of the Total East market, defined by the Total East transmission interface and related transmission constraints; and (2) the New York City ("in-City") market. These markets reflect the key transmission interconnections and constraints that affect the Applicants and are consistent with actual trading patterns.

The Total East interface is the primary interface through which power moves into the eastern half of New York state. When constrained, it can cause energy prices in the portion of the state that is east of Total East to separate from the rest of the state. It therefore constitutes a separate relevant geographic market. There are also transfer capability limitations in the Albany region and in Long Island Lighting Company's ("LILCO's") service territory that can limit the amount of generation in those areas that can compete inside the area east of Total East. In calculating market shares in the East of Total East market, Dr. Hieronymus took these internal constraints into account./20/ The East of Total East market represents the narrowest plausible geographic market in which both of the Applicants' generation facilities are located. It, therefore, is also the market in which the Applicants will have the largest possible market share.

This relevant market definition is consistent with the approach that the Commission endorsed in the Connectiv/21/ and BG&E-Pepco mergers./22/ In those cases, the Commission recognized that there are circumstances in which trying to identify separate destination markets for each interconnected utility may not be appropriate. The Total East transmission constraint slices through the center of the service territories of several New

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/20/The interface between Con Edison and Orange and Rockland will be controlled by the NYISO and made available non-discriminatorily. Moreover, Messrs. Jaeger and Hartwell testify that, in the event the ISO operation is delayed by unforeseen circumstances, Con Edison and Orange and Rockland have committed not to reserve additional capacity over such interconnections in the interim prior to ISO operations. Accordingly, Dr. Hieronymus treated this interface as available on a non-discriminatory basis. This is consistent with the Commission's decision in the First Energy case, Ohio Edison Co., 80 FERC (P) 61,039, at 61,103, aff'd, 81 FERC (P) 61,109 (1997).

/21/Atlantic City Elec. Co., 80 FERC (P) 61,126 (1997).

/22/Baltimore Gas & Elec. Co., 79 FERC (P) 61,027 (1997).

York utilities. Some of their generation is on one side of the interface and some on the other. Hence, attempting to define and analyze individual destination markets rather than evaluate the market as it actually operates would essentially ignore the key transmission constraints in New York. Nor is such an approach necessary because neither company has any transmission-dependent utilities. As the Commission found in Connectiv, by addressing the effect on buyers in the actual economically relevant market, the competitive analysis adequately addresses the effect of the merger on individual customers./23/ Because the Merger passes the Appendix A screening criteria in this narrowly-defined market, it would necessarily pass by a wider margin in any broader markets, e.g., in New York as a whole or in the New England Power Pool.

Dr. Hieronymus defined New York City as a separate geographic market because the City is subject to significant transmission constraints in certain hours. None of Orange and Rockland's generation is located inside New York City, and Orange and Rockland is not a major participant in that market. Prior to divestiture, however, it could theoretically compete for transmission import capability into the City to make some energy sales. Accordingly, Dr. Hieronymus also analyzed the in-City market.

Dr. Hieronymus calculated market shares in the East of Total East and in-City markets using the delivered price test set forth in the Policy Statement. To analyze these markets under different competitive conditions, Dr. Hieronymus performed his screening

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/23/Atlantic City Elec. Co., 80 FERC at 61,407.

analysis to take into account seasonal and time-of-day price differences for peak, off-peak, and shoulder periods.

(II) THE SCREENING ANALYSIS IS APPLIED PRE- AND POST-DIVESTITURE

To evaluate the effects of the planned divestitures, Dr. Hieronymus applied the Commission's screening criteria under four scenarios:

- A pre-divestiture "base case" reflecting the Applicants' currently owned generation, and contracts in effect in 1999.
- Scenario 2, wherein Con Edison is assumed to have divested its first three "bundles" of generation before Orange and Rockland divests any generation.
- Scenario 3, wherein Orange and Rockland is assumed to have divested its generation before Con Edison divests, except that Con Edison's share of the Bowline Point station is assumed to be divested at the same time that Orange and Rockland sells its share.
- Scenario 4, wherein Con Edison and Orange and Rockland are assumed to have completed their divestitures, and contracts in effect at the beginning of 2000 are taken into account.

The following table summarizes those scenarios:

	CON EDISON DIVESTS BUNDLES 1-3	CON EDISON DIVESTS BUNDLE 4	O&R DIVESTS ALL GENERATION	CON EDISON DIVESTS BOWLINE
BASE CASE ("PRE-DIVESTITURE")	--	--	--	--
SCENARIO 2 ("CON EDISON DIVESTS 1-3")	X	--	--	--
SCENARIO 3 ("O&R DIVESTS")	--	--	X	X
SCENARIO 4 ("CON EDISON AND O&R DIVEST")	X	X	X	X

Bundle 1 ("Arthur Kill") consists of Arthur Kill steam unit and Astoria GTs.
Bundle 2 ("Ravenswood") consists of Ravenswood steam unit and GTs.
Bundle 3 ("Astoria") consists of Astoria steam unit and Narrows and Gowanus GTs.
Bundle 4 ("Steam Electrics") consist of units producing electricity and steam for distribution.

(III) TOTAL CAPACITY

The overall size of the Total Capacity market exceeds 55,000 MW of generation. Con Edison's pre-divestiture share of that capacity is 20 percent; Orange and Rockland's is 2.4 percent. The market is moderately concentrated. Even prior to any divestiture, the 94 point change in the HHI brought about by the Merger passes the Appendix A screen. Accordingly, the screen is readily passed after divestiture.

TOTAL CAPACITY				
	BASE CASE	SCENARIO 2	SCENARIO 3	SCENARIO 4
	PRE-DIVESTITURE	CON EDISON DIVESTS 1-3	O&R DIVESTS	CON EDISON AND O&R DIVEST
MWs				
Total	55554	55554	55554	55554
Con Edison	11085	5628	10275	4147
O&R	1310	1310	344	344
Shares				
Con Edison	20.0%	10.1%	18.5%	7.5%
O&R	2.4%	2.4%	0.6%	0.6%
HHI (pre-merger)	1468	1205	1412	1163
HHI (post-merger)	1562	1253	1435	1172
Delta HHI	94	48	23	9

(IV) UNCOMMITTED CAPACITY

The Merger also passes the Appendix A screen for Uncommitted Capacity prior to any divestiture. In the capacity market, there are approximately 7100 MW of uncommitted capacity./24/ Before retail capacity access and generation divestiture, Orange and Rockland has no uncommitted capacity. Thus, the Merger causes no change in market concentration, and the HHI delta is zero./25/ Moreover, as Dr. Hieronymus points out, although his analysis treats Con Edison as having 2000 MW of uncommitted capacity due to

/24/Uncommitted capacity is total capability minus net peak load and reserve requirements, the latter being calculated using the 18 percent reserve margin requirement of the New York Power Pool ("NYPP").

/25/Orange and Rockland's retail access program is energy only until May 1, 1999. There may be a one-month period prior to divestiture when Orange and Rockland might have some small amount of uncommitted capacity. However, as Dr. Hieronymus explains, this is so short a term that it should not be a concern for this measure of capacity. Further, as shown, infra, the Applicants not only meet the Commission's traditional criteria for lack of market power during this interim period, they have also committed to interim measures that eliminate any possible market power concerns.

retail access, in fact, all of its capacity currently is committed to load serving entities participating in its retail access program. The Merger passes this criterion even under this conservative approach.

UNCOMMITTED CAPACITY				
	BASE CASE	SCENARIO 2	SCENARIO 3	SCENARIO 4
	PRE-DIVESTITURE	CON EDISON DIVESTS 1-3	O&R DIVESTS	CON EDISON AND O&R DIVEST
MWs				
Total	7102	10595	8068	13484
Con Edison	1964	0	1154	0
O&R	0	0	0	0
Shares				
Con Edison	27.7%	0%	14.3%	0%
O&R	0%	0%	0%	0%
HHI (pre-merger)	2477	1678	1807	1185
HHI (post-merger)	2477	1678	1807	1185
Delta HHI	0	0	0	0

(V) ECONOMIC CAPACITY

East of Total East Market. The Merger easily passes the Appendix A screen for Economic Capacity once Orange and Rockland's generation is divested. Prior to that divestiture, however, in the downstate market the changes in HHIs for most of the time periods exceed the Appendix A criteria.

The HHI results for Economic Capacity for all four scenarios for the downstate market are as follows:

ECONOMIC CAPACITY

EAST OF TOTAL-EAST MARKET BASE CASE PRE -DIVESTITURE	PRE-MERGER				POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	48.7%	4.6%	2717	3165	448
Summer Off-Peak	$20	28.0%	2.6%	1443	1589	146
Winter Peak	$30	44.9%	4.7%	2416	2838	422
Winter Off-Peak	$25	27.6%	4.4%	1396	1639	243
Shoulder Peak	$30	44.9%	4.8%	2407	2838	431
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

ECONOMIC CAPACITY

EAST OF TOTAL-EAST MARKET SCENARIO 2 CON ED DIVESTS 1-3	PRE-MERGER				POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	26.2%	4.6%	1215	1456	241
Summer Off-Peak	$20	28.0%	2.6%	1443	1589	146
Winter Peak	$30	25.2%	4.7%	1178	1415	237
Winter Off-Peak	$25	27.6%	4.4%	1396	1639	243
Shoulder Peak	$30	26.0%	4.8%	1198	1448	250
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

ECONOMIC CAPACITY						
EAST OF TOTAL-EAST MARKET SCENARIO 3 O&R DIVESTS			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	44.6%	0.3%	2357	2384	27
Summer Off-Peak	$20	28.0%	0.3%	1411	1458	17
Winter Peak	$30	41.0%	0.3%	2101	2126	25
Winter Off-Peak	$25	27.6%	0.3%	1393	1410	17
Shoulder Peak	$30	40.7%	0.3%	2073	2097	24
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

ECONOMIC CAPACITY						
EAST OF TOTAL-EAST MARKET SCENARIO 4 CON EDISON AND O&R DIVEST			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	18.6%	0.3%	930	941	11
Summer Off-Peak	$20	28.0%	0.3%	1441	1458	17
Winter Peak	$30	19.7%	0.3%	952	964	12
Winter Off-Peak	$25	27.6%	0.3%	1393	1410	17
Shoulder Peak	$30	18.9%	0.3%	937	948	11
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

Note: Con Edison's market share is lower in Scenario 4 than in Scenario 2 because its share of Bowline is divested with O&R's share and its fourth bundle is divested.

In-City Market. In the in-City market, even prior to Orange and Rockland's divestiture, the HHI screening criteria are met except in peak hours when they are exceeded only very slightly. After divestiture, the screen is readily passed.

(VI) AVAILABLE ECONOMIC CAPACITY

The calculation of Available Economic Capacity requires knowledge of each competitor's native and requirements load. New York utilities are in the process of both retail access and divestiture. The measure of Available Economic Capacity is thus highly sensitive to the pace of each of these activities. As Dr. Hieronymus points out, the calculation of Available Economic Capacity, therefore, is more complicated here than in some other cases.

Two key points, however, emerge at the outset. First, after it divests all of its generation, Orange and Rockland will have no Available Economic Capacity, and the Merger will have no effect on market concentration. Hence, the only relevant time period is the interim prior to Orange and Rockland's divestiture. Second, as to that period, the interim measures that the Applicants propose to address Economic Capacity also covers Available Economic Capacity.

Nonetheless, Dr. Hieronymus analyzes Available Economic Capacity utilizing conservative assumptions as to the pace of the other New York divestitures and retail access. The results of this analysis are similar to the analysis of Economic Capacity. They show that prior to Orange and Rockland's divestiture the analytic screen is exceeded in some time periods, and that upon Orange and Rockland's divestiture the Merger readily passes the screen.

(VII) NEW YORK ISO CAPACITY MARKET

In addition to the analysis described above that the Commission's Policy Statement dictates, Dr. Hieronymus also analyzed capacity as a product that load serving entities ("LSEs") in New York must purchase under the NYISO rules that are expected to be in place. Under these rules, the relevant geographic markets for capacity in the NYISO capacity market will be different from in the energy market. Generally, the rules will require each LSE to obtain capacity reserves equal to 118 percent of its peak load. This capacity may be located anywhere in New York or be obtained from sources outside the New York State electric system, as permitted according to the NYISO's locational requirements. Thus, under the NYISO rules, there will be a state-wide capacity market unaffected by the Total-East transmission interface. There will, however, be a locational capacity requirement pertaining to New York City. LSEs in New York City will be required to obtain specified levels of capacity reserves from generating capacity located in the City./26/ Thus, there will be a separate in-City capacity market.

The in-City market can be dealt with summarily. Orange and Rockland does not own any capacity in New York City, and, therefore, cannot participate in the in-City capacity market. The Merger thus does not have any effect on competition in that market, and no interim preventive measures are warranted.

For the New York State capacity market, Dr. Hieronymus finds that the merged firm will have no market power even before Orange and Rockland's divestiture. He

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/26/ There will also be a separate locational requirement for capacity in LILCO's service area; however, neither Applicant owns any capacity in that area.

performed two market structure analyses. One analyzes the most likely scenario, and thus takes account of the announced divestitures of New York State Electric & Gas Corporation and Niagara Mohawk Power Corporation, now on-going. The other consists of a "worst case" analysis that ignores both other utilities' divestitures and the Applicants' native load commitments. The most likely scenario shows an HHI of only 870, even prior to Orange and Rockland's divestiture, well within the safe harbor criteria. The worst case analysis shows a moderately concentrated market and, in the interim, prior to Orange and Rockland's divestiture, an HHI delta of 142, slightly above the screening level./27/

Dr. Hieronymus' analysis of other relevant factors as directed by Step 2 of the Policy Statement, however, shows that even in a "worst case" scenario, Applicants will possess no market power in the New York State capacity market during this interim period. First, Applicants would have less than 20 percent of the capacity that can be bid into the New York State market. The Commission has repeatedly held in market-based rate cases that "Applicants with less than 20 percent of the market have no market power."/28/ The

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/27/ The screening criteria are readily passed after Orange and Rockland's divestiture even in this "worst case" analysis.

/28/ Southwestern Public Service Co., 72 FERC (P) 61,208 at p. 61,966 (1955) (Applicants with less than 20 percent of the market have no market power); Louisville Gas & Electric Co., 62 FERC (P) 61,016 at p. 61,146 (1993); accord Entergy Services, Inc., 58 FERC (P) 61,234 (1992) merged firm with 27 percent share); Southern Co. Services, Inc., 72 FERC (P) 61,324 (1995) (26 percent market share). Because of the very temporary nature of any possible market power issue concerning the NYISO state capacity market, the standard used in market rate applications is logically more appropriately applied in determining whether any interim mitigation is necessary than the merger standard used for assessing longer-term market structure. For the reasons stated above, the key issue here is not ultimate market structure - it is already established that the divestitures now in process will result in the Merger having no effect on market concentration - but rather whether the merged firm will be able to exercise market power during the very brief interim prior to these structural changes. On this issue, the key facts as to the merged firm's non-dominant market share, and the other factors discussed above, more than amply confirm the lack of interim capacity market power.

Commission has deemed such a showing to establish a lack of market power subject only to Commission review after three years. Here, the relevant period is a month or two. Second, the Applicants will still retain most of their native load, served at regulated rates. They, therefore, will have neither the incentive nor the ability profitably to raise prices. Finally, under its New York restructuring settlement, Con Edison's capacity prices are already capped by NYPSC and FERC-filed tariff rates. In short, the facts establish that the Applicants will not possess market power in the New York State capacity market in the event that there is an interim between the closing of the merger and Orange and Rockland's divestiture.

Nonetheless, to moot any possible merger-related market power concerns during such period, Applicants commit to adhere to the interim preventive measures described below, including measures that preclude the exercise of market power in the capacity market.

B. PROPOSED INTERIM MITIGATION MEASURES

As shown above, upon Orange and Rockland's divestiture, the Merger passes all of the Appendix A screens. During any brief interval between the closing of the Merger and the completion of Orange and Rockland's divestiture, the Applicants propose that:

- All of their generation resources (i.e., both companies') sold into the wholesale energy market will be bid into the market at a capped bid reflecting their variable costs.

- This cap will be based on heat rate curves currently used by the NYPP to provide economic dispatch and actual fuel costs.

- All of their generation resources bid into the NYISO capacity market will be bid at a capped bid reflecting their "to go" (i.e., avoidable) costs./29/

- These measures will also contain availability criteria to ensure that the Applicants will not withhold their generation from the market.

These interim mitigation measures,/30/ which are set forth in detail in the testimony of Andrew L. Jacob, eliminate any possible market power concerns. They will remain in effect until Orange and Rockland has completed its divestiture.

2. THE COMMISSION NEED NOT WAIT UNTIL IT RULES ON ORANGE AND ROCKLAND'S SECTION 203 DIVESTITURE FILING TO RULE ON THE MERGER

The Commission need not wait to ascertain who the buyer(s) of Orange and Rockland's divested generation will be to evaluate and approve the Merger for two reasons. First, as described above, Orange and Rockland will make an FPA section 203 filing with the Commission in connection with its divestiture sale. Thus, the Commission will be able to review Orange and Rockland's proposed asset transfer before it is final to ensure that the purchaser(s) meet the public interest and market power standards in the Policy Statement.

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/29/ As explained in Mr. Jacob's testimony, the "to go" costs in each generating unit are the avoidable costs of keeping a station open and producing electricity, less any margins earned on the sale of energy and ancillary services. In other words, the "to go" costs represent the actual costs of keeping the unit available to provide capacity.

/30/ The Applicants have termed these interim preventive measures "mitigation measures" in accordance with FERC's practice. However, Applicants believe that the Merger does not create any market power problems to mitigate. Rather, these measures serve to prevent any possible market power problems from arising.

Second, the identity of the buyer(s) of Orange and Rockland's divested generation assets is irrelevant to the Commission's Appendix A criteria and the calculation of the HHI changes resulting from the Merger./31/ The change in HHI will be sufficiently low (below 50 points) that the Merger will necessarily pass the Appendix A screens. Under the Policy Statement, a merger will not harm competition if the change in HHI is less than 50 points where the post-merger HHI exceeds 1800, and less than 100 points where the post-merger HHI is between 1000 and 1800. Once Orange and Rockland divests its generation, its share of the market will be so miniscule (a .003% share of Economic Capacity) that the change in HHI will be considerably less than 50 points. The change in HHI that will result from the Merger thus will pass the Appendix A screens no matter who purchases Orange and Rockland's generation.

3. VERTICAL EFFECTS

The Commission's Policy Statement also requires an inquiry into whether the vertical effects of a merger will adversely affect competition. The Commission's recent decisions and notice of proposed rulemaking concerning mergers identify two primary

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/31/ The HHI screens incorporated into both the U.S. Department of Justice/Federal Trade Commission ("DOJ/FTC") Merger Guidelines and the Policy Statement to identify mergers that will not harm competition are based on the change in market concentration that results from the merger. The change in HHI that results from the Merger does not depend upon the identity of the purchaser(s) in Orange and Rockland's divestiture auction, which is not related to the Merger. Indeed, the DOJ/FTC Guidelines make clear that the increase in concentration associated with a merger can be calculated by reference only to the market shares of the two merging firms: "The increase in concentration as measured by the HHI can be calculated independently of the overall market concentration by doubling the product of the market shares of the merging firms. For example, the merger of firms with shares of 5 percent and 10 percent of the market would increase the HHI by 100 (5 x 10 x 2 = 100)." U.S. Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines, 57 Fed. Reg. 41,552 at 41,558 n.18 (1992).

vertical issues in electric/gas distribution convergence mergers: (1) whether the merger will create the ability or incentive for the merged firm to raise rivals' costs by using control over gas imports to favor its own gas generation; and (2) whether the merger will likely result in anticompetitive coordination./32/ The Commission has also raised the issue of whether a convergence merger could permit a gas supplier to provide its electric marketing affiliate with preferential access to commercially valuable information about gas generator customers./33/ Dr. Hieronymus analyzes each of the relevant upstream markets and finds that the Merger will not create any of these concerns.

A. THE APPLICANTS LACK MARKET POWER OVER SUPPLIES OF COMMODITY GAS

The upstream market involves three activities: (1) the selling of commodity gas supplies; (2) the transportation of these supplies from gas-producing regions into the market area; and (3) the local distribution of these supplies to gas-fired utilities. Dr. Hieronymus first shows that the Applicants will have no market power over supplies of commodity gas to gas generators.

Neither Con Edison nor Orange and Rockland owns any gas production facilities and neither is a major aggregator/supplier to unaffiliated retailers and off-system consumers. Consequently, they have no ability to control or affect the availability or price of commodity gas sold to gas marketers and suppliers to gas generators in the market.

/32/ See, e.g., Long Island Lighting Co., 80 FERC (P) 61,035, at 61,075-76 (1997) aff'd, 82 FERC (P) 61,216 (1998); San Diego Gas & Elec. Co., 79 FERC at 62,560. Notice of Proposed Rulemaking on Revised Filing Requirements Under Part 33 of the Federal Power Act, Docket No. RM98-4-000 (Apr. 16, 1998), 63 Fed. Reg. 20,340 (Apr. 24, 1998) ("Merger NOPR").

/33/ See, e.g., Merger NOPR, 63 Fed. Reg. at 20,353.

Dr. Hieronymus' analysis shows that gas to serve generators that can provide electricity to the downstate electricity market is produced over a large geographic area served by multiple pipelines connecting the producing basins to the gas market.

The Applicants' role in the commodity market is as buyers, not sellers. Although they have purchase contracts for a significant amount of gas, those purchases amount to at most 6.7 percent of the commodity purchases in the region, and after the divestiture of their gas-fueled generation, will drop to 4 percent. Moreover, the Applicants have opened their gas systems to retail access. Consequently, the electric gas generators served by their systems are free to purchase from any gas marketer and are not captive to the Applicants./34/

The Merger does not give the merged company any market power over the marketing of gas as a commodity. Orange and Rockland exited the gas marketing business in 1996, selling its gas marketing arm to Midcon, now part of KN Energy. Con Edison's subsidiary, Con Edison Solutions, does engage in marketing activities, but as Dr. Hieronymus demonstrates, its sales are relatively small. In short, after the Merger, gas generators will have the same opportunities to buy commodity gas that they had before the Merger. The market will remain unchanged -- highly competitive.

/34/ Indeed, Dr. Hieronymus reports that as of June 1998, 41 independent gas marketers have been approved to do business with Con Edison's customers and Con Edison has distributed gas already for 21 of them. Similarly, Orange and Rockland distributes gas for 22 marketers in its service territory.

B. THE MERGER WILL NOT GIVE THE MERGED COMPANY THE ABILITY TO EXERCISE MARKET POWER OVER ELECTRIC GENERATORS VIA CONTROL OVER GAS TRANSPORTATION

Dr. Hieronymus' analysis demonstrates that the Merger will not give the Applicants the ability to affect downstream electricity prices by reason of control over long-haul gas transportation for gas generators. The relevant market for gas transportation consists of southeastern New York, northeastern Pennsylvania, and the northern half of New Jersey. The market is larger than simply the downstate New York area and is defined by the operating criterion of essentially interchangeable pipeline delivery points without loss of overall regional pipeline capacity. The gas transportation network in this area serving this market is extensive and highly interconnected. It includes numerous independent long-haul pipeline companies including Columbia Gas Transmission Corp., Transcontinental Gas Pipeline Co., Texas Eastern Transmission Corp., Tennessee Gas Pipeline Co., and Iroquois Gas Transmission System, Inc. -- transporting gas supplies from diverse areas. Together, these pipeline systems have a transmission capacity of approximately 5.8 billion cubic feet per day. Other FERC-certificated pipeline facilities are being added, which will have the effect of expanding the pipeline capacity to serve this market in 1999.

The Applicants will have no market power over long-haul gas transportation. They do not own any long-haul transportation facilities. They have certain firm transportation rights, but, as Dr. Hieronymus demonstrates, these rights will not give them any ability to exercise market power. First, the merged company will have rights to only 11.1 percent of the long-haul firm delivery rights that will exist in 1999, and the Merger would result in an HHI increase of only 50 points. Thus, even if these contractual rights reflected the ability to influence long-haul capacity, the Merger would meet any possible screening criterion.

Second, and equally important, the ownership of firm capacity entitlements does not confer the ability to withhold output or raise prices in any relevant market and is not a measure of market power. The Applicants' firm rights are principally committed to their full service retail gas customers. Moreover, the Applicants have no ability to withhold their transportation rights from the market if they are not using them for this purpose. The only way the holder of contractual rights to capacity could use them to drive up downstream gas prices would be if it could restrict available gas delivery to the market by neither using its rights nor releasing them to others. The Applicants, however, cannot withhold the pipeline capacity represented by these entitlements. Any unused capacity simply reverts to the pipeline operator as interruptible capacity for sale to others or must be released under the Commission's Order No. 636./35/ If the Applicants do not use their rights, they lose them to others./36/

C. THE MERGER WILL NOT CREATE THE INCENTIVE OR ABILITY TO EXERCISE MARKET POWER THROUGH DISCRIMINATORY LOCAL GAS TRANSPORTATION PRACTICES

The Merger also will not give the Applicants any enhanced incentive or ability to exercise market power by reason of their ownership of local distribution facilities. Both

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/35/ Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation; and Regulation of Natural Gas Pipelines After Wellhead Decontrol, 57 Fed. Reg. 13,267 (Apr. 16, 1992), [Regs. Preambles 1991-1996] FERC Stats. & Regs. (P) 30,939 (1992).

/36/ Finally, Orange and Rockland has no transportation delivery rights inside New York City. Hence, the Merger also will not affect the transportation supply opportunities available to generators that locate in the City.

Orange and Rockland and Con Edison already operate local distribution businesses that provide service to competing gas generators pursuant to the strictures of NYPSC regulation. The Merger will not change this status or affect the Applicants' incentives. Nor will the Merger give the merged company any additional gas generation that it might have a new incentive or ability to treat preferentially. To the contrary, Orange and Rockland and Con Edison are divesting essentially all of their gas-fueled generation that is served over their distribution facilities. Furthermore, Dr. Hieronymus demonstrates that all of the generating stations that the Applicants' local gas distribution facilities serve have economic bypass alternatives.

The Applicants will also be subject to code of conduct restrictions that will further protect against possible vertical market power concerns. Con Edison and Orange and Rockland each has in place Standards of Conduct that meet the requirements of Order Nos. 888 and 889 and subsequent decisions./37/ In addition, as part of the settlements of Con Edison's and Orange and Rockland's retail restructuring proceedings, the NYPSC has approved affiliate transactions rules and standards of conduct for each company. The Applicants have proposed to apply these rules to the merged company with certain amendments necessary to address the relationship between two regulated companies (i.e., Con Edison and Orange and Rockland). These rules contain various protections regarding affiliate activities, which Dr. Hieronymus details. Significantly, among them is the Applicants' commitment not to disclose any proprietary gas customer information (i.e., account-specific information) to their electric marketing affiliates without the customer's

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/37/ The Commission is well aware of the requirements of this code of conduct, and they will not be repeated here. See, e.g., Consolidated Edison Energy, Inc., 83 FERC (P) 61,236 (1998).

consent, and to make available to the affiliate's competitors contemporaneously any general customer or marketer information that is made available to the affiliate.

D. THE MERGER RAISES NONE OF THE CONCERNS ON WHICH THE COMMISSION FOCUSED IN ENOVA/PACIFIC ENTERPRISES

In sum, this Merger raises none of the vertical concerns on which the Commission has focused in other contexts. In particular, the facts here are clearly different from those in Enova/Pacific Enterprises. In Enova/Pacific Enterprises, the concern was that Pacific Enterprises, which had a monopoly over long-haul gas transportation and dominant control over gas storage, would, by reason of its affiliation with an electric generating company, obtain the incentive to manipulate the price and availability of gas to favor its newly acquired gas generation./38/ There was also a concern that the merged company might provide information about its gas generator customers on a preferential basis to its electric marketing affiliate./39/

In this case, the Merger will not create any of these problems. Applicants are mere local distribution companies. Thus, they lack the market power over the supply of gas as an input that Pacific Enterprises was alleged to have. They do not own any long-haul pipelines facilities or any material amount of storage. They have no market power over commodity gas or long-haul transportation. Because the Applicants are existing local distribution companies, the Merger does not change their incentives./40/ Further, because the

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/38/ San Diego Gas & Elec. Co., 79 FERC (P) 61,372.

/39/ Id. at 62,556.

/40/ The Commission held in the LILCO/Brooklyn Union merger that, to the extent the merger did not change LILCO's status as a combination electric and gas distribution company on Long Island, "the proposed transaction does not affect LILCO's incentives." 80 FERC at 61,077. The

(Continued...)

Applicants are divesting essentially all of their gas-fueled generation, the Merger does not give them gas generation that they could favor. Finally, the Applicants already have codes of conduct in place that cover sharing of customer information. In short, the Commission's holding in Enova/Pacific Enterprises is inapplicable here.

No credible argument can be raised that the merged company will have the ability to control gas input prices and/or supply so as to impact electricity prices. This is basically a merger between two wires and pipes companies. It does not raise vertical market power concerns.

B. EFFECT ON RATES

In the Policy Statement, the Commission noted that, in assessing the effects that a proposed merger could have on costs and rates, it will focus on ratepayer protection mechanisms. As set forth in the testimony of William A. Harkins and Frank P. Marino, the Merger will not have any adverse effect on wholesale rates because Con Edison has no wholesale requirements customers and Orange and Rockland's only wholesale requirements contracts are with its subsidiaries, Pike and RECO.

Orange and Rockland sells full requirements wholesale power to its wholly-owned subsidiaries, Pike in Pennsylvania, and RECO in New Jersey. Pike and RECO have no employees of their own. They make only retail sales. As Mr. Marino explains, because of the nature of Orange and Rockland's wholesale relationship with its utility subsidiaries,

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Commission found that Brooklyn Union's incentives had been potentially changed, because it had not been in the electric business prior to the merger. Here, each of the Applicants is a combination company prior to the Merger, and as noted earlier, the Merger does not change that status of their incentives.

and given Orange and Rockland's plans to divest fully its generation and the impending availability of retail access in New Jersey and Pennsylvania, ratepayer protections of the specific type described in the Policy Statement are not relevant. The Policy Statement suggests that utilities "negotiate with customers" before filing an "open season" or other ratepayer protection mechanism to be offered in connection with a merger./41/ This provision was plainly intended to apply to third-party customers whose contractual bargain may be affected by a merger, not to the merging parties themselves. The apparent intent of the Policy Statement is to protect ultimate consumers from the unanticipated rate impacts of a merger. In this case, even assuming that the Merger could adversely affect the wholesale rates charged to Pike and RECO, the ultimate customers would not be negatively impacted. As Mr. Marino states, under Orange and Rockland's retail access plans, on May 1, 1999, all of Pike's and RECO's customers will have a choice of supplier. In effect, there will be an "open season" for those customers.

Likewise, the Merger will not adversely affect the non-requirements wholesale power sales contracts that Con Edison and Orange and Rockland have. As stated in the testimony of Messrs. Harkins and Marino, any service that customers under such contracts take from either Con Edison or Orange and Rockland is at their choice and governed by their assessment of the economics of a given transaction. If they believe that the price offered for electric service is too high for any reason, they simply can buy from someone else or produce the energy themselves.

/41/ Policy Statement at 30,124.

Further, as Messrs. Jaeger and Hartwell explain in their testimony, the rates to firm wholesale transmission customers will not be adversely impacted by the Merger. The Applicants will offer transmission service pursuant to the ISO tariff, which the Applicants expect will be operating prior to consummation of the Merger. The ISO tariff is modeled after, and is consistent with, Order No. 888. Thus, under the ISO tariff, transmission customers will not be adversely affected by the Merger.

In the unlikely event that the ISO tariff is not in place prior to consummation of the Merger, Con Edison and Orange and Rockland are filing, in conjunction with this Application, a joint OATT, which provides access across both companies' systems under a zonal approach. The joint OATT, which if it takes effect would only be in place until the ISO tariff takes effect, allows Con Edison and Orange and Rockland to maintain their present rates. As Messrs. Jaeger and Hartwell describe, because the rates under the joint OATT will be in effect for a short, interim period, if at all, adoption of a consolidated rate is not warranted at this time. The Applicants, therefore, proposal zonal transmission rates that will enhance access to their transmission systems by eliminating rate panicking. The Applicants believe that this approach is reasonable, especially because the proposal holds all current customers at least harmless and offers greater access at one rate to new customers. Again, under the joint OATT, rates to transmission customers will not be adversely affected.

Finally, Con Edison has a number of long-term firm transmission contracts that were not made under its OATT, and Orange and Rockland has a non-OATT transmission agreement with NYPA under which Orange and Rockland transmits NYPA hydroelectric power to PSE&G. As noted in Messrs. Jaeger's and Hartwell's testimony, Con

Edison and Orange and Rockland commit that neither will seek to increase rates under these transmission agreements to recover any Merger-related costs.

C. EFFECT ON REGULATION

The Commission focuses on two issues in deciding whether a proposed merger would impair effective regulation: (1) whether the merger would shift authority from the Commission to the SEC; and (2) whether affected states have the authority to act on the merger./42/ The Merger will not result in any shift of regulation from the Commission to the SEC. Further, each of the states that regulate the merging parties has jurisdiction to approve the Merger. Consequently, the Merger will not impair regulation.

As described in Mr. Harkins' testimony, it is anticipated that post-acquisition transactions between Con Edison and Orange and Rockland and their affiliates will be exempt from SEC regulation because CEI will remain an exempt public utility holding company under section 3(a)(1) of PUHCA. Orange and Rockland also will continue as an exempt holding company under section 3(a)(2) of PUHCA. Accordingly, those transactions will remain subject to the Commission's oversight and will be conducted in accordance with the Commission's policies on intra-company services.

As Mr. Harkins testifies, in those mergers where the merged company has been required to become a registered holding company under PUHCA, FERC has conditioned merger approval on the merged firm's agreement to abide by the Commission's policies with respect to intra-system transactions within the newly-formed holding company

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/42/ Policy Statement at 30,124-25.

structure. The Applicants do not believe that the SEC will require CEI to become a registered holding company. If the SEC were to require such registration as a condition of Merger approval, however, the Applicants commit that for FERC ratemaking purposes, they will follow the Commission's policies regarding treatment of costs and revenues associated with intra-company services.

As to the issue of whether affected states have the authority to act on the Merger, the Applicants have requested approval of the Merger by the state public utility commissions in all of the relevant state jurisdictions -- New York, New Jersey, and Pennsylvania. Accordingly, any impact that the Merger might have on state regulatory authority will be addressed in the state proceedings and need not affect this proceeding. Of course, each state regulatory agency may intervene as of right in this proceeding.

VI. THE MERGER ACCOUNTING

The Policy Statement states that "proper accounting treatment is . . . a requirement for all mergers."/43/ As described in the testimony of Hyman Schoenblum, Con Edison and Orange and Rockland will each record as a regulatory asset in FERC Account 182 the respective costs that they incur to achieve the Merger. Assuming that the Merger is approved, such costs will be amortized over the five years beginning July 1, 1999. The July 1999 date was selected to match the period when synergy savings are expected to begin, thereby matching the Merger costs with the Merger savings. The amortization of the regulatory asset will be a charge to Miscellaneous General Expenses (FERC Account 930.2).

/43/ Policy Statement at 30,126 (footnote omitted).

Journal entries for CEI, Con Edison, and Orange and Rockland illustrating how the companies intend to account for the costs of the Merger are included in Exhibit No. APP-103 to Mr. Schoenblum's testimony. In addition, Exhibits C, E and F to the Application, which include pro forma balance sheets of CEI and Orange and Rockland, also illustrate the accounting treatment of the costs of the Merger.

The Merger is an acquisition of the common stock of Orange and Rockland by CEI and will be recorded using the purchase method of accounting for business combinations in accordance with Accounting Principles Board Opinion No. 16. The purchase price will be compared to the fair value of Orange and Rockland's net assets (which is assumed to be book value) at the time that the transaction is completed, with the difference reflected as goodwill on CEI's books and amortized over a 40-year period. As shown on the pro forma journal entries, Con Edison and Orange and Rockland will reimburse CEI for their appropriate share of goodwill expenses. The charges for the subsidiaries' shares of goodwill will be "below-the-line" expenses charged to Miscellaneous Amortizations (FERC Account 425).

As Mr. Schoenblum also testifies, post-Merger Con Edison and Orange and Rockland will share many of the administrative functions that are currently performed by two separate organizations. These areas include accounting, auditing, information resources, treasury, legal, and corporate. In accordance with general instruction No. 14 of the Uniform System of Accounts, records will be kept reflecting the details of the post-Merger consolidation of administrative functions.

VII. OTHER FILINGS

In addition to the approval and related authorizations requested from the Commission pursuant to FPA sections 203, and the joint OATT and revised Standards of Conduct for Orange and Rockland that the Applicants are filing contemporaneously with the Commission under FPA section 205, the Applicants have also filed, or will hereafter file, the following requests for Federal and State regulatory approvals in connection with the Merger:

A. OTHER FEDERAL FILINGS

1. SEC

As stated above, CEI owns all of Con Edison's issued and outstanding common stock and is a public utility holding company under section 3(a)(1) of PUHCA. The Applicants, therefore, must file for approval of the Merger before the SEC pursuant to PUHCA section 9(a)(2). The Applicants expect to file for such approval within approximately the next 30 days. CEI and Orange and Rockland shall continue to claim their exemptions from registration under PUHCA after the Merger.

2. HART-SCOTT-RODINO

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"), the Merger may not be consummated until certain information has been submitted to the DOJ and the FTC and the HSR waiting period has been satisfied. It is expected that CEI and Orange and Rockland will submit their respective notification and report forms and all required information to the DOJ and FTC in the fourth quarter of this year.

B. STATE FILINGS

1. NEW YORK

Con Edison and Orange and Rockland are subject to the jurisdiction of the NYPSC. On June 22, 1998, the Applicants filed a petition with the NYPSC requesting approval of the Merger, a copy of which is included in Exhibit G to this Application.

2. NEW JERSEY

Orange and Rockland's utility subsidiary, RECO, is subject to the jurisdiction of the New Jersey Board of Public Utilities ("NJBPU"). On July 2, 1998, the Applicants filed a petition with the NJBPU requesting approval of the Merger, a copy of which is included in Exhibit G to this Application.

3. PENNSYLVANIA

Orange and Rockland's other utility subsidiary, Pike, is subject to the jurisdiction of the PAPUC. On July 2, 1998, the Applicants filed a petition with the PAPUC requesting approval of the Merger, a copy of which is included in Exhibit G to this Application.

VIII. INFORMATION SUBMITTED UNDER THE ACQUISITION AND MERGER FILING REQUIREMENTS OF 18 C.F.R. (S) 33.2

A. SECTION 33.2(A)

THE EXACT NAME AND ADDRESS OF THE PRINCIPAL BUSINESS OFFICE OF THE APPLICANTS.

Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, New York 10003

Orange and Rockland Utilities, Inc.
One Blue Hill Plaza
Pearl River, New York 10965

B. SECTION 33.2(B)

NAME AND ADDRESS OF THE PERSONS AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS WITH RESPECT TO THE APPLICATION.

For Con Edison:

Donald J. Stauber
Associate Counsel
Consolidated Edison Company of New York, Inc.
4 Irving Place
Room 1815-S
New York, New York 10003

For Orange and Rockland:

G.D. Caliendo
Senior Vice President & General Counsel
Orange and Rockland Utilities, Inc.
One Blue Hill Plaza
Pearl River, New York 10965

Counsel:

Douglas G. Green
Steptoe & Johnson LLP
1330 Connecticut Avenue, N.W.
Washington, D.C. 20036

The Applicants request that the names of these persons be placed upon the official service list compiled by the Secretary of the Commission in this proceeding.

C. SECTION 33.2(C)

DESIGNATION OF THE TERRITORIES SERVED, BY COUNTIES AND STATES.

This information is contained in Section III of this Application.

D. SECTION 33.2(D)

A GENERAL STATEMENT BRIEFLY DESCRIBING THE FACILITIES OWNED OR OPERATED FOR TRANSMISSION OF ELECTRIC ENERGY IN INTERSTATE COMMERCE OR THE SALE OF ELECTRIC AT WHOLESALE IN INTERSTATE COMMERCE.

This information is contained in Section III of this Application.

E. SECTION 33.2(E)

WHETHER THE APPLICATION IS FOR DISPOSITION OF FACILITIES BY SALE, LEASE, OR OTHERWISE, A MERGER OR CONSOLIDATION OF FACILITIES, OR FOR PURCHASE OR ACQUISITION OF SECURITIES OF A PUBLIC UTILITY, ALSO A DESCRIPTION OF THE CONSIDERATION, IF ANY, AND THE METHOD OF ARRIVING AT THE AMOUNT THEREOF.

The Merger involves the acquisition by CEI of the common stock of Orange and Rockland for the consideration of $58.50 per share, as described in Section IV of this Application.

F. SECTION 33.2(F)

A STATEMENT OF FACILITIES TO BE DISPOSED OF, CONSOLIDATED, OR MERGED, GIVING A DESCRIPTION OF THEIR PRESENT USE AND OF THEIR PROPOSED USE AFTER DISPOSITION, CONSOLIDATION, OR MERGER. STATE WHETHER THE PROPOSED DISPOSITION OF FACILITIES OR PLAN FOR CONSOLIDATION OR MERGER INCLUDES ALL THE OPERATING FACILITIES OF THE PARTIES TO THE TRANSACTION.

A description of the facilities to be merged is set forth in Section III of this Application. As a result of the Merger, Orange and Rockland will become a wholly-owned subsidiary of CEI. Orange and Rockland will retain ownership of all of its subsidiaries, including its two public utility subsidiaries, RECO and Pike. The Merger includes all of the operating facilities of Orange and Rockland. All jurisdictional facilities shall be operated after the consummation of the Merger in substantially the same manner as they currently are operated.

G. SECTION 33.2(G)

A STATEMENT (IN THE FORM PRESCRIBED BY THE COMMISSION'S UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC UTILITIES AND LICENSEES) OF THE COST OF THE FACILITIES INVOLVED IN THE SALE, LEASE, OR OTHER DISPOSITION OR MERGER OR CONSOLIDATION. IF ORIGINAL COST IS NOT KNOWN, AN ESTIMATE OF ORIGINAL COST BASED, INSOFAR AS POSSIBLE, UPON RECORDS OR DATA OF THE APPLICANT OR ITS PREDECESSORS MUST BE FURNISHED, TOGETHER WITH A FULL EXPLANATION OF THE MANNER IN WHICH SUCH ESTIMATE HAS BEEN MADE, AND A DESCRIPTION AND STATEMENT OF THE PRESENT CUSTODY OF ALL EXISTING PERTINENT DATA AND RECORDS.

The costs of the facilities involved in the Merger are set forth in the financial statements attached hereto as Exhibit C in accordance with section 33.3 of the Commission's regulations.

H. SECTION 33.2(H)

A STATEMENT AS TO THE EFFECT OF PROPOSED TRANSACTION UPON ANY CONTRACT FOR THE PURCHASE, SALE, OR INTERCHANGE OF ELECTRIC ENERGY.

The Merger will have no material effect upon any contract of the Applicants for the purchase, sale, or interchange of electric energy.

I. SECTION 33.2(I)

A STATEMENT AS TO WHETHER OR NOT ANY APPLICATION WITH RESPECT TO THE TRANSACTION OR ANY PART THEREOF IS REQUIRED TO BE FILED WITH ANY OTHER FEDERAL OR STATE REGULATORY BODY.

The other federal and state filings required in connection with the Merger are set forth in Section VII of this Application.

J. SECTION 33.2(J)

THE FACTS RELIED UPON BY THE APPLICANTS TO SHOW THAT THE PROPOSED DISPOSITION, MERGER, OR CONSOLIDATION OF FACILITIES OR ACQUISITION OF SECURITIES WILL BE CONSISTENT WITH THE PUBLIC INTEREST.

The facts relied upon by the Applicants to show that the Merger will be consistent with the public interest are set forth in this Application, and the related exhibits and testimony herewith submitted.

K. SECTION 33.2(K)

A BRIEF STATEMENT OF FRANCHISES HELD, SHOWING DATE OF EXPIRATION IF NOT PERPETUAL.

Con Edison and Orange and Rockland each submit that it possesses franchises, consents, or other rights necessary for its provision of electric, gas or steam service in its service territory. A brief statement of the franchises held by the Applicants is hereto attached as Attachment 2.

L. SECTION 33.2(L)

FORM OF NOTICE.

A form of notice suitable for publication in the Federal Register that briefly summarizes the facts contained in this Application is hereto attached. An electronic version of the notice is also submitted herewith on a 3 1/2 " diskette, in WordPerfect 5.1 for DOS.

IX. REQUIRED EXHIBITS UNDER 18 C.F.R. (S) 33.3

The exhibits required pursuant to section 33.3 of the Commission's regulations are included with this filing as Exhibits A through I.

X. PROCEDURAL MATTERS

A. REQUEST FOR APPROVAL WITHOUT HEARING

The Applicants respectfully request that the Commission approve the Merger without a hearing on the basis of the facts and analyses set forth in this Application and supporting testimony and exhibits, which demonstrate that the Merger will not have an adverse effect on competition, rates, or regulation.

B. CLOSING DATE

The Merger is scheduled to close on or before March 31, 1999. The Applicants shall advise the Commission of the actual closing date promptly upon its occurrence.

XI. CONCLUSION

For the reasons set forth in this Application and the supporting testimony and exhibits, the Applicants respectfully request that the Commission:

1. Find that the Merger will not have a potential adverse effect on competition, rates, or regulation, and that this filing with the Commission satisfies all applicable requirements for authorization of the Merger under section 203 of the Federal Power Act and part 33 of the Commission's regulations;

2. Approve the Merger and grant any and all other authorizations or approvals incidental thereto that may be required;

3. Issue such approvals and related authorizations based on the Application and supporting materials, without hearing; and

4. Waive any filing requirement or other regulation as the Commission may find necessary or appropriate to allow this Application to be accepted for filing and granted.

Respectfully submitted,

____

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September 9, 1998

TESTIMONY OF
HYMAN SCHOENBLUM

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Hyman Schoenblum and my business address is 4 Irving Place, New York, New York 10003.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison" or the "Company") as Vice President and Controller.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE.

A. I was graduated from Baruch College in 1970, with a Bachelor of Business Administration Degree in Accounting. In June 1977, I received a Masters Degree in Finance from Baruch College.

I have been employed by Con Edison since July 1971. I worked for ten years in the Accounting Research and Procedures Section of the Corporate Accounting Department, rising to the position of Section Manager. In July 1981, I was promoted to Assistant Controller. From

November 1993 until June 1996, I was a Director in the Corporate Planning Department working on various aspects of the electric restructuring proceeding conducted by the New York Public Service Commission ("NYPSC"). In July 1996, I returned to Corporate Accounting as a Director responsible for the accounting and financial matters associated with electric restructuring. In March 1997, I was promoted to Vice President and Treasurer, and in October 1997, I was appointed to my current position of Vice President and Controller.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSIONS?

A. Yes, I have appeared before the NYPSC on numerous occasions as a witness in support of Con Edison rate applications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony is submitted in support of the proposed acquisition by Consolidated Edison, Inc. ("CEI") of the common stock of Orange and Rockland Utilities, Inc. ("Orange and Rockland") (the "Merger"). As background, I will describe Con Edison, its corporate structure, and the planned divestiture of its generation assets. I also will describe generally the reasons why CEI decided to merge with Orange and Rockland, the structure of the Merger, the expected costs and savings associated with the Merger, and the proposed accounting treatment for those costs and savings. I also will identify other witnesses testifying in support of the Merger.

EXISTING CORPORATE STRUCTURE

Q. PLEASE DESCRIBE CON EDISON AS IT IS CURRENTLY ORGANIZED.

A. Con Edison is an electric, gas, and steam corporation organized under the laws of the State of New York and has its principal place of business at 4 Irving Place, New York, New York 10003. Con Edison is a public utility subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC" or "Commission") under the Federal Power Act ("FPA"). Con Edison is a wholly-owned subsidiary of CEI, whose formation FERC authorized in 1997 (81 FERC (P) 62,070 (1997)). CEI is a public utility holding company under the Public Utility Holding Company Act of 1935 ("PUHCA") and is exempt from regulation by the Securities and Exchange Commission ("SEC") in accordance with section 3(a)(1) of PUHCA. The current corporate structure of CEI is reflected in Exhibit No. APP-101 to my testimony.

Q. PLEASE DESCRIBE CON EDISON'S ELECTRIC SERVICE TERRITORY AND ITS CUSTOMERS.

A. Con Edison supplies retail electric service in all of New York City (except part of the Borough of Queens) and in most of Westchester County, New York to approximately three million customers. The Con Edison system has a projected peak load of 9,585 MW in 1998. Currently, Con Edison provides retail access to approximately 1,000 MW of customer load, with another 1,000 MW to have retail access on April 1, 1999, and the balance gaining access thereafter. Con Edison has no wholesale electric requirements customers, but does make off-system electric sales, as described in the testimony of William A. Harkins. Con Edison's wholesale transmission service arrangements are described in the joint testimony of William L. Jaeger and James Hartwell.

Q. HOW HAS CON EDISON STRUCTURED ITSELF TO RESPOND TO CHANGES IN THE ELECTRIC INDUSTRY?

A. Con Edison has functionally separated its merchant function from its transmission system operations. The merchant function activities are conducted by Con Edison's MegaWatt Hour Store. The transmission system is operated by the System and Transmission Operations Department.

CEI has formed three unregulated subsidiaries (Con Edison Energy ("CEE"), Con Edison Solutions ("CES"), and Consolidated Edison Development ("CEDI")) to engage in energy transactions and to acquire and operate electric generation capacity. It is envisioned that any future acquisitions of generating capacity will be through CEE or CEDI, rather than by Con Edison.

After the divestiture of its generation capacity, which I will describe shortly, Con Edison will focus chiefly on the provision of transmission and distribution services. Con Edison's restructuring is complemented by the creation of a New York Independent System Operator ("NYISO"), which will provide and administer transmission services rendered over Con Edison's system. The status of the NYISO and its impact on transmission arrangements post-Merger are discussed in the testimony of Messrs. Jaeger and Hartwell.

Q. PLEASE DESCRIBE GENERALLY CON EDISON'S GAS BUSINESS.

A. Con Edison provides retail gas service to approximately one million customers in Manhattan, the Bronx, and parts of Queens and Westchester Counties. As of December 31, 1997, the gas distribution system included 4,189 miles of mains. The highest historical maximum firm daily gas sendout of 803 mdth (thousands of dekatherms) occurred on January 18, 1997. Con Edison has a maximum daily firm gas delivery capability of 910 mdth, which is available from the following sources: direct purchases - 584 mdth; storage withdrawals - 160 mdth, and Company LNG (liquefied natural gas) - 166 mdth.

Con Edison has firm gas supply contracts with 16 gas suppliers for an aggregate annual quantity of approximately 128 million dth. In addition to its long-term supply sources, Con Edison purchases spot gas from producers and marketers. During 1997, Con Edison purchased 117 million dth of firm supply and 115 million dth of spot gas. Con Edison made purchases for electric generation of approximately 110 million dth of gas, or 46 percent of the total gas delivered.

Con Edison's gas purchases are delivered under firm and interruptible transportation agreements with seven major interstate pipeline companies: Texas Eastern Transmission Corporation ("Texas Eastern"), Transcontinental Gas Pipeline Corporation ("Transco"), Tennessee Gas Pipeline Company ("Tennessee"), Algonquin Gas Transmission Company, Iroquois Gas Transmission System, National Fuel Gas Supply Corporation, and CNG Transmission Corporation ("CNG"). With regard to gas storage, Con Edison is part owner of the Honeoye Storage facility and a customer of the storage service provided by that facility, and has long-term firm gas storage contracts with Tennessee, Transco, Texas Eastern, and CNG.

As of July 1998, Con Edison provides firm and interruptible gas transportation for approximately 11,500 industrial, commercial, and residential customers in its gas service territory that have elected to participate in Con Edison's gas retail access program and obtain their gas supplies from third-party suppliers. During 1997, Con Edison transported approximately 25.5 million dth of gas under this program.

Gas for the Company's full service customers and its gas retail access program are managed on a day-to-day basis by Con Edison's Gas Supply Department. Gas purchases for electric generation are managed on a day-to-day basis by Con Edison's Energy Management Department. The distribution of gas to Con Edison's gas service customers and electric generation stations is managed on a day-to-day basis by the Gas Operations Department and the Gas Control Section of the Gas Supply Department.

Q. PLEASE DESCRIBE ORANGE AND ROCKLAND AS IT CURRENTLY EXISTS.

A. Orange and Rockland is an electric and gas corporation, organized under the laws of the State of New York and has its principal place of business at One Blue Hill Plaza, Pearl River, New York 10965. Orange and Rockland is a public utility subject to FERC's jurisdiction under the FPA. Orange and Rockland has two wholly-owned utility subsidiaries: Rockland Electric Company ("RECO"), a New Jersey corporation; and Pike County Light & Power Company ("Pike"), a Pennsylvania corporation. Orange and Rockland is a public utility holding company that is exempt from SEC regulation under section 3(a)(2) of PUHCA.

Q. PLEASE DESCRIBE ORANGE AND ROCKLAND'S SERVICE TERRITORY AND ITS CUSTOMERS.

A. Orange and Rockland supplies retail gas and electric service in all of Rockland County, most of Orange County, and part of Sullivan County, New York. In New Jersey, Orange and Rockland's utility subsidiary, RECO, supplies retail electric service in parts of Bergen County, Passaic County, and Sussex County. In Pennsylvania, Orange and Rockland's utility subsidiary, Pike, supplies retail gas and electric service in parts of Pike County. More details concerning Orange and Rockland and its business functions are provided in the testimony of G. D. Caliendo and Frank P. Marino. As Mr. Marino's testimony describes, Orange and Rockland's corporate structure is such that it provides full requirements wholesale service to RECO and Pike pursuant to FERC-approved tariffs. Mr. Marino also describes Orange and Rockland's off-system wholesale sales. Messrs. Jaeger and Hartwell describe Orange and Rockland's wholesale transmission service arrangements. RECO and Pike have no wholesale electric customers.

Orange and Rockland currently owns 964 MW of installed generating capacity. In its Electric Rate and Restructuring Plan, dated November 6, 1996, which the NYPSC approved in its orders dated November 26, and December 31, 1997, Orange and Rockland agreed to divest all of its electric generating assets. On April 16, 1998, the NYPSC approved the process for the auctioning of Orange and Rockland's electric generating assets. The divestiture process, which is expected to be completed by May 31, 1999, is described in Mr. Marino's testimony.

THE MERGER

Q. PLEASE DESCRIBE THE BACKGROUND TO THE MERGER.

A. Dramatic changes are occurring in the electric and gas industries at the federal and state levels, resulting in an increasingly competitive environment in which traditionally-regulated gas and electric utilities must do business. As a consequence of this industry transformation, Con Edison and Orange and Rockland have each engaged in an on-going evaluation of the energy industry to determine how best to respond to these changes. As described further in the testimony of Mr. Caliendo, several months ago, the companies commenced exploratory discussions to determine whether some form of business combination might provide a mutually beneficial setting for responding to this evolving and increasingly competitive energy marketplace. Those discussions culminated in a series of intensive meetings, and ultimately in an agreement on the terms and conditions of a business combination that are set forth in the Agreement and Plan of Merger, dated as of May 10, 1998 ("Merger Agreement"), a copy of which is attached as Exhibit H to the Application. The Boards of Directors of Orange and Rockland and CEI, respectively, approved the Merger Agreement. Orange and Rockland's shareholders approved it on August 20, 1998. CEI shareholder approval is not required.

Q. PLEASE DESCRIBE THE MERGER.

A. In accordance with the terms and conditions of the Merger Agreement, CEI proposes to acquire all of the common stock of Orange and Rockland for

$58.50 per share in cash. To effect the Merger, C Acquisition Corp., a special purpose subsidiary of CEI, will merge with and into Orange and Rockland. Each outstanding share of Orange and Rockland stock will be converted into the right to receive $58.50, and each share of C Acquisition Corp. will be converted into a share of Orange and Rockland. As a result, Orange and Rockland will be the surviving corporation and will become a subsidiary of CEI. The existing subsidiaries of Orange and Rockland, both regulated and unregulated, are expected to remain Orange and Rockland subsidiaries. Attached as Exhibit No. APP-102 is a chart depicting the post-Merger corporate organization of the merging companies. It is expected that Con Edison, Orange and Rockland, RECO, and Pike each will retain its separate corporate identity and name, assets and liabilities, franchises, and certificates of public convenience and necessity. The Merger is forecasted to close on or about March 31, 1999.

DIVESTITURE OF GENERATION CAPACITY

Q. PLEASE DESCRIBE CON EDISON'S GENERATION DIVESTITURE PROGRAM.

A. Con Edison has undertaken a comprehensive restructuring of its retail electric service pursuant to a settlement agreement ("Restructuring Agreement"), which the NYPSC approved by orders issued September 23, and November 3, 1997, in Case 96-E-0897, subject to certain conditions and understandings. The Restructuring Agreement committed Con Edison to divest at least 50 percent of its New York City fossil-fueled electric generating capacity ("In-City Capacity") to unaffiliated third parties by year-end 2002. In addition, the Restructuring Agreement required Con Edison to transfer to its unregulated affiliates, by year-end 2002, all of its electric generating plants not sold to third parties, except for the Indian Point No. 2 nuclear generating facility and its associated gas turbines.

On February 27, 1998, Con Edison filed with the NYPSC a plan ("Divestiture Plan") to implement the divestiture of its electric generating facilities. On April 15, 1998, Con Edison also proposed to divest its steam/electric (co-generating) units located in New York City, as set forth in its Steam System Plan.

The Merger does not affect the Divestiture Plan. Pursuant to the Divestiture Plan, Con Edison will auction off its electric generating facilities in three bundles:

- 1,434 MW consisting of the Arthur Kill generating station and Astoria gas turbines ("Arthur Kill bundle");

- 2,168 MW consisting of the Ravenswood generating station and gas turbines ("Ravenswood bundle"); and

- 1,858 MW consisting of the Astoria generating station plus the Gowanus and Narrows gas turbines ("Astoria bundle").

Closing on the sales of these three bundles is expected by the end of the first quarter of 1999. No purchaser may purchase more than one of these three bundles. Under Con Edison's Steam System Plan, Con Edison will auction off the remainder of its generation in New York City in a fourth bundle consisting of 463 MW of units that produce electricity and steam for Con Edison's steam delivery system ("Steam electric bundle"). Con Edison plans to close on the sales of the fourth bundle by the end of 1999.

The NYPSC, in its July 21, 1998 Order, gave Con Edison the option of having its unregulated affiliate participate in the auction to purchase one of the initial three bundles, subject to certain conditions. On July 24, 1998, Con Edison advised the NYPSC that its affiliate would forego its right to participate in the auction based on the understanding that Con Edison would receive certain treatment of any gains from the sales. The NYPSC approved Con Edison's proposal on August 5, 1998. Accordingly, Con Edison plans to divest all of its In-City Capacity generation to third parties. As part of the Divestiture Plan, Con Edison expects to transfer certain step-up transformers and other jurisdictional facilities. Thus, the transfers ultimately will require the Commission's approval under FPA section 203.

Con Edison filed with FERC on June 1, 1998, localized market power mitigation measures designed to facilitate its Divestiture Plan. These localized market power measures will prevent the new owners of Con Edison's generation from exercising localized market power due to the unique local transmission constraints and reliability rules in New York City.

Con Edison is seeking FERC approval of these measures now because the new buyers need to know the economic consequences of localized In-City constraints before they can value their bids in the divestiture auction. The individual buyers, of course, will also have to obtain market-based pricing authority from FERC before they can sell this generation at market prices in the broader markets outside the City.

Con Edison is also divesting its two-thirds interest in the Bowline Point generating station that it co-owns with Orange and Rockland, which owns the remaining one-third interest. By agreement with Orange and Rockland, Con Edison's two-thirds (810 MW) interest will be sold (with Orange and Rockland acting as Con Edison's agent) in connection with Orange and Rockland's auction of all of its electric generation assets, as discussed in Mr. Marino's testimony. Similarly, Con Edison has announced its intention to divest its 400 MW interest in Central Hudson Gas & Electric Corporation's Roseton station in conjunction with Central Hudson's divestiture auction.

Merger Benefits

Q. HOW DOES THE MERGER FIT WITH CON EDISON'S STRATEGIC GOALS?

A. Con Edison's plan is to enlarge its transmission and distribution business and customer base. The Merger will contribute to that goal, and it will create efficiencies and facilitate the enhancement of customer services.

Q. WHAT BENEFITS WILL THE MERGER PRODUCE?

A. The benefits from the Merger are driven by the operating efficiencies, mostly in the administrative areas of the companies, and from expected economies of scale.

Q. PLEASE EXPLAIN HOW INCREASED EFFICIENCIES CAN BE ACHIEVED.

A. As competition intensifies within the industry, the combined resources of Con Edison and Orange and Rockland will contribute to overall business success. The combination of resources will benefit many areas, including utility operations, product development, and corporate services. The Merger is expected to lower the costs of providing energy and related services when compared to the stand-alone costs of Con Edison and Orange and Rockland, and will improve the efficiency of the combined companies by increasing the customer base and providing synergies for the merged companies.

Q. IS BRINGING THE PERSONNEL OF THE TWO COMPANIES TOGETHER AN IMPORTANT BENEFIT OF THE MERGER TO CUSTOMERS?

A. Yes, it is. Con Edison and Orange and Rockland are expected to remain independent companies following the Merger. However, the Merger will facilitate the integration of the capabilities, talents, and strengths of the personnel of the two companies as well as the adoption of the best practices of the two companies to facilitate efficiencies. The result will be a whole that is greater than the sum of its parts, an arrangement that will facilitate each company's ability to provide reliable transmission and distribution services at reasonable rates.

ACCOUNTING MATTERS

Q. PLEASE DESCRIBE THE COSTS ASSOCIATED WITH THE MERGER.

A. Costs associated with the Merger consist of transaction, transition, and employee costs. Transaction costs incurred to accomplish the Merger include investment banking, legal, and consulting fees. Transition costs are costs, other than transaction and employee costs, necessary to achieve the combination of the companies. Examples of such costs include information systems integration and communication costs, and the cost of regulatory approvals. Employee costs include separation costs, relocation, and training costs.

Q. HOW WILL THESE COSTS BE ACCOUNTED FOR ON CON EDISON'S AND ORANGE AND ROCKLAND'S BOOKS?

A. The costs to achieve the Merger will be incurred by both Con Edison and Orange and Rockland and will be recorded as a regulatory asset in FERC Account 182 for the respective companies. Assuming that the Merger is approved, such costs will be amortized over the five years beginning July 1,

1999. The July 1999 date was selected to match the period when the synergy savings are expected to begin, thus matching the Merger costs with the synergy savings. The five-year amortization period is consistent with the time period that Con Edison has historically utilized, and the NYPSC has approved, to recover significant expenditures such as the costs of its demand side management and enlightened energy programs. The amortization of the regulatory asset will be a charge to Miscellaneous General Expenses (FERC Account 930.2). Attached as Exhibit No. APP-103 are pro forma journal entries for CEI, Con Edison, and Orange and Rockland that illustrate how the companies intend to account for the costs of the Merger. I also am sponsoring Exhibit Nos. C, E, and F to the Application, which include pro forma balance sheets of CEI and Orange and Rockland that also illustrate the accounting treatment of the costs of the Merger.

Q. HOW WILL THE ACQUISITION OF THE COMMON STOCK OF ORANGE AND ROCKLAND BE ACCOUNTED FOR?

A. The acquisition is a purchase of Orange and Rockland by CEI and will be recorded using the purchase method of accounting for business combinations in accordance with Accounting Principles Board Opinion No. 16. The purchase price will be compared to the fair value of Orange and Rockland's net assets (which is assumed to be book value) at the time that the transaction is completed, with the difference reflected as goodwill on CEI's books and amortized over a 40-year period. As shown by the pro forma journal entries in Exhibit No. APP-103, Con Edison and Orange and Rockland will reimburse CEI for their appropriate shares of goodwill expenses. The charges for the subsidiaries' shares of goodwill will be "below-the-line" expenses charged to Miscellaneous Amortizations (FERC Account 425).

Q. WHAT TYPES OF SERVICE WILL CON EDISON AND ORANGE AND ROCKLAND PROVIDE TO EACH OTHER POST-MERGER?

A. The two companies will share many of the administrative functions that are currently performed by two separate organizations. These areas include accounting, auditing, information resources, treasury, legal, and corporate.

Q. HOW WILL THE COSTS OF THE JOINT ADMINISTRATIVE FUNCTIONS BE ALLOCATED AMONG THE REGULATED SUBSIDIARIES?

A. In accordance with general instruction No. 14 of the Uniform System of Accounts, records will be kept reflecting the details of the post-Merger consolidation of administrative functions.

SUMMARY OF THE FILING

Q. PLEASE SUMMARIZE THE COMPANIES' FILING IN THIS PROCEEDING.

A. The Application, together with the supporting testimony and exhibits, demonstrate the following:

(1) the Merger will not adversely affect competition;

(2) the Merger will not subject customers to increased rates;

(3) the Merger will not impair the effectiveness of Commission and state regulation; and

(4) the accounting treatment for the Merger complies with the Commission's rules and generally accepted accounting principles.

Consequently, FERC should find that the Merger is consistent with the public interest.

Q. PLEASE DESCRIBE GENERALLY OTHER TESTIMONY SUBMITTED IN SUPPORT OF THE MERGER.

A. The following additional testimony is submitted in support of the Merger:

Exhibit No. APP-200: William A. Harkins discusses the Merger's effect on regulation and rates from the Con Edison perspective.

Exhibit No. APP-300: G. D. Caliendo explains the Merger benefits from the Orange and Rockland perspective.

Exhibit No. APP-400: Frank P. Marino describes the status of Orange and Rockland's state restructuring efforts and the effect of the Merger on rates from the Orange and Rockland perspective.

Exhibit No. APP-500: William L. Jaeger and James Hartwell describe the establishment of the NYISO and the transmission service arrangements that Con Edison and Orange and Rockland currently implement and propose to implement post-Merger.

Exhibit No. APP-600: Andrew L. Jacob describes the interim market power mitigation measures that the Applicants propose.

Exhibit No. APP-700: William H. Hieronymus presents the results of the empirical analyses performed in accordance with the Commission's requirements to determine the effect of the proposed Merger on competition.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT APP-200

TESTIMONY OF
WILLIAM A. HARKINS

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William A. Harkins and my business address is 4 Irving Place, New York, New York 10003.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison") as Vice President-Energy Management.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE.

A. I graduated from Manhattan College in 1967 with a Bachelor of Engineering degree, and from Rensselaer Polytechnic Institute in 1968 with a Master of Science degree, both with majors in Mechanical Engineering. I also received a Masters of Business Administration degree from Fordham University in 1971. I am licensed as a Professional Engineer in New York State.

I was first employed by Con Edison in 1968, as an Assistant Engineer in Mechanical Engineering. From 1970 to 1978, I served in various positions with increasing responsibilities in the area of nuclear fuel supply. In 1978, I was promoted to the position of Chief Generation Planning Engineer in Con Edison's Planning Department. In 1983, I was elected Assistant Vice President for Fuel Supply, and in 1986, I was assigned additional responsibilities for Environmental Affairs. In 1989, I was promoted to the position of Vice President for Planning and Inter-Utility Affairs. Following a reorganization of certain functions, Planning and Inter-Utility Affairs was renamed Energy Management.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My responsibilities include, among other things, planning for the Company's electric and steam systems, managing the regulated wholesale electricity trading function, managing purchased power contracts, and overseeing the divestiture of certain Con Edison generation assets as part of its restructuring plans.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have testified before the New York Public Service Commission ("NYPSC") on numerous occasions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony addresses the questions of whether the proposed acquisition by Consolidated Edison, Inc. ("CEI") of the common stock of Orange and Rockland Utilities, Inc. ("Orange and Rockland") (the "Merger") will have an impact on (1) Con Edison's wholesale electric sales rates; and (2) state and federal regulation of Con Edison and Orange and Rockland (the "Applicants").

EFFECT ON RATES

Q. DOES CON EDISON HAVE ANY WHOLESALE ELECTRIC REQUIREMENTS CUSTOMERS?

A. No, it does not.

Q. DOES CON EDISON MAKE OFF-SYSTEM SALES OF ENERGY AND CAPACITY?

A. Yes. Con Edison has several interconnection, interchange, and bilateral arrangements that provide for energy and capacity transactions. These agreements have been submitted to the Federal Energy Regulatory Commission ("FERC" or "Commission") and have designated FERC rate schedules.

Q. HOW ARE SALES UNDER THESE AGREEMENTS PRICED?

A. The rates for customers under some arrangements are capped at average system embedded cost; some are fixed and some are set by formula and periodically updated. Sales under most of these agreements are made at negotiated rates subject to a cost-based ceiling. Sales for some customers are made at market-based rates under the appropriate rate schedule.

Q. WILL THE MERGER HAVE ANY ADVERSE IMPACT ON THESE SALES CUSTOMERS?

A. No. Con Edison's existing cost-based interconnection and electric capacity and/or energy sales agreements are "framework" or enabling agreements that establish the ground rules under which a customer can purchase power from Con Edison whenever such a transaction would be in the customer's economic self-interest and Con Edison agrees to the particular transaction. The customer is *not* obligated to purchase any specified quantity of power; it is always free to purchase its power from other suppliers.

If, after the Merger, Con Edison attempted to increase the price for sales under these agreements, the customers could simply not buy any power under them. Given the Merger synergies, what is more likely to happen is a reduction in costs, resulting in lower rates being available to such customers should they choose to buy from Con Edison post-Merger.

Customers that purchase power under Con Edison's market-based rates tariff likewise can simply choose not to purchase power from Con Edison post-Merger. Moreover, for the brief interval between the closing of the Merger and the completion of Orange and Rockland's generation divestiture, the Applicants have committed to mitigation measures that, among other things, circumscribe the pricing of their generation resources in the wholesale energy market. These mitigation measures are described in the testimony of Andrew L. Jacob. In short, no wholesale sales customer of Con Edison will be negatively impacted by the Merger.

EFFECT ON REGULATION

Q. WHAT GOVERNMENTAL APPROVALS ARE THE APPLICANTS SEEKING SO THAT THEY CAN CONSUMMATE THE MERGER?

A. In addition to seeking FERC's approval, the Applicants are making the following governmental filings in connection with the Merger:

(1) Securities and Exchange Commission. Because of its ownership of all the issued and outstanding common stock of Con Edison, CEI is a public utility holding company under the Public Utility Holding Company Act ("PUHCA"). Approval of the Securities and Exchange Commission ("SEC") pursuant to section 9(a)(2) of PUHCA will be required to consummate the Merger. A petition requesting such approval is expected to be filed within approximately 30 days of the date of this Application.

(2) New York Public Service Commission. Both Con Edison and Orange and Rockland are regulated by the NYPSC. A petition requesting the NYPSC's approval of the Merger was

filed on June 22, 1998. A copy is included in Exhibit G to the Application.

(3) New Jersey Board of Public Utilities. Rockland Electric Company, a wholly-owned utility subsidiary of Orange and Rockland, is subject to the jurisdiction of the New Jersey Board of Public Utilities ("NJBPU"). A petition requesting the NJBPU's approval of the Merger was filed on July 2, 1998. A copy is included in Exhibit G to the Application.

(4) Pennsylvania Public Utility Commission. Pike County Light & Power Company, a wholly-owned utility subsidiary of Orange and Rockland, is subject to the jurisdiction of the Pennsylvania Public Utility Commission ("PAPUC"). A petition requesting the PAPUC's approval of the Merger was filed on July 2, 1998. A copy is included in Exhibit G to the Application.

(5) Hart-Scott-Rodino. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"), the Merger may not be consummated until the requisite notifications and report forms have been filed with the Antitrust Division of the Department of Justice and the Federal Trade Commission and

the HSR waiting period requirements have been satisfied. It is anticipated that the necessary HSR filings will be made in the fourth quarter of this year.

Q. WILL THE NON-ENERGY SERVICES PROVIDED BY CON EDISON AND ORANGE AND ROCKLAND TO THEIR AFFILIATES BE SUBJECT TO REGULATION BY THE SEC?

A. No. It is anticipated that post-acquisition transactions between Con Edison and Orange and Rockland and their affiliates will be exempt from SEC regulation because CEI will remain an exempt public utility holding company under section 3(a)(1) of PUHCA. Accordingly, those transactions will remain subject to the Commission's and the NYPSC's oversight and will be conducted in accordance with the Commission's and the NYPSC's policies on intra-company services.

Q. IN THOSE MERGERS WHERE THE MERGED COMPANY HAS BEEN REQUIRED TO BECOME A REGISTERED HOLDING COMPANY UNDER PUHCA, FERC HAS CONDITIONED MERGER APPROVAL ON THE AGREEMENT BY THE MERGED FIRM TO ABIDE BY THE FERC'S POLICIES WITH RESPECT TO INTRA-SYSTEM TRANSACTIONS WITHIN THE NEWLY-FORMED HOLDING COMPANY STRUCTURE. WILL THE APPLICANTS MAKE SUCH A COMMITMENT IN THE EVENT THAT THE SEC REQUIRES THE MERGED FIRM TO BECOME A REGISTERED HOLDING COMPANY?

A. Yes. As I said, the Applicants do not believe that the SEC will require the merged firm to become a registered holding company. If, however, the

SEC were to make this a condition of Merger approval, the Applicants commit that for FERC ratemaking purposes, they will follow FERC's policies regarding treatment of costs and revenues associated with intra-company services.

Q. COULD THE MERGER IMPAIR EFFECTIVE STATE REGULATION?

A. No. As I noted earlier, the Applicants have requested approval of the Merger by the state public utility commissions in all three of the relevant jurisdictions. Accordingly, any impact that the Merger might have on state regulatory authority will be addressed in the state proceedings and need not affect this proceeding. Of course, each state regulatory agency may intervene as of right in this proceeding.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT APP-300

TESTIMONY OF
G. D. CALIENDO

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is G. D. Caliendo and my business address is One Blue Hill Plaza, Pearl River, New York 10965.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company") as Senior Vice President, General Counsel, Corporate Secretary and Compliance Officer.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE.

A. I hold a B.A. from New York University and a J.D. from Fordham University Law School. Before joining Orange and Rockland in early 1995, I served as Senior Vice President, General Counsel and Secretary at Pennsylvania Power & Light Company headquartered in Allentown, Pennsylvania. At Orange and Rockland, I am responsible for the Company's legal, corporate communications, public policy, environmental services, security, safety, and regulatory affairs functions. I am admitted to practice law in New York, Pennsylvania, and the District of Columbia.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSIONS?

A. No, I have not.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will generally describe the corporate structure of Orange and Rockland, why Orange and Rockland agreed to have its common stock acquired by Consolidated Edison, Inc. ("CEI"), and why Orange and Rockland believes that such acquisition (the "Merger") is in the public interest.

CORPORATE STRUCTURE

Q. PLEASE DESCRIBE ORANGE AND ROCKLAND AS IT IS CURRENTLY ORGANIZED.

A. Orange and Rockland is an electric and gas corporation organized under the laws of the State of New York and is an exempt public utility holding company under section 3(a)(2) of the Public Utility Holding Company Act of 1935. Orange and Rockland has two wholly-owned public utility subsidiaries, Rockland Electric Company ("RECO"), a New Jersey corporation, and Pike County Light & Power Company ("Pike"), a Pennsylvania corporation.

The combined operations of Orange and Rockland and RECO and Pike supply electricity and gas to service territories covering approximately

1,350 square miles. Orange and Rockland supplies electric and gas service in all of Rockland County, most of Orange County, and part of Sullivan County, New York. In New Jersey, RECO supplies retail electric service to the northern parts of Bergen and Passaic Counties and small areas in northern Sussex County. Pike supplies retail electric and gas service to the northeastern corner of Pike County, Pennsylvania. Orange and Rockland, RECO, and Pike furnish retail electric service to approximately 269,000 customers in 96 communities with an estimated population of 681,000 and gas service to approximately 114,000 customers in 57 communities with an estimated population of 482,000. Approximately 77 percent of Orange and Rockland's consolidated retail energy sales are from Orange and Rockland, with 21 percent of consolidated retail energy sales from RECO, and approximately one percent of consolidated retail energy sales from Pike.

Orange and Rockland's wholesale electric sales and its natural gas business are described in the testimony of Frank P. Marino. The transmission services that Orange and Rockland provides are described in the joint testimony of William L. Jaeger and James Hartwell.

Orange and Rockland has two wholly-owned, active non-utility subsidiaries, Clove Development Corporation ("Clove"), a New York corporation, and O & R Development, Inc., a Delaware corporation. Clove holds approximately 5,200 acres of real estate, located primarily in the

Mongaup Valley region of Sullivan County, New York. O & R Development, Inc. was formed to promote industrial and corporate development in Orange and Rockland's service territory by providing improved sites and buildings.

RECO has two wholly-owned, non-utility subsidiaries, Saddle River Holdings, Corp. and Enserve Holdings, Inc., both Delaware corporations. Enserve Holdings has three wholly-owned, non-utility subsidiaries, Palisades Energy Services, Inc., an energy service provider, Compass Resources, Inc., and NORSTAR Holdings, Inc. ("NHI"), all Delaware corporations. NHI has two wholly-owned, non-utility subsidiaries, NORSTAR Management, Inc. ("NMI"), a gas marketing company that is discontinuing operations, and Millbrook Holdings, Inc., which leases non-utility real estate in Morris County, New Jersey, both Delaware corporations. NMI is the sole general partner of a Delaware limited partnership, NORSTAR Energy Limited Partnership, of which NHI is the sole limited partner. The NORSTAR partnership is the majority owner of NORSTAR Energy Pipeline Company, LLC, a Delaware limited liability company.

BACKGROUND TO MERGER AGREEMENT

Q. PLEASE DESCRIBE THE BACKDROP AGAINST WHICH ORANGE AND ROCKLAND AGREED TO THE MERGER.

A. As described in more detail in Mr. Marino's testimony, in Orange and Rockland's Electric Rate and Restructuring Plan dated November 6, 1997, approved by the New York Public Service Commission in orders dated November 26, and December 31, 1997, in Case 96-E-0900, Orange and Rockland has agreed to divest by auction all of its electric generating facilities.

Prior to agreeing to divest its electric generating facilities, Orange and Rockland's management and Board of Directors ("Board"), in conjunction with Orange and Rockland's financial advisors, J. P. Morgan & Co., Inc. and Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), reviewed the increasingly competitive environment in the electric utility industry. DLJ pointed out that once divestiture was complete, Orange and Rockland would be only a transmission and distribution company facing deregulation and regulatory risks, a consolidating industry, and limited growth prospects. Accordingly, the Board authorized management and DLJ to explore the possibility of combining Orange and Rockland with another entity, either through the sale of Orange and Rockland or some other strategic combination. From November through December 1997, a number of potential strategic partners were contacted in order to determine their interest in either merging with or acquiring Orange and Rockland. In

January 1998, Orange and Rockland requested such parties to provide it with non-binding indications of interest.

On February 3, and 4, 1998, preliminary, non-binding letters of interest were received from certain of the entities that had expressed interest in acquiring or merging with Orange and Rockland. After reviewing those preliminary, non-binding letters of interest, the Board determined to permit a limited number of the parties who expressed interest, including CEI, to meet with management and conduct due diligence. During the period February through April 1998, those parties performed due diligence and met with management.

Between May 1, and May 4, 1998, proposals were received from each of the interested parties. Each proposal included a draft merger agreement, which contained the terms of the proposed merger, and which was revised to include any changes that would be necessary to enter into a binding agreement with Orange and Rockland.

On May 4, 5, and 6, 1998, Orange and Rockland considered the proposals that it had received. On May 7, 1998, the Board authorized management, together with DLJ and Orange and Rockland's legal counsel, to proceed with negotiations with respect to the proposal that CEI had submitted. On May 8, and 9, 1998, representatives of management, DLJ, and Orange and Rockland's legal counsel negotiated the terms of a merger agreement with CEI and its legal counsel. On May 10, 1998, the Board held a special meeting to review the terms of the transaction that had been negotiated with CEI. After various presentations and full discussion and analysis, the Board, by unanimous vote, approved the Merger.

Q. HOW DOES THE MERGER FIT WITH ORANGE AND ROCKLAND'S STRATEGIC GOALS?

A. The Merger will create a regional company from two companies that share a common vision of the strategic path necessary to succeed in the increasingly competitive utility and energy services marketplace. Both companies have committed to comprehensive generation divestiture programs and will focus chiefly on the provision of transmission and distribution services.

Q. IS SHAREHOLDER APPROVAL OF THE MERGER REQUIRED?

A. Yes. The Agreement and Plan of Merger dated as of May 10, 1998, requires the approval of the holders of two-thirds of the outstanding common stock in Orange and Rockland. At a meeting held on August 20, 1998, the requisite shareholder approval was obtained.

MERGER BENEFITS

Q. HOW WILL ORANGE AND ROCKLAND'S CUSTOMERS BENEFIT FROM THE MERGER?

A. The Merger will provide the opportunity to achieve cost savings through greater efficiencies and economies of scale and scope in areas such as utility operations, product development, advertising, and corporate services. Although post-Merger, Orange and Rockland and CEI's utility subsidiary, Consolidated Edison Company of New York, Inc. ("Con Edison") will be separate operating companies owned by CEI, the Merger should also strengthen the ability of Orange and Rockland and its affiliates to offer additional services to their customers by providing access to innovative technology and methods that Con Edison now uses. In addition, Orange and Rockland will be able to draw on Con Edison's expertise to assure continued system reliability.

As other witnesses demonstrate in their testimony supporting this filing, the Merger will not adversely affect competition, rates, or regulation. Consequently, the Federal Energy Regulatory Commission should find the Merger to be consistent with the public interest and approve it.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT APP-400

TESTIMONY F
FRANK P. MARINO

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Frank P. Marino and my business address is One Blue Hill Plaza, Pearl River, New York 10965.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company") as Director - Compliance.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Science degree in Accounting from the State University of New York at Plattsburgh in May 1987. In May 1991, I earned a Masters of Business Administration degree in Finance from Fairleigh Dickinson University. In addition, I am licensed as a certified public accountant by the State of New Jersey. Since joining Orange and Rockland as an Associate Financial Analyst in June 1987, I have progressed through several positions of increasing responsibility. In March 1991, I was promoted to the position of Administrator - Rate Matters. In

January 1994, I was promoted to Manager - Regulatory Affairs, where my responsibilities included coordinating and preparing rate case filings and related analyses and proposals for Orange and Rockland and its utility subsidiaries and representing Orange and Rockland and its utility subsidiaries before regulatory agencies. In October 1995, I was promoted to my current position of Director - Compliance. In my current position, I am responsible for Orange and Rockland's and its utility subsidiaries' environmental, regulatory affairs, regulatory audits, demand-side management, safety, and security functions.

Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have testified before the New York Public Service Commission ("NYPSC") in Orange and Rockland's last two gas base rate proceedings, Cases 91-G-0128 and 92-G-0050, its last electric base rate proceeding, Case 95-E-0491, and its electric restructuring proceeding, Case 96-E-0900. I have also testified before the New Jersey Board of Public Utilities in Rockland Electric Company's ("RECO") electric restructuring proceedings, BPU Docket Nos. E97070464/E097070465/E097070466, OAL Docket No. PUC-7309-97/PUC-7310-97, and before the Pennsylvania Public Utility Commission ("PAPUC") in Pike County Light & Power Company's ("Pike") electric restructuring proceeding, Docket No. R-00974150.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will describe generally the status of Orange and Rockland's state restructuring efforts, including the planned divestiture of its generation assets. I also will describe Orange and Rockland's gas business. Finally, I will address the effects of the proposed acquisition of Orange and Rockland's common stock by Consolidated Edison, Inc. (the "Merger") on Orange and Rockland's electric wholesale sales rates.

GENERATION DIVESTITURE

Q. PLEASE DESCRIBE GENERALLY THE RESTRUCTURING OF ORANGE AND ROCKLAND'S ELECTRIC BUSINESS.

A. On November 26, and December 31, 1997, the NYPSC issued orders approving Orange and Rockland's Electric Rate and Restructuring Plan ("Restructuring Plan"). The Restructuring Plan provides, among other things, for the sale of all of Orange and Rockland's electric generating assets. By order issued April 16, 1998, the NYPSC authorized the auction process for the divestiture of Orange and Rockland's electric generating assets.

Q. WHAT IS THE CURRENT SCHEDULE FOR THE DIVESTITURE OF ORANGE AND ROCKLAND'S ELECTRIC GENERATING ASSETS?

A. Orange and Rockland is auctioning all of its electric generating facilities (including its one-third interest in the Bowline Point Generating Station) as well as Consolidated Edison Company of New York, Inc.'s two-thirds interest in the Bowline Station. Orange and Rockland has proceeded under a two-phase auction process. Under Phase I, participants submitted non-binding bids by August 3, 1998. A subset of those bidders has been selected to proceed to Phase II. The current expected schedule provides that winning bidder(s) will be selected in mid-October 1998. At that time, filings will be made for the regulatory approvals required to effectuate the sale(s). (In addition, the individual buyers will have to obtain market-based pricing authority from the Federal Energy Regulatory Commission ("FERC") before they can sell the generation at market-based prices.) It is expected that final closings to transfer the assets will occur by May 31, 1999.

RETAIL ACCESS

Q. DOES ORANGE AND ROCKLAND'S RESTRUCTURING PLAN ADDRESS RETAIL ACCESS IN ADDITION TO PROVIDING FOR THE DIVESTITURE OF ORANGE AND ROCKLAND'S GENERATION?

A. Yes. The Restructuring Plan further provides that full retail access to a competitive energy and capacity market will be available for all Orange and Rockland customers by May 1, 1999.

Pike, a wholly-owned utility subsidiary of Orange and Rockland, which supplies electric and gas service in parts of Pike County, Pennsylvania, has likewise committed to full retail access to all of its electric customers by May 1, 1999. In a recommended decision issued July 1, 1998, a PAPUC Administrative Law Judge approved a settlement, among Pike and all other parties, which provides for full retail access by May 1, 1999. That settlement now awaits PAPUC approval. Orange and Rockland's other wholly-owned utility subsidiary, RECO, also has committed to full retail access to its customers in New Jersey by May 1, 1999.

THE GAS BUSINESS

Q. PLEASE DESCRIBE GENERALLY ORANGE AND ROCKLAND'S GAS BUSINESS.

A. Orange and Rockland and Pike distribute purchased natural gas, supplemented at times of peak load by gas produced in its propane air gas plants, to approximately 114,000 customers in Rockland and Orange Counties, New York and Pike County, Pennsylvania. As of December 31, 1997, the gas distribution system included 1,758 miles of mains. The highest historical maximum firm daily gas sendout of 206,038 Mcf occurred on January 19, 1994. Orange and Rockland and Pike have a maximum daily firm gas delivery capability of 225,839 Mcf, which is available from the following sources: direct purchases - 118,471 Mcf; storage withdrawals - 76,768 Mcf; and Company manufactured gas - 30,600 Mcf.

Orange and Rockland has firm, long-term gas supply contracts with seven gas marketers. Together these contracts account for all of Orange and Rockland's and Pike's firm gas requirements and include a contract with a Canadian producer, which accounts for approximately 28 percent of the total contracted supply. Contracts for the remaining 72 percent of the Company's firm gas supply have been executed with six marketers for domestic gas supplies.

In addition to its long-term supply sources, Orange and Rockland purchases spot gas from producers and marketers primarily for the Company's use in electric generation. During 1997, Orange and Rockland made spot purchases of approximately 13.7 million Mcf of gas, or 34 percent of the total gas supply.

To supplement purchased gas, Orange and Rockland manufactures gas at its propane air gas plants located in Middletown, Orangeburg, and Suffern, New York, which have a combined capacity of 30,600 Mcf per day of natural gas equivalent. This capacity, together with gas purchases under contracts between Orange and Rockland and its suppliers, is expected to provide adequate peak day supplies to serve existing customers.

In addition to the gas supply contracts, Orange and Rockland has provided for the transportation of gas through firm, long-term transportation agreements with four major upstream pipeline companies:

Tennessee Gas Pipeline Company ("Tennessee"), Columbia Gas Transmission Corporation ("Columbia"), Algonquin Gas Transmission Company, and Texas Eastern Transmission Corporation ("Texas Eastern"). Orange, and Rockland has twelve points of interconnect with these four pipelines and an interconnect with Transcontinental Gas Pipeline Corporation. The Company also has entered into interruptible transportation agreements with these same pipeline companies. The Company has long-term gas storage contract arrangements with Tennessee, Columbia, and Texas Eastern.

As of July 1998, Orange and Rockland provides firm and interruptible gas transportation for approximately 1,700 industrial, commercial, and residential customers in its gas service territory in New York who elect to obtain their own direct gas supplies. Residential and small commercial and industrial customers are currently served through aggregation groups. During 1997, approximately 4.5 Bcf of gas was transported for Orange and Rockland's gas transportation customers.

The purchase and transportation of gas for Orange and Rockland's gas service customers is managed on a day-to-day basis by the Company's Energy Resources Department. The purchase and transportation of gas for electric generation is managed on a day-to-day basis by the Company's Electric Production Department. The distribution of gas to Orange and

Rockland's gas service customers is managed on a day-to-day basis by the Gas Control Department.

EFFECT ON ELECTRIC RATES

Q. DOES ORANGE AND ROCKLAND HAVE ANY WHOLESALE ELECTRIC REQUIREMENTS CUSTOMERS?

A. Orange and Rockland has no third-party wholesale electric requirements customers. Due to its corporate structure, Orange and Rockland does sell to its wholly-owned utility subsidiaries, RECO and Pike, under FERC jurisdictional wholesale requirements contracts. These are designated as FERC Rate Schedules 61 and 60, respectively. RECO, which has no employees of its own, provides retail electric service in New Jersey. Pike, which has no employees of its own, provides retail electric and gas service in Pennsylvania. Neither RECO nor Pike has any wholesale electric customers.

Q. WILL THE MERGER HAVE ANY IMPACT ON THE RATES CHARGED TO RECO AND PIKE?

A. No, it will not. First, I would note that FERC's emphasis in analyzing a merger's impact on wholesale rates has been on ratepayer protection mechanisms that the merging parties are expected to negotiate with their third-party requirements customers. Those customers are generally municipal electric companies that have long-term contracts with one of the merging parties. Orange and Rockland has no such customers. Because Orange and Rockland wholly owns RECO and Pike, it would be negotiating with itself over ratepayer protection mechanisms.

Second, in light of Orange and Rockland's state restructuring commitments, the traditional relationship between Orange and Rockland, its utility subsidiaries, and the ultimate consumers will be changing. As noted above, Orange and Rockland has agreed to divest all of its electric generating assets. Once the divestiture is complete, Orange and Rockland will need to purchase in the wholesale market the power required for RECO and Pike to meet the obligations of providers of last resort. As of May 1, 1999, RECO's and Pike's customers will have the right to choose a different electric supplier. Consequently, if these customers become dissatisfied with either Orange and Rockland's purchasing practices or the Merger, they are free to go elsewhere for their electric supply. Full retail access is the equivalent of an "open season" for such customers.

Q. DOES ORANGE AND ROCKLAND MAKE OFF-SYSTEM SALES OF ENERGY AND CAPACITY?

A. Yes. Orange and Rockland has several interconnection, interchange, and bilateral arrangements that provide for energy and capacity transactions.

These agreements have been submitted to FERC and have designated FERC rate schedules.

Q. HOW ARE SALES UNDER THESE AGREEMENTS PRICED?

A. The rates for customers under some arrangements are capped at average system embedded cost; some are fixed and some are set by formula and periodically updated. Sales under most of these agreements are made at negotiated rates subject to a cost-based ceiling. Sales for some customers are made at market-based rates under the appropriate rate schedule.

Q. WILL THE MERGER HAVE ANY ADVERSE IMPACT ON THESE SALES CUSTOMERS?

A. No. Orange and Rockland's existing cost-based interconnection and electric capacity and/or energy sales agreements are "framework" or enabling agreements that establish the ground rules under which a customer can purchase power from Orange and Rockland whenever such a transaction would be in the customer's economic self-interest and Orange and Rockland agrees to the particular transaction. The customer is not obligated to purchase any specified quantity of power; it is always free to purchase its power from other suppliers.

If, after the Merger, Orange and Rockland attempted to increase the price for sales under these agreements, the customers could simply not buy any power under them. Given the Merger synergies, what is more likely to happen is a reduction in costs, resulting in lower rates being available to such customers should they choose to buy from Orange and Rockland post-Merger.

Customers that purchase power under Orange and Rockland's market-based rates tariff likewise can simply choose not to purchase power from Orange and Rockland post-Merger. Moreover, for the brief interval between the closing of the Merger and the completion of Orange and Rockland's generation divestiture, Con Edison and Orange and Rockland have committed to mitigation measures that, among other things, circumscribe the pricing of their generation resources in the wholesale energy market. These mitigation measures are described in the testimony of Andrew L. Jacob. In short, no wholesale sales customer of Orange and Rockland will be negatively impacted by the Merger.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT APP-500

TESTIMONY OF
WILLIAM L. JAEGER AND JAMES HARTWELL

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAMES AND BUSINESS ADDRESSES.

A. My name is William L. Jaeger. My business address is 4 Irving Place, New York, New York 10003.

My name is James Hartwell. My business address is 390 West Route 59, Spring Valley, New York 10977.

Q. MR. JAEGER, BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Consolidated Edison Company of New York, Inc. ("Con Edison"). My position is Chief Engineer, Planning and Engineering, System and Transmission Operations.

Q. PLEASE STATE YOUR QUALIFICATIONS.

A. I earned a Bachelors Degree in Electrical Engineering from the City College of the City University of New York in 1969, and have been a registered Professional Engineer licensed by the State of New York since 1976. I have been employed by Con Edison since 1969. Most of my career has been focused on overall bulk power system planning. I held a number of positions of increased responsibility and, in 1983, I was promoted to the position of Chief Engineer, Generation Planning. In 1989, I was re-assigned to Fossil Power as a Plant Manager, a position I held until 1993, when I assumed my current position.

Q. DEFINE YOUR CURRENT DUTIES AS CHIEF ENGINEER.

A. I am responsible for the overall planning and development of the Company's bulk power transmission system, engineering for the Company's underground and overhead transmission system, load forecasting, and interfacing with the Northeast Power Coordinating Council ("NPCC") and the New York Power Pool ("NYPP") on transmission-related issues. I am currently Con Edison's representative on the NPCC Reliability Coordinating Committee and was the Chairperson of the NYPP Planning Committee during 1996. I also am currently active in the restructuring of the NYPP. Part of my responsibility includes transmission contract negotiations, dispute resolution, and the preparation of tariff rates for transmission contracts.

Q. MR. HARTWELL BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Orange and Rockland Utilities, Inc. ("Orange and Rockland") as a Principal in the Electric Resources Department.

Q. PLEASE STATE YOUR QUALIFICATIONS.

A. In my prior position as Manager, Inter-Utility Affairs, I was involved in power contracting and developing transmission service agreements for Orange and Rockland, and prior to that, I held the title of Chief of System Operations, System Operations Department and Manager of Engineering Services, Engineering Department.

For the past four and one-half years, I have been assigned to work on the development of the New York Independent System Operator ("NYISO") and currently serve as the Chairman of the Transmission Issues Resolution Team of the NYPP Working Group.

Before joining Orange and Rockland, I was a consultant with Charles T. Main, Inc., Boston, Massachusetts; a consultant for Jackson and Moreland Engineers, Boston; Design Engineer for Boston Edison Company, Boston; and, Design Engineer for Central Vermont Public Service Corporation, Rutland, Vermont.

I hold a Bachelor of Science in Electrical Engineering from Norwich University and a Masters of Science in Engineering Management from Northeastern University. I am a licensed Professional Engineer in the State of Massachusetts.

Q. DEFINE YOUR CURRENT DUTIES AS ELECTRIC RESOURCES PRINCIPAL.

A. As a Principal in the Electric Resources Department of Orange and Rockland, I am responsible for negotiating and administering Orange and Rockland's electric capacity and energy agreements.

Q. MR. JAEGER, HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes, I have provided testimony on behalf of Con Edison in a number of proceedings before the New York State Public Service Commission ("NYPSC") and once before the Federal Energy Regulatory Commission ("FERC" or "Commission") in support of Con Edison's open access transmission tariff ("OATT") filing in Docket No. OA96-138-000.

Q. MR. HARTWELL, HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY OTHER REGULATORY COMMISSIONS?

A. I have provided testimony in a number of proceedings before the NYPSC.

Q. GENTLEMEN, WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. We are submitting this testimony in support of the proposed acquisition by Consolidated Edison, Inc. ("CEI") of the common stock of Orange and Rockland (the "Merger"). Our testimony describes the establishment of the NYISO and the transmission service arrangements that Con Edison and Orange and Rockland currently implement and propose to implement upon consummation of the Merger.

For purposes of the Section 205 fi ling, we discuss the joint open access transmission tariff ("joint OATT") that the companies are filing concurrently with the Application for Merger to be effective should the NYISO transmission tariff not yet be effective as of the date that the Merger is consummated. In addition, this testimony supports Orange and Rockland's revised Order No. 889 Standards of Conduct.

THE NYISO

Q. WHAT EFFORTS HAVE BEEN MADE TO ESTABLISH THE NYISO?

A. The eight Member Companies of the NYPP have proposed a NYISO that will replace many of the functions currently undertaken by the NYPP and will assume certain additional responsibilities. The NYISO is intended to complete the transition to full compliance with all of the requirements of Order No. 888, including open membership, a governance structure not dominated by any class of market participants, and open transmission access to all market participants. The NYISO proposal is the product of an extensive collaborative process that has taken place in New York State over several years. The NYISO's structure was conditionally accepted by the Commission in an order issued on June 30, 1998.

Q. WHEN DO YOU ANTICIPATE THAT THE NYISO WILL COMMENCE OPERATION?

A. It is currently contemplated that the NYISO will commence operation on or about December 1, 1998.

Q. WHAT ROLE WILL THE NYISO PERFORM AS TO TRANSMISSION SERVICE?

A. The NYISO's primary functions will be to assure the reliable and efficient operation of the bulk power system in New York State (including the coordination of maintenance outage schedules), to provide open access transmission services consistent with the principles of Order No. 888, and to administer the NYISO tariff. The NYISO will have operational control over a major portion of the bulk power system and will provide a security-constrained unit commitment and dispatch of generation facilities. It will also administer and maintain an open access same-time information system ("OASIS") for the New York State bulk power system.

Q. PLEASE DESCRIBE THE PROPOSED NYISO TARIFF AND SERVICE ARRANGEMENTS.

A. The NYISO tariff establishes comprehensive terms and conditions for transmission service, including eligibility, application procedures, transmission operations, billing, and dispute resolution. Under the tariff, the NYISO will provide all transmission services in New York State, including ancillary services. The NYISO will be the sole point of application for transmission service in the State. The NYISO will maintain the safety and reliability of the transmission systems throughout the State.

The NYISO will administer transmission access, pricing and settlements, and facilitate the commercial capacity, energy, ancillary service, and transmission transactions throughout the State.

Q. PLEASE DESCRIBE THE RATES THAT WILL APPLY TO TRANSMISSION SERVICE UNDER THE NYISO TARIFF.

A. When the NYISO tariff takes effect, it will supersede the individual transmission providers' OATTs and will govern transmission service over the New York transmission system, except for enumerated grandfathered transactions. The NYISO transmission charge is based on three components:

1. Transmission Service Charge ("TSC"): This charge ensures recovery of the embedded cost of each Transmission Provider's transmission system. This charge will be assessed to customers located within each Transmission Provider's service territory and to deliveries made at the point of exit from the New York Control Area ("NYCA") for wheels through or out of the NYCA.

2. Transmission Usage Charge ("TUC"): This charge, assessed to all transactions, covers the cost of marginal losses and, during periods when the transmission system is constrained,

the cost of congestion. In general, the congestion cost is based on the difference in locational-based marginal energy prices on either side of a transmission constraint. Customers can "hedge" the cost of congestion and potentially mitigate congestion charges by purchasing Transmission Congestion Contracts.

3. NYPA Transmission Adjustment Charge ("NTAC"): This is a surcharge on all energy transactions designed to ensure recovery of the annual transmission revenue requirement of the New York Power Authority ("NYPA"). This charge will be assessed to all load statewide, as well as to transmission customers that wheel through and out of the NYCA.

Q. WHAT ARE THE WHOLESALE TSCS THAT ARE PROPOSED FOR CON EDISON AND ORANGE AND ROCKLAND?

A. The wholesale TSCs proposed for Con Edison and Orange and Rockland as filed with FERC on December 19, 1997, are $9.1759 per MWh and $7.3726 per MWh, respectively, applied to actual energy deliveries for load served within the NYCA and/or hourly schedules for wheels through and out of NYCA.

THE APPLICANTS' CURRENT TRANSMISSION TARIFFS AND RATES

Q. WHAT TARIFFS CURRENTLY GOVERN TRANSMISSION SERVICE PROVIDED BY THE MERGER APPLICANTS?

A. Con Edison and Orange and Rockland each has filed with the Commission, and provides wholesale transmission service under, an OATT in accordance with the pro forma tariff required under Order No. 888. In addition, Con Edison has filed and provides retail transmission service under service agreements attached to its OATT. The Commission has approved the terms and conditions of the Con Edison OATT (including Con Edison's retail service agreements) and the Orange and Rockland OATT. It should be noted that the Orange and Rockland OATT provides for service over the transmission facilities of Rockland Electric Company and Pike County Light & Power Company, New Jersey and Pennsylvania companies, respectively, that are wholly-owned utility subsidiaries of Orange and Rockland.

Q. WHAT RATES APPLY TO WHOLESALE TRANSMISSION SERVICES UNDER THE CON EDISON OATT AND THE ORANGE AND ROCKLAND OATT?

A. Con Edison's rates on file for wholesale transmission service under its OATT are \$42.81/kW-yr for firm point to point service and \$44.05/kW-yr for network service. These rates are in effect subject to refund. A settlement regarding these rates was certified to the Commission on February 28, 1998, in Docket No. OA96-138-000, and currently is pending Commission approval. The settlement is supported by the active parties to the case. Three issues relating to ancillary service rates were reserved for hearing and are pending an initial decision by the presiding administrative law judge.

Orange and Rockland's rates on file for wholesale transmission service under its OATT are $33.87/kW-yr for firm point to point service. The rate for network service is determined by multiplying the ratio of a transmission customer's network load coincident to Orange and Rockland's peak load times Orange and Rockland's annual transmission revenue requirement ($35,578,482).

Q. WHAT RATES APPLY TO RETAIL TRANSMISSION SERVICES PROVIDED UNDER THE CON EDISON OATT?

A. Con Edison's proposed rates for retail transmission service reflect a rate design methodology that the NYPSC approved and that the Commission accepted on June 12, 1998, in Docket No. ER98-2943-000.

Q. WHAT RATES APPLY TO RETAIL TRANSMISSION SERVICES UNDER THE ORANGE AND ROCKLAND OATT?

A. Orange and Rockland has not yet filed these rates. They will be filed shortly.

Q. WHAT TARIFF WILL GOVERN TRANSMISSION SERVICES ON THE CON EDISON AND ORANGE AND ROCKLAND SYSTEMS AFTER THE NYISO COMMENCES OPERATION?

A. The NYISO tariff will supersede Con Edison's and Orange and Rockland's respective OATTs. As of the date on which the NYISO commences operation, the NYISO will be the sole provider of transmission service in New York State. The NYISO tariff will govern transmission service over the Con Edison and Orange and Rockland transmission systems.

POST-MERGER TRANSMISSION TARIFFS AND RATES

Q. WILL THE MERGER AFFECT THE APPLICABILITY OF THE NYISO TARIFF TO TRANSMISSION SERVICES OVER THE CON EDISON AND ORANGE AND ROCKLAND SYSTEMS?

A. No. The application of the NYISO tariff will not be affected by the Merger. Assuming that the NYISO tariff is in effect at the time that the Merger is consummated, it will be available for all eligible customers to use for transmission service over the Con Edison and Orange and Rockland systems.

Q. WHAT TARIFF WILL BE AVAILABLE SHOULD THE NYISO TARIFF NOT BE IN EFFECT AT THE TIME THAT THE MERGER IS CONSUMMATED?

A. In accordance with the Commission's policy in other merger cases, Con Edison and Orange and Rockland are submitting for filing in a separate docket, but concurrently with the Merger Application, a single-system joint OATT.

Q. DO CON EDISON AND ORANGE AND ROCKLAND PROPOSE TO FILE CONSOLIDATED RATES UNDER THE JOINT OATT?

A. As indicated above, the current transmission rates of Con Edison and Orange and Rockland differ. Because the rates under the joint OATT will be in effect for a short, interim period, if at all, adoption of a consolidated rate is not warranted at this time. The Companies, therefore, propose zonal transmission tariff rates that will enhance access to their transmission systems by eliminating rate pancaking.

Q. WHAT RATES WILL THE COMPANIES USE IN THEIR JOINT OATT?

A. In order to eliminate cumulative charges for transmission services that traverse the companies' systems, Con Edison and Orange and Rockland propose to waive one of the transmission rates and will assess only the transmission charge applicable at the point of withdrawal. Each company will use the rates currently on file in its existing OATT. If the joint OATT becomes effective because the NYISO tariff is not effective as of the date of the consummation of the Merger, Con Edison and Orange and Rockland will submit revised rates if necessary to reflect any changes to those rates required as a result of Commission action on Con Edison's currently pending settlement.

Q. WHAT IS THE PROPOSED EFFECTIVE DATE OF THE JOINT OATT?

A. Con Edison and Orange and Rockland request that the joint OATT become effective on the date on which the Merger is consummated, provided that the NYISO tariff has not already become effective. In other words, if the NYISO tariff becomes effective prior to the consummation of the Merger, it will apply to transmission service over the Con Edison and Orange and Rockland systems. In that event, the joint OATT will have no applicability and should be deemed withdrawn.

Q. IS IT LIKELY THAT THE JOINT OATT WILL BECOME EFFECTIVE?

A. No. Given the scheduled dates for consummation of the Merger and for commencement of NYISO operations, Con Edison and Orange and Rockland do not anticipate that the joint OATT will ever become effective.

Q. PLEASE DESCRIBE THE TERMS OF THE JOINT OATT.

A. The joint OATT is predicated upon the companies' current OATTs and reflects only those changes necessary to render it jointly applicable to Orange and Rockland and Con Edison. The changes, which are shown in a redlined version, consist largely of definitional changes (Sections 1.47, 1.51, and 1.52), changes to state separately the zonal rates for transmission and ancillary services (to eliminate pancaked rates) and real power losses (Sections 15.7, 28.5, 34, Schedules 1 through 8), and the incorporation of provisions regarding Orange and Rockland's PowerPick Retail Access Program (Article IV and Schedule 9).

Q. WOULD YOU PROVIDE EXAMPLES OF HOW THIS RATE PROPOSAL WILL BE APPLIED?

A. Yes. Point to point customers making deliveries on the Con Edison system will pay Con Edison's point to point rates, even if they have power wheeled over the Orange and Rockland system in addition to the Con Edison system. Point to point customers that wheel through both systems will pay only the rate of the system at which the power exits to a third-party control area. Network customers will pay the network rate of the system from which their network loads are served. The ancillary services will track the transmission services, so that a customer paying the Orange and Rockland transmission rate would pay the Orange and Rockland rates for the applicable ancillary services.

Q. HOW WILL A CUSTOMER APPLY FOR SERVICE UNDER THE JOINT OATT?

A. All customers requesting transmission service will submit written applications to Con Edison as set out in Section 17.1 of the tariff. Con Edison and Orange and Rockland each will determine the available transmission capacity ("ATC") applicable to its system and ensure that ATC is posted on NYPP's OASIS. Con Edison and Orange and Rockland will treat parties that previously executed a service agreement with either company as having executed a service agreement under the joint OATT; i.e., no new service agreements will be required.

Q. UNDER THE JOINT OATT, HOW DO THE COMPANIES INTEND TO TREAT THE CAPACITY AVAILABLE OVER THE INTERCONNECTIONS BETWEEN CON EDISON AND ORANGE AND ROCKLAND?

A. The companies do not intend to reserve additional capacity over such interconnections for native load uses during any time that the joint OATT is in effect. In other words, should the joint OATT go into effect, whatever capacity is then available at the time the Merger is consummated will be posted as ATC and available for third-party use.

Q. DOES CON EDISON CURRENTLY HAVE IN PLACE ANY LONG-TERM FIRM TRANSMISSION CONTRACTS THAT WERE NOT MADE UNDER THE CON EDISON OATT?

A. Yes. Con Edison has a number of long-term firm transmission contracts that were not made under its OATT.

The most significant of these contracts provides for the delivery of NYPA power to its preference customer load located within the Con Edison service territory. NYPA has a number of other supply programs for the benefit of certain customers within the service territory for which delivery service from Con Edison is required. These include deliveries for Economic Development Power, Power for Jobs and for municipal agencies in New York City and Westchester County. Con Edison also provides firm transmission service to NYPA for its supply to selected customers on Long Island. Con Edison provides firm transmission service to New York State Electric and Gas Corporation for the supply of its load in Brewster, New York. Con Edison also provides firm transmission service to the Long Island Power Authority for delivery of firm resources located in upstate New York. Con Edison commits that it will not seek to increase the rates under these transmission agreements to recover any Merger-related costs.

Q. DOES ORANGE AND ROCKLAND HAVE IN PLACE ANY LONG-TERM FIRM TRANSMISSION CONTRACTS THAT WERE NOT MADE UNDER THE ORANGE AND ROCKLAND OATT?

A. Yes. Orange and Rockland has a transmission agreement with NYPA under which NYPA hydroelectric power is transmitted to Public Service Electric and Gas Company for redelivery to various municipal and cooperative utilities in New Jersey. The Commission accepted the most recent amendment to that contract on December 30, 1997, in Docket No.

ER98-487-000. Orange and Rockland commits that it will not seek to increase the rates under that agreement to recover any Merger-related costs.

Q. WHAT STEPS ARE THE APPLICANTS TAKING TO COMPLY WITH THE ORDER NO. 889 STANDARDS OF CONDUCT?

A. Each of the companies previously has filed with the Commission Standards of Conduct and implementation procedures that are consistent with the requirements of Order No. 889. On June 30, 1998, Con Edison filed, in Docket No. ER98-2491-001, revised standards which, among other things, reflect the proposed Merger by treating Orange and Rockland as an "affiliate" of Con Edison. This revision will have the effect of ensuring that any dealings between Con Edison transmission personnel and Orange and Rockland merchant function personnel are restricted in the same manner as would be any dealings between Con Edison transmission personnel and Con Edison merchant function personnel. That filing also revised Con Edison's and its marketing affiliates' codes of conduct under the market-based tariffs to treat Orange and Rockland as an affiliate of Con Edison (and its marketing affiliates). Orange and Rockland made a similar filing on June 30, 1998, that was accepted by the Commission in Docket No. ER98-3560-000 on July 28, 1998.

In the Section 205 filing being made today, Orange and Rockland is submitting revisions to its Order No. 889 Standards of Conduct that will assure that neither merchant function personnel of Con Edison nor any of Con Edison's marketing affiliates will have preferential access to transmission information or transmission service over the Orange and Rockland system. Orange and Rockland has been operating consistent with these revised standards since the Merger was announced.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT APP-600

TESTIMONY OF
ANDREW L. JACOB

ON BEHALF OF
CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.
AND
ORANGE AND ROCKLAND UTILITIES, INC.

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Andrew L. Jacob. I am Chief Engineer, Energy Management for the Consolidated Edison Company of New York, Inc. ("Con Edison"), in its offices at 4 Irving Place, New York, New York 10003.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from Manhattan College in 1969 with a Bachelor's Degree in Mechanical Engineering. I also received a Master's Degree in Business Administration from Pace University in 1974. I am licensed as a Professional Engineer in New York State. From 1969 to 1983, I was employed by American Electric Power Service Corporation in various Engineering positions with increasing responsibilities. From 1983 to 1985, I was Manager of Facilities Engineering at Columbia University. In 1985, I began my career at Con Edison as Executive Assistant to the Executive Vice President. From 1986 to 1989, I was

Plant Engineer of Con Edison's Ravenswood Electric Generating Station. In 1989, I was named Manager of Electric Generation Planning. In 1991, I was promoted to my current position.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. As Chief Engineer, Energy Management, my responsibilities include planning for Con Edison's electric and steam generating systems; estimating fuel requirements for Con Edison's generating facilities; analyzing, planning, and negotiating power purchase and sales contracts; and directing economic studies relating to Con Edison's electric and steam systems. I am also serving as the Director of Con Edison's divestiture plan, responsible for achieving a successful and timely completion of the sale of the Company's generating plants.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY BODY?

A. Yes. I have testified on numerous occasions before the New York State Public Service Commission ("NYPSC") and two times before this Commission.

INTRODUCTION AND SUMMARY OF TESTIMONY
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Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to specify Applicants' proposed Interim Market Power Mitigation Measures, consistent with Dr. Hieronymus' testimony. Dr.

Hieronymus, applying this Commission's merger guidelines, finds that with Orange and Rockland Utilities, Inc.'s ("Orange and Rockland") divestiture of its owned generating resources, the proposed merger between Con Edison and Orange and Rockland (collectively, the "Applicants") presents no market power concerns and readily passes all of the Commission's analytical screening criteria.

However, Dr. Hieronymus notes that there is expected to be a short (one or two month) period of time between the date the merger is consummated and the date Orange and Rockland completes its divestiture, and that during this brief interim period, certain of the Commission's screening criteria would be exceeded./1/ Applicants do not believe they would have any market power in the brief interim prior to Orange and Rockland's divestiture. Dr. Hieronymus, moreover, points out that Applicants would have no economic incentive to try to raise prices during this interval. Nonetheless, to eliminate any possible market power concerns, Applicants are committing to abide by certain mitigation measures during any such interim period./2/

/1/ Of course, there may not be such an interval if the consummation date of the merger slips slightly or if Orange and Rockland can complete its divestiture ahead of schedule.

/2/ Applicants term these measures "interim mitigation measures" in accordance with FERC practice. However, as noted above, Applicants do not believe that the merger creates any interim market power problems that require "mitigation." These preventive measures are intended to preclude any possible problem from arising.

My testimony describes Applicants' proposed Interim Mitigation Measures. These measures cap Applicants' bids for energy at variable costs, cap Applicant's bids for capacity at their "to-go" (i.e., avoidable) costs, and specify certain minimum availability criteria.

INTERIM MITIGATION MEASURES

Q. HAVE YOU SET OUT APPLICANTS' PROPOSED INTERIM MITIGATION MEASURES AS AN EXHIBIT TO THIS TESTIMONY?

A. Yes. These measures are attached to my testimony as Exhibit APP-601.

Q. WHAT IS THE TERM OF THESE INTERIM MITIGATION MEASURES?

A. These measures will extend from the closing of the merger until the completion of Orange and Rockland's divestiture program.

Q. WHAT GENERATING RESOURCES WILL BE SUBJECT TO THESE MEASURES DURING THIS INTERIM PERIOD?

A. The interim mitigation measures will be applicable to all of Applicants' generating resources, both Con Edison's and Orange and Rockland's.

Q. PLEASE DESCRIBE THE INTERIM MITIGATION MEASURES THAT THE APPLICANTS PROPOSE.

A. Applicants propose interim measures regarding both energy and capacity. With respect to energy, these measures will cap all bids the Applicants submit to the

New York Independent System Operator ("NYISO") for the sale of energy.[3] More specifically, the interim mitigation measures will require that all of Applicants' bids into the NYISO's Day Ahead and Balancing (or Real Time) Energy Markets be capped at variable costs. The variable costs will be determined on the basis of the units' established heat rate curves and the applicable fuel cost for the type of unit in question.

With respect to capacity, the proposed measures require that any capacity that the Applicants bid into the NYISO capacity market will be bid at the applicable generator's "to-go" (i.e., avoidable) costs. The "to go" costs for each owned generating unit are the avoidable costs of keeping a station open and producing electricity, less any net revenues earned on the sale of energy and ancillary services. In other words, the "to go" costs represent the actual costs of keeping the unit available to provide capacity. As described below, the NYPSC is developing procedures for calculating such "to go" costs.

Q. PLEASE DESCRIBE THE AVAILABILITY CRITERIA THAT WILL BE IMPOSED BY THE PROPOSED INTERIM MEASURES.

/3/ The interim measures would cover bids into the ISO directly or through a power exchange.

A. Applicants, over any 60 day period, must make the subject generating resources available to the NYISO energy market (on a self-scheduled or bid basis) at the level of availability achieved on average during the same period over the last three years or explain any shortfall to the satisfaction of the NYISO. Applicants must also make the resources available to the capacity market. This will ensure that Applicants will not withhold their generation from the market during any interim period prior to Orange and Rockland's divestiture. In addition, the NYISO monitoring program will be able to review the overall operation of these resources and may investigate any anomalous behavior given overall market conditions.

Q. WILL APPLICANTS RETAIN THE RIGHT TO SELF-SCHEDULE THE GENERATORS COVERED IN THE INTERIM MITIGATION MEASURES?

A. Yes. Orange and Rockland expects to self-schedule its generation to meet the needs of its remaining regulated retail customer base. The interim mitigation measures will apply to the extent Orange and Rockland has any generation remaining after meeting load pocket and native load requirements. Con Edison is required by its retail restructuring settlement approved by the NYPSC to bid all of its owned electric generation (fossil fueled and nuclear generation) into the NYISO energy and capacity markets, and the mitigation measures will cover such bids. Con Edison reserves the option to self-schedule its remaining generating resources to meet retail customer requirements.

Q. YOU MENTIONED THAT THE NYPSC IS IN THE PROCESS OF DEVELOPING A METHODOLOGY FOR CALCULATING "TO GO" COSTS? PLEASE ELABORATE.

A. As a condition of its retail restructuring Settlement Agreement with the New York Public Service Commission in Case 96-E-0897, Con Edison is already required to bid its electric capacity (fossil-fired and nuclear generation) into the capacity market at no less than its "`to go' or avoidable costs." Settlement Agreement at para. 11(d), Exhibit No. APP 602. The interim mitigation measures proposed here would cap Applicant's capacity bids at this level until completion of Orange and Rockland's divestiture. Con Edison's NYPSC Settlement requires Con Edison to calculate its "to go" costs according to procedures that will be verified and approved by the NYPSC Staff. In complying with the proposed mitigation measures, Applicants plan to calculate the "to go" costs of their generating resources in accordance with these procedures. Their bids will be auditable by the NYPSC and by NYISO's monitoring program.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

EXHIBIT APP-700

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Consolidated Edison Company of New York, Inc.) Docket No. _________
Orange and Rockland Utilities, Inc.)

PREPARED DIRECT TESTIMONY
AND EXHIBITS OF
WILLIAM H. HIERONYMUS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William H. Hieronymus. I am a managing director of Putnam, Hayes & Bartlett, Inc. ("PHB") in its office at One Memorial Drive, Cambridge, MA 02142.

I. QUALIFICATIONS

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I received a bachelor's degree from the University of Iowa in 1965, a master's degree in economics in 1967, and a doctoral degree in economics in 1969 from the University of Michigan, where I was a Woodrow Wilson Fellow and National Science Foundation Fellow. After serving in the US Army, I began my consulting career.

In 1973, I joined Charles River Associates Inc. and specialized initially in antitrust economics. By the mid-1970s, my focus was principally on the economics of energy and network industries. In 1978, I joined PHB where my consulting practice has continued to focus on network industries, particularly electric utilities.

During the past twenty-odd years, I have completed numerous assignments for electric utilities, state and federal government agencies and regulatory bodies; energy and equipment companies; research organizations and trade associations; independent power producers and investors; international aid and lending agencies; and foreign governments. While I have worked on most economics-related aspects of the utility sector, a major focus has been public policies and their relation to the operation of utility companies.

Since 1988, I have focused primarily on electric utility industry restructuring, regulatory innovation and privatization. In that year I began consulting on the restructuring and privatization of the electric utility industry of the United Kingdom, an assignment on which I worked nearly full-time through the completion of restructuring in 1990. During that period, as well as after, I also have completed major assignments related to utility restructuring in other western European countries, eastern and central Europe, the former Soviet Union and New Zealand.

With my return to the United States in 1993, I began work on the restructuring and regulatory reform of the US electricity industry. Much of this work has focused on market power; I have testified before the FERC and state commissions on market power issues concerned with mergers, power pools and market rate applications. Included in that body of testimony is testimony in Docket Nos. ER97-705-000, ER97-707-000 and ER97-1523-000, which assesses the effects of transmission constraints on Con Edison's potential market power in the context of FERC's grant of market rate authority to Con Edison and its marketing subsidiary, ProMark Energy, Inc., which since has changed its name to Consolidated Edison Solutions, Inc. I also recently filed testimony in connection with mitigation measures associated with Con Edison's divestiture of generation in New York City. More generally, I have testified before state and federal regulatory commissions, federal and state courts, and legislatures on numerous matters concerning the electric utility and other network industries. My resume is attached as Exhibit No. APP-701.

II. INTRODUCTION AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by Consolidated Edison, Inc. ("Con Edison") and Orange and Rockland Utilities, Inc. ("O&R") (collectively, the "Applicants") to determine the potential competitive impact of their proposed merger on electricity markets. My analysis is conducted to be consistent with the Competitive Analysis Screen described in Appendix A to the Commission's Merger Policy Statement ("Order No. 592")/1/ which in turn is intended to comport with the Department of Justice and Federal Trade Commission ("DOJ/FTC") Merger Guidelines ("Guidelines"). I also have analyzed potential vertical market power issues arising from the market, particularly those arising from Applicants' status as combination utilities owning local gas distribution companies.

Q. WHAT ARE YOUR PRINCIPAL CONCLUSIONS?

A. Based on the results of the analyses I have conducted, I conclude that the proposed merger poses no market power concerns except, perhaps, for minor concerns in the short period prior to O&R's generation divestiture in the first half of 1999. O&R is a relatively small utility that has agreed to full divestiture of its owned generation. Closing is scheduled for the end of May 1999, approximately the anticipated date of merger completion. No affiliate of either O&R or Con Edison will bid on the divested facilities. As a consequence of this divestiture, the merger will combine Con Edison's remaining generation (i.e., that which remains after its own divestiture of significant generation, most of which also is scheduled in the first half of 1999) with only the very small amount of purchases that O&R still will be required to make from existing long-term contracts. Even these small purchase amounts are from facilities that are not controlled by O&R. Most or all purchases that constitute O&R's remaining Economic or Available Economic

Capacity will either be scheduled bilaterally or be bid into the New York pool by unaffiliated parties, with the result that they cannot be used by the post-merger company to affect prices in the New York electricity market. Further, none of O&R's existing owned or purchased capacity is located in the constrainable New York City area, which I treated as a separate destination market. For these reasons, the merger results in virtually no change in Con Edison's pre-existing share of any relevant electricity market. With O&R's divestiture, the merger easily passes all of the HHI screens in the Commission's merger guidelines.

In evaluating the merger, notice also should be taken of the fact that Con Edison is divesting virtually all of its In-City generation, which constitutes about 70 percent of its total owned generation. Nearly all of Con Edison's divestiture is scheduled to be completed in the first quarter of 1999./2/ The merged company will be a participant in the New York Independent System Operator ("NYISO" or "ISO"), turning over effective control over most transmission facilities to it. At the conclusion of their planned divestiture, the merged Applicants will be principally a wires company with some retained nuclear generation and power purchases, with regulated provider-of-last-resort responsibilities and competitive retail and wholesale marketing functions.

Other New York utilities also are divesting the bulk of their generation. While the ownership patterns in New York markets cannot be predicted with certainty, it is highly likely that relevant New York power markets will be at most moderately concentrated. In

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/1/ Inquiry Concerning The Commission's Merger Policy Under The Federal Power Act: Policy Statement, Order No. 592, & 31,044 (1996).

/2/ As detailed below, Con Edison is divesting its In-City generation in two phases: three of the four In-City bundles will be divested in the first quarter of 1999; and the fourth bundle (the steam-producing units) will be sold subsequently, most likely in late 1999. The divestiture of Con Edison's share of Bowline will be completed contemporaneously with O&R's divestiture of the station. Its divestiture of its steam-producing units will likely occur late in 1999. It also is divesting its unit power contract share of the Roseton station contemporaneously with Central Hudson Electric & Gas's divestiture of the station. At the end of this process, the merged company will retain only a residuary ownership of a nuclear unit and responsibility to take power under power purchase contracts.

any event, upon O&R's divestiture, this merger passes the Commission's HHI screens even without taking into account the de-concentrating effect of other utilities' divestitures./3/

However, there may be a short period of time between the date the merger is consummated and the date O&R completes its divestiture in which the screening criteria for Economic and Available Economic Capacity set out in Appendix A of FERC's Order No. 592 are failed in some time periods (generally high price, on-peak periods). O&R is scheduled to select its winning bidders on October 15, 1998, and plans to close the sale on or about May 31, 1999. The merger is expected to close in April 1999, one to two months earlier. During this period, Applicants will still retain sufficient native load or "supplier of last resort" load such that they remain substantial net purchasers. For this reason, they have no incentive to increase power prices. Nonetheless, Applicants have proposed interim mitigation measures requiring 1) that all generation bid into the ISO/4/ be bid on an auditable variable cost basis, 2) that all generation be made available to the market at its historic levels of availability, and 3) that capacity bid into the New York ISO capacity auction be bid at a capped rate that is based on the "to go" costs of the generating unit and is substantially below the FERC-approved tariff rate for Applicants' capacity. This mitigates any potential market power concerns. Thus, the Commission's horizontal market power screen is passed for the post-O&R divestiture period and any possible interim market power is mitigated fully.

/3/ It is not necessary to wait to see to whom O&R sells its generation to in order to reach this conclusion. The delta HHI will be sufficiently low (i.e., less than 50 points) such that there is no appearance of market power created by the merger even if the market structure changes. The divestiture is not merger related, so changes in market concentration resulting from the divestiture are not merger-related. Moreover, O&R will file a section 203 application at FERC in connection with its divestiture and also has been required by the New York Public Service Commission ("NYPSC") to demonstrate that the buyer(s) of its generation satisfy the Commission's Appendix A screen.

/4/ Bidding into the ISO could be accomplished by bidding such generation into a power exchange, which would then bid the generation to the ISO.

My analysis was conducted to conform to the requirements of Appendix A of Order No. 592. For the Economic and Available Economic Capacity products, I examined market structure and the effect of the merger on it for multiple time periods and market price levels. The geographic markets considered were the City of New York, a constrainable subset of Con Edison's service area in which Con Edison owns or controls most of the generation, and the downstate portion of New York state (that portion that is East of the Total-East transmission constraint). Con Edison and O&R generation is physically located in the East of Total-East market. The focus on the East of Total-East market, to the exclusion of other "destination markets" that might have been defined, follows from the fact that the operation of transmission constraints causes Applicants' share of this market to be higher than in any other market. This approach is consistent with recent Commission precedent.

I also examined the effect of the merger on FERC's traditional Total Capacity and Uncommitted Capacity measures. For both measures, the screening criteria are passed for all relevant time periods, including prior to divestiture. O&R has no uncommitted capacity before retail access for capacity and divestiture, both of which are scheduled for May 1999.

In addition to examining the market measures described in Order No. 592, I examined the effect of the merger on the capacity markets established by the rules of the New York Power Pool and proposed New York ISO. In New York, capacity is a separate product with defined geographic areas that differ somewhat from the energy market areas that I examined. Specifically, there will be a New York State capacity market in which all in-State capacity and eligible out-of-State capacity compete, and an In-City market, for which only In-City capacity qualifies./5/ The merger has no effect on the latter, since O&R

/5/ There also is expected to be a Long Island capacity market in which Applicants cannot compete but which is taken into account in my analysis of the New York State market since it reduces the ability of capacity on Long Island to bid into the broader New York market.

has no In-City capacity. With respect to the former, I examined the structure of sellers of such capacity. Currently, the merger has no impact on this market. Prior to May 1, 1999, O&R has no capacity to sell and Con Edison, which is currently selling its capacity to load serving entities ("LSEs") at auction-based prices, likely will have no uncommitted capacity for the New York State market. Post-divestiture, the screen is easily passed.

Any possible failure of the screening criteria will result from slight differences in the timing for divestiture and reductions in capacity responsibility. This period will be limited to the period between May 1, 1999 when the merger is scheduled to close, and the completion of O&R's divestiture, forecast to occur at the end of May. I analyzed two cases pertinent to this period. The most conservative case ignores the effect on market structure of the ongoing generation divestiture in New York. In this case, the market is moderately concentrated and the Guidelines' change in HHI is slightly exceeded. However, Applicants' share of the total market is less than 20 percent, (i.e., less than the threshold FERC has applied in granting market rate authority). In the second case, which takes the generation divestitures by other New York utilities into account, the market is unconcentrated even in the post-merger period before the O&R divestiture is completed, and the Guidelines' test is passed. Nevertheless, as summarized above, Applicants propose to mitigate any possible market power in the New York state capacity market during this interim period by capping their bids into the market at the "to go" cost of the generating units./6/

I also have examined potential vertical market power issues arising from the merger and concluded that the merger does not create any competitive problems in this regard. Transmission access for new generators is assured both by the Commission's open access policies and by the NYISO control over the operation of the transmission system and the

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/6/ While Con Edison is required under the terms of its Settlement to bid all capacity into the auction, the Applicants are considering requesting authorization from the NYPSC for it to self-schedule capacity to serve native load and its retail access load in the event that the ISO capacity market is not fully operational on a timely basis.

transmission system expansion process. Applicants will not possess dominant control over potential generating sites.

Applicants are both combination utilities, but neither has gas production facilities and neither owns or operates long-distance pipelines or large storage facilities. Applicants have no ability to exercise sellers' market power for commodity gas; even if their role as buyers of gas, principally on behalf of their regulated retail customers, was deemed relevant to commodity gas market power, their share of purchases from relevant basins is far too low to cause concern. Con Edison has a subsidiary that is one of many gas marketers; O&R has exited the gas marketing business, so the merger has no impact on the gas marketer "market."

While both Con Edison and O&R have firm transmission rights on the gas pipelines serving the area, their combined share is less than 13 percent. This will be reduced to about 11 percent in 1999-2000 due to new pipeline construction. Moreover, Applicants cannot withhold these rights to reduce supply since failure to use rights simply increases the amount of non-firm capacity that the pipelines can sell to any willing buyer, including competitors in both the gas and electricity marketing business. Further, O&R has no transportation rights that could be used to deliver gas into New York City.

Applicants both have regulated gas distribution operations. These operations serve some of the gas-fired generation facilities located in the downstate area. Con Edison provides distribution service to two of its own large gas-fired steam units plus its gas-fired peakers. It also distributes gas to the New York Power Authority's ("NYPA's") Poletti station. O&R distributes gas to its Bowline station (currently co-owned with Con Edison), the gas-fired unit at its Lovett steam station, its peakers and the Lederle cogeneration facility./7/ O&R has no ability to deliver gas to generation located in the constrained New York City electricity market.

There is no basis for concern that Applicants will use self-dealing or other means of using the gas LDC to favor affiliated activities. Applicants are divesting all of the owned gas-fired facilities to which they provide distribution service. Even if they were not, distribution tariffs are regulated by the NYPSC, and New York statutes forbid discriminatory pricing of distribution. Price transparency required by NYPSC policies would make any discrimination easy to detect for both the New York Commission and affected generators. Further, there are low cost bypass alternatives that constrain distribution tariffs for all major gas-fired generation facilities to below cost-of-service rates. Finally, codes of conduct required by existing NYPSC orders bar any information flowing from the regulated gas distribution company to any affiliate, such as an electricity or gas marketer, that theoretically could benefit from preferential access to such information. In short, none of the vertical concerns that the Commission focused upon in the Enova-Pacific Enterprises merger exist in this merger and the transaction does not create or enhance vertical market power.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In Section III, I outline the Applicants' business operations. Section IV provides a framework for the analysis. In Section V, I focus on the analysis of horizontal market power, including first, a description of the data, assumptions and methodology I used in conducting the analysis and, second, my analysis of the merger's impact on competition. Section VI contains my analysis of vertical market power issues.

/7/ The facilities for which O&R provides gas service include about 1,284 MW of mid-merit gas steam (including 1,215 MW jointly-owned Bowline station), 74 MW of gas-fired peakers and 19 MW of NUGs, adding a total of 1,378 MW of gas-fired generation to that which is served by or controlled by Con Edison. While all three units at Lovett are capable of burning gas, the two larger units use coal as their primary fuel.

III. DESCRIPTION OF THE PARTIES

Q. PLEASE DESCRIBE CON EDISON.

A. Con Edison is an energy company whose primary subsidiary, Consolidated Edison Company of New York, Inc., provides regulated electric service to customers in New York City (with the exception of part of Queens) and Westchester County, New York; gas service in Manhattan, the Bronx and parts of Queens and Westchester County; and steam service in parts of Manhattan. Other subsidiaries include Con Edison Solutions, an energy services company; Con Edison Development, which invests in energy infrastructure projects;/8/ and Con Edison Energy, which will market energy, capacity and risk management services to wholesale customers.

At the beginning of 1999, Con Edison will have approximately 7,001 MW of capacity that it owns and operates, 1,292 MW of entitlements to jointly owned units, 2,059 MW of non-utility generation ("NUG") contracts and 733 MW of other contracts, including a contract of 208 MW for part of the output of the Indian Point 3 and Poletti stations that expires in 1999./9/ This total of 11,085 MW serves an expected peak load of 9,730 MW (10,973 MW before load management)./10/ Nearly 1,000 MW of Con Edison area load is served by other LSEs pursuant to Con Edison's retail access program. However, nearly all LSEs have chosen to purchase energy and capacity from Con Edison under tariff rates set by FERC and the NYPSC, in most cases, all of their requirements. Up to 2,000 MW of customer load of Con Edison's customers (about 20 percent) will have retail access beginning on April 1, 1999, with the balance gaining retail access subsequently.

/8/ None of Con Edison Development's current generation investments are located in New York.

/9/ All load and capacity data are from the New York Power Pool's Load and Capacity Data, dated July 1, 1998.

/10/ Con Edison's latest forecast projects a 1998 peak load of 11,375 MW.

Con Edison has no traditionally defined transmission-dependent utilities ("TDUs") in its service area, although some NYPA customers are located within Con Edison's service territory. NYPA has its own generating facilities and transmission rights that permit it to serve its customers.

Con Edison is directly interconnected with O&R, NYPA, Niagara Mohawk ("NiMo"), Central Hudson Gas & Electric ("CHG&E"), New York State Electric and Gas Corporation ("NYSEG"), and Long Island Lighting Company ("LILCO"). Rochester Gas and Electric (RG&E) could be deemed to be directly connected by reason of the tariffs of the New York Power Pool. It also is directly connected to the Connecticut Light and Power Company (Northeast Utilities) in the New England Power Pool ("NEPOOL"); and Public Service Electric and Gas Company ("PSE&G") in the Pennsylvania-New Jersey-Maryland Interconnection ("PJM").

Con Edison plans to divest, in four bundles,/11/ essentially all of its In-City generation. Con Edison expects to accomplish its divestiture in two phases: three of the four In-City bundles will be divested in the first quarter of 1999; and the fourth bundle (the steam-producing units) will be sold subsequently, most likely in late 1999. Con Edison also is selling its share of the Bowline Station which it owns jointly with O&R as part of the O&R divestiture which is scheduled to be completed by the end of May 1999./12/

After divestiture, Con Edison will retain control over 1,002 MW in New York City, consisting of (i) NUG contracts (926 MW); and (ii) a small amount of generation (76

/11/ The four bundles include (1) 1,433 MWs consisting of Arthur Kill steam station and Astoria gas turbines ("Arthur Kill"); (2) 2,168 MWs consisting of Ravenswood steam station and gas turbines ("Ravenswood"); (3) 1,856 MWs consisting of Astoria steam station plus Gowanus and Narrows gas turbines ("Astoria"); and (4) 463 MW of units that produce electricity as well as steam for Con Edison's steam delivery system in New York City ("Steam Electrics").

/12/ Con Edison also plans to divest its contract share of CHG&E's Roseton station. However, this divestiture is not likely to be completed within the 1999 timeframe of my analysis. It also plans to sell or close its small remaining stations, totaling 76 MW, at some future date.

MW). Outside of the City, Con Edison will maintain interests totaling an additional 3,146 MW of capacity, consisting of (i) owned generation (1,488 MW); (ii) power purchase contracts (525 MW, of which 400 MW is summer only); and (iii) NUG contracts (1,133 MW). This capacity is primarily gas and oil fired, except for Indian Point 2, a 931 MW nuclear station.

With respect to its gas business, Con Edison sells and transports natural gas to its customers through its distribution facilities located in Manhattan, the Bronx, Westchester County and the northwest corner of Queens. Con Edison owns a liquefied natural gas peak shaving facility in Queens and a 28.8 percent interest in the Honeoye Storage facility in upstate New York. All of Con Edison's gas customers have had retail access since 1996. Con Edison has contracts for the purchase of firm transportation and storage services with seven interstate pipelines; firm gas purchase contracts with 17 merchant and pipeline suppliers; and interruptible gas purchase and transportation contracts. None of its long term firm contracts are assigned to supply in its electricity generation. It distributes gas to two of its large steam stations (Astoria and Ravenswood) and to NYPA's Poletti station, as well as to a number of its combustion turbines. Its NUGs, Narrows (a large peaking facility) and its third large steam station, Arthur Kill, are supplied by other gas distributors.

Q. PLEASE DESCRIBE O&R.

A. O&R's utility subsidiaries supply electricity and gas in portions of southeastern New York, northern New Jersey; and northeastern Pennsylvania. Both O&R and Rockland Electric Company, one of its subsidiaries, have non-utility subsidiaries that are engaged in energy services ventures and land development.

Prior to divestiture, O&R will have approximately 1,310 MW of total generation capacity. This includes 965 MW of owned and operated capacity (374 MW of coal-fired capacity at the Lovett units 4&5, 474 MW of oil/gas steam, 43 MW hydro and 74 MW of combustion turbines), 19 MW of NUG contracts and 325 MW of firm purchases (300 MW of which is summer-only and expires in 2000) against a 1999 peak load forecast of

1,140 MW (1,265 before load management). In 1997, O&R purchased almost 50 percent of its energy requirements.

O&R's customers have full retail access for energy which began in May 1998 and are scheduled to have full retail access for energy and capacity in May 1999. O&R has no TDU customers.

In addition to its direct interconnection with Con Edison, O&R is also interconnected with CHG&E in the NYPP and PSE&G in PJM, both of which are also direct interconnections of Con Edison.

O&R expects to complete the divestiture of all of its generation, according to the terms of its offering letter, by the end of May 1999. This includes the sale of Bowline, co-owned with Con Edison. After divestiture, it will have purchase rights to only 344 MW, consisting of (i) its NUG contract (19 MW); (ii) a contract with PSE&G expiring in 2000 (300 MW);/13/ and (iii) a contract with NYPA's Blenheim-Gilboa pumped storage facility (25 MW)./14/

With respect to its gas business, O&R has firm, gas supply contracts with seven gas marketers, and also purchases spot gas supplies. O&R also has firm, long-term transportation agreements with four pipelines (Tennessee Gas Pipeline, Columbia Gas Transmission, Algonquin Gas Transmission, and Texas Eastern Transmission); interruptible transportation agreements; and long-term gas storage contracts with Tennessee, Columbia and Texas Eastern. It supplies interruptible gas and interruptible

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/13/ While formally this contract is a summer capacity and energy contract, the contract price of energy is such that energy is rarely purchased. Hence, this contract contributes no Economic Capacity. When O&R is not taking energy from the facilities that implicitly stand behind this contract, PSE&G is free to sell the energy on its own account.

/14/ Under the market rules for the NYISO, partial ownership in a generating facility will not confer control over the bidding and generation dispatch of that facility. Only one entity will be permitted to submit bids and/or schedules for a generating facility.

transportation to its gas-fired stations and spot gas sales delivered under a firm withdrawable contract to its 19 MW NUG. Firm gas transportation to its electricity generation is sufficient only to provide ignition fuel.

Both utilities participate in the NYPP and in the NYISO. Salient features of the ISO arrangements are discussed later in my testimony.

IV. FRAMEWORK FOR THE ANALYSIS

Q. WHAT ARE THE GENERAL MARKET POWER ISSUES RAISED BY MERGER PROPOSALS?

A. Market power analysis of a merger proposal examines whether the merger would cause a material increase in the merging firms' market power or a significant reduction in the competitiveness of relevant markets. Market power is defined as the ability of a firm or group of firms to profitably sustain a small but significant increase in the price of their products above a competitive level.

In assessing mergers, the critical issue is the change in market competitiveness due to the merger. While the pre-merger competitiveness of markets may, as under the DOJ/FTC Guidelines, affect the amount of such change that is acceptable, the focus remains on the *change* in market competitiveness caused by the merger.

This focus on the effects of the merger means that the merger analysis examines those business areas where the merging firms are competitors. In most instances, the merger will not affect competition in markets in which the merging firms do not compete. This is recognized in Commission procedures which exempt mergers between firms that do not compete in relevant geographic and product areas from the need to submit a screening analysis. Analysis of the effects of a merger on market power in businesses in which the merging firms both participate is sometimes referred to as horizontal market power assessment. In FERC merger analyses, the primary horizontal focus is on competition in bulk power markets.

It is also necessary to consider the possibility of vertical market power. Vertical market power relates to the effect of the merger on the merging firms' ability and incentives to use their market position in a related business to affect competition. For example, vertical market power could result if the merger of two electric utilities created an opportunity and incentive to operate transmission in a manner that created market power for the generation activity of the merged company that did not exist previously. The Commission also has identified market power as potentially arising from dominant control over potential generation sites or over fuels supplies and delivery systems. The Commission has stated that these forms of vertical market power could undercut the presumption that long-run generation markets are competitive./15/

Q. WHAT ARE THE MAIN ELEMENTS IN DEVELOPING AN ANALYSIS OF MARKET POWER?

A. Understanding the competitive impact of a merger first requires defining the relevant market (or markets) in which the merging firms participate. Participants in a relevant market include all suppliers and, in some instances potential suppliers, who can compete to supply the products produced by the merging parties and whose ability to do so diminishes the ability of the merging parties to increase prices. Hence, determining the scope of a market is fundamentally an analysis of the potential for competitors to respond to an attempted price increase. Typically, markets are defined in two dimensions: geographic and product. Thus, the relevant market is composed of companies that can supply a given product (or its close substitute) to customers in a given geographic area. Once markets are defined, the analysis proceeds to examine the structure of sellers to determine if a merger might significantly increase market power.

/15/ Under some circumstances, the control over fuels supplies and delivery systems also may be found potentially to affect short term energy markets. See the Order in Docket No. EC-97-12-001 et al. (Enova-Pacific Enterprises).

Q. HOW HAS THE COMMISSION TYPICALLY EXAMINED PROPOSED MERGERS INVOLVING ELECTRIC UTILITIES?

A. Historically, under its *Commonwealth* standards, the Commission examined mergers by focusing on specific product markets and by using a "hub-and-spoke" screening test to evaluate whether a further examination of potential market power was warranted. With the issuance of Order No. 592 in December 1996, the Commission changed its analytic approach and adopted a "delivered price test." Appendix A (the "Competitive Analysis Screen") of Order No. 592 outlines in detail the analytic method that applicants are required to follow in their applications and that the Commission will use in screening the competitive impact of mergers. If a proposed merger raises no market power concerns (i.e., passes the Appendix A screen), the inquiry is generally complete. If a proposed merger raises potential market power concerns, applicants can propose mitigation measures at the time of application.

Q. WHAT PRODUCTS HAS THE COMMISSION GENERALLY CONSIDERED?

A. With electric markets, the Commission generally has defined the relevant product markets to be long-term capacity, short-term capacity ("Uncommitted Capacity"), and non-firm energy ("Available Economic Capacity" and "Economic Capacity"). The Commission has determined that long-term capacity markets are presumed to be competitive, unless special factors exist that limit the ability of new generation to be sited or receive fuel.

The Commission recently has considered vertical issues arising from mergers. The principal issue that it has identified is whether the merger may create or enhance the ability of the merged firm to exercise market power in downstream electricity markets by control over the supply of inputs to rival producers of electricity./16/ Three potential

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/16/ In addition to *Enova*, a recent discussion can be found in the Notice of Proposed Rulemaking on Revised Filing Requirements Under Part 33 of the Federal Power Act, Docket No. RM98-4-000.

abuses have been identified: the upstream firm acts to raise rivals costs or foreclose them from the market in order to increase prices received by the downstream affiliate; the upstream firm acts to facilitate collusion among downstream firms; or transactions between vertical affiliates are used to frustrate regulatory oversight of the cost/price relationship of prices charged by the downstream electricity supplier./17/

Q. HOW HAS THE COMMISSION ANALYZED GEOGRAPHIC MARKETS?

A. To examine geographic markets, the Commission traditionally has focused on the utilities that are directly interconnected to the applicant companies. This "destination market" approach was continued in Order No. 592. Each utility that is directly interconnected to the Applicants is considered a separate "destination market." Additionally, the Commission has suggested that utilities who historically have been customers of Applicants are also potential "destination markets." In some recent cases, the Commission has found that analyses based on geographic markets larger than a single destination market are appropriate./18/

The supply alternatives to each destination market are defined using the "delivered price test," which identifies suppliers that can reach a destination market at a cost no more than 5 percent over the pre-merger market price. The supply is considered economic if a supplier's generation can be delivered to a destination market, including delivery costs (which include transmission rates, transmission losses and ancillary services), at a cost that is within 105 percent of the destination market price. Physical transmission constraints also are taken into consideration in determining the potential supply to the destination market. Thus, unlike the "hub-and-spoke" methodology, competing suppliers are no longer defined by bright lines. Competing suppliers are defined as those who have

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/17/ *Id.* at pp. 45-49

/18/ In *BG&E-Pepco*, the relevant market was PJM utilities collectively (79 FERC (P)61,027 at 61,116). In *Conectiv*, the relevant markets were PJM and eastern PJM (80 FERC (P)61,126 at 61,407).

capacity (energy) that is physically and economically deliverable to the destination market. Their importance in the market (i.e., their market share) is determined by the amount of such capacity.

This test is intended to be a conservative screen to determine whether further analysis of market power is necessary. If the Appendix A analysis shows that a company will not be able to exercise market power in its first-tier generation markets, it generally follows that the applicants will not have market power in more broadly defined and more geographically remote markets. The screen is the first step in determining whether there is a need for further investigation. If the screening test is not passed, leaving open the issue of whether the merger will create market power, the Commission invites applicants to propose mitigation remedies targeted to reduce potential anti-competitive effects to safe harbor levels. In the alternative, the Commission will initiate a proceeding to determine whether unmitigated market power concerns mean that the merger is contrary to the public interest.

Q. WHAT FRAMEWORK DOES THE COMMISSION USE TO DETERMINE WHETHER A MERGER POSES POTENTIAL MARKET POWER CONCERNS?

A. In Order No. 592, the Commission adopted the DOJ/FTC Guidelines for measuring market concentration levels by the Herfindahl-Hirschman Index./19/ To determine whether a proposed merger will have a significant anti-competitive impact, the DOJ and FTC consider the level of the HHI after the merger (the post-merger HHI) and the change in the HHI that results from the merger. Markets with a post-merger HHI of less than 1000 are considered "unconcentrated." The DOJ and FTC generally consider mergers in such markets to have no anti-competitive impact. Markets with post-merger HHIs of 1000 to 1800 are considered "moderately concentrated." In those markets, mergers that result in

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/19/ The HHI is calculated as the sum of the squares of each company's market share, expressed in percentage terms.

an HHI change of 100 points or fewer are considered unlikely to have anti-competitive effects. Finally, post-merger HHIs of more than 1800 are considered to indicate "highly concentrated" markets. The Guidelines suggest that in these markets, mergers that increase the HHI by 50 points or fewer are unlikely to have a significant anti-competitive impact, while mergers that increase the HHI by more than 100 points are considered likely to reduce market competitiveness.

Q. DOES YOUR ANALYSIS OF HORIZONTAL MARKET POWER IN THIS CASE FOLLOW THE GUIDELINES SET DOWN IN ORDER NO. 592?

A. I have generally followed this framework. There are three departures from a "cookbook" adherence to Appendix A, all of which were made to better inform the Commission concerning the effects of the merger. In each instance these arise from the specific factual setting in which the merger is occurring. First, rather than analyzing each destination market separately, I have focused on two geographic markets: inside New York City and the downstate region of New York. The In-City market is smaller than a destination market as defined in Order No. 592; I have analyzed it since it is a transmission constrained subset of the Con Edison destination market. The relevant market contains Applicants' generation and is defined by constraints limiting imports into it during high load periods. The factual basis for selecting these destination markets is discussed more fully later in my testimony. I believe that this modification to the Appendix A methodology is warranted factually and consistent with Commission precedent.

Second, because of the pending divestiture of generation by both Applicants, and the rapid introduction of retail access in New York, the structure of Economic Capacity and Available Economic Capacity markets is changing rapidly. In order to fully investigate horizontal market power, including that which the merger might facilitate during the transition period before completion of divestiture, I have examined market conditions ranging from the pre- to full post-divestiture markets.

Third, because there currently is a separate identifiable capacity product in the NYPP, I have analyzed a separate capacity market consistent with the proposed rules of the

NYISO. This is in addition to analyzing Uncommitted Capacity, the Commission's usual measure of short-term capacity.

V. ANALYSIS OF HORIZONTAL MARKET POWER

DATA SOURCES AND METHODOLOGY FOR THE COMPETITIVE ANALYSIS SCREEN

Q. PLEASE DESCRIBE THE NATURE OF THE ANALYSIS UNDERTAKEN TO COMPLETE THE APPENDIX A COMPETITIVE ANALYSIS SCREEN.

A. PHB has developed the Competitive Analysis Screening model ("CASm") to facilitate Appendix A analyses. This model implements the delivered price test and other calculations required in Appendix A by determining potential supply both pre- and post-merger for each (i) destination market, (ii) relevant time period and (iii) relevant supply measure. From these results, the model also calculates pre- and post-merger HHIs. The relevant geographic market is determined based on the economics of supply (including generation costs, transmission rates, losses and ancillary services) and the physical transmission capacity available to the competing suppliers on an open access basis. In CASm, each transmission path has a fixed maximum capacity; CASm also incorporates simultaneous transmission constraints. To determine the potential supply to a destination market, the model determines an economic delivery route for supply that meets the delivered price test via existing transmission paths, each of which has a capability, transmission rate and transmission losses associated with it. CASm determines the maximum supply that can be delivered to the destination market within the parameters of the delivered price test and consistent with cost minimization. The model is described in Exhibit No. APP-702.

Q. WHAT DATA ARE REQUIRED TO CONDUCT A COMPETITIVE ANALYSIS SCREEN?

A. The key data requirements for implementing the screening analysis include:

- Generating capability

- Capacity purchases and sales
- Variable costs of generation
- Transmission capability
- Transmission rates
- Transmission line losses
- Native loads
- Market prices

To the maximum practical extent, I have used publicly available data consistent with those detailed in Appendix B of Order No. 592. My study generally is based on historic data (e.g., loads and fuel costs), but my modeling assumptions are intended to approximate a future (1999 or 2000) market structure.

Q. WHAT UTILITIES DID YOU INCLUDE IN YOUR DATA SET?

A. I included utilities in the NYPP, PJM, and NEPOOL, as well as Hydro Quebec ("HQ") and Ontario Hydro ("OH") (see Exhibit No. APP-703).

Notably, this list of candidate suppliers does not pre-judge the question of the geographic scope of the market. CASm determines (based on economics of supply, transportation and deliverability) which of these candidate suppliers, and to what degree, are competitors to serve a particular destination customer.

For ease of modeling, I did not include in my data set generation owned by small municipalities or cooperatives located within the regions. This exclusion tends to increase Applicants market shares and is, therefore, conservative.

Q. ARE THERE ANY OTHER PERTINENT ASSUMPTIONS IN YOUR TREATMENT OF POTENTIAL COMPETITORS?

A. I have modeled both PJM and NEPOOL as single suppliers, treating all suppliers from each region as single entities. This assumption increases HHIs and is thus conservative.

Most New York utilities are in the process of divesting generating capacity. In general, these divestitures are likely to decrease concentration in New York electricity markets. NYSEG has announced the winning bidders in its divestiture auctions and Niagara

Mohawk has completed the first round of its auction and the restructuring of most of its NUG contracts, including the divestiture of the majority of them. However, until the divestitures are completed, it is not possible to know precisely what the post-divestiture structure of generation ownership will be. In calculating energy market HHIs, I have assumed ownership of assets is unchanged, except to the extent that Applicants divest their own generation. This is a highly conservative assumption and will overstate concentration in the market. For example, I assume that NYSEG continues to own its generation, whereas there will actually be three owners. For purposes of modeling, I assume that Applicants' divested generation is purchased by suppliers that do not control other generation in New York./20/

Although I calculate and report HHIs, I recognize that the level of the HHIs depends on the outcomes of the New York utilities' divestiture auctions and cannot be predicted with great confidence. However, the change in HHIs due to the merger does not. The change in HHIs is caused by the combining of Applicants' previously separate shares and can be calculated readily by what is generally referred to as the "2ab method."/21/

Q. WHAT DID YOU ASSUME ABOUT THE TIMING OF DIVESTITURE?

A. Both Applicants have firm expectations as to the timing of the sale of their assets. In O&R's case, which is the most critical to evaluating the effects of the merger, the date is May 31, 1999. Con Edison anticipates completing the divestiture of Bowline in concert

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/20/ Specifically, I have assumed O&R's generation, other than Bowline, is divested in a single bundle. (This may be conservative from the standpoint of calculating concentration statistics, given that O&R is actually selling its assets bundled in four packages.) Con Edison's generation is divested in the bundles described above. Bowline, jointly owned by Applicants, is divested as a single unit.

/21/ "2ab" refers to the change in HHI resulting from the merger of company A (with market share a) and Company B (with market share b). This formula is derived from the HHI calculation as follows:

Applicants' pre-merger HHI = a/2/ + b/2/

Applicants' post-merger HHI = (a+b)/2/ = a/2/ + b/2/ + 2ab

Thus, the change in HHI resulting from the merger equals 2ab.

with O&R's divestiture and the divestiture of three In-City bundles in the first quarter of 1999. The steam cogenerating units will be sold later, most likely toward the end of 1999. This is the schedule upon which I have based my analysis.

However, I recognize that there is no certainty as to exact dates for which sales will be consummated. During the pendency of the merger proceeding, new information concerning schedules may become available. In order better to assure that this analysis will still be pertinent in view of that new information, I have analyzed the market and the potential for market power under four scenarios that relate to the status of the divestiture efforts. In the pre-divestiture "Base Case," I have assumed the status quo continues, with both Applicants retaining all currently owned generation. Contracts in effect during 1999 are also taken into account. Scenario 2 assumes that Con Edison has successfully completed the divestiture of Bundles 1, 2 and 3 before O&R divests its assets. Scenario 3 assumes that O&R divests its generation before Con Edison, except that Con Edison's share of Bowline is divested at the same time that O&R sells its share. Finally, Scenario 4 shows the effects of the merger after both Con Edison and O&R have completed the planned divestiture of all assets scheduled to be divested in 1999. In Scenario 4, I reflect Applicants' contracts in effect at the beginning of 2000./22/

These scenarios can be summarized as follows:

/22/ This means that, in Scenario 4, Con Edison's 208 MW purchase from NYPA's Indian Point3/Poletti unit also has terminated.

	CON EDISON DIVESTS BUNDLES 1-3	CON EDISON DIVESTS BUNDLE 4	O&R DIVESTS ALL GENERATION	CON EDISON DIVESTS BOWLINE
Base Case ("Pre-Divestiture")	--	--	--	--
SCENARIO 2 ("CON EDISON DIVESTS 1-3")	X	--	--	--
SCENARIO 3 ("O&R DIVESTS")	--	--	X	X
SCENARIO 4 ("Con Edison and O&R Divest")	X	X	X	X

Bundle 1 ("Arthur Kill") consists of Arthur Kill steam unit and Astoria GTs.
Bundle 2 ("Ravenswood") consists of Ravenswood steam unit and GTs.
Bundle 3 ("Astoria") consists of Astoria steam unit and Narrows and Gowanus GTs.
Bundle 4 ("Steam Electrics") consist of units producing electricity and steam for distribution.

All the bundles being divested by Con Edison consist of In-City generation.

The interpretation of these scenarios is as follows. The Base Case shows the effects of the merger if it is approved and consummated before any divestiture takes place. This is the starting point for designing mitigation. Scenario 2 is appropriate for the period April 1 through May 31, 1999, assuming that the existing schedules are adhered to. Scenario 3 is intended to show conditions if, counter to current plans, O&R completes its divestiture first. Scenario 4 is the longer run outcome, reflecting conditions from roughly the end of 1999.

Q. WHAT SOURCES DID YOU USE FOR GENERATING CAPABILITY DATA?

A. Data on generating plant capability (winter and summer capacity), including NUGs, were obtained from NYPP's 1998 report Load & Capacity Data. I took into account planned retirements and capacity additions through 1999.

Q. HOW DID YOU RATE THE PRODUCTION CAPACITY OF GENERATORS?

A. When appropriate for the particular supply measure (i.e., measures of non-firm energy markets), I assumed that generation capacity would be unavailable during some hours of the year for either (planned) maintenance or forced (unplanned) outages. I assumed that maintenance would be scheduled during the non-peak seasons and forced outages would occur uniformly throughout the year. For this purpose, I used data reported in the NERC Generating Availability Data System ("GADS") for the average equivalent availability factor to estimate total outages, and the average equivalent forced outage rate to estimate forced outages for fossil and nuclear plants. GADS reports five-year average availability and outages based on unit type and size. These data were supplemented, for new technology combined cycle units, by data in the Electric Power Research Institute Technical Assessment Guide.

Q. HOW DID YOU TREAT PURCHASES AND SALES?

A. Data on long-term capacity purchase and sales were obtained primarily from Load & Capacity Data. These transactions are long-term (one year or more) firm transactions.

To the extent a utility has sold capacity under a long-term agreement, it is assumed that control over that resource passes to the buyer. Generation ownership is adjusted to reflect the transfer of control by assuming that the sale resulted in a decrease in capacity for the seller and a corresponding increase in capacity for the buyer. /23/ Sales are assumed to be comprised of the lowest-cost supply for the seller. Therefore, the seller's lowest-cost supply was reduced by the amount of the sale and the buyer's supply was increased by the amount of the purchase./24/ Prices for purchase contracts were based on published data (from FERC Form 1 data) where available, or an estimate if not available. To the extent that long-term sales could be identified specifically as unit sales, I have tied the sale to the capacity of a specific generating unit.

As noted earlier, Applicants have several long-term contracts. Con Edison purchases power under contracts with NYPA (Gilboa and Indian Point 3/Poletti), HQ and six NUGs

/23/ Consistent with this assumption, NUGs were assumed to be under the control of the purchasing utility.

/24/ "[T]he lowest running cost units are used to serve native load and other firm contractual obligations" (Appendix A, p. 11).

(Indeck, Selkirk, Sithe and, within New York City, Cogen Technologies, Brooklyn Navy Yard Cogeneration and York Warbasse.) The Indian Point 3/Poletti contract terminates at the end of 1999.

O&R has a contract with PSE&G, NYPA (Gilboa) and a small amount of NUG purchases (19 MW). The PSE&G contract ends after the summer of 2000. For all these contracts, I have treated Applicants as controlling the asset. This overstates the amount of capacity that Applicants have available to potentially affect electric energy prices. Under NYISO rules, a single bid must be submitted for each unit. Hence, the pricing of Gilboa and Con Edison's share of Roseton (co-owned with CHG&E) are not within their control. Nor are Applicants capable of controlling the level of output of these units. The same is true for O&R's PSE&G purchase. Thus, Applicants can neither bid up the prices of this purchased electricity nor withhold its supply from the market./25/

Further, Applicants have at most limited dispatch rights concerning their NUG contracts. These are primarily "must take"; the Power Purchase Agreements specify the level of output and Applicants must schedule it or bid it into the pool in a way that assures that it runs when power is produced according to the terms of the Power Purchase Agreement.

In this merger analysis, the relevant competitive issue concerns the effect of Con Edison's acquisition of O&R. The merger can enhance Con Edison's pre-merger ability to increase prices only if O&R can (a) withhold any of its post-divestiture purchases from the market, or (b) bid any of its purchases into the market in a way that even theoretically could increase prices in NYPP. As explained above, the purchase of O&R in fact brings zero post-divestiture megawatts of capacity that could be used to exercise market power to the merger. Nonetheless, in order to comply literally with the Commission's

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/25/ If O&R or Con Edison elected not to schedule their entitlements, and if they were economic, the owner of this generation (e.g., NYPA in the case of Gilboa) could sell it into the marketplace. As I noted earlier, with respect to O&R's contract with PSE&G, the contract is effectively a capacity-only contract because energy is priced such that it is generally not economic to purchase.

guidelines, the HHI calculations in my analysis treat these purchases as indistinguishable from owned generation.

Q. WHAT SOURCES DID YOU USE FOR THE COST OF GENERATION?

A. I used data from several sources to estimate the incremental cost of generation.

- Heat rates from EIA Form 860.

- 1997 Fuel costs from Form 423, supplemented by data from other sources, mainly RDI's COALDAT(R). I based the estimated dispatch cost on spot or interruptible fuel prices. To the extent all fuel purchases in 1997 had been made under contract rather than at spot prices, I estimated an incremental price based on reported spot or interruptible prices in the relevant region.

- An estimate of variable O&M (by type of unit) and an SO2 adder./26/

- For NUGs, I set the variable costs at zero, in effect assuming NUGs were must-run. I did not identify any NUGs as dispatchable./27/

Q. WHAT SOURCES DID YOU USE TO DETERMINE TRANSMISSION CAPABILITY?

A. I relied primarily on transfer capability data published by the NYPP in Load & Capacity Data. These data reflect transfer capabilities between market areas within New York (under normal conditions) as well as import capability into New York.

Q. WHY DID YOU USE THESE DATA INSTEAD OF OASIS DATA ON ATCS OR TTCS?

A. As I noted earlier, geographic markets larger than a single destination market are sometimes appropriate in conducting an Appendix A analysis; as I discuss immediately below, this is the appropriate approach in this case due to transmission constraints that do

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/26/ I used an estimate for variable O&M of $1/MWh for gas and oil steam units, $3/MWh for scrubbed coal-fired units and $2/MWh for other coal-fired units. The SO2 adder reflects the value of allowances.

/27/ Several New York utilities, including, for example, NiMo, are restructuring their NUG contracts. However, I was unable to identify which contracts have been restructured to include dispatchability provisions.

not coincide with utility boundaries. However, this being the case, OASIS data are difficult to re-state in a manner consistent with this broader geographic market approach. OASIS postings are typically individual utility-to-utility transfer limits, whereas the only transmission constraints relevant to this merger is primarily internal to utilities. However, the Load & Capacity Data report does include the necessary information to conduct an Appendix A analysis for the relevant geographic markets.

RELEVANT GEOGRAPHIC MARKETS

Q. PLEASE DESCRIBE THE RELEVANT GEOGRAPHIC MARKETS.

A. I examined two relevant geographic markets for the analysis of Economic Capacity and Available Economic Capacity: (1) the "East of Total-East" market, defined by the Total-East transmission interface and related transmission limitations, and (2) an "In-City" (that is, New York City) market. For the Total Capacity and Uncommitted Capacity measures, I used a traditional "hub-and-spoke" method to define the market to include those utilities directly interconnected with Applicants. Additionally, since the NYISO will apply a capacity requirement for New York overall and for the In-City area, I also evaluated these capacity markets.

Q. WHY IS THE EAST OF TOTAL-EAST MARKET A RELEVANT MARKET?

A. The "Total-East" interface within NYPP is the primary interface through which power moves into the eastern half of New York State. This interface constitutes a transmission constraint that can cause marginal production costs to differ, sometimes substantially, between the downstate and upstate portions of the state, thus creating a separate market. On the representation in Exhibit No. APP-704, transmission areas F through K are included in the East of Total-East region. The Total-East interface runs from Vermont through New York and into New Jersey. Total-East cuts New York roughly in half, dividing the western portion of the state from the eastern and southern portion. At the southern end of the interface, Total-East cuts into PJM. The current Total-East transfer limit is 5300 MW./28/ The other corridor through which power moves into eastern New York is through the interface between NYPP and NEPOOL, which has a transfer limit of 1,575 MW.

There also are potential transmission constraints within the east of Total-East area that I have accounted for in my analysis. In particular, there are transfer capability limitations between the Albany sub-region and the rest of the East of Total-East area and between LILCO's service area and the rest of the region. These can limit the amount of generation within these two sub-areas that can compete inside the rest of East of Total-East. Accordingly, in my analysis, I have included as located within the East of Total-East market only that amount of generation located in the Albany and LILCO areas that can reach the market within the limits of these internal constraints./29/ This approach defines the East of Total-East market as that area in which O&R and Con Edison, absent the merger, would potentially compete when transmission constraints exist both at the Total-East interface and at the interfaces with the Albany and LILCO areas. This approach to market definition isolates the smallest area in which Con Edison's and O&R's generation is located. It represents the area of maximum competitive overlap. Since both Applicants are located within the constraint into downstate New York (and up from Long Island) there is no other market in which their shares will be greater. That is, Applicants are on the upstream ("wrong") side of any transmission constraint affecting any other market.

Q. PLEASE EXPLAIN WHY THE IN-CITY MARKET IS A RELEVANT MARKET.

/28/ The NYPSC Staff's Load Pocket study reports the total import limit into the East of Total-East market as 6,600 MW, including imports across total east and from NEPOOL. This is consistent with the NYPP estimate of 5,300 MW plus 1,300 MW of direct interconnection between NEPOOL and the East of Total-East market.

/29/ As noted above, the East of Total-East region covers areas F-K as defined by the State load pocket study. In calculating market shares for this market, I have taken into account the transfer limits from the Albany region (area F) and the LILCO region (area K) and I have included as in the market only the Economic Capacity that is deliverable within those transfer limits.

A. In some hours, there also are constraints within Con Edison's territory. According to Con Edison's "load pocket" study, there are six load pockets in Con Edison's service territory, including the city as a whole (area J) and sub-areas within the City./30/ I have examined the In-City market as a separate relevant market for purposes of my study. I did not find it necessary to consider the individual load pockets within the city as individual destination markets. Since O&R owns no generation inside the City, its ability to affect prices within sub-areas of the City is restricted by the City import limit and it will have a correspondingly and commonly restricted share of sub-markets within the City.

Q. WHY DIDN'T YOU FEEL IT WAS NECESSARY TO SEPARATELY ANALYZE EACH TRADITIONAL DESTINATION MARKET SEPARATELY?

A. The markets I have examined should provide sufficient evidence of whether or not the merger creates the potential for market power and, as I noted earlier, defining a geographic market larger than a single destination market is consistent with the approach the Commission has accepted in similar circumstances./31/ The geographic markets I have defined take into account transmission constraints. With the exception of the transmission limits that my analysis takes into account in defining these areas, there are no identified constrained facilities. That is, O&R, the non-City parts of Con Edison, and the portions of other utilities' service areas located in the East of Total-East market are not constrained from each other. Where there are constraints that I have identified for example, between Con Edison and LILCO or westward across Total-East or into PJM or NEPOOL Applicants are both located on the upstream ("wrong") side of the constraint.

/30/ A load pocket is a geographic load area that, because of transmission limitations, must have internal generation to ensure reliable service in the area under normal and contingency conditions.

/31/ *Conectiv*, 80 FERC (P)61,126 at 61,407; *Pepco/BGE*, 79 FERC (P)61,027 at 61,116.

The constraints will reduce their shares of Economic and Available Economic Capacity in these other markets relative to their shares in the East of Total-East market.

Conversely, had I used traditional destination markets, defined as utility service areas, I would have essentially ignored the key constraints in New York. Utilities that straddle the Total-East constraint and the constraint that sometimes separates northeast New York from the downstate area can be accessed from either side of the constraints, thereby enlarging the amount of capacity that can reach them. Because my East of Total-East analysis focuses only on the portions of the destination markets that are within the constraints (hence unconstrained with respect to Applicants but constrained relative to capacity on the other side of constraints), it follows necessarily that an Appendix A analysis of the East of Total-East market is a more rigorous screen than a traditional service area-based destination market analysis.

Q. IN CHOOSING THE DESTINATION MARKETS TO EVALUATE, DID YOU CONSIDER APPLICANTS' HISTORICAL TRADING PARTNERS?

A. Yes, although this did not alter my conclusion as to the appropriate destination markets to consider. Exhibit No. APP-705 shows the Applicants' recent purchases and sales. Notably, both Applicants are net purchasers. The Applicants have historically made very few non-firm energy sales into markets outside of the NYPP. O&R sold a de minimis amount of energy outside of New York, totaling 700 MWh to PSE&G during 1995 and 1996. Although Con Edison had somewhat more significant sales outside of New York, the combination of the two firms clearly will not impact competition in any market outside of the NYPP. Since O&R has not traditionally sold power outside of New York, no competitor is being removed from the market.

Q. WHAT IMPORT LIMITS DID YOU ASSUME INTO THE EAST OF TOTAL-EAST MARKET THAT YOU ANALYZED?

A. As noted above, the Total-East interface limit is 5,300 MW. Once in the East of Total-East area, the interface limits (essentially moving from North to South) are 4,950 MW UPNY-SENY (area F to area G on Exhibit No. APP-704); 5,650 MW UPNY-Con Edison (area G to area H); 8,000 MW Millwood-South (area H to area I) and, finally, 5,000 MW

Sprainbrook/Dunwoodie South (area I to area J). I assumed that the interface limit into the downstate area (areas G through J) was the minimum of the transfer limit F-G, G-H, H-I, and I-J, which is 4,950 MW./32/

The import limit from PJM to NYPP overall is 2,000 MW, and I used an import limit into the East of Total-East market of 1,000 MW./33/ The import limit from NEPOOL is 1,575 MW into NYPP overall, and I used an import limit into the East of Total-East market of 1,135 MW./34/ Finally, the import limit from LILCO is 1,050 MW. Thus, the overall import capability I assumed into the East of Total-East market was 8,135 MW.

Q. HOW DID YOU TAKE INTO ACCOUNT FIRM COMMITMENTS ON THESE TRANSMISSION INTERFACES?

A. I reduced these import by the amount of the firm sales to utilities in the downstate region from power sources outside of that region for which they have firm long-term contracts or participation shares. In my analysis, as described below, I explicitly made this adjustment for Con Edison's purchase from Sithe, Selkirk and Indeck, all located outside of the relevant market. Con Edison's purchase from HQ, however, is treated as a resource outside of Total-East that must compete for transmission into the East of Total-East market because Con Edison must compete to schedule energy over that interface. This is consistent with the grandfathering policies of the NYISO.

The difference between total transfer capability into southeastern New York and any relevant reservations is available transfer capacity ("ATC") and is available for prorating the economic energy from all outside sources.

/32/ Mechanically, imports from West of Total-East are limited to 5,300 MW and then squeezed into the 4,950 MW UPNY/SENY interface. This assumption is conservative relative to an assumption that 5,300 MW can be imported into the relevant market from West of Total-East.

/33/ See Exhibit TEM-17, Testimony of Timothy E. McClive, Request for Market-Based Authority, Market Power Analyses, and Proposed Monitoring Plan (Docket No. ER97-1523-000 and OA97-470-000).

/34/ Based on information from Con Edison's transmission department.

Q. IN ALLOCATING THE AVAILABLE TRANSMISSION, HOW DID YOU TREAT NON-NEW YORK UTILITIES?

A. They were treated in a broadly similar fashion. For the Economic and Available Economic Capacity measure, transfers into New York were prorated according to the amount of capacity that could be economically delivered into the relevant market. Specifically, the import capability from PJM into West of Total-East was adjusted to reflect NYSEG's share of Homer City. I did not make a similar adjustment for import capability from PJM to reflect O&R's contract with PSE&G because O&R does not have firm rights for this transaction and, indeed, it is rarely economic to import energy under the contract.

Q. PLEASE EXPLAIN FURTHER HOW YOU ALLOCATE TRANSMISSION.

A. Shares are allocated at each interface, diluting as they get closer to the destination market. In other words, when there is economic supply competing to get through a constrained transmission interface into market area, the transmission capability was allocated to the suppliers in proportion to the amount of economic supply each supplier has outside the interface./35/

Specifically, CASm uses the amount of power that each supplier could deliver to the edge of the constrained interface as the basis for assigning shares on the transmission path in question. The algorithm does this for each constrained path on the system, thereby "squeezing down" the amount of power supplied by more distant utilities.

This method of prorationing favors suppliers who are closer to the destination market since their supply will not be "squeezed" down by the transmission limits behind the constrained interface. Since applicants' resources are generally close to the relevant destination markets, allocating transmission capacity in this manner is conservative in that applicants' capacity tends to subjected only to the last "squeeze down." That is, this

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/35/ This is consistent with the Commission's approach in FirstEnergy (80 FERC (P)61,039 at 61,104).

method of allocating transmission capacity puts a greater share of the applicants' supply into the destination market as compared to other possible methods. Thus, all of Applicants' capacity located in the East of Total-East market and most of the Economic Capacity with generation located in other areas is not subject to proration and is fully counted in the East of Total-East market.

Q. HOW DID YOU TREAT THE "INTERNAL" LINE THAT WILL CONNECT CON EDISON AND O&R POST-MERGER?

A. I treat Con Edison and O&R, as I do all other utilities within the East of Total-East market, as having unconstrained transmission within that East of Total-East market. The interconnection between Con Edison and O&R will be controlled by the ISO, and no native load preference exists for interconnections controlled by the ISO. This will not change as a result of the merger./36/ This treatment is consistent with the Commission's decision in FirstEnergy./37/

TRANSMISSION CHARGES AND TRANSMISSION CONGESTION CONTRACTS

Q. WHAT DID YOU ASSUME ABOUT TRANSMISSION CHARGES AND LOSSES?

A. As stated in the NYISO Tariff, transmission charges in the restructured New York Power Pool have three components a congestion charge, a charge for losses and a Transmission Service Charge ("TSC").

/36/ The ISO is expected to be operational by the end of 1998. The merger is not expected to close until April 1999. Thus, the ISO will be operational before the merger. In the event that the ISO operation is delayed by unforeseen circumstances, Con Edison has committed, as described in the Jaeger/Hartwell testimony, not to reserve any native load priority over that interface in the interim prior to ISO operations.

/37/ (P)61,039 at 61,103.

The congestion and losses charges of the NYISO Tariff are designed to ensure economically efficient pricing of transmission at the short-run marginal cost of service./38/ My analysis presented herein implicitly accounts for congestion by modeling sub-regions of New York the East of Total-East market and New York City as separate destination markets. Losses are modeled with a simplifying assumption; imports into the East of Total-East market from other New York regions incur 2.5 percent losses (an approximation of one wheel).

The TSC recovers the fixed cost of the transmission system. While the TSC may be different for each of the New York utilities, there is no pancaking of charges for transmission across multiple regions of New York State. Rather, each LSE pays the TSC of the service provider where its customer is located, regardless of the location of the generation source within the state.

Q. WHAT DID YOU ASSUME ABOUT TRANSMISSION CHARGES INTO NEW YORK FROM REGIONS OUTSIDE THE STATE?

A. LSEs in the New York markets that purchase energy from outside the state may be subject to transmission charges for "through or out" service from the region from which they purchased the energy. Consistent with Appendix A, I used the maximum filed rates including ancillary services for imports from PJM and NEPOOL.

For imports from HQ, I used its filed rates;/39/ for imports from OH (for which I could not locate a separate transmission tariff, I used an estimate of $5/MWh, which approximates the maximum filed rates that I have seen for utilities in the ECAR and Northeast regions.

/38/ The congestion charge for each hour is equal to the difference in the hourly locational based marginal pricing ("LBMP") between the point of receipt and the point of delivery within New York State. The charge for losses is the incremental cost of the losses incurred between the point of receipt and the point of delivery.

/39/ H.Q. Energy Services (U.S.) Inc., Docket No. ER97-851-000.

Q. DID YOU CONSIDER FIRM TRANSMISSION RIGHTS IN YOUR ANALYSIS OF THE ENERGY MARKET IN THE EAST OF TOTAL-EAST REGION?

A. Yes. Under the NYISO Tariff, grandfathered transmission rights are conferred through the ownership of Transmission Congestion Contracts ("TCCs"). Con Edison has a NUG contract with Sithe, located on the west side of Total-East, for 740 MW. The contract is for the delivery of energy to the border of Con Edison's service territory, and Sithe owns grandfathered transmission rights (TCCs) which are specified in Attachment H of the NYISO Tariff for delivery of energy across the Total-East interface. Therefore, economically the Sithe contract can be treated as a NUG contract located at Pleasant Valley (the border of Con Edison's control area) which is East of Total-East. I accounted for this in my analysis by adjusting the transfer capability of the Total-East interface to account for the Sithe transmission rights. I treated Con Edison's share of Selkirk and Indeck, located in the Albany region, similarly.

Q. OTHER THAN THE THESE NUG CONTRACTS, DID YOU CONSIDER OWNERSHIP OF FIRM TRANSMISSION RIGHTS OR TCCS IN YOUR STRUCTURAL ANALYSIS OF THE MARKET?

A. No. The NYISO treats revenues associated with grandfathered TCCs owned by transmission providers as an offset against that transmission provider's TSC. Thus, any economic value conferred to a transmission provider through grandfathered TCCs is automatically transferred to all customers of that transmission provider regardless of whether the transmission provider is the retail service provider as well. That is to say, for instance, that Con Edison's grandfathered TCCs can in no way benefit Con Edison's shareholders nor its retail service customers at the expense of retail customers who chose an alternative retail access provider.

Further, it is impossible to know at this time who will own the TCCs. The NYISO Tariff requires transmission providers to periodically sell, at a minimum, the TCCs in excess of their native load responsibility./40/ This may occur at the TCC Auction run by the NYISO, in which excess TCCs that are not grandfathered will also be sold. Thus, it is impossible to assign TCC ownership to any specific market participant.

Finally, a structural analysis that considers TCCs instead of imports allocated on a pro rata basis does not appropriately reflect the extent of potential competition in a given geographic area when transmission is unconstrained.

Q. GOING BACK TO THE SITHE, SELKIRK AND INDECK CONTRACTS, WHY ARE YOU TREATING THESE DIFFERENTLY THAN OTHER GRANDFATHERED FIRM TRANSMISSION RIGHTS?

A. These contracts are designated Third-party TWA (Transmission Wheeling Agreement) in the NYISO Tariff. As such, revenues from these TCCs are not credited against Con Edison's TSC as is the case with other Con Edison-owned grandfathered TCCs. In this particular case, the transmission rights are defined and easily assignable. Furthermore, by treating power delivered under these contracts as being from units located within the East of Total-East market, I conservatively have increased Con Edison's share in this market.

Q. ARE THERE OTHER THIRD-PARTY TWAS LISTED THE NYISO TARIFF?

A. Yes. There are 1,417 MW of Third-party TWAs over the Total-East interface, of which Sithe accounts for 837 MW./41/ However, other than the Sithe contract, most of these grandfathered rights are owned by unaffiliated small parties such as municipal utilities, most of which are not explicitly modeled in CASm. Again, exclusion of these parties is a conservative assumption. Indeck and Selkirk have TWAs over the interface into downstate from the Albany region, which I have taken into account.

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/40/ Revenue from the sale of these TCCs is also credited against the TSC.

/41/ The difference between the 740 MW of capacity that Con Edison has contracted with Sithe and the 837 MW of its grandfathered transmission rights arises because Sithe apparently has TCCs relating to contracts with NiMo (continued)

There are also Third-Party TWAs for the New York City cable interface, most of which belong to NYPA customers in the City. None are owned by Con Edison or companies with Con Edison contracts. Again, excluding consideration of these TCCs is conservative since the amount of capacity represented by these TWAs is assumed to be available for prorationing, including to Con Edison generation located outside of the City.

OTHER RELEVANT DATA

Q. WHAT DATA SOURCES DID YOU USE FOR NATIVE LOADS?

A. For analyses in which such data were required, I used hourly load data from FERC Form 714. These are 1996 data; I estimated 1999 loads based on average annual load growth reported in the Load & Capacity Data.

With respect to Total Capacity and Uncommitted Capacity, I analyzed peak supply conditions based on data from the 1998 Load & Capacity Data report.

Q. WHAT DID YOU ASSUME ABOUT RESERVE MARGIN REQUIREMENTS?

A. Reserve margin requirements are relevant only for the Uncommitted Capacity measure and for assessing demand in the NYPP capacity market. For summer peaking companies in the NYPP, the required reserve margin is 18 percent (against summer Net Load after demand-side management). For winter peaking companies, the required reserve margin is also 18 percent, but is adjusted to a maximum no greater than 27 percent above summer net load.

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as well. To be conservative, I treat the remaining 97 MW of Sithe capacity as also being located at Pleasant Valley, in the East of Total-East market.

Q. DID YOU USE THE FILED SYSTEM LAMBDA DATA TO DERIVE MARKET PRICES IN YOUR DESTINATION MARKETS?

A. No. Filed system lambdas were not available for these relevant destination markets. To the best of my knowledge, New York utilities do not file individual system lambda data and NYPP files a single system lambda for all its reporting companies and, therefore, does not provide information on market prices for either Applicant or for the relevant markets I have identified. Indeed, it is not clear whether the filed system lambda is for the east or west of Total-East or is some average. Given the prevalence of transmission constraints in New York, no single filing can be appropriate for all areas.

As the best available data, I relied on 1997 data published by Power Markets Week, which reports daily prices and a weekly range of low and high on- and off-peak prices for East New York as the starting point for estimating the market prices that I used. Based on these data, I developed a series of on- and off-peak prices which provide a range of competitive market prices for all seasons that bracket the Power Markets Week data. The table below shows both the high and low prices reported for East New York and the range of prices I analyzed for each peak and off-peak period. As is shown in this table, I analyzed HHIs over a substantially broader range of prices than would have been necessary had I simply relied on prices reported in Power Markets Week.

PERIOD	PRICE RANGE REPORTED IN POWER MARKETS WEEK ($/MWH)	PRICE RANGE ANALYZED ($/MWH)
Summer Peak	$26-30	$25, $30, $35, $40
Summer Off-Peak	$18-21	$12, $15, $20, $25
Winter Peak	$30-34	$25, $30, $35, $40
Winter Off-Peak	$20-23	$12, $15, $20, $25
Shoulder Peak	$24-29	$25, $30, $35, $40
Shoulder Off-Peak	$16-19	$12, $15, $20, $25

THE IMPACT OF THE MERGER ON COMPETITION IN ELECTRICITY MARKETS

Q. PLEASE IDENTIFY THE RELEVANT PRODUCT MARKETS YOU ANALYZED.

A. Consistent with the product markets the Commission has typically evaluated in the context of mergers, I considered the relevant product markets to be long-term capacity, short-term capacity and non-firm energy. Consistent with Commission guidance, the product measures on which I concentrated were deliverable Economic Capacity and Available Economic Capacity. These are used to measure market structure in energy markets. Consistent with Commission guidance, I also considered Uncommitted and Total Capacity measures. Finally, I analyzed capacity as a separate product market.

Because each of the New York utilities, including Applicants, is in the process of implementing retail access plans, I also took into consideration partial retail access scenarios that fall within the range of the Economic Capacity analysis (no native load obligation) and the full retention of native load obligation. Under the terms of the various Settlements with the NYPSC, incumbent utilities are likely to retain responsibility to serve some portion of existing customers that choose to remain with the utility. I assumed that, for relevant periods after merger closure but prior to O&R's divestiture (presumed to occur in the second quarter of 1999), Con Edison would retain 80 percent of its retail load (equivalent to the planned 2,000 MW of retail access/42/) and O&R would retain 70 percent of its retail load (based on an assessment I described in my August 1997 testimony on behalf of Con Edison)./43/ Relevant excerpts from this testimony are included in Exhibit No. APP-706. For purposes of the testimony here, I made the following assumptions:

Retail Access Assumptions

	Base Case Pre-Divestiture	Scenario 2 Con Edison Divests 1-3	Scenario 3 O&R Divests	Scenario 4 Con Edison and O&R Divest
Con Edison	2000 MW	2000 MW	2000 MW	2000 MW
O&R [1]	0	0	30%	30%
CHG&E	12%	12%	12%	12%
NYSEG	0	0	0	10%
NiMo	15%	15%	15%	15%
RGE [2]	0	0	0	17%

[1] O&R customers have energy retail access now, but capacity access begins May 1, 1999. In my energy analyses, I used 30 percent for all scenarios.
[2] RGE customers have energy retail access as of July 1, 1998, but capacity access begins July 1, 1999. In my energy analyses, I used 17 percent for all scenarios.

Because the Commission has determined that long-term capacity markets are presumed to be competitive, and because neither Applicant has dominant control over sites for new generation or fuel supplies, as described in the section of my testimony on vertical issues, I did not conduct a quantitative analysis of long-term capacity markets. In any event, in

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/42/ Con Edison's Settlement calls for only 500 MW of retail access in April 1998 and 1,500 MW of retail access in April, 1999. Because its 1998 access program was over-subscribed, Con Edison increased the amount of access to 1,000 MW effective June 1, 1998. I have assumed that it will add the 1,000 MW of incremental access for 1999 that the Settlement specifies to that higher base.

/43/ O&R's responsibility will be reviewed and proposals made to the NYPSC by May 1999.

long term (i.e., post-divestiture), it is clear from my analysis that Applicants will lack market power in the NYPP capacity market.

Q. WHAT DID YOU ASSUME ABOUT THE SCOPE OF THE RELEVANT GEOGRAPHIC MARKET IN YOUR ANALYSIS OF UNCOMMITTED CAPACITY AND TOTAL CAPACITY?

A. The scope of the geographic market for purposes of an analysis of Uncommitted Capacity or Total Capacity is not addressed in Order No. 592 and Appendix A. Neither of these tests are based on economic deliverability, and, as the Commission notes, Total Capacity merely provides a "sense of the overall size of a supplier"/44/ to be included in the market. These tests are part of the old Commonwealth standards, and I have relied on the geographic definitions used in filings under that standard. For both of these measures I included the Applicants and utilities directly interconnected to them as being in the relevant market./45/ Consistent with the practice under Commonwealth, capacities were not adjusted to take transmission limitations into account.

ANALYSIS OF TOTAL CAPACITY

Q. WHAT DOES YOUR ANALYSIS OF TOTAL CAPACITY SHOW?

A. Even in the pre-divestiture base case, the merger is within the safe harbor of the Appendix A screens for Total Capacity. After divestiture of either of the Applicants' generation, it passes the screen by a wide margin.

The overall size of the market (consisting of Applicants and their direct interconnections) is in excess of 55,000 MW, with Con Edison, pre-divestiture, controlling 20.0 percent of

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/44/ Order No. 592, page 65.

/45/ The actual Commonwealth methodology included all utilities directly connected to the destination market, including those that could reach it via Applicants' open access tariff. Applicants and their direct interconnections thus are included in the market definition. Utilities that are directly connected to the destination market but not to Applicants also would be included. By not including this latter group of competitors in my analysis, I conservatively increase Applicants' market share.

the capacity and O&R controlling 2.4 percent of the capacity. The market is moderately concentrated and the change in HHI resulting from the merger is 94, within the HHI screen. Applicants' combined share falls and the delta HHI is well within the HHI screen in each of the divestiture scenarios. This is shown below and in Exhibit No. APP-707.

Total Capacity				
	Base Case	Scenario 2	Scenario 3	Scenario 4
	Pre-Divestiture	Con Edison Divests 1-3	O&R Divests	Con Edison and O&R Divest
MWs				
Total	55554	55554	55554	55554
Con Edison	11085	5628	10275	4147
O&R	1310	1310	344	344
Shares				
Con Edison	20.0%	10.1%	18.5%	7.5%
O&R	2.4%	2.4%	0.6%	0.6%
HHI (pre-merger)	1468	1205	1412	1163
HHI (post-merger)	1562	1253	1435	1172
Delta HHI	94	48	23	9

ANALYSIS OF UNCOMMITTED CAPACITY

Q. PLEASE DESCRIBE YOUR ANALYSIS OF UNCOMMITTED CAPACITY.

A. I considered Uncommitted Capacity to be a relevant measure for assessing short term capacity markets. "Uncommitted" capacity for purposes of this calculation is capability minus net peak load and capacity reserve requirements, based on an 18 percent reserve margin.

Before retail capacity market access and generation divestiture, O&R has no uncommitted capacity. O&R's energy-only retail access program presently in effect does not create uncommitted capacity./46/ Moreover, although technically Con Edison has about 2,000 MW of uncommitted capacity (i.e., post-merger and pre-divestiture), it really has none./47/ Con Edison's retail access program is designed to allocate access pro rata between City and non-City loads. Hence, about 85 percent of its initial 1,000 MW of access is within the city of New York. Under its settlement, the LSE serving In-City load must buy capacity equal to 70 percent (for the first phase) of their In-City load from In-City generation, effectively from Con Edison, at a capped rate limited by a FERC-approved cost of service-based tariff./48/ In fact, for the current tranche of retail access, which goes until March 31, 1999, nearly all of the capacity purchased by LSEs (including capacity for out-of-City customers) has been purchased from Con Edison. Hence, contrary to the assumption underlying the analysis below, retail access has not materially reduced Con Edison's tariff sales of capacity to its historic native load customers.

In any event, as is shown below and in Exhibit No. APP-708, the change in HHI is zero since O&R has no uncommitted capacity.

/46/ Recall that O&R's retail access program is energy only as of May 1, 1998 and energy and capacity as of May 1, 1999. There may be a one-month period, following the introduction of retail access for capacity for O&R and prior to divestiture, when O&R may have uncommitted capacity. However, this is so short-term that it should not be a concern even for this measure of capacity. In any event, I analyze the capacity market in this period below, and Applicants have mitigated any potential market power issues arising during it.

/47/ If I analyzed Uncommitted Capacity with zero retail access (the typical Appendix A calculation), Con Edison would have no uncommitted capacity in 1999. For example, based on the latest Load & Capacity Data, Con Edison's reserve margin in 1999 would be 13.9 percent, below the NYPP required reserve of 18 percent.

/48/ NYPA is the only other owner of In-City generation, given that Con Edison is treated as the owner of contracted NUG capacity. NYPA is short of In-City capacity and has none to sell. Further, it is barred from selling energy and capacity to LSEs serving Con Edison's retail loads.

Uncommitted Capacity	Base Case	Scenario 2	Scenario 3	Scenario 4
	Pre-Divestiture	Con Edison Divests 1-3	O&R Divests	Con Edison and O&R Divest
MWs				
Total	7102	10595	8068	13484
Con Edison	1964	0	1154	0
O&R	0	0	0	0
Shares				
Con Edison	27.7%	0%	14.3%	0%
O&R	0%	0%	0%	0%
HHI (pre-merger)	2477	1678	1807	1185
HHI (post-merger)	2477	1678	1807	1185
Delta HHI	0	0	0	0

ANALYSIS OF ECONOMIC CAPACITY

Q. WHAT DOES YOUR ANALYSIS SHOW FOR ECONOMIC CAPACITY IN THE EAST OF TOTAL-EAST MARKET?

A. The results indicate that the merger readily passes the Appendix A screen once O&R's generation is divested (Scenarios 3 and 4). However, the screen is failed in most time periods prior to divestiture of O&R's generation even if Con Edison has completed its divestiture of the three In-City electric generation bundles. (Base Case and Scenario 2).

The tables on the following pages summarize the results in the East of Total-East market at a representative range of prices. The results for all scenarios, including at all price levels analyzed (as described earlier in my testimony), are contained in Exhibit No. APP-709./49/

/49/ It should be noted that these figures attribute all purchases and NUGs to Applicants' market share, which, as described *supra*, under NYISO rules and the terms of their contracts overstates Applicants' market position.

Economic Capacity						
East of Total-East Market BASE CASE Pre Divestiture			Pre-Merger		Post-Merger	
	Price ($/MWh)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	48.7%	4.6%	2717	3165	448
Summer Off-Peak	$20	28.0%	2.6%	1443	1589	146
Winter Peak	$30	44.9%	4.7%	2416	2838	422
Winter Off-Peak	$25	27.6%	4.4%	1396	1639	243
Shoulder Peak	$30	44.9%	4.8%	2407	2838	431
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

Economic Capacity						
East of Total-East Market Scenario 2 Con Ed Divests 1-3			Pre-Merger		Post-Merger	
	Price ($/MWh)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	26.2%	4.6%	1215	1456	241
Summer Off-Peak	$20	28.0%	2.6%	1443	1589	146
Winter Peak	$30	25.2%	4.7%	1178	1415	237
Winter Off-Peak	$25	27.6%	4.4%	1396	1639	243
Shoulder Peak	$30	26.0%	4.8%	1198	1448	250
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

Economic Capacity						
East of Total-East Market Scenario 3 O&R Divests			Pre-Merger		Post-Merger	
	Price ($/MWh)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	44.6%	0.3%	2357	2384	27
Summer Off-Peak	$20	28.0%	0.3%	1411	1458	17
Winter Peak	$30	41.0%	0.3%	2101	2126	25
Winter Off-Peak	$25	27.6%	0.3%	1393	1410	17
Shoulder Peak	$30	40.7%	0.3%	2073	2097	24
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

Economic Capacity						
East of Total-East Market Scenario 4 Con Edison and O&R Divest			Pre-Merger		Post-Merger	
	Price ($/MWh)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	18.6%	0.3%	930	941	11
Summer Off-Peak	$20	28.0%	0.3%	1441	1458	17
Winter Peak	$30	19.7%	0.3%	952	964	12
Winter Off-Peak	$25	27.6%	0.3%	1393	1410	17
Shoulder Peak	$30	18.9%	0.3%	937	948	11
Shoulder Off-Peak	$15	27.7%	0.3%	1478	1495	17

Note: Con Edison's market share is lower in Scenario 4 than in Scenario 2 because its share of Bowline is divested with O&R's share and its fourth bundle is divested.

Q. IS THERE A MORE COMPACT WAY TO SHOW THESE RESULTS?

A. Yes. Under the Economic Capacity test, load levels do not matter; all that matters is the market price in the destination market./50/ Hence, I can summarize results by price levels independently from season or from on-peak and off-peak conditions. Results for each price level are as follows:

East of Total-East Market: Economic Capacity

Price ($/MWH)	Base Case Pre-Divestiture	Scenario 2 Con Edison Divests 1-3	Scenario 3 O&R Divests	Scenario 4 Con Edison and O&R Divest
$12	No problem	No problem	No problem	No problem
$15	No problem	No problem	No problem	No problem
$20	Exceeds HHI screen	Exceeds HHI screen	No problem	No problem
$25	Exceeds HHI screen	Exceeds HHI screen	No problem	No problem
$30	Exceeds HHI screen	Exceeds HHI screen	No problem	No problem
$35	Exceeds HHI screen	Exceeds HHI screen	No problem	No problem
$40	Exceeds HHI screen	Exceeds HHI screen	No problem	No problem

These results demonstrate that the Appendix A screen is passed by a wide margin once O&R's generation is divested. Hence, mitigation can be limited to the period prior to that divestiture.

Q. HAVE YOU ALSO EXAMINED ECONOMIC CAPACITY IN THE IN-CITY DESTINATION MARKET?

A. Yes. O&R has no generation located in the City, and can access this market only by competing with other generation for transmission access into the City. For this reason, O&R's share of the In-City market is generally small. During high priced periods, however, Con Edison's share of deliverable Economic Capacity in the City is high.

/50/ There is some seasonal difference in the amount of energy available, relating to different assumptions about outages.

Hence, it still is possible that O&R's small increment of Economic Capacity could cause the screen to be violated.

As is shown below, and in Exhibit No. APP-710, in the Base Case the market is highly concentrated in peak periods. However, even in those periods, O&R's contribution to changing the HHI is relatively small, leading to a change of 36 to 71 points, at the bottom of the range that indicates a basis for concern. The partial divestiture of Con Edison's In-City generation sufficiently reduces its share such that even in these periods, there is no basis for concern. As was the case in the analysis of the East of Total-East market, there are no market power concerns whatsoever once O&R's generation is divested (Scenarios 3 and 4).

The four tables below summarize the results in the In-City market at a range of prices. The results for all scenarios are contained in Exhibit No. AP-710.

Economic Capacity						
In-City Market BASE CASE Pre Divestiture			Pre-Merger		Post-Merger	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	59.4%	0.6%	3808	3879	71
Summer Off-Peak	$20	31.9%	0.5%	1689	1721	32
Winter Peak	$30	55.5%	0.6%	3430	3497	67
Winter Off-Peak	$25	30.7%	0.7%	1626	1669	43
Shoulder Peak	$30	54.2%	0.6%	3283	3348	65
Shoulder Off-Peak	$15	22.9%	0.2%	1421	1430	9

Economic Capacity

In-City Market Scenario 2 Con Ed Divests 1-3			Pre-Merger		Post-Merger	
	Price ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	23.8%	0.6%	1303	1332	29
Summer Off-Peak	$20	31.9%	0.5%	1689	1721	32
Winter Peak	$30	23.1%	0.6%	1264	1292	28
Winter Off-Peak	$25	30.7%	0.7%	1626	1669	43
Shoulder Peak	$30	24.0%	0.6%	1262	1291	29
Shoulder Off-Peak	$15	22.9%	0.2%	1421	1430	9

Economic Capacity

In-City Market Scenario 2 O&R Divests			Pre-Merger		Post-Merger	
	Price ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	59.0%	0.1%	3756	3768	12
Summer Off-Peak	$20	31.9%	0.2%	1689	1702	13
Winter Peak	$30	55.1%	0.1%	3383	3394	11
Winter Off-Peak	$25	30.7%	0.2%	1626	1638	12
Shoulder Peak	$30	53.7%	0.1%	3223	3244	10
Shoulder Off-Peak	$15	22.9%	0.2%	1421	1430	9

Economic Capacity						
In-city Market Scenario 4 Con Edison And O&R Divest		Pre-Merger			Post-Merger	
	Price ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	17.8%	0.1%	1115	1119	4
Summer Off-Peak	$20	31.9%	0.2%	1689	1702	13
Winter Peak	$30	20.0%	0.1%	1139	1143	4
Winter Off-Peak	$25	30.7%	0.2%	1626	1638	12
Shoulder Peak	$30	18.9%	0.1%	1108	1112	4
Shoulder Off-Peak	$15	22.9%	0.2%	1421	1430	9

Note: Con Edison's market share is lower in Scenario 4 than in Scenario 2 because its share of Bowline is divested with O&R's share and its fourth bundle is divested.

Q. CAN YOU SUMMARIZE THESE RESULTS IN A SIMILAR FASHION TO YOUR PREVIOUS SUMMARY FOR THE EAST OF TOTAL-EAST MARKET?

A. Yes. The results can be summarized across price bands as follows:

In-City Market: Economic Capacity				
Price ($/MWH)	Base Case Pre-Divestiture	Scenario 2 Con Edison Divests 1-3	Scenario 3 O&R Divests	Scenario 4 Con Edison and O&R Divest
$12	No problem	No problem	No problem	No problem
$15	No problem	No problem	No problem	No problem
$20	No problem	No problem	No problem	No problem
$25	No problem	No problem	No problem	No problem
$30	gray area (65-68)	No problem	No problem	No problem
$35	gray area (65-68)	No problem	No problem	No problem
$40	gray area (59-71)	No problem	No problem	No problem

The only prices at which potential market problems occur in the Base Case are potentially at $30/MWh and above, which are on-peak prices. At these price levels, the change in HHIs is in the "gray area" between 50 and 100 points where the screen is neither passed nor failed. The results shown above and in Exhibit No. APP-710 conclusively demonstrate that the screen is passed for the In-City market after either Con Edison or O&R divests their generation. Any concerns that there may be about the In-City energy markets in the short transition period between completion of the merger and divestiture are mooted by the proposed mitigation.

ANALYSIS OF AVAILABLE ECONOMIC CAPACITY

Q. HAVE YOU ANALYZED AVAILABLE ECONOMIC CAPACITY?

A. Yes, although at the outset it is worth noting that the rapidly moving restructuring of the New York electricity industry complicates the analysis of Available Economic Capacity since the balance between retained load and generation will change, literally month to month, during the period of interest. Post-divestiture, O&R will not have Available Economic Capacity, so that any possible concerns raised by this measure are limited to the interim period prior to divestiture. Moreover, the mitigation designed to deal with Economic Capacity also will moot any concerns that might arise from an analysis of Available Economic Capacity.

Q. WHAT IS IT ABOUT THE NEW YORK RESTRUCTURING THAT MAKES AN ANALYSIS OF AVAILABLE ECONOMIC CAPACITY PROBLEMATIC?

A. The main reason is that the calculation of Available Economic Capacity requires knowledge of each competitor's native and requirements load and economic level of generation for each time period analyzed. New York utilities are in the process of both retail access and divestiture. The Available Economic Capacity measure is highly sensitive to the relative pace of these two activities. Any analysis, particularly if there is a short time period during the New York transition that is of interest (i.e., the period between the consummation of this merger and the O&R divestiture), will be highly dependent on assumptions that are quite uncertain.

In the longer run, when the announced divestitures have been completed, the level of HHIs still will be sensitive to the (unknown) nature of who buys which assets and to the amount of remaining native load responsibility of New York utilities under Supplier of Last Resort provisions. Further, the assumption that each utility uses its lowest cost capacity to meet native load, that is part of the Appendix A Available Economic Capacity methodology, will be incorrect once restructuring is completed and supplier of last resort responsibilities are met on a market basis. Indeed, in this longer run, when all or nearly all load is met with market-priced resources, the test will be irrelevant in its current form.

Q. WHY DO YOU CONCLUDE THAT O&R WILL NOT HAVE ANY MATERIAL AMOUNT OF AVAILABLE ECONOMIC CAPACITY POST-DIVESTITURE?

A. Since O&R is divesting all of its generation (but likely will retain at least some native load obligation under supplier of last resort provisions), it cannot have any significant Available Economic Capacity post-divestiture. All that it will retain are its purchases. As the analysis of Economic Capacity demonstrated, these purchases provide very little Economic Capacity. Even if all of it is assumed to be "available," O&R still will contribute very little to the post-merger share of the Applicants.

Even before divestiture, O&R has little Available Economic Capacity. In 1997, O&R purchased almost 50 percent of its energy requirements. O&R is a net buyer about 75-80 percent of the time, and tends to be a net seller only when its gas/oil units (primarily in 400 MW share of Bowline) are economic.

In fact, because O&R will be purchasing from the market in order to meet its remaining native load obligations, any incentive to raise market prices is eliminated.

Q. WHAT DID YOU ASSUME ABOUT THE RETAIL ACCESS AND DIVESTITURE PLANS IN YOUR AVAILABLE ECONOMIC CAPACITY ANALYSIS?

A. I assumed that Con Edison retained responsibility for 80 percent of its load (all but 2,000 MW) and that O&R retained 70 percent of its load; assumptions for other New York utilities were as I discussed earlier. I calculated market shares for the two scenarios in which O&R retains its generation: Base Case (Pre-Divestiture) and Scenario 2 (Con Edison Divests 1-3). Thus, the only divestiture factored into the analysis is Con Edison's divestiture of the first three bundles of generation.

Q. WHAT DID YOU ASSUME ABOUT AVAILABLE TRANSMISSION CAPACITY IN YOUR ANALYSES?

A. I reduced the transmission capacity values used in the economic capacity analysis to reflect the fact that some of the Total-East transmission capacity is used by utilities to meet their own loads. Consistent with the Commission's guidelines, I assumed that each utility dispatched its lowest cost units to fulfill their native load responsibilities; any generating capacity available after this amount was potentially available to supply the market.

Since I divided New York into regions based on transmission constraints, a significant amount of transmission capacity was used to allow each utility to meets its own native load. For example, during the summer peak about 2,800 MW of transmission capacity into Area J is used by Con Edison and NYPA to meet their In-City loads. Thus, transmission capacity into the city was reduced to account for these existing flows. Also, almost 2,000 MW of transmission capacity into across the Total East interface is used by New York utilities to serve load in the East of Total-East area and nearly 1,400 MW of the transmission capacity into downstate (Area F to G) is used by NYPA and NYSEG (and some NUGs). This reduces the amount of imports that can physically flow into the East of Total-East and In-City markets. This approach is generally conservative in determining Available Economic Capacity in the East of Total-East market since imports into that market are limited by the reduced amount of available transmission capacity.

Q. WHAT ARE YOUR RESULTS FOR THE EAST OF TOTAL-EAST MARKET?

A. As summarized the tables below and Exhibit No. APP-711, the HHI screen is violated mainly during peak (i.e., higher-priced) periods in the East of Total-East market. This result is due largely to the conservative assumption that I have made regarding O&R's native load responsibilities, i.e., that O&R has only 70% of its native load obligation, but all of its generation. At relatively high market prices, O&R's share in the Bowline units becomes economic, thereby giving O&R a small share of the market. The combination of O&R's small amount of Available Economic Capacity combined with Con Edison's existing share induces changes in the HHI that exceed the safe-harbor level.

The only change between the Base Case and Scenario 2 is that Con Edison is assumed to divest three bundles, which reduces Con Edison's market share in Scenario 2. Since the purchaser of the bundles will not have any native load obligations, all of the capacity of these bundles becomes potential supply for the Available Economic Capacity measure. Hence, Con Edison's share is reduced both because it controls less generation and because the Available Economic Capacity market is larger.

AVAILABLE ECONOMIC CAPACITY

EAST OF TOTAL-EAST MARKET BASE CASE PRE-DIVESTITURE			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	59.2%	4.3%	3934	4443	509
Summer Off-Peak	$20	0.0%	0.0%	2284	2284	0
Winter Peak	$30	50.6%	4.8%	3094	3577	486
Winter Off-Peak	$25	0.0%	0.0%	1983	1983	0
Shoulder Peak	$30	51.0%	4.6%	2930	3399	469
Shoulder Off-Peak	$15	0.0%	0.0%	2956	2956	0

AVAILABLE ECONOMIC CAPACITY						
EAST OF TOTAL-EAST MARKET SCENARIO 2 CON ED DIVESTS 1-3			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	0.0%	3.0%	1085	1085	0
Summer Off-Peak	$20	0.0%	0.0%	2284	2284	0
Winter Peak	$30	1.4%	3.7%	1015	1025	10
Winter Off-Peak	$25	0.0%	0.2%	1995	1995	0
Shoulder Peak	$30	14.7%	4.2%	947	1070	123
Shoulder Off-Peak	$15	0.0%	0.0%	2956	2956	0

Q. ARE THE RESULTS SIMILAR FOR THE IN-CITY MARKET?

A. Because the Available Economic Capacity that O&R has is fully counted in the East of Total-East market, but is allocated a pro rata share of the transmission capacity into the In-City market, the changes in HHI are lower in the In-City market than in the East of Total-East market. This is shown below and in Exhibit No. APP-712.

AVAILABLE ECONOMIC CAPACITY						
IN-CITY MARKET BASE CASE PRE DIVESTITURE			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	49.5%	0.4%	2937	2977	40
Summer Off-Peak	$20	0.0%	0.0%	2404	2404	0
Winter Peak	$30	43.6%	0.1%	2921	2930	9
Winter Off-Peak	$25	0.0%	0.1%	2745	2745	0
Shoulder Peak	$30	54.7%	0.5%	3584	3639	55
Shoulder Off-Peak	$15	0.0%	0.0%	4449	4449	0

AVAILABLE ECONOMIC CAPACITY						
IN-CITY MARKET SCENARIO 2 CON ED DIVESTS 1-3			PRE-MERGER		POST-MERGER	
	PRICE ($/MWH)	Con Ed Market Share	O&R Market Share	HHI	HHI	Delta HHI
Summer Peak	$40	0.0%	0.7%	1409	1409	0
Summer Off-Peak	$20	0.0%	0.0%	2397	2397	0
Winter Peak	$30	1.8%	1.0%	1292	1296	4
Winter Off-Peak	$25	0.0%	0.1%	2745	2745	0
Shoulder Peak	$30	7.3%	0.9%	1238	1251	13
Shoulder Off-Peak	$15	0.0%	0.0%	3966	3966	0

Q. WILL O&R HAVE ANY AVAILABLE ECONOMIC CAPACITY AFTER IT HAS DIVESTED ITS GENERATION?

A. No. The tables below show the derivation of O&R's Available Economic Capacity with retail access but with O&R's current ownership of generating capacity, and the post-divestiture. As shown, O&R has Available Economic Capacity from its Bowline units during the peak periods; during winter off-peak, load is low enough that, at the specified price, Lovett 5 is economic./51/ These results are consistent with the historical facts: in 1999, O&R purchased almost 50 percent of its energy requirements; and O&R is a net buyer about 75-80 percent of the time, and tends to be a net seller only when its gas/oil units (Bowline) are economic.

RETAIL ACCESS (NO DIVESTITURE)			SEASON			
O&R Profile	SUMMER PEAK	SUMMER OFF-PEAK	WINTER PEAK	WINTER OFF-PEAK	SHOULDER PEAK	SHOULDER OFF- PEAK
1999 LOAD (MW)	792	572	648	508	618	464
70% OF 199 LOAD (MW)	555	400	454	355	433	325
MARKET PRICE ($/MWH)	$40	$20	$30	$25	$30	$15
AVAILABLE ECONOMIC UNITS	Bowline 1 Bowline 2	None	Bowline 1 Bowline 2 Lovett 3	Lovett 5	Bowline 1 Bowline 2 Lovett 5 Gilboa	None
AVAILABLE ECONOMIC CAPACITY (MW)	278	0	346	10	420	0

The table below shows O&R's Available Economic Capacity after it has completed its divestiture. Indeed, post-divestiture, O&R's minimum load, at the assumed 30 percent retail access, is 327 MW, as compared to the capacity it will control of 43 MW (not counting the 300 MW purchase from PSE&G, which is never economic under the delivered price test). Thus, the merger can have no effect on concentration.

/51/ The incremental costs of the Bowline units are $28.81/MWh for unit 1 and $30.09/MWh for unit 2. The incremental cost of Lovett 5 is $21.96/MWh.

RETAIL ACCESS (DIVESTITURE)	SEASON					
O&R Profile	SUMMER PEAK	SUMMER OFF-PEAK	WINTER PEAK	WINTER OFF-PEAK	SHOULDER PEAK	SHOULDER OFF- PEAK
1999 LOAD (MW)	792	572	648	508	618	464
70% OF 199 LOAD (MW)	555	400	454	355	433	325
MARKET PRICE ($/MWH)	$40	$20	$30	$25	$30	$15
AVAILABLE ECONOMIC UNITS	None	None	None	None	None	None
AVAILABLE ECONOMIC CAPACITY (MW)	0	0	0	0	0	0

Q. DID YOU PREPARE A SUMMARY TABLE FOR THE AVAILABLE ECONOMIC CAPACITY RESULTS SIMILAR TO YOUR SUMMARY TABLES FOR ECONOMIC CAPACITY?

A. No. The Available Economic Capacity measure does not lend itself to such a summary because price is not the only relevant parameter; native load must be taken into consideration as well.

Q. GIVEN THAT APPENDIX A ISSUES ARE LIMITED TO THE PRE-DIVESTITURE BASE CASE, IS THERE ANY PERIOD OF TIME FOR WHICH THE SCREEN IS LIKELY TO BE VIOLATED?

A. No. Since Con Edison is expected to complete its divestiture of the three In-City bundles prior to completion of the merger, there is no post-merger period to which the base case applies. In the unlikely event that the merger is consummated before the divestiture of the In-City bundles, the mitigation designed to cure screen violations of the Economic Capacity test will also cure any violation of the Available Economic Capacity test.

ANALYSIS OF NYISO CAPACITY MARKETS

Q. DID YOU CONDUCT ANY OTHER ANALYSES?

A. Yes. As stated earlier, I conducted an analysis of capacity as a product that LSEs in New York must purchase. The relevant geographic markets are determined by the NYISO rules and consist of a New York state and an In-City market. The In-City market can be dealt with summarily. Only capacity that is physically located within the City can compete in this NYISO local capacity market./52/ Hence the merger cannot increase concentration in the market or otherwise contribute to Con Edison's market power.

Applicants advise me that the NYISO's capacity market is now not expected to commence prior to May 1, 1999 at the earliest. In any event, O&R will have no capacity to sell prior to May 1, 1999. According to the terms of O&R's settlement, there will be no retail access in capacity prior to that date; all of its existing capacity is needed to meet its native load requirements under NYPP rules. Also according to the settlement, if the NYISO's energy and capacity markets are not fully operational by December 1998, as now appears highly likely, O&R can petition the NYPSC on an expedited basis to defer capacity market retail access. In any event, O&R is likely to have little capacity to sell into the NYISO capacity market prior to its divestiture. O&R remains responsible for supplying customers who do not elect retail access. There has been little take-up of energy market retail access by O&R's customers, despite the fact that all customers have the option to select other energy suppliers. The lack of movement to alternative suppliers reflects the fact that O&R has little industrial load and few large customers, facts that will militate against any material movement to retail access for some time into the future.

Q. HAVE YOU PERFORMED AN ANALYSIS OF THE NYISO'S NEW YORK STATE CAPACITY MARKET?

A. Yes. I have performed two analyses of this market. The first is a worst case analysis that assumes that neither Con Edison nor O&R retains native load requirements and that neither has divested any capacity that can be bid into the New York state capacity market.

/52/ The In-City capacity market reflects the existence of locational capacity requirements in New York City for reliability purposes. Con Edison's NYPSC-approved restructuring settlement provides that prior to June 1999, LSEs in the City will have to purchase capacity equal to 70 percent of their In-City load from In-City resources. Con Edison must make up the remaining 10 percentage points of the In-City 80 percent requirement. After June 1999, the LSEs will be responsible for the full In-City capacity requirement (80 percent or such other level as the NYISO may determine to be appropriate).

It similarly assumes that no other generation owner in New York reserves capacity for native load purposes, and has assumed away all of the announced generation divestiture. This analysis is, at most, pertinent to the month of May 1999, assuming that the O&R divestiture schedule is maintained. Even for May 1999, the analysis is correct only if one assumes that the deconcentrating effect of other utilities' divestitures has not occurred. Under these worst case assumptions, I also analyzed cases reflecting Applicants' divestiture of generation that parallel the cases analyzed for the energy markets. The second analysis that still assumes no divestiture by Applicants in the relevant period and no native load reservation, but takes into account the effect of the announced divestitures of other parties' market structure.

Q. HOW DID YOU DETERMINE CAPACITY SHARES IN THESE ANALYSES OF THE NYISO CAPACITY MARKET?

A. For the New York capacity market, I determined the amount of capacity that each generation owner controls that can be used to meet NYPP reserve requirements, plus capacity that could be imported from PJM and NEPOOL. I took into account the capacity that must be reserved to meet the locational capacity requirements for New York City and Long Island. This analysis is an update of the analysis contained in my August 1997 testimony in Docket No. ER97-1523-000. As stated previously, I ignored all native load commitments in this analysis.

Q. WHAT DOES YOUR "WORST CASE" ANALYSIS OF THE NEW YORK STATE CAPACITY MARKET SHOW?

A. It shows that the New York state capacity market is only moderately concentrated; pre-divestiture, Con Edison's share is 14.7 percent and O&R's is 4.9 percent. As shown below and in Exhibit No. APP-713, the merger produces a change in HHI of 142 during the period prior to O&R's divestiture./53/ I should emphasize that this result assumes no remaining native load responsibility for either Con Edison or O&R, whereas both will in fact retain substantial native load. After divestiture of O&R's generation, the screen is readily passed, with an HHI delta of 30.

/53/ Con Edison's divestiture of generation in the first quarter of 1999 (Scenario 2) has no affect on the analysis due to the fact that all of the divested capacity is within New York City and is unavailable to serve the more general New York capacity market.

remaining native load responsilbility for either Con Edison or O&R, whereas both will in fact retain substantial native load. After divestiture of O&R's generation, the screen is readily passed, with a HHI delta of 30.

NEW YORK CAPACITY MARKET

	BASE CASE	Scenario 2	Scenario 3	Scenario 4
	Pre-Divestiture	Con Edison Divests 1-3	O&R Divests	Con Edison and O&R Divest
MWs				
Total	26977	26977	26977	26977
Con Edison	3956	3956	3146	3146
O&R	1310	1310	344	344
Shares				
Con Edison	14.7	14.7	11.7	11.7
O&R	4.9	4.9	1.3	1.3
HHI (pre-merger)	1642	1642	1566	1566
HHI (post-merger)	1784	1784	1596	1596
Delta HHI	142	142	30	30

Q. WHAT ARE THE RESULTS OF THE ANALYSIS THAT TAKES ANNOUNCED DIVESTITURE BY UTILITIES OTHER THAN CON EDISON AND O&R INTO ACCOUNT?

A. As is shown below and in Exhibit No. APP-714, the primary result is that the New York capacity market is unconcentrated both before and after the merger. The announced divestitures by Niagara Mohawk and NYSEG reduce their shares substantially. Specifically, I have taken into account NYSEG's announced sale of its share of Homer City to Edison Mission Energy and its sale of its fossil capacity to AES. In the case of Niagara Mohawk, I have reflected sale of the fossil stations and hydro units that it is selling, as well as the announced termination of contracts with 1100 MW of NUGs. My understanding is that Niagara Mohawk has received the bids on its generation sales but has not yet announced the winners. Taking these divestitures into account results in a pre-merger HHI of 728 and a post-merger (but pre-Con Edison and O&R divestiture)

HHI of 870. Thus, the post-merger HHI is less than 1,000, within the safe harbor limits of the Merger Guidelines test.

NEW YORK CAPACITY MARKET (TAKING INTO ACCOUNT NY DIVESTITURE)

	BASE CASE Pre-Divestiture	Scenario 2 Con Edison Divests 1-3	Scenario 3 O&R Divests	Scenario 4 Con Edison And O&R O&R Divest
MWs				
Total	26977	26977	26977	26977
Con Edison	3956	3956	3146	3146
O&R	1310	1310	344	344
Shares				
Con Edison	14.7	14.7	11.7	11.7
O&R	4.9	4.9	1.3	1.3
HHI (pre-merger)	728	728	652	652
HHI (post-merger)	870	870	682	682
Delta HHI	142	142	30	30

Q. WHAT CONCLUSIONS FLOW FROM THIS ANALYSIS?

A. The merger passes all analytical screening criteria prior to May 1, 1999 and after O&R's divestiture. It also is apparent that the merged firm will not possess market power in the New York state capacity market during any brief period that might exist between merger closing and O&R's divestiture. If such an interim occurs, the likely event that Niagara Mohawk and NYSEG will have completed their currently on-going divestiture of generating plant will result in an unconcentrated market, with an HHI well under 1000. Even the strictest screening criterion will be passed. If those divestitures are wholly uncompleted, my "worst case" analysis shows a moderately concentrated market and an HHI delta of 142, slightly in excess of the screening level. However, an analysis of other relevant factors, as directed by Step 2 of the DOJ/FTC Merger Guidelines adopted by the Commission shows that even in such a "worst case" Applicants will possess no market power in the New York state capacity market during this brief period.

First, Applicants would have less than 20 percent of the capacity that can be bid into the market. The Commission has long held that firms with such a market share do not have market power./54/ The Commission has found such a showing adequate to resolve market power concerns for a period of three years. Here the relevant period is expected to be only 30 days (May 1 to May 31). Second, Applicants in fact still will retain most of their native load, served at regulated prices, to which they will need to dedicate their capacity. Con Edison's first round of retail access is completed and the amount of out-of-City retail access that it will have in 1999 is known./55/ It will only be about 150 MW until April 1999 and 300 MW for a year thereafter. O&R's retail access program, as noted above, is energy only at least until May 1, 1999. O&R's current experience suggests that it will have very little capacity retail access in the period between May 1 and the expected completion of its divestiture. The merged firm thus will have very little actual uncommitted capacity. Third, during this period the NYISO capacity market will be oversupplied due to upstate utilities' significant excess capacity. None of Applicants' uncommitted capacity will be needed in order to meet demand in the New York state market./56/ Finally, I note that, under Con Edison's settlement, its capacity prices are capped by NYPSC and FERC-filed tariff rates. For all of these reasons, Applicants will

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/54/ *Southwestern Public Service Co.*, 72 FERC (P) 61,208 at p. 61,966 (1955) (Applicants with less than 20 percent of the market have no market power); *Louisville Gas & Electric Co.*, 62 FERC (P) 61,016at p. 61,146 (1993); accord Entergy Services, Inc., 58 FERC (P)61,234 (1992) merged firm with 17 percent share); *Southern Co. Services, Inc.*, 72 FERC (P)61,324 (1995) (26 percent market share). Because of the very temporary nature of any possible market power issue concerning the NYISO state capacity market, the standard used in market rate applications is logically more appropriately applied in determining whether any interim mitigation is necessary than the merger standard used for assessing longer-term market structure.

/55/ By design, Con Edison's retail access program prorates access such that the percentage of retail access outside of the City equals the percentage of its total load that is outside of the City. That percentage is approximately 15 percent; out-of-City retail access thus is 15 percent of the total April, 1999 retail access of 2,000 MW, or 300 MW. Moreover, to date nearly all participating LSEs have elected to take service under Con Edison's tariff, whereby it is obligated to provide capacity to such LSEs. Thus, the first tranche of Con Edison's retail access has not created any uncommitted Con Edison capacity, and it is not clear that further retail access will un-commit any Con Edison capacity.

/56/ This conclusion holds under any plausible assumptions about Applicants' retail access and the serving LSEs purchase of capacity from them.

not possess the ability profitably to raise prices in the New York state capacity market, even in the event that there is an interim period between the closing of the merger and O&R's divestiture.

Nevertheless, in order to dispel any possible market power issues, Applicants are proposing to adhere to the interim mitigation measures described below that will effectively moot any merger-related market power concerns in the NYISO capacity market in the event that the merger closes prior to O&R's divestiture.

PROPOSED INTERIM MITIGATION MEASURES PENDING O&R'S DIVESTITURE

Q. YOU MENTIONED EARLIER THAT THE MERGER SATISFIED THE APPENDIX A SCREENING CRITERIA IN ALL CASES ONCE O&R'S DIVESTITURE OCCURS, AND IN THE INTERIM EXCEEDS CERTAIN SCREENS (GENERALLY ONLY BY MODEST AMOUNTS). WHAT DOES THE COMMISSION MERGER POLICY SAY ABOUT SUCH CIRCUMSTANCES?

A. Order No. 592 states that if the screening criteria are exceeded, the Commission invites applicants to propose mitigation remedies targeted to reduce potential anti-competitive effects. Among the potential remedies specifically identified is divestiture, but the Order does not identify in what circumstances interim measures may be necessary if such divestiture is not coincident with merger consummation.

Q. WHAT IS THE EXPECTED TIMING OF O&R'S DIVESTITURE VIS-A-VIS THE CLOSING OF THE MERGER?

A. O&R's winning bidders will be identified on October 15, 1998 and final closing of the divestiture is expected on May 31, 1999. The targeted closing date of the merger is in April 1999. Thus, there is potentially a one to two month period between the closing of the merger and the closing of O&R's divestiture, at which time any market power problems resulting from the merger are eliminated.

Q. IF O&R'S DIVESTITURE DOES NOT OCCUR UNTIL AFTER CONSUMMATION OF THE MERGER, ARE APPLICANTS PROPOSING MITIGATION THAT DEALS EFFECTIVELY WITH THE BREACHES OF THE APPENDIX

A screen for short-term energy as measured by Economic and Available Economic Capacity?

A. Yes. Applicants' proposed mitigation is described in Mr. Jacob's testimony. Applicants propose that all of Con Edison's generation will be bid into the market at a capped bid equal to its variable costs. They propose that O&R will self-schedule its generation, primarily to meet the needs of its remaining regulated customer base and bid any generation that is not self-scheduled at its variable costs./57/ Since the pure competitor in the economists' theoretical perfect competition will offer its product to the market at variable, or short-run marginal, costs, this ensures that the generation will be bid competitively. The proposed mitigation also ensures that the merged Applicants will not withhold the generation from the New York energy market. Applicants propose that they must make their generation available to the New York pool (on a self-scheduled or bid basis) with the same level of availability as during the same season in the prior three years, or explain any shortfall from such availability to the ISO. The ISO's monitoring function will thus be able to confirm that any availability shortfall is unavoidable and not in furtherance of attempts to exercise market power.

Q. DO APPLICANTS PROPOSE TO MITIGATE THE BIDDING OF THEIR PURCHASED GENERATION INTO ENERGY MARKETS?

A. Yes, insofar as the Applicants are the parties that bid the purchased generation. The mitigation is intended to control the bid price and availability of all generation that Applicants operate or that they can bid into the market. That is, it is intended to eliminate their theoretical ability to manipulate prices. In most or all cases, this will not include purchases. As noted earlier, contracts with generating units controlled by others, or system contracts not backed by specific generating units, do not give Applicants the right

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/57/ The impact of self-scheduling on price formation in the Power Exchange is identical to bidding the generation at zero. Further, since self-scheduled generation does not receive the market price, self-scheduling creates neither the ability nor incentive to increase Power Exchange prices.

to control availability, nor to bid the energy into the market. Must-take contracts, such as the NUG contracts, result in energy production whenever the unit can run. Since Applicants are required to take and pay for the energy, they either will have to self-schedule the energy, in which case it will not participate in market price formation, or bid it into the market at prices low enough to assure that it is scheduled by the ISO.

With respect to the post-divestiture period, my Appendix A analysis demonstrates that the addition of O&R's retained purchase entitlements adds so little to Applicants' controlled deliverable Economic, Available Economic and Total Capacity that no mitigation is necessary.

Q. DO APPLICANTS PROPOSE TO MITIGATE CAPACITY BIDS ?

A. Yes. While, for the reasons I have discussed, mitigation should be unnecessary, Applicants have proposed to mitigate their bids into the capacity market. As is described in Mr. Jacob's testimony, Applicants agree to make all of their capacity available and any capacity that is bid into the NYISO capacity market will be subject to a bid cap. In its compliance with its NYSPC Settlement Agreement, Con Edison has agreed to bid its capacity (both company-owned generation and purchase contracts) into the NYISO capacity market at its going forward or "to go" costs. Applicants agree that the bid cap will apply also to all O&R capacity that is bid into the NYISO auction. Both Applicant's calculations of "to go" costs will be according to procedures approved by NYPSC Staff and subject to review by that staff. Consistent with its settlement, Con Edison filed proposed procedures with the NYPSC Staff on June 1, 1998. "To go" costs are the avoidable costs of keeping a station open and producing energy from it, less revenues earned in energy and ancillary services markets./58/ They do not include recovery of sunk costs or unavoidable costs. The "to go" costs will be both the floor and ceiling bids for capacity bids made by Applicants.

The Applicants reserve the right to "self-schedule" capacity needed to serve their retail customer installed capacity requirements with the ISO./59/ The costs for self-scheduled capacity shall be recovered in retail rates set by the NYPSC for capacity used to support remaining native load or under FERC rates for any capacity sales made to LSEs serving Applicants' retail access customers.

Q. HOW LONG WILL THE MITIGATION REMAIN IN EFFECT?

A. The mitigation will remain in effect until the divestiture of O&R's fossil generation is completed. Obviously, once divestiture is complete, O&R's divested generation will no longer be controlled by Applicants and it will no longer contribute to Applicants' market share. While the precise dates of merger consummation and O&R's divestiture are not known with certainty, the period is likely to be only a few months at most.

VI. VERTICAL ISSUES

Q. PLEASE DESCRIBE THE VERTICAL ISSUES THAT YOU HAVE ADDRESSED.

A. FERC has identified two areas of potential concern that could rebut the presumption that long term capacity markets are competitive. These are dominant control over potential generating sites and control over essential fuels supplies or delivery systems. Recent decisions and other orders concerning "convergence mergers" have indicated that the analysis also should consider whether the merger materially increases control over inputs to electricity. My analysis examines each of these areas.

/58/ "To go" costs for Con Edison's nuclear units are being considered in a separate proceeding by the NYPSC.

/59/ Self-scheduling has no impact on the price of capacity. As is the case with energy, self-scheduling has an effect on price formation in the Power Exchange that is the same as if the generation had been bid into the exchange at a bid price of zero. Further, since self-scheduled generation does not receive the market price, or a price influenced by the market price, self-scheduling creates neither the ability nor the incentive to increase Power Exchange prices.

Q. IS THERE REASON TO BE CONCERNED THAT THE MERGER WILL GIVE APPLICANTS AN UNTOWARD DEGREE OF CONTROL OVER GENERATING SITES?

A. No. Outside of New York City, there should be no unique difficulty in siting generating facilities. The east of Total-East area is large and includes major parts of the service territories of several utilities other than Applicants, including CHG&E, NYSEG, NiMo and MarketSpan. Applicants are divesting several sites, including an O&R site adjacent to Bowline that is a potential generating site. There is no reason to suppose that Applicants control the available sites.

Within New York City, there are sites available that are not controlled by Con Edison./60/ Further, Con Edison has committed to divest several sites that it does control. In its open session on July 15, 1998, the NYPSC required that Con Edison submit its plan for divesting excess real property, including several potential generation sites, within 30 days of beginning the first phase of its generation divestiture.

Q. WHAT IS THE ISSUE CONCERNING AN APPLICANTS' CONTROL OVER ESSENTIAL FUELS OR DELIVERY SYSTEMS?

A. In the context of long term capacity markets, the issue is whether applicants can foreclose or impede the entry of competing generators.

Q. DO THESE APPLICANTS HAVE THE ABILITY TO FRUSTRATE ENTRY DUE TO THEIR CONTROL OVER FUELS OR FUEL DELIVERY SYSTEMS?

A. No. Applicants' only potentially relevant activities arise from their role as combination utilities. As described more fully below, Applicants lack a concerning degree of control over fuels supplies. Neither controls gas production facilities. An entrant into generation in the region in which they are located would have no difficulty in purchasing commodity

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/60/ Feasibility Study for In-City Electric Generation, Stone & Webster, April 22, 1998, page 2.

gas from a multiplicity of sellers. Applicants do not control long distance transmission facilities that arguably might be used to disadvantage entrants. Applicants are gas distribution companies. As already discussed, an entrant competitor in electricity generation to serve the East of Total-East market would not need to locate in the electric service areas of Applicants. This applies with even greater force to their gas service areas, which are smaller. Even within their gas service areas, Applicants cannot use their role as gas distribution companies to impede entry. Their distribution activities are regulated by the NYPSC, from whom an entrant generator who felt disadvantaged could gain redress. As public utilities, Applicants are obligated by New York State statute to initiate gas service upon request./61/ Applicants are further required to render that service in a non-discriminatory fashion./62/ The NYPSC actively oversees Applicants' compliance with these statutory requirements.

Further, as discussed below in the context of existing generating facilities, direct connection to a transmission pipeline is feasible and relatively inexpensive. Hence, even if the distribution activities of Applicants' gas operations were to somehow deny service to entrants on a reasonable basis, the entrants likely could bypass Applicants, taking service from a transmission pipeline directly. Finally, as was already discussed, entrants seeking to provide power in any area large enough to encompass both Applicants (so that there is a possible effect of the merger) would not need to locate in areas served by Applicants' gas distribution.

Q. WHAT ISSUES HAVE ARISEN IN THE CONTEXT OF CONVERGENCE MERGERS?

A. The Commission has indicated that under some circumstances a merger involving a supplier of generating fuels could give rise to vertical concerns. Potential market power arising from gas operations is discussed by the Commission in its final order on the

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/61/ Transportation Corporations Law, Section 12.

/62/ New York Public Service Law, Section 65.

Enova/Pacific Enterprises merger in 1997,/63/ and the recent FERC Notice of Proposed Rulemaking (NOPR) on mergers./64/ Briefly, the main areas of concern are the creation of incentives for the upstream activities (i.e., gas-related) to raise rivals costs, facilitate coordination of pricing in upstream or downstream markets or evade regulation, primarily through self dealing. The Commission has also expressed concerns that convergence mergers involving an upstream gas supplier serving the downstream merger partner, as well as competitors of that partner, could provide preferential terms of service or access to commercially valuable information to its new affiliate. As shown below, none of these concerns will be appropriate to this merger.

Q. WHAT ARE THE BUSINESS ACTIVITIES INTO WHICH THE UPSTREAM AND DOWNSTREAM MARKETS CAN BE DIVIDED?

A. In the upstream market, these include (a) control over commodity gas supplies, (b) the transportation of these supplies from gas-producing regions and remote storage facilities into the market area and (c) the local distribution of these supplies to gas-fired electric generating facilities.

The only relevant downstream product for purposes of this portion of my analysis is bulk or wholesale electric energy traded within the East of-Total-East and In-City markets. I have not investigated any larger market, such as New York State, since Applicants' market power in such a market will, of necessity, be less than in these more local markets in which their gas operations are located.

Q. PLEASE FOCUS FIRST ON THE COMMODITY GAS MARKET. DO APPLICANTS HAVE POTENTIAL MARKET POWER IN THAT MARKET?

/63/ Order in Docket No. EC-97-12-001 et al. (Enova-Pacific Enterprises).

/64/ Notice of Proposed Rulemaking on Revised Filing Requirements Under Part 33 of the Federal Power Act, Docket No. RM98-4-000.

A. Clearly not. Since neither Applicant is a gas producer, nor a major gas aggregator/supplier to unaffiliated retailers and off-system consumers, they have no ability to control or affect the availability or price of gas delivered to the relevant geographic area. Gas to fuel generators that can provide electricity to the downstate region originates in basins scattered across the entire North American continent, and is transported by multiple pipelines connecting these producing basins to downstate New York.

Applicants' sole role in the commodity market is as buyers. Hence, they cannot have sellers' market power. While Applicants have purchase contracts for significant volumes of gas, they account for but a small portion of the production volumes. A conservative measure of the size of the commodity market in which they participate would include gas delivered to the Mid-Atlantic and New England states. While gas consumed in other areas also is produced in the basins that serve downstate New York, even this conservatively defined measure of the size of the market is sufficient to make the point that Applicants are a small factor in the commodity gas market.

Con Edison's purchases totaled 207 MMdt in 1996, and O&R's totaled 33.5 MMdt for a total of 240.5 MMdt./65/ These figures compare to 1996 gas consumption in the Mid-Atlantic and New England states of approximately 3,600 MMdt. Thus, Applicants combined account for at most 6.7 percent of gas commodity purchases in the region. Of this combined 240.5 MMdt, 93.6 MMdt was burned in Applicants' generating facilities, with all but 14 MMdt of the balance resold to utility ratepayers. Upon sale of the fossil generating assets, assuming their new owners obtain fuel supply from one of many available alternative sources, the Applicants' combined market share would drop by 93.6 MMdt to about 4 percent of this conservatively defined commodity market.

/65/ Form EIA-176, Annual Report of Natural and Supplemental Gas Supply and Disposition, 1996.

Moreover, Applicants' failure to take gas could not result in "withholding" it from the market, since volumes not taken would be available to other users. Nor could Applicants artificially increase their demands to the point of denying supplies to other electricity generators. Gas taken must be either burned or stored. Applicants have no control over the consumption of their customers and, as further discussed below, little storage injection or withdrawal capacity relative to the overall commodity market./66/ Hence, quite clearly, Applicants lack market power in commodity gas.

Q. IF THE COMMISSION WERE TO DEFINE A PRODUCT AS GAS DELIVERED TO THE UPSTREAM MARKET, WOULD APPLICANTS HAVE A MARKET SHARE THAT COULD CAUSE CONCERN?

A. No. Obviously, since Applicants are the franchise gas utilities in their gas service areas, they are the purchasers of a significant share of the gas delivered to those areas. However, the gas that they purchase to meet the needs of their customers cannot be counted as potentially available to gas-fired electricity generators. As franchise suppliers, Applicants are obligated to provide gas to their customers. In any event, it is not sensible to define a commodity gas market as narrowly as the service areas of Applicants or even the downstate New York area. At a minimum, geographic market definition must recognize that the commodity portion of the price of gas delivered to downstate New York is determined by arbitrage among deliveries to a much wider geographic area./67/

/66/ Combined, Applicants have maximum daily storage injection rights of 116 Mdt/d and withdrawal rights of 241 Mdt/d in a market area with daily gas delivery capacity of approximately 6,000 Mdt/d (see discussion of long-haul gas transportation below).

/67/ It is important to recognize the basis for distinguishing the relevant market area for generation assets from that of gas supply to fuel these same assets. The physical distribution of gas production and transportation facilities differs dramatically from that of electric generation and transmission facilities. The North American gas transmission network east of the Rocky Mountains is broadly characterized by gas flows originating in the major producing regions to the south and west and terminating in major markets to the north and east. The relevant geographic area in which a downstate New York power plant fuel manager looks to source competitively priced bulk gas commodity supply and transportation is quite different from that which the plant's power marketer looks to access and sell competitively priced bulk electricity.

There are further reasons why even this remaining level of concentration in utility gas sales is not cause for concern. The NYPSC and the Pennsylvania Public Utility Commission ("PaPUC") closely monitor retail sales tariffs./68/ Moreover, retail gas marketing, particularly to large customers such as power generators, is a highly competitive business. Since 1996, every retail customer on both systems has had the option of seeking alternative gas suppliers./69/ Competition, particularly for large customers such as electricity generators, is intense./70/

Q. DO APPLICANTS ENGAGE IN GAS SALES THAT ARE NOT TIGHTLY REGULATED?

A. Only Con Edison is involved in commodity sales by utility affiliates. Its subsidiary, Con Edison Solutions, competes in Northeastern US gas markets; its June 1998 sales averaged 55 Mdt/d, quite small in comparison to the top twenty North American gas marketers in 1997, which reported sales from 2,500 Mdt/d (Exxon) to 9,900 Mdt/d (Enron)./71/ O&R previously competed in this business, but in 1996 sold its gas marketing activity to Midcon, now part of KN Energy. Thus, the merger has no effect on market structure in gas marketing. Moreover, gas marketing is a fiercely competitive business. A national survey lists over 300 companies that identify themselves as gas marketers,/72/ confirmation that barriers to business entry in gas marketing are very low.

/68/ O&R does not provide gas service in New Jersey.

/69/ Approximately 2,500 of O&R's more than 100,000 gas customers reside in Pennsylvania, where retail gas unbundling legislation is still pending.

/70/ As of June 1998, Con Edison was transporting and distributing gas for 21 independent gas marketers (41 have been approved to do business with Con Edison's customers), serving 9,570 firm and 241 interruptible customers. These firm customers already represent 11 percent of Con Edison's annual firm throughput. O&R transports and delivers gas for 22 marketers serving 1,597 firm and 83 interruptible customers. It is reasonable to conclude that the LDC sales levels achieved by Con Edison and O&R in 1996 will be increasingly difficult to repeat, must less surpass, with this level of competition for the retail customer.

/71/ Natural Gas Week, June 1, 1998, p. 9.

/72/ Benjamin Schlesinger and Associates, Natural Gas Marketing Companies, 11th Edition (May 1997).

Q. PLEASE DESCRIBE THE CURRENT COMPETITIVE CONDITIONS FOR LONG-HAUL GAS TRANSPORTATION SERVICES.

A. The relevant geographic market for gas transportation is more restricted than the commodity market, consisting of southeastern New York, northeastern Pennsylvania and the northern half of New Jersey. I will call this the "New Jersey Metro" market. The transportation market is larger than simply the downstate New York area and is defined by the operating criterion of essentially interchangeable pipeline delivery points without loss of overall regional pipeline delivery capacity./73/ As shown in Exhibit No. APP-715, the regional gas transmission network in this area is highly interconnected, and is supplied by no less than five independent long-haul pipeline companies delivering gas supplies from diverse geographic regions across the North American continent. Columbia, Transco, Texas Eastern and Tennessee transport gas supplies from the Gulf Coast and Southwest. In addition, Tennessee transports gas produced in western Canada, as does Iroquois. Columbia is also a major transporter of gas produced in the Appalachian Basin.

Given the interconnected nature of these transmission facilities, and the operating impact of non-coincident peaks in disparate market areas, it is difficult to estimate with precision the delivery capacity of any one pipeline system serving the New Jersey Metro market. However, Exhibit No. APP-716 provides estimates of the stand-alone transmission capacity of each pipeline system,/74/ indicating total firm transmission capacity into the region of 5.8 billion MMdt/d.

/73/ This criterion would not be met in the instance of a requested change in delivery point from Manhattan to Camden or Philadelphia, thereby excluding southern New Jersey and metropolitan Philadelphia.

/74/ These estimates were developed from discussions with representatives of the pipeline companies listed and are based on a review of the firm transportation commitments of these pipelines for deliveries within the defined market area. See Exhibit No. APP-716 for source information.

Over the next several years, the current pipeline configuration will be significantly and predictably altered, resulting in a still larger scope for commodity gas competition. The preponderance of gas supplies delivered into the New England gas market currently passes through the New Jersey metro market area and uses this delivery capability. However, new pipeline transmission facilities and expansions to existing pipeline systems will deliver significant quantities of new gas supplies to New England from non-traditional sources without transiting through New York and New Jersey. Gas production from the Sable Island Offshore Project will flow into the existing New England gas transmission system from the northeast via the Maritimes & Northeast Pipeline ("MNP"). Additional western Canadian gas production will also arrive from the north via the Portland Natural Gas Transmission System ("PNGTS"). Additional liquefied natural gas ("LNG") supplies from new production facilities in the Caribbean Basin will arrive at the Distrigas of Massachusetts ("DOMAC") terminal in Everett, Massachusetts, which is expanding its vaporization and compression capabilities. Competition between gas transported though the New Jersey metro area and gas delivered over these new facilities will expand the area over which the price of delivered gas is arbitraged. Therefore, I have considered both the gas transmission network as it is configured today, and as it will be configured in November 1999 (based on the addition of FERC-certificated new facilities scheduled to be in service within that timeframe), in my evaluation of the transportation services market. A tabulation of these facilities, their estimated net regional delivery capacities and the merging parties' contract entitlements thereto is also provided in Exhibit No. APP-716./75/

Q. DO APPLICANTS COMPETE IN THE GAS TRANSMISSION BUSINESS?

A. No. Neither Applicant owns long-haul transmission facilities.

/75/ There are several additional major planned capacity additions, well advanced but not yet FERC-certificated, that I have excluded from this tabulation.

Q. DO APPLICANTS HAVE FIRM TRANSMISSION RIGHTS FOR GAS TRANSMISSION?

A. Yes. The exhibit shows that Con Edison has rights to 525 Mdt/d, approximately 9.1 percent of regional firm delivery capacity, and O&R has rights to 202 Mdt/d, about 3.5 percent of regional firm delivery capacity, based on my earlier estimation of (approximately 5.8 MMdt/d) of currently available firm pipeline capacity in the relevant geographic market area.

Q. DOES THIS CONCENTRATION OF CAPACITY RIGHTS ENHANCE THE ABILITY OF THE COMBINED COMPANIES TO AFFECT THE PRICE OR AVAILABILITY OF LONG-HAUL TRANSPORTATION CAPACITY?

A. No. First, the effect of the merger is very small. As indicated above and in Exhibit No. AP-716, the merger creates a combined market share of 12.6 percent and an increase in concentration of 64 points./76/ Pipeline capacity enhancements scheduled to be completed by November 1999 further reduce this share to 11.1 percent (and a delta HHI of 50)./77/ Thus, even if firm delivery rights were considered to be an upstream "product", the merger does not create market power in it.

Moreover, Applicants' ownership of firm transportation (FT) capacity entitlements does not confer market power in any relevant market. First, Applicants rights are principally dedicated to serving their full service retail customers and are not available to serve competitors in the downstream electricity generation market. Second, Applicants cannot withhold the pipeline capacity represented by their firm contracts. The hypothetical ability of a holder of firm transportation rights to exercise market power rests on the

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/76/ The absolute HHI number is not a meaningful statistic because of the literally hundreds of LDCs, marketers, producers and gas consumers that now hold and trade pipeline capacity rights on the major interstate systems serving the Jersey Metro area.

/77/ Further, Applicants' firm pipeline capacity requirements to serve their distribution customers can only continue to diminish as universal retail gas competition in New York State, begun in November 1996, continues to encroach on Applicants' core gas sales markets. Applicants' share of the FT capacity market can be expected to decline proportionately.

assumption that it could reduce available gas delivery capacity to the gas transportation market by neither using its rights nor releasing them to other users. This is not feasible. In a manner similar to commodity gas supply, any attempt to "withhold" firm transportation capacity simply creates available interruptible capacity and an incremental revenue opportunity for a pipeline operator. Hence, failure to exercise the firm right does not result in a reduction in available gas delivery capability.

Further, Applicants (and all other New York LDCs) are expected to mitigate the predominantly fixed cost of firm transportation contracts held on behalf of their sales customers by releasing unneeded FT capacity during periods of low gas demand. This surplus capacity is sold into the secondary markets that have developed pursuant to the Commission's rules and procedures on capacity release established in Order No. 636, as modified. Price transparency is a primary Commission objective for secondary pipeline capacity markets, and secondary firm capacity directly competes with every pipeline's available non-firm capacity on a daily basis. Therefore, there would appear to be absolutely no opportunity for the Applicants to somehow distort pipeline capacity price and availability in the region by withholding capacity.

Q. IF THE COMMISSION WERE TO DEEM FIRMLY DELIVERABLE GAS TO BE A RELEVANT UPSTREAM PRODUCT, IS IT AN ESSENTIAL INPUT TO DOWNSTREAM ELECTRICITY GENERATION?

A. No. Utility generators (and, increasingly, independent producers) generally avoid holding long-term firm transportation rights for fuel supply, because of the high fixed costs associated with such rights and because such rights create inflexibility in sourcing alternative gas supplies and alternative fuels in response to fluctuations in relative price and availability. More typically, utility fuel managers, including those of the Applicants, manage a portfolio of short-term firm and interruptible capacity rights acquired from numerous parties, including their LDC affiliates. This allows them to avoid the cost of long term firm service. Moreover, spot gas commodity prices typically are quite high on those winter days when pipeline capacity becomes scarce, making alternative types of fuels economically more attractive, particularly in view of the high cost of firm transportation rights covering such periods. Applicants inform me that actual physical curtailment of gas supply to the generating facilities may occur anywhere from zero to 30 days in a given year, with 7 to 10 days more typical.

As I discussed earlier, Con Edison has no long term firm transportation contracts used in its electricity generating business unit and O&R has firm contracts that are only sufficient to provide ignition fuel. The fact that Applicants operate their generation without long term transmission contract cover demonstrates that long-term firm transportation contracts are not necessary for competing in the electric generating business. This is confirmed also by the behavior of other electric utilities in New York. According to the EIA, less than 10 percent of gas burned by electric utilities in New York was delivered using firm transmission./78/

Q. IS THERE ANY IMPACT OF THE MERGER RESULTING FROM COMBINING NATURAL GAS STORAGE ASSETS?

A. No. O&R owns no storage assets, while Con Edison owns a minority interest (28.8%) in the Honeoye Storage Facility in western New York State, effectively controlling 1.2 billion cubic feet of working storage capacity, representing a de minimus market share of the storage fields predominantly located in central Pennsylvania and western New York./79/ In addition, the Applicants have contractual entitlements in market area storage fields owned and operated by other parties. Con Edison holds 11.7 MMdt of working capacity, while O&R holds 6.9 MMdt, out of the total regional working capacity of 477.3 MMdt. If, for the sake of argument, one treats these contract quantities as equivalent to outright ownership, the concentration of storage ownership/entitlement represented by

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/78/ Energy Information Administration, *Natural Gas Annual 1996*, Washington DC, September, 1997, p. 159. The average for the most recent four years was approximately 14 percent.

/79/ This system consists of numerous gas storage fields, which are connected to the major gas transmission facilities in the region. An INGAA survey identified 477.3 billion cubic feet of working gas storage capacity in the Mid-Atlantic region (New Jersey, New York and Pennsylvania). These storage facilities essentially maintain pressure throughout the gas transmission network during periods of high demand. (Foster Associates, Inc., Profile of Underground Natural Gas Storage Facilities and Market Hubs, prepared for the Interstate Natural Gas Association of America (INGAA) Foundation, Inc., 1995, Figure 3.)

this merger represents a delta HHI of eight points. Thus, the merger has no effect on the market for gas storage./80/

Q. DO APPLICANTS SERVE ELECTRICITY GENERATORS AS LOCAL DISTRIBUTION COMPANIES?

A. Yes. Both Con Edison and O&R provide gas distribution services to generators in their service areas. Con Edison's gas-fired generating facilities, other than the Arthur Kill and Narrows stations,/81/ are supplied by gas delivered via the company's gas distribution facilities under an unbundled transportation tariff. In addition, NYPA's Poletti generating facility receives its gas supply via Con Edison's gas distribution system./82/ Similarly, O&R's gas-capable generating facilities, along with one NUG (the 19 MW Lederle cogeneration facility), receive their gas supplies via the Company's gas distribution facilities.

The merger does not change the status of the two companies as state-regulated LDCs. Quite simply, Applicants had little ability to affect the cost of gas for the generators that they serve before the merger and no additional ability as a result of the merger.

Nor does the merger materially change concentration in the gas-fired generation controlled by Applicants since O&R is divesting all its generation. Hence, the merger

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/80/ Like most LDCs, Applicants operate peak shaving facilities within their service territories, designed to manage sudden weather-related swings in firm customer demand within each Applicant's distribution system. O&R operates three small air-propane facilities on its system; Con Edison operates an LNG facility in Astoria. Inasmuch as they are operated to maintain operating integrity within the confines of the low-pressure distribution system, however, gas production from these local peak shaving facilities does not participate in the broader regional peaking supply markets. These facilities, with their low operating pressures, are physically isolated from the high-pressure regional gas storage system, providing service and contract capacity to LDCs and gas consumers throughout New Jersey, New York and Pennsylvania.

/81/ Brooklyn Union Gas Company provides gas service to these facilities under a special transportation tariff designed to guarantee recovery of Brooklyn Union's fully allocated cost of service. Con Edison-served utilities include Astoria, Ravenswood and those steam producing and peaking facilities that use gas as their primary fuel.

/82/ NUGs supplying power to Con Edison under long-term contract are not located on O&R or Con Edison gas distribution facilities.

creates no new or enhanced incentive to (somehow) use LDC activities to raise prices in the electricity market.

Q. WOULD IT BE APPROPRIATE TO TREAT THE FACT THAT APPLICANTS SERVE ELECTRICITY GENERATORS AS LDCS AS SOMEHOW GIVING THEM CONTROL OVER THOSE GENERATORS IN A MANNER SIMILAR TO DIRECT OWNERSHIP OF THEM?

A. No. As regulated LDCs, Applicants have very little even theoretical ability to affect the cost or availability of these generators. The Commission has considered combination mergers between gas and electric utilities located in the same geographic area in the Enova-Pacific Enterprises merger and the Brooklyn Union Gas ("BUG")-LILCO merger. The facts in this case are readily distinguished.

In Enova-Pacific Enterprises, the concern was that Pacific Enterprises would, by reason of its affiliation with an electric generator, acquire an incentive to manipulate the price and availability of gas to favor the newly affiliated electricity generation activity. The concern that it might have the ability to do so was due to its control of the transmission pipeline that served a large and constrainable electric generation area, and its control over all of the gas storage in the area and its flexibility in using that storage to meet its large sendout requirements. I participated in the Enova-Pacific Enterprises merger and am very familiar with the intervenor allegations to which the Commission responded in that proceeding. Applicants in this case, as mere LDCs, lack the ability to affect electricity prices that Southern California Gas was alleged to have. In particular, they do not control high pressure pipelines covering a wide and constrained area. Nor do they control material amounts of storage that hypothetically might be used to manipulate short term prices. Since they are selling essentially all of their gas-fired generation, they cannot favor affiliated generators. Their remaining generation is inflexible (primarily must-take contracts and a nuclear unit, and cannot benefit from market information that their gas operations might (but for code of conduct restrictions) make available.

In BUG-LILCO, the concern was that BUG might have gained an incentive to impede the siting of generation in the LILCO service area due to a desire to raise the price received by LILCO generation. In this case, Con Edison and O&R already are combination utilities serving some of the potential generating sites in their electric service territories. Neither can deliver gas to generators in the other's electric service area. Hence, any incentive issues of the type that concerned the Commission in BUG-LILCO, to the extent they exist at all, are pre-merger and not affected by the merger. Indeed the planned generation divestitures will markedly reduce any such incentive that previously existed.

The constrainable area in this merger that parallels the area of concern in BUG-LILCO is the City of New York. Con Edison plans to divest its In-City generation. Hence, it will lack even the hypothetical incentive to impede the development of new gas-fired generation in the City.

Q. IF THE LDC ACTIVITY WERE, HYPOTHETICALLY, DEEMED TO CONFER CONTROL, DOES THE MERGER MATERIALLY INCREASE APPLICANTS' CONTROL OF GAS-FIRED GENERATION?

A. No. O&R serves only the Bowline station, the small unit at Lovett that uses gas as a primary fuel, and the 19 MW Lederle NUG and two small peaking units. These units account for only a small portion of the generation serving the East of Total-East region. Moreover, any theoretical ability to somehow affect the costs of the gas-fired generators that Applicants serve is tightly circumscribed by the threat of bypass.

Q. PLEASE DESCRIBE THE POTENTIAL FOR BYPASSING APPLICANTS' DISTRIBUTION SERVICES.

A. All of the large generating stations served by Applicants have relatively low cost bypass alternatives. Evidence of this for Con Edison's existing stations is the record in a recent case establishing the rates charged by Con Edison's gas division for service to its gas generating stations. As discussed in the Recommendation of the Gas & Water Division, adopted by the NYPSC, Con Edison submitted a detailed study showing the total cost of bypass pipelines to connect its electric generation facilities that are served by its gas LDC directly to transmission facilities not owned by Con Edison (or O&R) to be approximately $75 million, resulting in an amortized incremental cost of local transportation service of just $0.01 per dt. Commission staff found the estimate to be reasonable./83/

Exhibit No. APP-717 provides relevant facts concerning economic bypass. For example, NYPA, the owner of the Poletti station, received a transportation discount from Con Edison by threatening to bypass the distribution system. This would have entailed the construction of 3.4 miles of new 24-inch diameter pipe crossing upper Manhattan and two rivers in order to reach Transco facilities in New Jersey, at an estimated cost of $36 million. This exhibit indicates that the distance and other barriers to LDC bypass are comparable, if not less than, the situation faced by Poletti. O&R's Lovett plant is just 0.75 miles from Algonquin gas transmission facilities following an existing Conrail right-of-way. Bowline is 5.2 miles from Algonquin along the same right-of-way, a clear option for a plant of its size, but will be immediately adjacent to Columbia's 700 Mdt/d Millennium Pipeline project upon its completion in November 2000. Applicants will be under direct market pressure to maintain service to either plant prior to the completion of Millennium; they are unlikely to be able to retain the Bowline service contract beyond that point. The Lederle cogeneration unit, is located just 2.0 miles (along a Conrail right-of-way) from the Tennessee Gas pipeline that is currently supplying long-haul transportation service to the facility.

Q. CAN APPLICANTS' LDC ACTIVITIES DISCRIMINATE IN FAVOR OF THEIR OWNED FACILITIES AS WAS ALLEGED IN ENOVA-PACIFIC ENTERPRISES?

A. There is no basis for this concern since Applicants are divesting essentially all of their gas-fired generation. Even were this not the case, both distribution prices and the terms of service, most notably curtailments, are regulated by the NYPSC.

Q. CAN APPLICANTS' GAS LDCS CHARGE DIFFERENT PRICES TO DIFFERENT ELECTRICITY GENERATORS?

/83/ Case 95-G-1037, Recommendation by the Gas & Water Division, April 4, 1996, p. 7.

A. Yes. Current NYPSC policy permits discounted pricing on a customer-by-customer basis to avoid the loss of contribution caused by uneconomic bypass. These negotiated prices are subject to a floor of the incremental cost of delivery and a ceiling of the otherwise applicable tariff rate. Both the generation currently operated by Applicants and the generation that they serve that is owned by others receive discounted distribution services. This is the result of the low bypass cost discussed above.

Negotiated prices for gas transportation are required by statute to be non-discriminatory and are publicly available, so that customers can determine what like-situated customers are paying. Individually negotiated contracts were reconsidered in the Gas Restructuring Proceeding. The NYPSC concluded that "...price differentiation should be permitted if it does not result in injuries to competition in either the primary market (either natural gas alone or all relevant sources [of] energy...) or secondary markets (the various lines of business in which customers in a given region are engaged)."/84/

The NYPSC recently concluded that the restructuring of the electricity industry in New York requires that it revisit the issue of individually negotiated delivery charges, citing potential injuries to competition in the electricity market./85/ This proceeding is ongoing. Should the NYPSC decide that negotiated prices to electricity generators are no longer appropriate, it will change its policy as it deems necessary.

Q. SETTING ASIDE THE ISSUE OF PRICING, ARE THERE OTHER WAYS IN WHICH APPLICANTS' GAS LDCS COULD AFFECT GAS AVAILABILITY OR OTHERWISE SIGNIFICANTLY IMPACT COMPETITION IN THE ELECTRICITY MARKET?

/84/ Opinion No. 94-26 (issued December 20, 1994), p.45 as quoted in Order Instituting Proceeding and Technical Conference, Case 98-G-0122 Proceeding on Motion of the Commission to Review the Bypass Policy Relating to the Pricing of Gas Transportation for Generation, pp.2-3.

/85/ Order Instituting Proceeding and Technical Conference, Case P8-G-0122, op. cit. p. 3.

A. No. Concerning existing generation facilities, the only plausible way in which Applicants might seek to either favor one over another is to curtail availability, interrupting the ill-favored generator. In fact, curtailment of deliveries must be allocated on a pro rata basis in an established succession of service categories or priorities, beginning with interruptible dual-fuel customers./86/ If one such customer is notified of a 30 percent curtailment in gas deliveries due to low system pressure, for example, all similar customers must be curtailed to the same degree. In any event, Applicants have no incentive to engage in discriminatory behavior since they will not own gas-fired generation.

Q. DOES THE MERGER ELIMINATE COMPETITION TO SERVE GENERATION LOCATED IN THE CONSTRAINED NEW YORK CITY AREA?

A. No. O&R does not have facilities within the City.

CODE OF CONDUCT

Q. WILL THE APPLICANTS BE SUBJECT TO CODE OF CONDUCT RESTRICTIONS THAT FULLY INHIBIT ANY POSSIBLE VERTICAL MARKET POWER ABUSES THAT MIGHT ARISE FROM THEIR ACTIVITIES AS ELECTRICITY TRANSMISSION AND DISTRIBUTION COMPANIES, REGULATED ELECTRICITY SUPPLIERS TO REMAINING NATIVE LOAD CUSTOMERS OR GAS LDCS?

A. Yes. Because Applicants will have a power marketing affiliate, they will be subject to the FERC Code of Conduct requirements set out in Orders 888 and 889 and subsequent decisions. I will not enumerate these, since the Commission is well aware of them, but will focus instead on the Code of Conduct restrictions imposed by the NYPSC which are less familiar.

/86/ O&R's tariff allows interruptible customer curtailment according to a prioritization based on revenue contribution. The principle is, however, the same: curtailment priorities are not discretionary.

In the Con Edison Settlement as approved by the NYPSC there are code of conduct restrictions that in some respects go beyond FERC's requirements. The relevant section of the settlement, Section V is at pp. 43 to 53 of the Settlement. Similar provisions apply also to O&R. O&R's code of conduct restrictions do not directly apply to its gas LDC. However, I am informed that Applicants will agree to apply the Con Edison code of conduct restrictions to all elements of the combined company, including O&R's gas operations. Hence, I will focus on the Con Edison code of conduct.

Q. WILL THE GAS AND ELECTRIC DISTRIBUTION ACTIVITIES OF APPLICANTS BE SEPARATED FROM UNREGULATED GENERATION AND WHOLESALE AND RETAIL MARKETING ACTIVITIES?

A. Yes. As part of its reorganization, the "RegCo" will be functionally separated from all unregulated activities. The RegCo initially will include, along with regulated generating facilities, electric and gas distribution, transmission and the steam system. After divestiture occurs, the RegCo will no longer own fossil generating facilities. It will continue to own Indian Point 2 and hold Con Edison's NUG and other purchase contracts. Within the RegCo, generation is, and will continue to be, a separate business unit. O&R's regulated T&D company will hold its remaining contracts. Generation currently buys its own fuel, including gas, and will continue to do so. However, RegCo will require no further gas supply for electric generation after divestiture.

Q. WHAT ARE THE PRIMARY VERTICAL ISSUES ADDRESSED BY THE NYPSC CODE OF CONDUCT?

A. These principally address (a) separation of activities, including personnel; (b) the pricing of assets and services between RegCo and other corporate entities; (c) discrimination by the RegCo in favor of providing and pricing services to affiliates; (d) the preferential provision of customer information by RegCo to affiliates; and (e) representation to customers that RegCo will give priority in serving the customers of affiliates or, more generally assisting affiliates' marketing activities.

Q. PLEASE EXPLAIN THE BUSINESS SEPARATION REQUIREMENTS BETWEEN REGCO AND AFFILIATES.

A. RegCo and affiliates cannot be co-located in the same building. They must have separate operating personnel and non-administrative officers. Any personnel transferred between RegCo and an affiliate, or visa versa, cannot be re-transferred within 18 months.

Q. WHAT PROVISIONS GOVERN TRANSACTIONS BETWEEN REGCO AND AFFILIATES?

A. All asset transfers and provision of services other than tariff services provided by RegCo to affiliates must be pursuant to written contracts filed with the NYPSC. Asset transfers from RegCo to affiliates (other than generation plant which is covered separately in the Settlement) will be at the higher of cost or market. Corporate services will be provided on a fully loaded cost basis, under NYSPC-mandated cost allocation principles. Other services will be provided at fully loaded cost plus 10 percent or at the price charged non-affiliates. RegCo marketing personnel cannot be used to provide services to an affiliate in Con Edison's service area. Services provided by affiliates to RegCo will be at market value.

Q. WHAT PROVISIONS LIMIT DISCRIMINATION IN FAVOR OF AFFILIATES IN THE PROVISION OF SERVICES?

A. In addition to the above, RegCo is required to apply tariffs equally to affiliates and non-affiliates alike. When there is discretion in application of the tariff provision, it must be applied in the same manner to affiliates and non-affiliates. FERC standards are applied to FERC jurisdictional activities.

Q. WHAT ARE THE STANDARDS GOVERNING THE RELEASE OF CUSTOMER INFORMATION TO AFFILIATES?

A. All proprietary customer information is releasable only at the customer's direction and only to parties to whom the customer directs it be released. No customer or energy marketer information relative to RegCo's service territory will be released by it to any affiliate except on a fully equal basis to the affiliate's competitors.

Q. WHAT STANDARDS GOVERN THE REGCO ASSISTING AFFILIATES' MARKETING ACTIVITIES?

A. The RegCo cannot give affiliates marketing leads. It cannot give the appearance that it speaks for the affiliate or that the affiliate speaks for it. If a customer requests information about competitive services within the service area, it must provide a list of all suppliers of the service. The RegCo cannot represent that any customer, supplier or third party will gain any advantage in using RegCo's services from trading with an affiliate. More generally, it cannot promote its affiliate.

Q. DOES THE NYPSC HAVE SUBSTANTIAL ABILITIES TO ENFORCE THESE CODE OF CONDUCT RESTRICTIONS?

A. Yes. The Settlement establishes a complaint procedure that results in prompt referral to the NYPSC for complaints that cannot be resolved informally. Under the terms of the Settlement, Con Edison agrees that the Commission has the authority to impose remedial action, including redress and penalties. If there is a consistent pattern of material violations, the NYPSC can order the divestiture of the affiliate that is involved and bar Con Edison from reentering the activities that had been the business of the subsidiary.

Q. ARE THERE POTENTIAL VERTICAL ISSUES WITHIN THE REGCO?

A. I do not believe that there are any of significance. RegCo will not be allowed to make retail sales outside its service territory. In terms of potential vertical issues concerning generation viz either electric or gas transmission and distribution, it is important to note that Indian Point 2 and the NUGs are not dispatchable or in any economically relevant sense biddable by Applicants. Further, Indian Point does not participate in energy markets, in that Indian Point 2 remains under cost of service regulation for the remainder of its life. Hence, even if RegCo has information that is potentially relevant to the bulk power markets in which its owned generation is sold, for example, concerning the availability of competing generators or their planned gas burn, it would not be of economic value to its generating activities.

CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

TESTIMONY AND EXHIBITS OF WILLIAM H. HIERONYMUS

Exhibit No. APP-700	Testimony of William H. Hieronymus
Exhibit No. APP-701	Resume of William H. Hieronymus
Exhibit No. APP-702	Description of CASm
Exhibit No. APP-703	Utilities Included and Abbreviations
Exhibit No. APP-704	Transmission Areas of New York
Exhibit No. APP-705	Applicants' Purchases and Sales
Exhibit No. APP-706	Excerpts from Hieronymus Testimony in ER97-1523-000
Exhibit No. APP-707	Total Capacity
Exhibit No. APP-708	Uncommitted Capacity
Exhibit No. APP-709	Economic Capacity, East of Total East Market
Exhibit No. APP-710	Economic Capacity, In-City Market
Exhibit No. APP-711	Available Economic Capacity, East of Total East Market
Exhibit No. APP-712	Available Economic Capacity, In-City Market
Exhibit No. APP-713	New York Capacity Market
Exhibit No. APP-714	New York Capacity Market (adjusted for NY divestitures)
Exhibit No. APP-715	Regional Gas Transmission Network
Exhibit No. APP-716	Estimates of Stand-Alone Pipeline Transmission Capacity
Exhibit No. APP-717	Gas Transportation Options for Gas-Fired Generating Facilities

WILLIAM H. HIERONYMUS MANAGING DIRECTOR

William Hieronymus has consulted extensively to managements of electricity and gas companies, their counsel, regulators and policy makers. His principal areas of concentration are the structure and regulation of network utilities and associated management, policy and regulatory issues. He has spent the last several years working on restructuring and privatization of utility systems internationally and on changing regulatory systems and management strategies in mature electricity systems. In his twenty-plus years of consulting to this sector he also has performed a number of more specific functional tasks including the selection of investments, determining procedures for contracting with independent power producers, assistance in contract negotiation, tariff formation, demand forecasting and fuels market forecasting. Dr. Hieronymus has testified frequently on behalf of utility clients before regulatory bodies, federal courts and legislative bodies in the United States and United Kingdom. Since joining Putnam, Hayes & Bartlett, Inc. (PHB) he has contributed to numerous projects, including the following:

ELECTRICITY SECTOR STRUCTURE, REGULATION AND
RELATED MANAGEMENT AND PLANNING ISSUES

U.S. ASSIGNMENTS

- Dr. Hieronymus served as an advisor to a western electric utility on restructuring and related regulatory issues and has worked with senior management in developing strategies for shaping and adapting to the emerging competitive market in electricity. As a part of this general assignment he helped develop, and testified respecting, a settlement with the state regulatory commission staff that provides, among other things, for accelerated recovery of strandable assets. He also prepared numerous briefings for the senior management group on various topics related to restructuring.

- For several utilities seeking merger approval he has prepared and testified to market power analyses at FERC and before state commissions. He also has assisted in discussions with the Antitrust Division of the Department of Justice and in responding to information requests. The analyses he has sponsored cover the destination market-oriented traditional FERC tests, Justice Department-oriented market structure tests similar to the Order 592 required analyses, behavioral tests of the ability to raise prices and examination of vertical market power arising from ownership of transmission and generation and from ownership of distribution facilities in the context of retail access. The mergers on which he has testified include both electricity mergers and combination mergers involving electricity and gas companies.

- For utilities and power pools preparing structural reforms, he has assisted in examining various facets of proposed reforms. This analysis has included both features of the proposals affecting market efficiency and those that have potential consequences for market power. Where relevant, the analysis also has examined the effects of alternative reforms on the client's financial performance and achievement of other objectives.

- For the New England Power Pool he examined the issue of market power in connection with its movement to market-based pricing for energy, capacity and ancillary services. He also assisted the New England utilities in preparing their market power mitigation proposal. The main results of his analysis were incorporated in NEPOOL's market power filing before FERC.

- As part of a large PHB team he assisted a midwest utility in developing an innovative proposal for electricity industry restructuring. This work formed the basis for that utility's proposals in its state's restructuring proceeding.

- Dr. Hieronymus has contributed substantially to PHB's activities in the restructuring of the California electricity industry. In this context he also is a witness in California and FERC proceedings on the subject of market power and mitigation.

- He has testified in state securitization and stranded cost quantification proceedings, primarily in forecasting the level of market prices that should be used in assessing the future revenues and the operating contribution earned by the owner of the utilities' assets in energy and capacity markets. The market price analyses are tailored to the specific features of the market in which the utility will operate and reflect transmission-constrained trading over a wide geographic area. He also has testified in rebuttal to other parties' testimony concerning stranded costs and assisted companies in internal stranded cost and asset valuation studies.

- He has contributed to the development of benchmarking analyses for U.S. utilities. These have been used in work with PHB's clients to develop regulatory proposals, set cost reduction targets, restructure internal operations and assess merger savings.

- Dr. Hieronymus was a co-developer of a market simulation package that PHB has tailored to region-specific applications. He and other PHB personnel have provided numerous multi-day training sessions using the package to help our utility clients in educating management personnel in the consequences of wholesale and retail deregulation and in developing the skills necessary to succeed in this environment.

- Dr. Hieronymus has made numerous presentations to U.S. utility managements on the U.K. electricity system and has arranged meetings with senior executives and regulators in the U.K. for the senior managements of U.S. utilities.

- For a task force of utilities, regulators, legislators and other interested parties created by the Governor's office of a northeastern state he prepared background and briefing papers as part of a PHB assignment to assist in developing a consensus proposal for electricity industry restructuring.

- For an East Coast electricity holding company, he prepared and testified to an analysis of the logic and implementation issues concerning utility-sponsored conservation and demand management programs.

- In connection with nuclear generating plants nearing completion, he has testified in Pennsylvania, Louisiana, Arizona, Illinois, Missouri, New York, Texas, Arkansas, New Mexico and before the Federal Energy Regulatory Commission in plant-in-service rate cases on the issues of equitable and economically efficient treatment of plant cost for tariff setting purposes, regulatory treatment of new plants in other jurisdictions, the prudence of past system planning decisions and assumptions, performance incentives and the life-cycle costs and benefits of the units. In these and other utility regulatory proceedings, Dr. Hieronymus and his colleagues have provided extensive support to counsel, including preparation of interrogatories, cross-examination support and assistance in writing briefs.

- On behalf of utilities in the states of Michigan, Massachusetts, New York, Maine, Indiana, Pennsylvania, New Hampshire and Illinois, he has submitted testimony in regulatory proceedings on the economics of completing nuclear generating plants that are currently under construction. His testimony has covered the likely cost of plant completion, forecasts of operating performance and extensive analyses of ratepayer and shareholder impacts of completion, deferral and cancellation.

- For utilities engaged in nuclear plant construction, Dr. Hieronymus has performed a number of highly confidential assignments to support strategic decisions concerning continuing the construction projects. Areas of inquiry included plant cost, financial feasibility, power marketing opportunities, the impact of potential regulatory treatments of plant cost on shareholders and customers and evaluation of offers to purchase partially completed facilities.

- For an eastern Pennsylvania utility that suffered a nuclear plant shutdown due to NRC sanctions relating to plant management, he filed testimony regarding the extent to which replacement power cost exceeded the costs that would have occurred but for the shutdown.

- For a major midwestern utility, he headed a team that assisted senior management in devising its strategic plans including examination of such issues as plant refurbishment/life extension strategies, impacts of increased competition and diversification opportunities.

- On behalf of two West Coast utilities, he testified in a needs certification hearing for a major coal-fired generation complex concerning the economics of the facility relative to competing sources of power, particularly unconventional sources and demand reductions.

- For a large western combination utility, Dr. Hieronymus participated in a major 18-month effort to provide it with an integrated planning and rate case management system. His specific responsibilities included assisting the client in design and integration of electric and gas energy demand forecasts, peak load and load shape forecasts and forecasts of the impacts of conservation and load management programs.

- For two midwestern utilities, he prepared an analysis of intervenor-proposed modifications to the utilities' resource plans. He then testified on their behalf before a legislative committee..

- For a major combination electric and gas utility, he directed the adaptation of a PHB-developed financial simulation model for use in resource planning and evaluation of conservation programs.

U.K. ASSIGNMENTS

- Following promulgation of the White Paper setting out the general framework for privatization of the electricity industry in the United Kingdom, Dr. Hieronymus participated extensively in the task forces charged with developing the new market system and regulatory regime. His work on behalf of the Electricity Council and the twelve regional electricity councils focused on the proposed regulatory regime, including the price cap and regulatory formulas, and distribution and transmission use of system tariffs. He was an active participant in industry-government task forces charged with creating the legislation, regulatory framework, initial contracts and rules of the pooling and settlements system. He also assisted the regional companies in the valuation of initial contract offers from the generators, including supporting their successful refusal to contract for the proposed nuclear power plants that subsequently were canceled as being non-commercial.

- During the preparation for privatization, he assisted several of the U.K. individual electricity companies in understanding the evolving system, in development of use of system tariffs, and in developing strategic plans and management and technical capabilities in power purchasing and contracting. He continued to advise a number of clients, including regional companies, power developers, large industrial customers and financial institutions on the U.K. power system for a number of years after privatization.

- Dr. Hieronymus assisted four of the regional electricity companies in negotiating equity ownership positions and developing the power purchase contracts for an 1,825 megawatt combined cycle gas station. He also assisted clients in evaluating other potential generating investments including cogeneration and non-conventional resources.

- He also has consulted on the separate reorganization and privatization of the Scottish electricity sector. PHB's role in that privatization included advising the larger of the two Scottish companies and, through it, the Secretary of State on all phases of the restructuring and privatization, including the drafting of regulations, asset valuation and company strategy.

- He has assisted one of the Regional Electricity Companies in England and Wales in the 1993 through 1995 regulatory proceedings that reset the price caps for its retailing and distribution businesses. Included in this assignment have been policy issues such as incentives for economic purchasing of power, the scope of the price control, and the use of comparisons among companies as a basis for price regulation. His model for determining network refurbishment needs was used by the regulator in determining revenue allowances for capital investments.

- He assisted this same utility in its defense against a hostile takeover, including preparation of its submission to the Cabinet Minister who had the responsibility for determining whether the merger should be referred to the competition authority.

ASSIGNMENTS OUTSIDE THE U.S. AND U.K.

- Dr. Hieronymus has assisted a large state-owned European electricity company in evaluating the impacts of the 1997 EU directive on electricity that inter alia requires retail access and competitive markets for generation. The assignment includes advice on the organizational solution to elements of the directive requiring a separate transmission system operator and the business need to create a competitive marketing function.

- For the European Bank for Reconstruction and Development he performed analyses of least cost power options, evaluation of the return on a major plant investment that the Bank was considering and forecasts of electricity prices in support of assessment of a major investment in an electricity intensive industrial plant.

- For the OECD he performed a study of energy subsidies worldwide and the impact of subsidy elimination on the environment, particularly on greenhouse gases.

- For the Magyar Villamos Muvek Troszt, the electricity company of Hungary, he developed a contract framework to link the operations of the different entities of an electricity sector in the process of moving from a centralized command and control system to a decentralized, corporatized system.

- For Iberdrola, the largest investor-owned Spanish electricity company, he assisted in development of their proposal for a fundamental reorganization of

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the electricity sector, its means of compensating generation and distribution companies, its regulation and the phasing out of subsidies. He also has assisted the company in evaluating generation expansion options and in valuing offers for imported power.

- Dr. Hieronymus contributed extensively to a project for the Ukrainian Electricity Ministry, the goal of which is to reorganize the Ukrainian electricity sector and prepare it for transfer to the private sector and the attraction of foreign capital. The proposed reorganization will be based on regional electricity companies, linked by a unified central market, with market-based prices for electricity.

- At the request of the Ministry of Power of the USSR, Dr. Hieronymus participated in the creation of a seminar on electricity restructuring and privatization. The seminar was given for 200 invited Ministerial staff and senior managers for the USSR power system. His specific role was to introduce the requirements and methods of privatization. Subsequent to the breakup of the Soviet Union, he continued to advise the Russian energy and power ministry and government-owned generation and transmission company on restructuring and market development issues.

- On behalf of a large continental electricity company he analyzed the proposed directives from the European Commission on gas and electricity transit (open access regimes) and on the internal market for electricity. The purpose of this assignment was to forecast likely developments in the structure and regulation of the electricity sector in the common market and assist the client in understanding their implications.

- For the electric utility company of the Republic of Ireland, he assessed the likely economic benefit of building an interconnector between Eire and Wales for the sharing of reserves and the interchange of power.

- For a task force representing the Treasury, electric generating and electricity distribution industries in New Zealand, he undertook an analysis of industry structure and regulatory alternatives for achieving economically efficient generation of electricity. The analysis explored how the industry likely would operate under alternative regimes and their implications for asset valuation, electricity pricing, competition and regulatory requirements.

TARIFF DESIGN METHODOLOGIES
AND POLICY ISSUES

- Dr. Hieronymus participated in a series of studies for the National Grid Company of the United Kingdom and for ScottishPower on appropriate pricing methodologies for transmission, including incentives for efficient investment and location decisions.

- For a U.S. utility client, he directed an analysis of time-differentiated costs based on accounting concepts. The study required selection of rating periods and allocation of costs to time periods and within time periods to rate classes.

- For EPRI, he directed a study that examined the effects of time-of-day rates on the level and pattern of residential electricity consumption.

- For the EPRI-NARUC Rate Design Study, Dr. Hieronymus developed a methodology for designing optimum cost-tracking block rate structures.

- On behalf of a group of cogenerators, he filed testimony before the Energy Select Committee of the UK Parliament on the effects of prices on cogeneration development.

- For the Edison Electric Institute (EEI), he prepared a statement of the industry's position on proposed federal guidelines on fuel adjustment clauses. He also assisted EEI in responding to the U.S. Department of Energy (DOE) guideline on cost-of-service standards.

- For private utility clients, he assisted in the preparation of comments on draft Federal Energy Regulatory Commission (FERC) regulations and in preparing their compliance plans for PURPA Section 133.

- For the EEI Utility Regulatory Analysis Program, he co-authored an analysis of the DOE position on the purposes of the Public Utilities Regulatory Policies Act of 1978. The report focused on the relationship between those purposes and cost-of-service and ratemaking positions under consideration in the generic hearings required by PURPA.

- For a state utilities commission, Dr. Hieronymus assessed its utilities' existing automatic adjustment clauses to determine their compliance with PURPA and recommended modifications.

- For the DOE, he developed an analysis of automatic adjustment clauses currently employed by electric utilities. The focus of this analysis was on efficiency incentive effects.

- For the commissioners of a public utility commission, he assisted in preparation of briefing papers, lines of questioning and proposed findings of fact in a generic rate design proceeding.

SALES FORECASTING METHODOLOGIES
FOR GAS AND ELECTRIC UTILITIES

- For the White House Sub-Cabinet Task Force on the future of the electric utility industry, Dr. Hieronymus co-directed a major analysis of "least-cost planning studies" and "low-growth energy futures." That analysis was the sole demand-

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side study commissioned by the task force and formed an important basis for the task force's conclusions concerning the need for new facilities and the relative roles of new construction and customer side-of-the-meter programs in utility planning.

- For a large eastern utility, he developed a load forecasting model designed to interface with the utility's revenue forecasting system-planning functions. The model forecasts detailed monthly sales and seasonal peaks for a 10-year period.

- For the DOE, he directed the development of an independent needs assessment model for use by state public utility commissions. This major study developed the capabilities required for independent forecasting by state commissions and constructed a forecasting model for their interim use.

- For several state regulatory commissions, Dr. Hieronymus has consulted in the development of service area level forecasting models of electric utility companies.

- For EPRI, he authored a study of electricity demand and load forecasting models. The study surveyed state-of-the-art models of electricity demand and subjected the most promising models to empirical testing to determine their potential for use in long-term forecasting.

- For a midwestern electric utility, he has provided consulting assistance in improving its load forecast and has testified in defense of the revised forecasting models.

- For an East Coast gas utility, he testified with respect to sales forecasts and provided consulting assistance in improving the models used to forecast residential and commercial sales.

OTHER STUDIES PERTAINING TO
REGULATED AND ENERGY COMPANIES

- In a number of antitrust and regulatory matters, Dr. Hieronymus has performed analyses and litigation support tasks. These include both Sherman Act Section One and Two cases, contract negotiations, generic rate hearings, ITC hearings and a major asset valuation suit. In a major antitrust case, he testified with respect to the demand for business telecommunications services and the impact of various practices on demand and on the market share of a new entrant. For a major electrical equipment vendor he has testified on damages with respect to alleged defects and associated fraud and warranty claims. In connection with mergers for which he is the market power expert, he is assisting clients in responding to the Antitrust Division of the U.S. Department of Justice's Hart-Scott-Rodino requests.

- For a private client, he headed a project that examined the feasibility and value of a major synthetic natural gas project. The study analyzed both the future supply costs of alternative natural gas sources and the effects of potential changes in FPC rate regulations on project viability. The analysis was used in preparing contract negotiation strategies.

- For a industrial client considering development and marketing of a total energy system for cogeneration of electricity and low-grade heat, he developed an estimate of the potential market for the system by geographic area.

- For the U.S. Environmental Protection Agency (EPA), Dr. Hieronymus was the principal investigator in a series of studies for forecasting future supply availability and production costs for various grades of steam and metallurgical coal to be consumed in process heat and utility uses.

Dr. Hieronymus has addressed a number of conferences on such issues as market power, industry restructuring, utility pricing in competitive markets, international developments in utility structure and regulation, risk analysis for regulated investments, price squeezes, rate design, forecasting customer response to innovative rates, intervenor strategies in utility regulatory proceedings, utility deregulation and utility-related opportunities for investment bankers.

Before joining PHB, Dr. Hieronymus was program manager for Energy Market Analysis at Charles River Associates. Previously, he served as a project director at Systems Technology Corporation and as an economist while serving in the U.S. Army. He is a present or past member of the American Economics Association and the International Association of Energy Economists, and a past member of the Task Force on Coal Supply of the New England Energy Policy Commission. He is the author of a number of reports in the field of energy economics and has been an invited speaker at numerous conferences.

Dr. Hieronymus received a B.A. from the University of Iowa and M.A. and Ph.D. degrees in economics from the University of Michigan.

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$25 ON-PEAK LAMBDAS; $12 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: EAST OF TOTAL EAST MARKET

			BASE CASE ("PRE-DIVESTITURE")				SCENARIO 2 ("CON EDISON DIVESTS 1-3")
MARKET	ANALYSIS	PERIOD	CON EDISON MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	CON EDISON MARKET SHARE
NYPP_ETE	Economic Capacity	S_P	28.0%	4.6%	1,429	258	28.0%
NYPP_ETE	Economic Capacity	S_OP	29.7%	0.3%	1,603	18	29.7%
NYPP_ETE	Economic Capacity	W_P	28.0%	4.5%	1,453	252	28.0%
NYPP_ETE	Economic Capacity	W_OP	29.8%	0.3%	1,614	18	29.8%
NYPP_ETE	Economic Capacity	SH_P	26.2%	4.4%	1,363	231	26.2%
NYPP_ETE	Economic Capacity	SH_OP	27.7%	0.3%	1,520	17	27.7%

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$30 ON-PEAK LAMBDAS; $15 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: EAST OF TOTAL EAST MARKET

			BASE CASE ("PRE-DIVESTITURE")			SCENARIO 2 ("CON EDISON DIVESTS 1-3")	
MARKET	ANALYSIS	PERIOD	CON EDISON MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	CON EDISON MARKET SHARE
NYPP_ETE	Economic Capacity	S_P	46.4%	4.9%	2,529	455	27.0%
NYPP_ETE	Economic Capacity	S_OP	29.7%	0.3%	1,564	18	29.7%
NYPP_ETE	Economic Capacity	W_P	44.9%	4.7%	2,416	422	25.2%
NYPP_ETE	Economic Capacity	W_OP	29.8%	0.3%	1,574	18	29.8%
NYPP_ETE	Economic Capacity	SH_P	44.9%	4.8%	2,407	431	26.0%
NYPP_ETE	Economic Capacity	SH_OP	27.7%	0.3%	1,478	17	27.7%

Competitive Analysis Screening Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$35 ON-PEAK LAMBDAS;$20 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: EAST OF TOTAL EAST MARKET

			BASE CASE ("PRE-DIVESTITURE")				SCENARIO 2 ("CON EDISON DIVESTS 1-3")
MARKET	ANALYSIS	PERIOD	CON EDISON MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	CON EDISON MARKET SHARE
NYPP_ETE	Economic Capacity	S_P	46.5%	4.8%	2,541	446	27.4%
NYPP_ETE	Economic Capacity	S_OP	28.0%	2.6%	1,443	146	28.0%
NYPP_ETE	Economic Capacity	W_P	45.0%	4.6%	2,432	414	25.6%
NYPP_ETE	Economic Capacity	W_OP	28.1%	2.6%	1,453	146	28.1%
NYPP_ETE	Economic Capacity	SH_P	45.0%	4.7%	2,421	423	26.4%
NYPP_ETE	Economic Capacity	SH_OP	26.2%	2.5%	1,370	131	26.2%

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$40 ON-PEAK LAMBDAS; $25 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: EAST OF TOTAL EAST MARKET

			BASE CASE ("PRE-DIVESTITURE")				SCENARIO 2 ("CON EDISON DIVESTS 1-3")
MARKET	ANALYSIS	PERIOD	CON EDISON MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	CON EDISON MARKET SHARE
NYPP_ETE	Economic Capacity	S_P	48.7%	4.6%	2,717	448	26.2%
NYPP_ETE	Economic Capacity	S_OP	27.5%	4.4%	1,386	242	27.5%
NYPP_ETE	Economic Capacity	W_P	47.8%	4.3%	2,652	411	24.3%
NYPP_ETE	Economic Capacity	W_OP	27.6%	4.4%	1,396	243	27.6%
NYPP_ETE	Economic Capacity	SH_P	47.3%	4.5%	2,597	426	25.3%
NYPP_ETE	Economic Capacity	SH_OP	25.7%	4.2%	1,315	216	25.7%

Competitive Analysis Screening Model (CASm v5.5k)

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Con Ed and O&R Divestiture
$30 ON-PEAK LAMBDAS; $15 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: IN-CITY MARKET

			BASE CASE ("Pre-Divestiture")				SCENARIO 2 ("Con Edison Divests 1-3")
MARKET	ANALYSIS	PERIOD	Con Edison MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	Con Edison MARKET SHARE
NYPP_CTY	Economic Capacity	S_P	56.5%	0.6%	3,508	68	25.0%
NYPP_CTY	Economic Capacity	S_OP	32.8%	0.2%	1,745	13	32.8%
NYPP_CTY	Economic Capacity	W_P	55.5%	0.6%	3,430	67	23.1%
NYPP_CTY	Economic Capacity	W_OP	32.8%	0.2%	1,741	13	32.8%
NYPP_CTY	Economic Capacity	SH_P	54.2%	0.6%	3,283	65	24.0%
NYPP_CTY	Economic Capacity	SH_OP	22.9%	0.2%	1,421	9	22.9%

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$35 ON-PEAK LAMBDAS; $20 OFF-PEAK LAMBDAS

ECONOMIC CAPACITY: IN-CITY MARKET

			BASE CASE ("Pre-Divestiture")				SCENARIO 2 ("Con Edison Divests 1-3")
MARKET	ANALYSIS	PERIOD	Con Edison MARKET SHARE	O&R MARKET SHARE	HHI	CHANGE	Con Edison MARKET SHARE
NYPP_CTY	Economic Capacity	S_P	56.5%	0.6%	3,508	68	25.0%
NYPP_CTY	Economic Capacity	S_OP	32.8%	0.2%	1,745	13	32.8%
NYPP_CTY	Economic Capacity	W_P	55.5%	0.6%	3,430	67	23.1%
NYPP_CTY	Economic Capacity	W_OP	32.8%	0.2%	1,741	13	32.8%
NYPP_CTY	Economic Capacity	SH_P	54.2%	0.6%	3,283	65	24.0%
NYPP_CTY	Economic Capacity	SH_OP	22.9%	0.2%	1,421	9	22.9%

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$40 On-Peak Lambdas; $25 Off-Peak Lambdas

ECONOMIC CAPACITY: IN-CITY MARKET

			BASE CASE ("PRE- DIVESTITURE")				SCENARIO 2 ("CON EDISON DIVESTS 1-3")
MARKET	ANALYSIS	PERIOD	EDISON MARKET SHARE	MARKET SHARE	HHI	CHANGE	EDISON MARKET SHARE
NYPP_CTY	Economic Capacity	S_P	59.4%	0.6%	3,808	71	23.8%
NYPP_CTY	Economic Capacity	S_OP	30.9%	0.8%	1,632	49	30.9%
NYPP_CTY	Economic Capacity	W_P	58.5%	0.5%	3,701	59	21.0%
NYPP_CTY	Economic Capacity	W_OP	30.7%	0.7%	1,626	43	30.7%
NYPP_CTY	Economic Capacity	SH_P	57.2%	0.6%	3,583	69	22.9%
NYPP_CTY	Economic Capacity	SH_OP	21.8%	0.7%	1,341	31	21.8%

Competitive Analysis Screening Model (CASm v5.5k)

HHI Report. Created 07/23/98 21:13:37

Con Ed and O&R Divestiture
$40 On-Peak Lambdas; Off-Peak Lambdas

ECONOMIC CAPACITY: IN-CITY MARKET

			BASE CASE ("PRE-DIVESTITURE")				SCENARIO 2 ("CON EDISON DIVESTS 1-3")
MARKET	ANALYSIS	PERIOD	EDISON MARKET SHARE	MARKET SHARE	HHI	CHANGE	EDISON MARKET SHARE
NYPP_CTY	Economic Capacity	S_P	59.4%	0.6%	3,800	71	23.8%
NYPP_CTY	Economic Capacity	S_OP	30.9%	0.8%	1,632	49	30.9%
NYPP_CTY	Economic Capacity	W_P	58.5%	0.5%	3,701	59	21.0%
NYPP_CTY	Economic Capacity	W_OP	30.7%	0.7%	1,626	43	30.7%
NYPP_CTY	Economic Capacity	SH_P	57.2%	0.6%	3,583	69	22.9%
NYPP_CTY	Economic Capacity	SH_OP	21.8%	0.7%	1,341	31	21.8%

Gas Transportation Options for Gas-Fired Generating Facilities/1/ with Current Con Edison/2/ or O&R Gas Service

Facility	Current Owner	Location	Divestiture Status	Nearest Alternate Supply Source
Astoria	Con Edison	Queens @ East River	Steam plant to be retained, turbines to be sold	3.4 miles to Transco; 4.0 miles to BUG
Bowline	Con Ed/O&R	Rockland County, NY @ Hudson River	To be sold	5.2 miles to Algonquin via Conrail/O&R ROW/3/
E. 60/th/ St.	Con Edison	Central Manhattan @ East River	To be sold	2.9 miles to Transco, 1.9 miles to BUG
East River	Con Edison	Lower Manhattan @ East River	To be sold	5.3 miles to Transco, 0.9 miles to BUG
Hillburn	O&R	Western Rockland County near NY/NJ border	To be sold	0.5 miles to Algonquin via Conrail ROW
Lederle	American Home Products	Central Rockland County near NY/NJ border	N.A.	2.0 miles to Tennessee via Conrail ROW
Lovett	O&R	Rockland County @ Hudson River	To be sold	0.75 miles to Algonquin via Conrail ROW
Poletti	NYPA	Queens @ East River	N.A.	3.4 miles to Transco; 4.0 miles to BUG
Ravenswood	Con Edison	Queens @ East River	To be sold	2.5 miles to Transco, 2.1 miles to BUG
Shoemaker	O&R	Western Orange County, NY	To be sold	9.5 miles to Columbia
W. 59/th/ St.	Con Edison	Central Manhattan @ Hudson River	To be sold	1.1 miles to Transco
Waterside	Con Edison	Central Manhattan @ East River	To be sold	3.8 miles to Transco, 1.3 miles to BUG

Facility	Comments
Astoria	Bypass to Transco requires Hudson River crossing
Bowline	See Note 3 below
E. 60/th/ St.	Either bypass option requires river crossing (Hudson or East River)
East River	Either bypass option requires river crossing (Hudson or East River)
Hillburn	
Lederle	
Lovett	Earlier bypass effort resulted in current O&R "firm withdrawable service" transportation rate (30 day/year capacity recall right)
Poletti	Transco bypass requires river crossing; earlier bypass effort by NYPA resulted in current Con Ed negotiated transportation rate
Ravenswood	Bypass to Transco requires Hudson River crossing
Shoemaker	
W. 59/th/ St.	Bypass requires Hudson River crossing
Waterside	Either bypass option requires river crossing (Hudson or East River)

- ----------------

/1/ All facilities have dual-fuel (gas/oil) capability.

/2/ Con Edison's Arthur Kill and Narrows generating plants are fueled via Brooklyn Union facilities.

/3/ Columbia Gas Transmission's 700 Mdt/d Millennium Pipeline project, with a scheduled in-service date of 11/2000, will transit immediately adjacent to the Bowline facility.

MAJOR NATURAL GAS PIPELINES AND SUPPLY SOURCES
TO SERVE THE MID-ATLANTIC AND NEW ENGLAND REGIONS

[MAP APPEARS HERE]

EXHIBIT K

[ORGANIZATIONAL CHARTS APPEARS HERE]

[ORGANIZATIONAL CHART APPEARS HERE]

EXHIBIT D-2

JOINT PETITION OF

CONSOLIDATED EDISON, INC.,

ORANGE AND ROCKLAND UTILITIES, INC.,

AND

CONSOLIDATED EDISON COMPANY OF
NEW YORK, INC.

FOR APPROVAL OF MERGER
AND STOCK ACQUISITION
AND RELATED RELIEF

PUBLIC SERVICE COMMISSION
STATE OF NEW YORK

Joint Petition of Consolidated Edison, Inc., Orange and Rockland Utilities, Inc., and Consolidated Edison Company of New York, Inc. Under Sections 70 and 108 of the Public Service Law for Approval of Merger and Stock Acquisition	:	JOINT PETITION
Case No.	:	

TO THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NEW YORK:

On May 10, 1998, Consolidated Edison, Inc. ("CEI"), Orange and Rockland Utilities, Inc. ("Orange and Rockland") and C Acquisition Corp., a wholly-owned subsidiary of CEI (the "Merger Subsidiary"), entered into an Agreement and Plan of Merger ("Merger Agreement") under which the Merger Subsidiary will merge with and into Orange and Rockland (the "Merger") and Orange and Rockland will be the surviving corporation and will become a wholly-owned subsidiary of CEI, which is also the parent of Consolidated Edison Company of New York, Inc. ("Con Edison"). Con Edison and Orange and Rockland are both regulated New York utilities. (Con Edison and Orange and Rockland are jointly referred to herein as the "Utilities.") Upon the effectiveness of the Merger, the holders of Orange and Rockland's Common Stock, $5 par value ("Orange and Rockland's Common Stock"), will receive $58.50 per share in cash. (CEI, Orange and Rockland and Con Edison are jointly referred to herein as "Petitioners".)

Petitioners request that the Public Service Commission ("the Commission") approve the Merger and provide related relief as set forth in this Joint Petition. The Merger is clearly in the public interest. The Merger creates the potential for increased operating efficiencies and operational and regulatory synergies for both Utilities. Both Utilities are operating in an increasingly competitive energy industry. Both are in the process of divesting large portions of their generating assets to create competition, and both are in the process of transforming their utility operations into regulated companies which utilize their "wires and pipes" infrastructure to provide the energy delivery system critical to the competitive marketplace.

A. INTRODUCTION

1. Con Edison is an electric, gas and steam corporation organized under the laws of the State of New York, including the Transportation Corporations Law, and has its principal place of business at 4 Irving Place, New York, New York 10003.

2. Con Edison supplies electric service in all of New York City (except part of Queens) and in most of Westchester County; gas service in Manhattan, the Bronx and parts of Queens and Westchester Counties; and steam service in part of Manhattan.

3. Orange and Rockland is an electric and gas corporation, organized under the laws of the State of New York, including the Transportation Corporations Law, and has its principal place of business at One Blue Hill Plaza, Pearl River, New York 10965. Orange and Rockland has two wholly-owned utility subsidiaries, Rockland Electric Company ("RECO"), a New Jersey corporation, and Pike County Light & Power Company ("Pike"), a Pennsylvania corporation.

4. Orange and Rockland supplies electric and gas service in all of Rockland County, most of Orange County and part of Sullivan County. In New Jersey, Orange and Rockland's utility subsidiary, RECO, supplies electric service in parts of Bergen, Passaic and Sussex Counties. In Pennsylvania, Orange and Rockland's utility subsidiary, Pike, supplies electric and gas service in parts of Pike County. Orange and Rockland is exempt from registration under the Public Utility Holding Company Act of 1935 ("PUHCA").

5. CEI is a corporation organized under the laws of the State of New York. On January 1, 1998 it became the holding company for Con Edison. CEI has various non-utility subsidiaries./1/ It is exempt from registration under PUHCA.

6. Certified copies of Con Edison's Certificate of Incorporation and Orange and Rockland's Restated Certificate of Incorporation and each amendment or restatement of each such Certificate have been filed with the Commission. Certified copies of CEI's and the Merger Subsidiary's Certificates of Incorporation are attached hereto as Appendices A and B, respectively.

B. RELIEF SOUGHT

7. In accordance with the terms and conditions of the Merger Agreement, a copy of which is annexed hereto as Appendix C, each outstanding share of Orange and Rockland's Common Stock will be converted into the right to receive $58.50 in cash and, after the consummation of the transactions described in the Merger

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/1/The Merger Subsidiary is a recently-organized corporation that has not conducted any business except in conjunction with the Merger Agreement. The principal offices of CEI and the Merger Subsidiary are located at 4 Irving Place, New York, New York 10003.

Agreement, Orange and Rockland will become a wholly-owned subsidiary of CEI. CEI hereby seeks the approval of the Commission under Section 70 of the Public Service Law to acquire the stock of Orange and Rockland as contemplated in and pursuant to the terms of the Merger Agreement. Petitioners hereby also seek Commission approval under Section 108 of the Public Service Law of a certificate of merger between Orange and Rockland and the Merger Subsidiary, which will be delivered for filing to the Department of State of the State of New York.

8. By its orders issued on September 23 and November 3, 1997, in Case 96-E-0897, the Commission approved, subject to certain conditions and understandings, an Agreement and Settlement, dated September 19, 1997, among Con Edison, Staff and other parties ("the Con Edison Settlement Agreement")./2/ Among other things, the Con Edison Settlement Agreement permits the formation of a holding company and sets forth provisions and standards of conduct governing the relationship of Con Edison with the holding company and with its unregulated affiliates. The holding company, CEI, has been formed.

9. By its orders issued on November 26 and December 31, 1997 in Case 96-E-0900, the Commission approved an Electric Rate and Restructuring Plan, dated November 6, 1997, among Orange and Rockland, Staff and other parties ("the

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/2/Case 96-E-0897 - Consolidated Edison Company of N.Y., Inc., Order Adopting Terms of Settlement Subject to Conditions and Understandings (September 23, 1997), Confirming Order (October 1, 1997); and Opinion No. 97-16 (November 3, 1997).

Orange and Rockland Restructuring Plan")./3/ Among other things, the Orange and Rockland Restructuring Plan provides for Orange and Rockland to form a holding company that would be registered under PUHCA, subject to obtaining shareholder and other regulatory approvals. The Orange and Rockland Restructuring Plan also sets forth provisions and standards of conduct that will govern holding company and affiliate relations under the holding company structure.

10. Orange and Rockland will not form a registered holding company under PUHCA, but instead, as a result of the Merger, Orange and Rockland will become a wholly-owned subsidiary of CEI. (It is expected that CEI will remain exempt from registration under PUHCA.) Accordingly, Petitioners request Commission approval of conforming modifications to the corporate structure and related provisions in both the Orange and Rockland Restructuring Plan and the Con Edison Settlement Agreement to reflect the corporate structure that will result from the Merger. The conforming modifications are set forth in Appendix F hereto.

11. In addition, Petitioners request that the Commission approve the cost allocation methodology and accounting procedure described in Appendix G hereto, which provides procedures for the allocation of direct charges and common costs among and between CEI, Con Edison and Orange and Rockland and their affiliates. The proposed cost allocation methodology and accounting procedure is consistent with the allocation and accounting framework contained in the Con Edison Settlement

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/3/Case 96-E-0900 - Orange and Rockland Utilities, Inc., Order Adopting Terms of Settlement (November 26, 1997) and Opinion No. 97-27 (December 31, 1997).

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Agreement and the Orange and Rockland Restructuring Plan. The transactions between CEI and Orange and Rockland and between Orange and Rockland and Petitioners' unregulated affiliates would be governed by the affiliate rules and standards of conducts set forth in the Orange and Rockland Restructuring Plan, as modified by Appendix F. Similarly, transactions between CEI and Con Edison and between Con Edison and Petitioners' unregulated affiliates would be governed by the affiliate rules and standards of conduct set forth in the Con Edison Settlement Agreement, as modified by Appendix F.

12. The proposed cost allocation methodology and accounting procedure described in Appendix G hereto also sets forth rules that would govern transactions between Con Edison and Orange and Rockland. These rules are consistent in all substantive respects with the terms of the Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan. Allocation of costs among Orange and Rockland and its New Jersey and Pennsylvania utility subsidiaries (RECO and Pike, respectively) would continue to be governed by the existing service contracts between Orange and Rockland and its utility subsidiaries. The transfer of assets between regulated Con Edison and Orange and Rockland would be permitted as set forth in the procedures and rules.

13. The Con Edison Settlement Agreement provides for a five-year electric rate plan through March 31, 2002. The Orange and Rockland Restructuring Plan provides for a four-year electric rate plan through November 30, 2001.

14. The Con Edison Settlement Agreement's rate plan provides for electric rate reductions of $1.1 billion on a cumulative basis over the five-year period ending March 31, 2002. All customers under this plan will receive rate reductions of at least 10 percent, with some receiving reductions of up to 25 percent. These savings are exclusive of the savings that electric customers may achieve through participation in newly competitive electric markets being shaped pursuant to the Con Edison Settlement Agreement. Con Edison's customers will continue to receive the substantial benefits of the Con Edison Settlement Agreement's rate plan and, if this Joint Petition is approved, will receive additional benefits as set forth herein as a consequence of the Merger .

15. The Orange and Rockland Restructuring Plan provides for cumulative electric rate reductions over its four-year term of approximately $32.4 million, exclusive of the savings that electric customers may achieve through the new competitive markets. Orange and Rockland's customers also will continue to benefit from the Orange and Rockland Restructuring Plan, and they will receive additional benefits described herein as a consequence of the Merger.

D. THE MERGER

16. Dramatic changes are occurring in the regulation of the electric and gas industries at the federal and state levels, resulting in an increasingly competitive environment in which gas and electric utilities must operate. Con Edison and Orange and Rockland have each been engaged in an ongoing evaluation of this transformation of the energy industry to determine how best to respond to these changes. Petitioners have agreed that the terms of the business combination set

forth in the Merger Agreement will, subject to obtaining required regulatory and shareholder approvals, provide a mutually beneficial setting for responding to this evolving and increasingly competitive energy marketplace. The respective Boards of Directors of Petitioners have approved the Merger Agreement. The Merger Agreement requires the approval of the holders of two-thirds of Orange and Rockland's Common Stock which is outstanding. Orange and Rockland intends to hold a meeting of its shareholders in the third quarter of 1998 to vote on the approval of the Merger Agreement. CEI's shareholders are not required to approve the Merger Agreement.

17. To effect the Merger, the Merger Agreement provides for the Merger Subsidiary to merge with and into Orange and Rockland, with Orange and Rockland being the surviving corporation. Each outstanding share of Orange and Rockland stock will be converted into the right to receive $58.50 in cash. As a result, Orange and Rockland will become a subsidiary of CEI at the time of the Merger. Orange and Rockland's existing regulated subsidiaries, Pike and RECO, will remain its subsidiaries and will not be transferred to CEI.

18. It is expected that Con Edison and Orange and Rockland, each a direct wholly owned subsidiary of CEI, will continue to operate under their respective names.

19. The obligations of CEI and Orange and Rockland to effect the transactions contemplated by the Merger Agreement are subject to a number of conditions including, but not limited to, the approval of the Merger Agreement by Orange and Rockland's shareholders and obtaining all required regulatory and governmental approvals and consents.

20. Until the Merger is consummated, Orange and Rockland has committed in the Merger Agreement to conduct its businesses in the ordinary course consistent with past practices and in accordance with the Orange and Rockland Restructuring Plan. Among other things, Orange and Rockland is required by the Merger Agreement to use its best efforts to enter into a definitive agreement(s) to divest its generating assets pursuant to the Orange and Rockland's Commission-approved divestiture plan.

E. THE BENEFITS OF THE MERGER

21. The Merger will be beneficial to the customers of both Orange and Rockland and Con Edison. With the Merger, Petitioners will realize operating efficiencies. Petitioners will maintain customer service and system reliability following consummation of the Merger. The Merger should facilitate the development of competitive markets.

22. The Merger will make available rate savings above and beyond the substantial savings captured by the Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan and the transition to competition. The rate benefits from the Merger are driven by the operating efficiencies expected from the Merger. The forecast ten-year net synergy savings are set forth in Appendix H. Appendix H indicates that the Merger is anticipated to result in cost savings, net of transaction costs and costs to achieve,/4/ of $467.6 million over the first ten years

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/4/Transaction costs and costs to achieve are the incremental legal, financial, employee and organizational costs incurred and to be incurred to effectuate and implement the merger. Transaction and cost to achieve expenses in 1998 will, subject to Commission approval, be deferred for disposition in this proceeding.

following the closing of the transaction (assumed closing date of March 31, 1999). Petitioners' propose a reasonable allocation of these synergy savings between consumers and investors. Such a sharing is both consistent with the established practice of apportioning such savings equitably between customers and investors and an appropriate recognition of the investment required to bring about desirable and efficient combinations such as the Merger.

23. As set forth in Appendix H, New York customers of Con Edison and Orange and Rockland will benefit by one-half the synergy savings over the 10-year period ending March 31, 2009, receiving a total benefit of $236.3 million. The allocation of the anticipated savings is further detailed in Appendix I. The methodology for the allocation of synergies after March 2002 is reflected in Appendix I, section (IV). As detailed in Appendix I, the Merger will result in cost savings for Con Edison's gas operations and for other services will forestall or reduce near-term rate increases and offset the accumulation of debits expected to build to future rate increases. The nominal-dollar rate decreases will occur as scheduled per the Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan ($1.1 billion for Con Edison customers and $32.4 million for Orange and Rockland customers). Through March 2002, the Merger will create additional ratepayer credits, beyond the Con Edison Settlement and the Orange and Rockland Restructuring Plan, amounting to $4.9 million for Orange and Rockland customers and $36.5 million for Con Edison customers./5/

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/5/ The Orange and Rockland Restructuring Plan provides for $1 million over four years for the costs incurred in establishing a registered holding company. Since as a result of the Merger, Orange and

24. Ability to Finance Utility Operations - Under the terms of the Merger, Con Edison and Orange and Rockland will be separate subsidiaries of CEI. As a consequence, the transaction will not impair the ability of Con Edison or Orange and Rockland to continue to raise debt or preferred equity capital in the future. Moreover, additional equity capital, whether raised publicly at the CEI level or generated internally, will be invested in Con Edison and Orange and Rockland, as appropriate, to fund utility capital expenditures while maintaining a cost-effective capital structure at the utility level. In addition, Con Edison and Orange and Rockland will remain as separate regulated utilities, subject to Commission jurisdiction. Hence, Commission approval pursuant to Section 69 of the Public Service Law will continue to be required for any additional debt or preferred equity financing by the New York regulated utilities.

25. Customer Service - The proposed transaction will facilitate the achievement of the customer service quality goals set forth in the Con Edison Settlement Agreement and Orange and Rockland Restructuring Plan. Both agreements provide incentives to prevent customer service from deteriorating to unacceptable levels, and those incentive provisions will continue to apply to the respective utilities. Since both Con Edison and Orange and Rockland will remain regulated utilities subject to the full jurisdiction of the Commission, the proposed transaction would

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Rockland will not establish a registered holding company, Orange and Rockland will apply the unexpended portion of this amount as prescribed by its Restructuring Plan. Specifically, Orange and Rockland will apply this amount to offset regulatory assets in accordance with Section I.E, Accounting Provisions, set forth on pages 10-12 of the Orange and Rockland Restructuring Plan.

not limit the Commission's authority to take appropriate action to further address customer needs for either or both utilities if required.

26. The combination of the two utilities should strengthen the ability of both operating companies to offer additional services to customers. This will include utilization of best practices and innovative technology now available in the separate companies in responding to service needs. Orange and Rockland, for example, has successfully implemented the integration of multiple telephone call centers into one central call area, an experience that will prove beneficial to Con Edison as it implements its existing plan to consolidate call centers. Similar potential also appears to exist with respect to the phasing in of voice-response unit technology currently employed by Con Edison and in the growth of options afforded to customers in the use of the internet to carry out customer transactions (bill payment, etc.). There are other potential benefits in the application of internet technology, particularly in the data-transmission area, in implementing retail access.

27. Electric System Service and Reliability - The Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan contain explicit commitment to the provision of high levels of reliability. This commitment will continue in effect after the Merger. The combination of the two utilities will enable the utilities to draw on the combined expertise and strengths of their respective workforces to meet commitments and assure continued system reliability.

28. Because of its size and service area characteristics, Con Edison has developed comprehensive systems to support reliability. These include managerial systems

such as performance tracking and root-cause analysis; systematic operating procedure and specification development; remote substation and overhead system monitoring; outage management systems; and power quality services. These systems may be adapted to enhance similar existing Orange and Rockland systems.

29. Employee Benefits - The Merger would also offer unique opportunities to employees. The combined utilities should provide greater opportunity for advancement, as well as training and career development. Con Edison has maintained a long-term commitment to the career development of its employees through, among other things, courses and career development programs offered at Con Edison's Learning Center. The employees of Orange and Rockland will benefit from these programs. While the Utilities will seek to identify and eliminate redundant functions in their operations, the Merger Agreement provides for the honoring of all collective bargaining agreements and for any workforce reductions to be made on a fair and equitable basis reflecting employees' prior experience and skills and without regard to prior affiliation.

30. Commitment to Communities and to Economic Development - As a result of the Merger, both Con Edison and Orange and Rockland will be better positioned to maintain their strong commitment to the economic development and welfare of their respective service territories. This commitment will be enhanced by the improved ability of the combined entity to compete in the energy marketplace. Both utilities have a strong record of community involvement and charitable contributions which will be maintained after the Merger. The Merger Agreement

expressly provides for the continuation of charitable contributions in the Orange and Rockland service area at comparable levels to those provided by Orange and Rockland.

31. Economic development has been and will continue as a core objective of the Utilities. The Competitive Opportunities proceeding created significant new incentives for increased economic activity in both service areas. The Merger will add to this not only through a measurable increase in the efficiency of the energy infrastructure of the area, but also by the favorable impact that the Merger will have in facilitating the transition to competition for customers served by the Utilities.

32. Effect on Competition - The proposed business combination will not have an adverse impact on competition in the electric industry. Indeed, the Merger can be expected to advance competitive interests. Both companies have committed to comprehensive generation divestiture programs and have established open access transmission tariffs consistent with the rules and requirements of the Federal Energy Regulatory Commission ("FERC"). The technological innovations that have played a major role in facilitating competition, allowing new markets to form and expanding the types of transactions that utilities can accommodate, cannot be as effectively supported or encouraged on a small scale. Business combinations such as the Merger will provide the resources to foster innovation and will thus add vitality and strength to the drive to competition and thereby increase the savings available to consumers.

33. In terms of the competitive restructuring already underway, both utilities have committed themselves firmly to the development of a competitive electric market in their respective service areas and have implemented retail access programs in compliance with the Con Edison Settlement Agreement and Orange and Rockland Restructuring Plan. The Merger will not diminish this commitment and should have no impact on competition in the gas industry. Both Con Edison and Orange and Rockland have opened up their gas systems in full compliance with all Commission orders in the gas industry restructuring case./6/ The open competition for gas sales in the service territories of Con Edison and Orange and Rockland not only obviates any concern that the transaction will enable CEI to exercise market power in retail gas sales, but also prevents CEI from exercising control over gas commodity sales for electric generation or for end-use applications as a substitute for electricity.

34. Effect on Regulation - The proposed business combination is not expected to impact the Commission's jurisdiction over Con Edison and Orange and Rockland. It will not impede the Commission's regulatory authority over the rates, service, operations, and the financial condition of Petitioners' utility business. Both utilities will continue in existence and be subject to the same governmental orders to which they were subject immediately prior to the Merger.

F. REQUIRED REGULATORY APPROVALS

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/6/ Case 93-G-0932 - Proceeding on Motion of the Commission to Address Issues Associated with the Restructuring of the Emerging Competitive Natural Gas Market.

35. In addition to the regulatory approvals requested hereby, the Petitioners are required to obtain the following Federal and State regulatory approvals to effect the transaction contemplated by the Merger Agreement (none of which have been obtained as of the date hereof):

a. Federal Energy Regulatory Commission. Con Edison and Orange and Rockland are subject to the jurisdiction of FERC under Section 205 of the Federal Power Act ("FPA") with respect to certain wholesale electric sales and transmission services. FERC has also asserted jurisdiction over any transfer of ownership and control over FERC jurisdictional facilities under section 203 of the FPA. An application seeking the approval of the FERC will be filed shortly after the date of filing this Joint Petition.

b. Securities and Exchange Commission. Because of its ownership of all of the issued and outstanding common stock of Con Edison, CEI is a public utility holding company under PUHCA. Approval of the Securities and Exchange Commission ("SEC") pursuant to Section 9(a)(2) of PUCHA will be required to consummate the acquisition by CEI of Orange and Rockland's common stock. It is anticipated that an application seeking SEC approval will be filed in July 1998. CEI currently is exempt from registration under PUCHA under Section 3(a)(1) of the Act as a "predominantly intrastate" public utility holding company. Orange and Rockland is exempt from registration under Section 3(a)(2) of the Act as an operating utility holding company serving contiguous states. It is expected that CEI and Orange and Rockland will continue to qualify for exemptions from registration under PUHCA under Sections 3(a)(1) and 3(a)(2), respectively, following the Merger. CEI and Orange and Rockland will file statements with the SEC claiming the exemptions.

c. New Jersey Board of Public Utilities. RECO is subject to the jurisdiction of the New Jersey Board of Public Utilities ("NJBPU") and, therefore, the Merger may require approval of the NJBPU under the New Jersey Public

Utilities Law. A petition requesting that the NJBPU approve the Merger will be filed in the same time frame as this Joint Petition.

d. Pennsylvania Public Utility Commission. Pike is subject to the jurisdiction of the Pennsylvania Public Utility Commission ("PAPUC") and, therefore, the Merger will require the approval of the PAPUC pursuant to the Pennsylvania Public Utility Code. A petition requesting PAPUC approval will be filed in the same time frame as this Joint Petition.

e. Hart-Scott-Rodino. Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended ("HSR"), the share acquisitions by CEI may not be consummated until the requisite notifications and report forms have been filed with the Antitrust Division of the Department of Justice and the Federal Trade Commission and the HSR waiting period requirements have been satisfied./7/

36. The following appendices, which are attached to this Joint Petition, are incorporated herein and made a part hereof.

a. Appendix A - Certified Copy of CEI's Certificate of Incorporation

b. Appendix B - Certified Copy of Merger Corporation's Certificate of Incorporation

c. Appendix C- Agreement and Plan of Merger

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/7/ Per the Merger Agreement, application will also be made to the New Jersey Department of Environmental Protection in accordance with the New Jersey Industrial Site Recovery Act.

d. Appendix D - Statement of Financial Condition of Con Edison as of December 31, 1997

e. Appendix E - Statement of Financial Condition of Orange and Rockland as of December 31, 1997

f. Appendix F - Conforming Changes to Affiliate Rules and Standards of Conduct

g. Appendix G - Conformed Cost Allocation Methodology and Accounting Procedure

h. Appendix H - Quantification and Allocation of Synergy Savings

i. Appendix I - Benefit Disposition and Methodology

G. EFFECT ON THE SETTLEMENT AGREEMENT AND RESTRUCTURING PLAN

37. Except for the conforming modifications described in Appendices F and G, and the disposition of synergy benefits proposed herein, the Merger will have no effect on the provisions of the Con Edison Settlement Agreement and the Orange and Rockland Restructuring Plan, including the provisions relating to rate reductions, retail access programs and divestiture of generating facilities./8/

38. Petitioners respectfully request that the Merger described herein be considered and approved on an expeditious basis. Accordingly, Petitioners propose that the Commission adopt a procedural schedule for the processing of this Joint Petition with the objective of obtaining a final Commission decision hereon in as

expeditious a manner as possible but in no event later than nine months from the date of this Joint Petition.

H. OTHER MATTERS

39. Each Petitioner respectfully reserves the right to withdraw this Joint Petition at any time prior to a final Commission decision, and further reserves the right to decide not to consummate the transactions described herein, to the extent either of them is permitted to do so pursuant to the terms of the Merger Agreement. Petitioners waive no rights under their respective settlement agreements and particularly waive no rights respecting the duration, scope and terms of rate and rate-related provisions contained therein.

I. CORRESPONDENCE AND COMMUNICATIONS

40. All communications and correspondence with respect to this Joint Petition should be addressed to the following:

Chanoch Lubling, Esq.
Associate General Counsel
Consolidated Edison Company of New York, Inc.
4 Irving Place, New York, New York 10003

G. D. Caliendo, Esq.
Senior Vice President and General Counsel
Orange and Rockland Utilities, Inc.
One Blue Hill Plaza, Pearl River, New York 10965

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/8/ The Merger Agreement expressly requires Orange and Rockland to use its best efforts to enter into a contract to divest its generation assets by May 1, 1999, and to consummate the sale as soon as practicable after executing such agreement.

J CONCLUSION AND REQUEST FOR RELIEF

41. For all of the foregoing reasons, Petitioners believe that their proposed business combination is in the public interest, fully consistent with relevant statutory and regulatory standards, and should be approved. Accordingly, Petitioners request for an order: (1) authorizing Petitioners under Section 70 of the Public Service Law to consummate the transactions as set forth in the Merger Agreement, as described and subject to the conditions proposed herein; (2) approving a certificate of merger under Section 108 of the Public Service Law; (3) approving the conforming amendments to the Con Edison Settlement Agreement and to the Orange and Rockland Restructuring Plan described in Appendix F; (4) approving the Proposed Cost Allocation Methodology and Accounting Procedure attached hereto as Appendix G; (5) approving the accounting and rate treatment of the synergy savings as set forth herein; and (6) granting Petitioners such other and further relief to which Petitioners may be entitled.

Dated: New York, New York
June 22, 1998

Respectfully submitted,

Consolidated Edison, Inc.
4 Irving Place
New York, New York 10003

Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, New York 10003
Tel: 212-460-6330

By:__________________________
John D. McMahon
Their Attorney

Orange and Rockland Utilities, Inc.
One Blue Hill Plaza
Pearl River, New York 10965
Tel: 914-577-2424

By__________________________
G. D. Caliendo
Its Attorney

VERIFICATION

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

Joan S. Freilich, being duly sworn, deposes and says: I am Executive Vice President and Chief Financial Officer of Consolidated Edison, Inc. and Consolidated Edison Company of New York, Inc., petitioners in the within matter. I have read the attached Petition, and the same is true to the best of my knowledge, information and belief.

____

Joan S. Freilich

Sworn to and subscribed
before me this ____ day
of June, 1998

VERIFICATION

STATE OF NEW YORK)
) ss.:
COUNTY OF ROCKLAND)

R. LEE HANEY, being duly sworn, deposes and says: I am Senior vice President and Chief Financial Officer of both Rockland Electric Company, petitioner in the within matter, and its corporate parent Orange and Rockland Utilities, Inc. I have read the attached Petition, and the same is true to the best of my knowledge, information and belief.

____
R. Lee Haney

Sworn to and subscribed
before me this ____ day
of June, 1998

CONFORMING MODIFICATIONS TO CORPORATE STRUCTURE AND RELATED PROVISIONS OF CON EDISON SETTLEMENT AGREEMENT AND ORANGE AND ROCKLAND RESTRUCTURING PLAN

Except as otherwise discussed herein, the corporate structure section of the Con Edison Settlement Agreement (Article V and Appendix J) and the corporate structure and affiliate rules sections of the Orange and Rockland Restructuring Plan (Article IV.A - C and Appendices E, H and I) continue unchanged. The changes set forth below are conforming in nature and do not change the substance of the settlement agreements.

These modifications will take effect when approved by the Commission.

CON EDISON SETTLEMENT AGREEMENT

FORMATION OF HOLDING COMPANY

Section V.1.(iv) - Defining "Subsidiary" and "Affiliate" As described in the Joint Petition, Orange and Rockland will become a direct subsidiary of CEI. The subsidiaries of Orange and Rockland will therefore become indirect subsidiaries of CEI and affiliates of CEI's other subsidiaries, including Con Edison and CEI's existing unregulated subsidiaries.

Section V.1(iv) of the Con Edison Settlement Agreement states that "subsidiaries other than Con Edison are referred to collectively as `the unregulated subsidiaries' or `unregulated affiliates.'" CEI will now have more than one regulated subsidiary, and this provision will therefore be conformed to reflect the fact that the terms "subsidiary" and "affiliate" will include both regulated and unregulated subsidiaries and affiliates. Any provision intended to apply only to either regulated or unregulated subsidiaries and affiliates will be amended, where necessary, to make such limitation clear.

Affiliate Relations - In General

Section V.4(i) - Separate Building This provision provides that "[n]o unregulated affiliate may be located in the same building as Con Edison beyond 180 days after its formation. Con Edison and CEI may occupy the same building." This provision will be conformed to make it clear that Con Edison and Orange and Rockland may be located in the same building, subject to the provisions of the merger agreement.

Transfer of Assets

Section V.5(i)- Transfers Between Regulated Affiliates This provision will be amended to recognize that transfers of assets between the Con Edison and Orange and Rockland will not require the Commission's approval under Section 70 of the Public Service Law.

Section V.5(ii) - Transfers Between Regulated Affiliates This provision will be amended to permit transfers of assets between regulated affiliates at net book value.

Personnel

Section V.6(i) - Separate Operating Employees This provision will be amended to expressly permit Con Edison and Orange and Rockland to share operating employees. Accounting will be in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.6(iii) - Officers This provision provides that "[o]fficers of CEI may be officers of Con Edison." This provision will be amended by adding the words "and Orange and Rockland, Rockland Electric Company and Pike County Light & Power Company" to the quoted language.

Sections V.6(iv) and (v) - Employee Transfers These provisions will be amended to expressly permit the transfer of employees between Con Edison and Orange and Rockland and to recognize that the service limitation and compensation applicable to transfers with unregulated affiliates will not be applicable to the utility transfers.

Sections V.6(viii) - Common Benefit Plans This provision permits employees of CEI, Con Edison and CEI's unregulated subsidiaries to participate in common pension and benefit plans. This provision will be amended to also permit employees of Orange and Rockland and other regulated affiliates to participate in such plans.

Provision of Services and Goods

Section V.7(i) - Corporate Services This provision will be amended to permit Con Edison to provide corporate services to Orange and Rockland. Such services will be provided by Con Edison in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(ii) - Other Services This provision will be amended to permit Con Edison to provide services other than corporate services to Orange and Rockland and to provide such services at fully-loaded cost, except as otherwise required under PSL sec. 110. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(iii) - Services Purchased From Affiliates This section will be amended to recognize that CEI and Con Edison may purchase services from regulated affiliates, including Orange and Rockland. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(iv) - Common Insurance This provision will be amended to permit CEI and all of its subsidiaries to be covered by common property/casualty and other business insurance policies.

Orange and Rockland Restructuring Plan

The affiliate rules applicable to Orange and Rockland are included in Article IV and Appendices H and I of the Orange and Rockland Restructuring Plan.

Corporate Structure

Section IV.A - Holding Company This section will be amended to conform to the merger agreement, pursuant to which Orange and Rockland will not form a registered holding company but instead will become a subsidiary of CEI.

This section will also be amended to recognize that to effectuate the mechanics of the merger, Orange and Rockland will transfer ownership of its common equity to CEI.

Appendix H - Standards of Competitive Conduct - A statement will be added to this appendix to make clear that the use of the term "Holding Company" refers to CEI rather than to the registered holding company that Orange and Rockland had intended to form.

Appendix I - Transfer of Assets

Sections 2(a) and (b) - Transfer of Assets These sections will be conformed to the changes indicated for Sections V.5(i) and (ii) of the Con Edison agreement, described, supra.

Appendix I - Personnel

Sections 3(a),(c) and (d) - Separate Operating Employees and Employee Transfers These sections will be conformed to the changes indicated for Sections V.6(i), 6(iv) and 6(v) of the Con Edison agreement, described, supra.

Sections 3(f) - Compensation This provision, which permits the stock of the Holding company to be used as an element of compensation of common officers of the Holding company and the Delivery company, will be conformed to substitute CEI for the Holding company.

Sections 3(g) - Common Benefit Plans This provision permits employees of the registered holding company that Orange and Rockland had intended to form, Orange and Rockland and its unregulated subsidiaries to participate in common pension and benefit plans. This provision will be amended to eliminate the reference to the to-be-formed holding company and also permit employees of Orange and Rockland and its affiliates to participate in common pension and benefit plans with CEI and its other subsidiaries consistent with the change indicated for Section V.6(viii) of the Con Edison agreement, described, supra.

Appendix I - Provision of Services and Goods

Section 4(a) - Corporate Services This provision was written with the expectation that Orange and Rockland would form a registered holding company with a service company that would provide services to a "Delivery Company" (i.e., Orange and Rockland) and unregulated subsidiaries. This provision will be conformed to reflect the merger.

Section 4(b) - Other Services This provision will be amended to recognize that Orange and Rockland may provide non-corporate services to Con Edison and to provide such services at fully-loaded cost, except as otherwise required under PSL sec. 110. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section 4(d) - Common Insurance This provision would be conformed to permit CEI and all of its subsidiaries to be covered by common property/casualty and other business insurance policies consistent with the change indicated for Section V.7(iv) of the Con Edison agreement described, supra.

* * * *

Development of a single set of procedures is indicated, and the Petitioners are willing to discuss such a step if other parties also believe such a step to be feasible.

CONFORMING MODIFICATIONS TO AFFILIATE TRANSACTIONS ACCOUNTING PROCEDURES OF CON EDISON SETTLEMENT AGREEMENT AND ORANGE AND ROCKLAND RESTRUCTURING PLAN

Except as otherwise discussed herein, the accounting appendices to the Con Edison Settlement Agreement (Appendix I) and the Orange and Rockland Restructuring Plan (Appendix J) would continue unchanged./1/ The changes set forth below are conforming in nature and do not change the substance of the settlement agreements.

Modifications to Appendix I To Con Edison Settlement Agreement

Section 3.1 - Background This provision will be amended to (1) recognize Orange and Rockland and its subsidiaries as direct and indirect subsidiaries of CEI and as affiliates of Con Edison and CEI's other unregulated subsidiaries and (2) make this accounting procedure also applicable to Orange and Rockland.

Section 3.2(a) - Transfer of Assets This section will be amended to conform to the change to Section V.5(i) of the settlement, which establishes that transfers of assets between regulated affiliates will be made at net book cost.

Section 3.3(a) - Provision of Goods and Services This section will be amended to conform to the changes to Sections V.7(i) and (ii) of the settlement, which permit Con Edison to provide corporate and other services to Orange and Rockland. This section will also recognize that the provision of electric energy or gas to Orange and Rockland shall be governed by PSL sec. 110, subject to any applicable FERC requirements, and that Con Edison will charge Orange and Rockland the same rates for Con Edison's tariff services as Con Edison charges all similarly-situated customers.

Section 3.3(d) - Provision of Goods and Services This section will be amended to conform to the change to Section V.7(iii), which recognizes that Con Edison may purchase goods and services from Orange and Rockland and that the pricing of such services shall be in accordance with the accounting guidelines set forth in the Orange and Rockland Restructuring Plan.

/1/ The cost allocation guidelines in Appendix J to the Plan were in draft form. Orange and Rockland committed to "file with the Director of the Office of Accounting and Finance of the Department of Public Service all amendments and supplements to the guidelines, thirty days prior to making such change(s)" and the Plan provided that such changes would be considered in either the unbundling phase of the proceeding or as part of the application to form a holding company (Appendix I, section 1(b)). In light of the proposed merger, Orange and Rockland proposes that these changes be considered as part of the Joint Petition and will submit a copy of this Appendix G to the Director in satisfaction of the aforementioned filing requirement.

Section 3.4(a)(1) - Direct Cost Allocations This section will be amended to conform to the change to Section V.7(ii), which provides that other (non-corporate) services provided by Con Edison to Orange and Rockland will be provided on a fully-loaded cost basis.

Sections 3.4(c)(2) and (3) - Proportional and Other Allocations These sections will be amended to conform to the changes to Sections V.6(viii) and 7(iv), which permit (1) Orange and Rockland employees to participate in common pension and benefit plans and (2) CEI and all affiliates to be covered by common property/casualty and other business insurance policies, respectively.

Modifications to Appendix J to Orange and Rockland Restructuring Plan

Section 3.1 - Background This provision will be amended to (1) recognize Orange and Rockland and its subsidiaries as direct and indirect subsidiaries of CEI and as affiliates of Con Edison and CEI's other unregulated subsidiaries and (2) make this accounting procedure also applicable to Con Edison.

Section 3.2 - Transfers of Assets and Employees A section will be added to Appendix J to provide accounting guidelines for transfers of assets and employees, consistent with the rules set forth in sections 2 and 3 of Appendix I.

Section 3.3(c) - Provision of Goods and Services This section will be amended to conform to the changes to Sections V.7(i) and (ii) of the Con Edison Settlement Agreement, which permits Con Edison to provide corporate and other services to Orange and Rockland at fully-loaded cost, recognizing that Con Edison's provision of electric energy or gas to Orange and Rockland shall be governed by PSL sec. 110, subject to any applicable FERC requirements, and that Orange and Rockland will pay the same rates for Con Edison's tariff services as all similarly-situated customers.

Sections 3.4(c)(2)/2/ and Exhibit A, Section (4) - Cost Causative Allocations - These sections will be amended to clarify the bases for allocating costs by deleting, for example, references to consolidated assets.

Sections 3.4(c)(2)/3/ and (3) - Proportional and Other Allocations These sections will be amended to conform to the changes to Sections 3(g) and 4(d) of the Orange and Rockland Restructuring Plan, which permit (1) employees of CEI, Con Edison, Orange and Rockland and their affiliates to participate in common pension and benefit plans and (2) CEI and all affiliates to be covered by common property/casualty and other business insurance policies, respectively.

/2/ Note: there are two provisions numbered "(c)2." The proposed change relates to the second one.

/3/ Note: there are two provisions numbered "(c)2." This proposed change relates to the second one.

* * * *

Development of a single set of procedures is indicated, and the Petitioners are willing to discuss such a step if other parties also believe such a step to be feasible.

APPENDIX H

QUANTIFICATION AND ALLOCATION OF SYNERGY SAVINGS
(THOUSANDS OF DOLLARS)

	RY 3-00*	RY 3-01	RY 3-02	RY 3-03	RY 3-04	RY 3-05	RY 3-06	RY 3-07	RY 3-08	RY 3-09
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	$19,991	$39,315	$45,195	$47,141	$49,163	$51,226	$53,357	$55,569	$57,865	$60,249
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(5,928)	(7,905)	(7,905)	(7,905)	(7,905)	(1,976)	-	-	-	-
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	14,063	31,410	37,290	39,237	41,258	49,250	53,357	55,569	57,865	60,249
DISPOSITION OF SAVINGS										
O&R CUSTOMER BENEFIT***	922	922	3,049	3,496	3,965	5,579	6,449	6,964	7,502	8,067
CON ED CUSTOMER BENEFIT***	7,409	13,484	15,597	16,122	16,664	19,046	20,229	20,821	21,430	22,058
TOTAL CUSTOMER BENEFIT	8,331	14,406	18,645	19,618	20,629	24,625	26,678	27,784	28,933	30,125
CEI SHAREHOLDER BENEFIT	5,732	17,004	18,645	19,618	20,629	24,625	26,678	27,784	28,933	30,125
TOTAL DISPOSITION	$14,063	$31,410	$37,290	$39,237	$41,258	$49,250	$53,357	$55,569	$57,865	$60,249

	Total	
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	$479,072	
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(39,523)	
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	439,549**	
DISPOSITION OF SAVINGS		
O&R CUSTOMER BENEFIT***	46,914	21%
CON ED CUSTOMER BENEFIT***	172,860	79%
TOTAL CUSTOMER BENEFIT	219,774	100%
CEI SHAREHOLDER BENEFIT	219,774	
TOTAL DISPOSITION	$439,549	

* Synergies begin July 1, 1999 and RY 3-00 includes 9 months of savings.

** Total savings of $467,576 inclusive of Orange and Rockland's out-of-state utility operations.

*** Total customer savings, inclusive of gross receipts taxes, amount to $50,445 for Orange and Rockland customers and $185,871 for Con Edison customers.

APPENDIX I

Benefit Disposition and Methodology

I. Framework:

i) Amortize actual costs to achieve and transaction costs over five-year period ending June 2004.

ii) Allocate to customers one-half estimated synergies, net of transaction costs and costs to achieve, through March 31, 2002. Disposition thereof is per this appendix.

iii) For post March 2002 period, apply merger savings retention procedure (below, sec. IV) as part of next general rate case for each service indicated.

II. Application to Orange and Rockland

Electric Operations

The following amounts will be accrued for electric ratepayer benefit on the books of Orange and Rockland and used to offset other deferred debits accrued under the Orange and Rockland Restructuring Plan:

12 months ending March 31, 2000: -	$ 694,000
12 months ending March 31, 2001: -	$ 694,000
12 months ending March 31, 2002: -	$2,296,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: -	$1,716,000
12 months ending March 31, 2001: -	$2,288,000
12 months ending March 31, 2002: -	$2,288,000

Gas Operations

The estimated share of benefits that will be applied to Orange and Rockland gas customers is:

12 months ending March 31, 2000: - $227,000
12 months ending March 31, 2001: - $227,000
12 months ending March 31, 2002: - $752,000

In the absence of a settlement agreement in effect, specific prospective application of such estimated savings benefit would be addressed in Orange and Rockland's next gas rate case.

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $562,000
12 months ending March 31, 2001 - $750,000
12 months ending March 31, 2002: - $750,000

Post March 31, 2002:

Subject to the merger savings retention prescribed below (sec. IV), Orange and Rockland's electric and gas customers will realize merger savings under the revenue requirement set forth in Orange and Rockland's next general rate cases.

III. Application to Con Edison

Electric Operations

The following amounts will be accrued for ratepayer benefit on the books of Con Edison and used to benefit electric customers under the Con Edison Settlement Agreement:

12 months ending March 31, 2000: - $ 6,001,000
12 months ending March 31, 2001: - $10,922,000
12 months ending March 31, 2002: - $12,633,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $ 2,956,000
12 months ending March 31, 2001: - $ 3,942,000
12 months ending March 31, 2002: - $ 3,942,000

Gas Operations

The estimated share of benefits applicable to Con Edison gas customers is:

12 months ending March 31, 2000: - $ 1,111,000
12 months ending March 31, 2001: - $ 2,023,000
12 months ending March 31, 2002: - $ 2,339,000

These amounts will be credited to gas customers through the gas adjustment in the period indicated.

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $547,000
12 months ending March 31, 2001: - $730,000
12 months ending March 31, 2002: - $730,000

Steam Operations

The following amounts will be accrued for steam ratepayers benefit on the books of Con Edison and used to benefit customers:

12 months ending March 31, 2000: - $296,000
12 months ending March 31, 2001: - $539,000
12 months ending March 31, 2002: - $624,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $146,000
12 months ending March 31, 2001: - $195,000
12 months ending March 31, 2002: - $195,000

Post March 31, 2002:

Subject to the merger savings retention prescribed below (sec. IV), Con Edison electric, gas and steam customers will realize merger savings under the revenue requirement set forth in Con Edison's next general rate case for each service.

IV. Merger Savings Retention Procedure

The 50% shareholder retention in RY 3-03 through RY 3-09 will be based on actual achieved synergy savings. The respective utilities' cost of service will reflect the full realized synergy savings, offset by an entry to reflect the one-half sharing with the shareholder calculated in the manner herein set forth. The calculation compares the actual (reduced by synergy savings) cost of the affected areas to a target (i.e, projection of costs in the absence of Merger), crediting 50% of the difference to the shareholder up to a maximum annual amount. The target will be the actual 1998 costs of the affected areas shown on the attached, escalated by the CPI and reduced for non-synergy productivity of 2% annually. The shareholder benefit will be contingent on actual costs being below targeted levels, ensuring customer benefit. The maximum annual shareholder benefit will be 150% of the estimated savings for customers set forth in Appendix H. Under the methodology, the investor share can exceed estimated investor benefit only when customers' benefits are also in excess of the estimate.

The calculation of shareholder benefit will be done on a total company basis and allocated proportionately among services. Disposition of savings after RY 3-09 will be determined at that time.

CENTRAL FUNCTIONS AFFECTED BY SYNERGIES

Accounting (including public accounts)
Tax
Treasurer/Shareholders Services
Rate Engineering/Compliance

Auditing

Business Development

Office of CEO

Public Affairs

Employee Relations
Environmental, Health & Safety
Purchasing
Information Resources
R&D (including EPRI & GRI dues)

Legal

Corporate and Fiscal Expenses

Associations & Dues

Note: The target for the cost centers shown above for either company will be the actual costs recorded for the year 1998, adjusted to reflect generation divestiture and normalized for major organizational changes or extraordinary expenses or credits that may occur. The resulting target will be increased by the annual CPI and reduced by non-synergy productivity of 2% annually.

APPENDIX A

CONSOLIDATED EDISON, INC.

CERTIFICATE

I, ARCHIE M. BANKSTON, Secretary of CONSOLIDATED EDISON, INC. (the "Company"), do hereby certify that:

(a) The Restate Certificate of Incorporation was filed by the New York Department of State on December 8, 1997, and there have been no amendments to the Certificate of Incorporation.

(b) Attached hereto as Exhibit A is a true and correct copy of the Restated Certificate of Incorporation.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 15th day of June, 1998.

/s/ Archie M. Bankston

Archie M. Bankston
Secretary

SEAL

[CONFORMED COPY]

RESTATED CERTIFICATE OF INCORPORATION

OF

CONSOLIDATED EDISON, INC.

UNDER SECTION 807 OF THE BUSINESS CORPORATION LAW

STATE OF NEW YORK
DEPARTMENT OF STATE
FILED DEC. 8, 1997

Filing Fee - $60
Tax - $28,000

PETER A. IRWIN, ESQ.
4 IRVING PLACE
NEW YORK, NEW YORK 10003

RESTATED CERTIFICATE OF INCORPORATION
OF
CONSOLIDATED EDISON, INC.
under
Section 807 of the Business Corporation Law

The undersigned, being the Senior Vice President and Chief Financial Officer and the Senior Vice President, General Counsel and Secretary of Consolidated Edison, Inc., a New York corporation, DO HEREBY CERTIFY as follows:

1. The name of the corporation is Consolidated Edison, Inc.

2. The certificate of incorporation of the corporation was filed by the Department of State of the State of New York on September 3, 1997.

3. This restated certificate of incorporation was authorized by the board of directors of the corporation by unanimous written consent, dated December 5, 1997, followed by the unanimous written consent of the shareholder of the corporation, dated December 5, 1997.

4. The certificate of incorporation of the corporation is hereby amended, as authorized by the Business Corporation Law of the State of New York, to (i) increase the authorized number of Common Shares from 100 to 500,000,000; (ii) authorize the issuance of 6,000,000 Preferred Shares of the par value of $1.00 per share; and (iii) provide for the limitation of liability and indemnification of directors or officers, a maximum number of directors, removal of directors, only for cause, amendment of the by-laws by the board of directors, shareholders not to have any preemptive rights and the required approval for certain transactions. The text of the certificate of incorporation of the corporation is hereby restated as so amended to read as follows:

   FIRST. The name of the corporation is Consolidated Edison, Inc. (the "Company").

   SECOND. The purpose for which the Company is formed is to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Law of the State of New York; provided, however, that the Company is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency, or other body without such consent or approval first being obtained.

   THIRD. The office of the Company in the State of New York is to be located in the County of New York, State of New York.

FOURTH. Authorized Shares.

1. The aggregate number of shares which the Company shall have authority to issue is 506,000,000 of which 6,000,000 shares of the par value of $1.00 per share shall be designated "Preferred Shares" and 500,000,000 shares of the par value of $.10 per share shall be designated "Common Shares".

2. Authority is hereby expressly granted to the Board of Directors of this Company from time to time to issue the Preferred Shares as Preferred Shares of any series and, in connection with the creation of each such series, to fix by resolution or resolutions providing for the issuance thereof the number of shares of such series, and the designations, relative rights, preferences, and limitations of such series, including provisions for sharing dividends and other distributions of assets with other series of Preferred Shares in the event that dividends and amounts payable on liquidation are not paid in full, to the full extent now or hereafter permitted by the law of the State of New York, except that that holders of Preferred Shares shall not be entitled to more than one vote for each share of Preferred Shares held. The Preferred Shares shall have no voting rights except as fixed by the Board of Directors pursuant to this paragraph and as otherwise required by applicable law.

FIFTH. THE Secretary of State of the State of New York is hereby designated as the agent of the Company upon whom process against it may be served, and the post office address to which the Secretary of State shall mail a copy of any process against the Company which may be served upon him or her is: Consolidated Edison, Inc., 4 Irving Place, New York, New York 10003; Attention: Corporate Secretary.

SIXTH. Except to the extent limitation of liability or indemnification is not permitted by applicable law: (i) a Director or officer of the Company shall not be liable to the Company or any of its shareholders for damages for any breach of duty in such capacity, and (ii) the company shall fully indemnify any person made, or threatened to be made, a party to an action or proceeding, whether civil or criminal, including an investigative, administrative or legislative proceeding, and including an action by or in the right of the company or any other corporation of any type or kind, domestic or foreign, or any partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise ("Other Enterprise"), by reason of the fact that the person, or the testator or intestate of the person, is or was a Director or officer of the Company, or is or was serving at the request of the Company any Other Enterprise as a director, officer or in any other capacity, against any and all damages incurred as a result of or in connection with such action or proceeding or any appeal thereof, and, except in the case of an action or proceeding specifically approved by the Board of Directors of the Company, the Company shall pay expenses incurred by or on behalf of such person in defending such action or proceeding or any appeal thereof in advance of the final disposition thereof promptly upon receipt by the Company, from time to time, of a written demand of the person for the advancement, together with an undertaking by or on behalf of the person to repay any expenses so advanced to the extent that the person is ultimately found not to be entitled to indemnification for the expenses. For purposes of this Article Sixth, "damages" shall mean judgments, fines, amounts paid in settlement, penalties, punitive damages, excise or other taxes assessed with respect to an employee benefit plan and reasonable expenses, including attorneys' fees and disbursements actually and necessarily incurred. This Article Sixth shall be deemed to constitute contractual obligations of the Company, subject to any amendment of this Certificate of Incorporation, and shall not limit or exclude, but shall be in addition to, any other rights which may be granted by or pursuant to any statute, certificate of incorporation, by-law, resolution or agreement. Any repeal or modification of this Article Sixth shall not adversely affect any limitation of liability or right, Indemnity, immunity or protection of a Director or officer of the Company or other person existing hereunder with respect to any act or omission occurring prior to the repeal or modification. The Company may, if authorized by the Board of Directors, enter modification. The Company may, if authorized by the Board of Directors, enter into an agreement with any person who is, or is about to become, a Director or officer of the Company, or who is serving, or is about to serve, at the request of the Company, any Other Enterprise as a director, officer or in any other capacity, which agreement may provide for indemnification of the person and advancement of defense expenses to the person upon such terms, and to the extent, as may be permitted by law. It is the intent of this Article Sixth to require the Company to indemnify the persons referred to herein for the aforementioned damages, in each and every circumstance in which such indemnification could lawfully be permitted by an express provision of this Certificate of Incorporation, and the indemnification required by this Article Sixth shall not be limited by the absence of an express recital of the circumstances.

SEVENTH. The number of Directors of the Company shall be not more than 16, the exact number of the Directors to be determined from time to time solely by the affirmative vote of a majority of the total number of Directors the Company would have if there were no vacancies in the Board of Directors. A Director may be removed from office only for cause, except that any Director elected by a series of Preferred Shares may be removed upon such terms as may be fixed by the Board of Directors in connection with the creation of the series of Preferred Shares pursuant to Article Fourth hereof.

EIGHTH. The By-laws of the Company may be adopted, amended or repealed by the affirmative vote of a majority of the Directors then in office.

NINTH. No holder of shares or the Company of any class shall have any preemptive right to purchase or subscribe for any part of the shares of the Company or of any shares of the Company to be issued by reason of any increase of the authorized shares of the Company, or to purchase or subscribe for any bonds, certificates of indebtedness, debentures or other securities convertible into or carrying rights, options or warrants to purchase shares of the

Company or to purchase or subscribe for any shares of the Company purchased by or on behalf of the Company, or to have any preemptive rights as now or hereafter defined by applicable law.

TENTH. Except as otherwise required by applicable law, the approval of the Board of Directors followed by the affirmative vote of a majority of all outstanding shares of the Company entitled to vote thereon shall be required for (i) a merger or consolidation to which the Company is a party, other than a merger between the Company and a subsidiary of the Company for which authorization by the shareholders of the Company is not required by applicable law; (ii) the sale, lease, exchange or other disposition of all or substantially all the assets of the Company; or (iii) a binding share exchange to which the Company is a party.

IN WITNESS WHEREOF, we have made, signed, and subscribed this restated certificate of incorporation this 5/th/ day of December 1997 and affirm that the statements contained herein are true under the penalties of perjury.

/s/ Joan S. Freilich

Joan S. Freilich
Senior Vice President and
Chief Financial Officer

/s/ Peter J. O'Shea Jr.

Peter J. O'Shea, Jr.
Senior Vice President,
General Counsel and Secretary

APPENDIX B

C Acquisition Corp.

CERTIFICATE

I, PETER A. IRWIN, Secretary of C ACQUISITION CORP. (the "Company"), do hereby certify that:

(a) The Certificate of Incorporation was filed by the New York Department of State on February 25, 1998, and there have been no amendments to the Certificate of Incorporation.

(b) Attached hereto as Exhibit A is a true and correct copy of the Certificate of Incorporation.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of the Company this 15th day of June, 1998.

/s/ Peter A. Irwin

Peter A. Irwin
Secretary

SEAL

CERTIFICATE OF INCORPORATION

OF

C ACQUISITION CORP.

under
Section 402 of the Business Corporation Law

I, Paul H. Zumbro, being a natural person over the age of 18 years, for the purpose of forming a corporation pursuant to Section 402 of the Business Corporation Law of the State of New York (the "Business Corporation Law of the State of New York (the "Business Corporation Law"), do hereby certify as follows:

ARTICLE FIRST

The name of the corporation (the "Corporation") is C Acquisition Corp.

ARTICLE SECOND

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Business Corporation Law; *provided*, *however*, that the Corporation is not formed to engage in any act or activity requiring the consent or approval of any state official, department, board, agency or other body without such consent or approval first being obtained.

ARTICLE THIRD

The office of the Corporation in the State of New York is to be located in the County of New York, State of New York.

ARTICLE FOURTH

The aggregate number of shares which the Corporation shall have authority to issue shall be 1,000 shares of Common Stock, par value $.01 per share.

ARTICLE FIFTH

The Secretary of State of the State of New York is designated as agent of the Corporation upon whom process against the Corporation may be served. The post office address to which the Secretary of State shall mail a copy of any process against the Corporation served upon him is: CT Corporation System, 1633 Broadway, New York, New York 10019.

ARTICLE SIXTH

The Corporation's registered agent shall be CT Corporation System (the "Registered Agent"). The Registered Agent's address is: 1633 Broadway, New York, New York 10019. The Registered Agent is the agent of the Corporation upon whom process against it may be served.

ARTICLE SEVENTH

Pursuant to Section 402(b) of the Business Corporation law, the personal liability of the Corporation's directors to the Corporation or its shareholders for damages for any breach of duty in such capacity shall be eliminated to the fullest extent permitted by the Business Corporation Law, as such exists on the date hereof or as such may hereafter be amended. No amendment to or repeal of this ARTICLE SEVENTH shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

IN WITNESS WHEREOF, I have executed this Certificate of Incorporation this 25th day of February, 1998.

/s/ Paul H. Zumbro

Paul H. Zumbro
Sole Incorporator

Mailing Address:
Cravath, Swaine & Moore
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019

ACKNOWLEDGMENT

STATE OF NEW YORK,)
) ss.:
COUNTY OF NEW YORK,)

On this 25th day of February, 1998, personally came before me Paul H. Zumbro, a person known to me to be the person who executed the foregoing Certificate of Incorporation, and he acknowledged that he signed said Certificate of Incorporation and acknowledged the same as his free act and deed.

Given under my hand and seal the day and year first above written.

/s/ Louise Mello

Notary Public

[NOTARY STAMP APPEARS HERE]

APPENDIX C

APPENDIX D

SCHEDULE A

STATEMENT OF FINANCIAL CONDITION

AS OF DECEMBER 31, 1997

(a)
CONSOLIDATED BALANCE SHEET CONSOLIDATED EDISON, INC.

ASSETS

At December 31 (thousands of Dollars)	1997	1996
Utility plant, at original cost (Note A)		
Electric	$ 11,743,745	$ 11,588,344
Gas	1,741,562	1,642,231
Steam	576,206	536,672
General	1,203,427	1,152,001
Total	15,264,940	14,919,248
Less: Accumulated depreciation	4,392,377	4,285,732
Net	10,872,563	10,633,516
Construction work in progress	292,218	332,333
Nuclear fuel assemblies and components, less accumulated amortization	102,321	101,461
Net utility plant	11,267,102	11,067,310
Current assets		
Cash and temporary cash investments (Note A)	183,458	106,882
Funds held for refunding of debt	328,874	-
Accounts receivable - customer, less allowance for uncollectible accounts of $21,600 in 1997 and 1996	581,163	544,004
Other receivables	60,759	42,056
Regulatory accounts receivable (Note A)	(1,682)	45,397
Fuel, at average cost	53,697	64,709
Gas in storage, at average cost	37,209	44,979
Materials and supplies, at average cost	191,759	204,801
Prepayments	75,516	64,492
Other current assets	16,457	15,167
Total current assets	1,527,210	1,132,487
Investments and nonutility property (note A)	292,397	177,224
Deferred charges (Note A)		
Enlightened Energy program costs	117,807	133,718
Unamortized debt expense	126,085	130,786
Recoverable fuel costs (Note A)	98,301	101,462
Power contract termination costs	80,978	58,835
Other deferred charges	239,559	271,081
Total deferred charges	662,730	695,882
Regulatory asset - future federal income taxes (Notes A and I)	973,079	984,282
Total	$ 14,722,518	$ 14,057,185

CAPITALIZATION AND LIABILITIES
At December 31 (Thousands of Dollars)

	1997	1996
Capitalization (see Consolidated Statement of Capitalization)		
Common shareholders' equity	$ 5,930,079	$ 5,727,568
Preferred stock subject to mandatory redemption (Note B)	84,550	84,550
Other preferred stock (Note B)	233,468	238,098
Long-term debt	4,188,906	4,238,622
Total capitalization	10,437,003	10,288,838
Noncurrent liabilities		
Obligations under capital leases	39,879	42,661
Other noncurrent liabilities	106,137	80,499
Total noncurrent liabilities	146,016	123,160
Current liabilities		
Long-term debt due within one year (Note B)	529,385	106,256
Accounts payable	440,114	431,115
Customer deposits	161,731	159,616
Accrued taxes	65,736	27,342
Accrued interest	85,613	83,090
Accrued wages	82,556	80,225
Other current liabilities	183,122	147,968
Total current liabilities	1,548,257	1,035,612
Provisions related to future federal income taxes and other deferred credits (Notes A and I)		
Accumulated deferred federal income tax	2,307,835	2,289,092
Accumulated deferred investment tax credits	163,680	172,510
Other deferred credits	119,727	147,973
Total deferred credits	2,591,242	2,609,575
Contingencies (Note F)		
Total	$ 14,722,518	$ 14,057,185

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT CONSOLIDATED EDISON, INC.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Operating revenues (Note A)			
Electric	$5,635,575	$5,541,117	$5,389,408
Gas	1,093,880	1,015,070	813,356
Steam	391,799	403,549	334,133
Total operating revenues	7,121,254	6,959,736	6,536,897
Operating expenses			
Purchased power	1,349,421	1,272,854	1,107,223
Fuel	596,824	573,275	504,104
Gas purchased for resale	479,218	418,271	259,789
Other operations	1,108,845	1,163,159	1,139,732
Maintenance	474,788	450,815	512,102
Depreciation and amortization (Note A)	502,779	496,412	455,776
Taxes, other than federal income tax	1,181,081	1,166,199	1,120,232
Federal income tax (Notes A and I)	382,910	397,160	396,560
Total operating expenses	6,075,866	5,946,145	5,495,518
Operating income	1,045,388	1,013,591	1,041,379
Other income (deductions)			
Investment income (Note A)	11,554	8,327	16,966
Allowance for equity funds used during construction (Note A)	4,448	3,468	3,763
Other income less miscellaneous deductions	(18,696)	(8,749)	(8,149)
Federal income tax (Notes A and I)	3,190	970	(1,060)
Total other income	496	4,016	11,520
Income before interest charges	1,045,884	1,017,607	1,052,899
Interest on long-term debt	318,158	307,820	301,917
Other interest	17,083	17,331	28,954
Allowance for borrowed funds used during construction (Note A)	(2,180)	(1,629)	(1,822)
Net interest charges	333,061	323,522	329,049
Net income	712,823	694,085	723,850
Preferred stock dividend requirements	(18,344)	(19,859)	(35,565)
Gain on refunding of preferred stock (Note B)	-	13,943	-
Net income for common stock	$ 694,479	$ 688,169	$ 688,285
Basic and diluted earnings per common share	$ 2.95	$ 2.93	$ 2.93
Average number of shares outstanding during each year (235,082,063; 234,976,697 and 234,930,301)			

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS CONSOLIDATED EDISON, INC.

Year Ended December 31 (thousands of Dollars)	1997	1996	1995
Operating activities			
Net income	$ 712,823	$ 694,085	$ 723,850
Principal non-cash charges (credits) to income			
Depreciation and amortization	502,779	496,412	455,776
Deferred recoverable fuel costs	3,161	(42,008)	(61,937)
Federal income tax deferred	22,620	40,600	69,020
Common equity component of allowance for funds used during construction	(4,321)	(3,274)	(3,546)
Other non-cash charges	17,268	9,602	14,382
Changes in assets and liabilities			
Accounts receivable - customer, less allowance for uncollectibles	(37,159)	(46,789)	(56,719)
Regulatory accounts receivable	47,079	(51,878)	32,827
Materials and supplies, including fuel and gas in storage	31,824	(26,505)	43,341
Prepayments, other receivables and other current assets	(31,017)	5,117	4,566
Enlightened Energy program costs	15,911	10,564	25,919
Power contract termination costs	11,551	30,827	55,387
Accounts payable	8,999	10,263	46,383
Other - net	(62,978)	(19,679)	(72,785)
Net cash flows from operating activities	1,238,540	1,107,337	1,276,464
Investing activities including construction			
Construction expenditures	(654,221)	(675,233)	(692,803)
Nuclear fuel expenditures	(14,579)	(48,705)	(12,840)
Contributions to nuclear decommissioning trust	(21,301)	(21,301)	(18,893)
Common equity component of allowance for funds used during construction	4,321	3,274	3,546
Net cash flows from investing activities including construction	(685,780)	(741,965)	(720,990)
Financing activities including dividends			
Issuance of long-term debt	480,000	525,000	228,285
Retirement of long-term debt	(106,256)	(183,524)	(10,889)
Advance refunding of preferred stock and long-term debt	-	(412,311)	(155,699)
Issuance and refunding costs	(8,930)	(18,480)	(5,269)
Funds held for refunding of debt	(328,874)	-	-
Common stock dividends	(493,711)	(488,756)	(479,262)
Preferred stock dividends	(18,413)	(22,711)	(35,569)
Net cash flows from financing activities including dividends	(476,184)	(600,782)	(458,403)
Net increase (decrease) in cash and temporary cash investments	76,576	(235,410)	97,071
Cash and temporary cash investments at January 1	106,882	342,292	245,221
Cash and temporary cash investments at December 31	$ 183,458	$ 106,882	$ 342,292
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 310,310	$ 309,279	$ 309,953
Income taxes	335,631	346,755	344,754

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS CONSOLIDATED EDISON, INC.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Balance, January 1	$ 4,283,935	$ 4,097,035	$3,888,010
Net income for the year	712,823	694,085	723,850
Total	4,996,758	4,791,120	4,611,860
Dividends declared on capital stock			
Cumulative Preferred, at required annual rates	18,148	18,145	35,259
Cumulative Preference, 6% Convertible Series B	198	284	304
Common, $2.10, $2.08 and $2.04 per share	493,711	488,756	479,262
Total dividends declared	512,055	507,185	514,825
Balance, December 31	$ 4,484,703	$ 4,283,935	$4,097,035

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CORPORATE RESTRUCTURING

On January 1, 1998 Consolidated Edison Company of New York, Inc. (Con Edison), the regulated utility, became a subsidiary of its new parent holding company. Consolidated Edison, Inc. (CEI), when the outstanding shares of common stock, $2.50 par value, of Con Edison were exchanged on a share-for-share basis for shares of common stock, $.10 par value, of CEI. Con Edison's debt securities and preferred stock remained securities of Con Edison.

OPERATIONS

CEI, through its subsidiaries, provides a wide range of energy-related products and services to its customers. The principal subsidiaries, by addition to Con Edison, are Con Edison Solutions and Con Edison Development. Con Edison supplies electric service in all of New York City (except part of Queens) and most of Westchester County, a service area with a population of more than eight million. It also supplies gas in Manhattan, the Bronx and parts of Queens and Westchester, and steam in part of Manhattan. Con Edison Solutions is a full-service energy company offering wholesale and retail electricity and natural gas sales, as well as energy-related products and services, primarily in the Northeast. Con Edison Development invests in energy infrastructure projects and markets technical services worldwide.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The accompanying consolidated financial statements include the accounts of Con Edison and its wholly-owned subsidiaries and, therefore, also represent the consolidated financial statements of CEI and its wholly-owned subsidiaries. Intercompany transactions have been eliminated.

PSC SETTLEMENT AGREEMENT The New York State Public Service Commission (PSC). by order issued and effective May 20, 1996 in its Competitive Opportunities proceeding, endorsed a fundamental restructuring of the electric utility Industry In New York State, based on competition in the generation and energy services sections of the industry. The PSC, by order issued and effective September 23, 1997, approved a settlement agreement between Con Edison, the PSC staff and certain other parties (the Settlement Agreement).

The Settlement Agreement provides for a transition to a competitive electric market through the development of a "retail access" plan, a rate plan for the period ended March 31, 2002 (the Transition), a reasonable opportunity for recovery of "???? costs" and the divestiture by Con Edison to unaffiliated third parties of at least 50 percent of its New York City fossil-fueled electric generating capacity.

The "retail access" plan will eventually permit all of Con Edison's electric customers to buy electricity from other suppliers. The delivery of electricity to customers will continue to be through Con Edison's transmission and distribution systems. Con Edison's electric fossil-fueled generating capacity not divested to third parties will be transferred by December 31, 2002 to an unregulated subsidiary of CEI. Con Edison's contracts with non-utility generators (NUGs), absent renegotiation of these contracts, will remain contractual obligations of Con Edison, which could resell electricity provided under the contracts in the competitive energy supply market. The Settlement Agreement does not contemplate the divestiture or transfer of Con Edison's Indian Point 2 nuclear generating unit. In August 1997 the PSC solicited comments as to the future treatment of nuclear generating facilities in New York.

Con Edison's potential electric "strandable costs" are those prior utility investments and commitments that may not be recoverable in a competitive energy supply market, including the unrecovered cost of Con Edison's electric generating plants, the future cost of decommissioning the Indian Point nuclear generating station and charges under contracts with NUGs. During the Transition Con Edison will continue to recover its potential electric strandable costs in the rates it charges all customers, including those customers purchasing electricity from others. Following the Transition Con Edison will be given a reasonable opportunity to recover, through a non-bypassable charge to customers, remaining strandable costs, including a reasonable return on investments. For remaining fossil-related strandable costs, the recovery period will be 10 years. For the remaining nuclear-related strandable costs, the recovery period will be the then-remaining life of Con Edison's Indian Point 2 nuclear unit (the operating license for which extends to 2013). With respect to its NUG contracts, Con Edison will be permitted to recover at least 90 percent of the amount, if any, by which the actual costs of its purchases under the contracts exceed market value after the Transition. Any potential NUG contract disallowance after the Transition will be limited to the lower of (i) 10 percent of the above-market costs or (ii) $300 million (net present value in 2002). The potential disallowance will be offset by the amount of NUG contract mitigation achieved by Con Edison after April 1, 1997 and 10 percent of the gross proceeds of generating unit sales to third parties. Con Edison will be permitted a reasonable opportunity to recover any costs subject to disallowance that are not offset by these two factors if it makes good faith efforts in implementing provisions of the Settlement Agreement leading to the development of a competitive electric market in its service territory and the development of an independent system operator (which is expected to administer the wholesale electric market in New York State).

ACCOUNTING POLICIES The accounting policies of CEI and its subsidiaries conform to generally accepted accounting principles. For regulated public utilities, generally accepted accounting principles include Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," and, in accordance with SFAS No. 71, the accounting requirements and rate-making practices of the Federal Energy Regulatory Commission (FERC) and the PSC.

In September 1997 Con Edison applied the standards in SFAS No. 101. "Regulated Enterprises - Accounting for the Discontinuation of Application of the Financial Accounting Standards Board (FASB) Statement No. 71," to the non-nuclear electric supply portion of its business that is being deregulated as a result of the Settlement Agreement (the Deregulated Business). The Deregulated Business includes all of Con Edison's fossil electric generating assets, which had a net book value of approximately $1.4 billion at December 31, 1997, including approximately $196 million relating to Con Edison's share of the Bowline Point and Roseton stations (which are located outside New York City and operated by other utilities). The application of SFAS No. 101 to the Deregulated Business had no material adverse effect on Con Edison's Financial position or results of operations.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," requires certain assets to be reviewed for impairment if the carrying amount of the assets may not be recoverable, requires that assets to be disposed of be carried at the lower of net book value or fair value, and amends SFAS No. 71 to require that regulatory assets be charged to earnings if such assets are no longer considered probable of recovery. Con Edison has not recognized an impairment of its fossil generating assets because the estimated cash flows from the operation and/or sale of the assets, together with the cash flows from the strandable cost recovery provisions of the Settlement Agreement, will not be less than the net carrying amount of the generating assets.

Certain deferred charges (regulatory assets) principally relating to future federal income taxes and certain deferred credits (regulatory liabilities) have resulted from transactions relating or allocated to the Deregulated Business. At December 31, 1997 regulatory assets net of regulatory liabilities amounted to approximately $1.4 billion, of which approximately $300 million is attributable to the Deregulated Business. Con Edison has not written-off against earnings any net regulatory assets because recovery of the assets is probable under the Settlement Agreement.

SFAS No. 5, "Accounting for Contingencies," requires accrual of a loss if it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Con Edison has not accrued a loss for its contracts with NUGs because it is not probable that the charges by NUGs under the contracts will exceed the cash flows from the sale by Con Edison of the electricity provided by the NUGs, together with the cash flows provided pursuant to the Settlement Agreement.

UTILITY PLANT AND DEPRECIATION The capitalized cost of additions to utility plant includes indirect costs such as engineering, supervision, payroll taxes, pensions, other benefits and an allowance for funds used during construction (ATDC). The original cost of property, together with removal cost, less salvage, is charged to accumulated depreciation as property is retired.

The cost of repairs and maintenance is charged to expense, and the cost of betterments is capitalized.

Dates used for ATDC include the cost of borrowed funds and a reasonable rate on Con Edison's own funds when so used, determined in accordance with PSC and FERC regulations. The ATDC rate was 9.1 percent in 1997, 9.0 percent in 1996 and 9.1 percent in 1995. The rate was compounded semiannually, and the amounts applicable to borrowed funds were treated as a reduction of interest charges.

The annual charge for depreciation is computed on the straight line method for financial statement purposes using rates based on average lives and net salvage factors, with the exception of the Indian Point 2 nuclear unit, Con Edison's share of the Roseton generating station, certain leaseholds and certain general equipment, which are depreciated on a remaining life amortization method. Depreciation rates averaged approximately 3.4 percent in 1997 and 1998 and 3.3 percent in 1995. In 1996 an additional provision for depreciation of $13.9 million was accrued in connection with a preferred stock refunding. See Note B.

Con Edison is a joint owner of two 1,200 megawall (MW) electric generating stations: (1) Bowline Point, operated by Orange and Rockland Utilities, Inc., with Con Edison owning a two-thirds interest, and (2) Roseton, operated by Central Hudson Gas & Electric Corp., with Con Edison owning a 40 percent interest. Central Hudson has the option to acquire Con Edison's interest in the Roseton station in 2004. Con Edison's share of the investment in these stations at original cost and as included in its balance sheet at December 31, 1997 and 1996 was:

(thousand of dollars)	1997	1996
Bowline Point: Plant in service	$206,128	$204,484
Construction work in progress	1,796	2,788
Roseton: Plant in service	146,066	146,623
Construction work in progress	652	846

Con Edison's share of accumulated depreciation for the Roseton station at December 31, 1997 and 1996 was $75.3 million and $70.3 million, respectively. A seperate depreciation account is not maintained for Con Edison's share of the Bowline Point station. Con Edison's share of operating expenses for these stations is included in its income statement. Both Orange and Rockland and Central Hudson have agreed to divest generation as part of their Competitive Opportunities settlements with the PSC.

NUCLEAR DECOMMISSIONING. Depreciation charges include a provision for decommissioning both the Indian Point 2 and the retired Indian Point 1 nuclear units. Decommissioning costs are being accrued ratably over the Indian Point 2 license period, which extends to the year 2013. Con Edison has been accruing for the costs of decommissioning within the internal accumulated depreciation reserve since 1975. In 1989 the PSC permitted Con Edison to establish an external trust fund for the costs of decommissioning the nuclear portions of the plants, pursuant to Nuclear Regulatory Commission (NRC) regulations. Accordingly, beginning in 1989, Con Edison has made contributions to such a trust. The external trust fund is discussed below under "Investments" in this Note A.

Accumulated decommissioning provisions at December 31, 1997 and 1996, which include earnings on funds externally invested, were as follows:

	Amounts included in Accumulated Depreciation	
(Millions of Dollars)	1997	1996
Nuclear	$211.7	$164.7
Non-Nuclear	58.2	57.0
Total	$269.9	$221.7

In 1994 a site-specific decommissioning study was prepared for both the Indian Point 2 and the retired Indian Point 1 nuclear units. Based upon this study, the estimated decommissioning cost in 1993 dollars is approximately $657 million, of which $252 million is for extended on site storage of spent nuclear fuel. Using a 3.25 percent annual escalation factor, the estimated cost in 2016, the assumed midpoint for decommissioning expenditures, is approximately $1,372 million. Under a 1995 electric rate agreement, effective April 1995, the PSC approved an annual decommissioning expense allowance for the nuclear and non-nuclear portions of the plants of $21.3 million and $1.8 million, respectively, to fund the future estimated costs of decommissioning. The annual expense allowance assumes a 6 percent after-tax annual return on fund assets.

The FASB is currently reviewing the utility industry's accounting treatment of nuclear and certain other plant decommissioning costs. In an exposure draft issued in February 1996, the FASB concluded that decommissioning costs should be accounted for as a liability at present value, with a corresponding asset in utility plant, rather than as a component of depreciation. Discussions of issues addressed in the exposure draft are ongoing.

NUCLEAR FUEL Nuclear fuel assemblies and components are amortized to operating expenses based on the quantity of heat produced in the generation of electricity. Fuel costs also include provisions for payments to the U.S. Department of Energy (DOE) for future off-site storage of the spent fuel and for a portion of the costs to decontaminate and decommission the DOE facilities used to enrich uranium purchased by Con Edison. Such payments amounted to $7.4 million in 1997. Nuclear fuel costs are recovered in revenues through base rates or through the fuel adjustment clause.

LEASES In accordance with SFAS No. 71, those leases that meet the criteria for capitalization are capitalized for accounting purposes. For rate-making purposes, all leases have been treated as operating leases.

REVENUES Revenues for electric, gas and steam service are recognized on a monthly billing cycle basis. Pursuant to the 1992 and 1995 electric rate agreements, actual electric net revenues (operating revenues less fuel and purchased power costs and revenue taxes) were adjusted by accrual to target levels established under the agreements in accordance with an electric revenue adjustment mechanism (ERAM). Revenues were also increased (or decreased) each month to reflect rewards (or penalties) earned under incentive mechanisms for the Enlightened Energy (demand side management) program and for customer service activities. The agreements provided that the net regulatory asset (or liability) thus accrued in each rate year would be reflected in customers' bills in the following rate year. Effective April 1, 1997 the Settlement Agreement eliminated the ERAM and the Enlightened Energy and electric customer service incentives. The Settlement Agreement includes a penalty mechanism (estimated maximum, $26 million per year) for failure to maintain certain customer service standards.

The 1994 gas rate agreement provided for revenues to be increased (or decreased) each month to reflect rewards (or penalties) earned under incentive mechanisms related to gas customer service and system improvement targets. The 1997 gas rate agreement discontinued the incentive mechanisms effective October 1, 1997, after which Con Edison is subject to a penalty (maximum, $1.7 million per year) if it fails to maintain targeted levels of customer service.

RECOVERABLE FUEL COSTS Fuel and purchased power costs that are above the levels included in base rates are recoverable under electric, gas and steam fuel adjustment clauses. If costs fall below these levels, the difference is credited to customers. For electric and steam, such costs are deferred until the period in which they are billed or credited to customers (40 days for electric, 30 days for steam). For gas, the excess or deficiency is accumulated for refund or surcharge to customers on an annual basis.

Effective April 1992 a partial pass-through electric fuel adjustment clause (PPFAC) was implemented with monthly targets for electric fuel and purchased power costs. Con Edison retains for stockholders 30 percent of any savings in actual costs below the target amount, but must bear 30 percent of any excess of actual costs over the target. For each rate year there is a $35 million cap on the maximum incentive or penalty, with a limit (within the $35 million) of $10 million for costs associated with generation at Con Edison's Indian Point 2 nuclear unit.

REGULATORY ACCOUNTS RECEIVABLE Regulatory accounts receivable at December 31, 1997 amounted to a credit due customers of $1.7 million, reflecting an accrual for the PPTAC. The amounts accrued under the PPTAC are billed or credited to customers on a monthly basis through the electric fuel adjustment clause. Effective April 1, 1997 the Settlement Agreement eliminated the modified ERAM and the Enlightened Energy and electric customer service incentives; at that time, the regulatory accounts receivable recorded for the modified ERAM and these incentives were, along with certain other debit and credit balances in Con Edison's financial statements, eliminated. The elimination of these balances had no material adverse effect on Con Edison's financial position or results of operations.

ENLIGHTENED ENERGY PROGRAM COSTS In accordance with PSC directives, Con Edison deferred the costs of its Enlightened Energy program for future recovery from ratepayers. Such deferrals amounted to $117.8 million at December 31, 1997 and $133.7 million at December 31, 1996. In accordance with the 1992 and 1995 electric rate agreements, deferred charges for the Enlightened Energy program are generally recoverable over a five-year period.

TEMPORARY CASH INVESTMENTS Temporary cash investments are short-term, highly liquid investments which generally have maturities of three months or less. They are stated at cost which approximates market. CEI and Con Edison consider temporary cash investments to be cash equivalents.

INVESTMENTS For 1997 investments consisted primarily of the nuclear decommissioning trust fund ($211.7 million at December 31, 1997) and investments of Con Edison Solutions and Con Edison Development ($66.0 million at December 31, 1997). For 1996 investments consisted primarily of the nuclear decommissioning trust fund ($164.7 million at December 31, 1996). The nuclear decommissioning trust fund is stated at market; investments of Con Edison Solutions and Con Edison Development are stated at cost. Earnings on the nuclear decommissioning trust fund are not recognized in income but are included in the accumulated depreciation reserve. See Nuclear Decommissioning in this Note A.

GAS HEDGING Con Edison purchases put options and sells futures contracts under its gas hedging program in order to protect its gas inventory against adverse market price fluctuations. Con Edison defers the related hedging gains and losses until the underlying gas commodity is withdrawn from storage and then adjusts the cost of its gas in storage accordingly.

All hedging gains or losses are credited or charged to customers through Con Edison's gas fuel adjustment clause. Con Edison Solutions uses futures contracts to hedge natural gas transactions in order to minimize the risk of unfavorable market price fluctuations. Gains or losses on these futures contracts are deferred until gas is purchased, at which time gas expense is adjusted accordingly. At December 31, 1997 deferred gains or losses on open positions were not material.

Neither CEI nor any of its consolidated subsidiaries, including Con Edison, enters into derivative transactions that do not meet the criteria for hedges and that do not qualify for deferred accounting treatment. If for any reason a derivative transaction were no longer classified as a hedge, inventory or gas expense, as appropriate, would be adjusted for unrealized gains and losses relating to the transaction.

FEDERAL INCOME TAX   In accordance with SFAS No. 109, "Accounting for Income Taxes," Con Edison has recorded an accumulated deferred federal income tax liability for substantially all temporary differences between the book and tax bases of assets and liabilities at current tax rates. In accordance with rate agreements, Con Edison has recovered amounts from customers for a portion of the tax expense it will pay in the future as a result of the reversal or "turn-around" of these temporary differences. As to the remaining temporary differences. In accordance with SFAS No. 71, Con Edison has established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense. In 1993 the PSC issued an Interim Policy Statement proposing accounting procedures consistent with SFAS No. 109 and providing assurances that these future increases in taxes will be recoverable in rates. The final policy statement is not expected to differ materially from the interim policy statement. See Note 1.

Accumulated deferred investment tax credits are amortized ratably over the lives of the related properties and applied as a reduction in future federal income tax expense.

Con Edison and its subsidiaries file, and CEI expects that it and its subsidiaries will file, a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income.

RESEARCH AND DEVELOPMENT COSTS   Research and development costs relating to specific construction projects are capitalized. All other such costs are charged to operating expenses as incurred. Research and development costs in 1997, 1996 and 1995, amounting to $25.9 million, $32.3 million and $45.0 million, respectively, were charged to operating expenses. No research and development costs were capitalized in these years.

NEW FINANCIAL ACCOUNTING STANDARDS   The FASB has issued the following two standards effective for fiscal years beginning after December 15, 1997: SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The application of these standards will not have a material effect on CEI's financial position or results of operations or materially change its current disclosure practices.

RECLASSIFICATION   Certain prior year amounts have been reclassified to conform with current year presentation.

ESTIMATES   The accompanying consolidated financial statements reflect judgments and estimates made in the application of the above accounting policies.

NOTE B   CAPITALIZATION

COMMON STOCK AND PREFERRED STOCK NOT SUBJECT TO MANDATORY REDEMPTION   In December 1997 Con Edison redeemed its Series B preference stock. Each share of Series B preference stock was convertible into 13 shares of common stock at a conversion price of $7.69 per share. During 1997, 1996 and 1995, 38,158 shares, 2,869 shares and 3,928 shares of Series B preference stock were converted into 496,054 shares, 37,297 shares and 51,064 shares of common stock, respectively.

The prices at which Con Edison has the option to redeem its preferred stock other than Series I and Series J (in each case, plus accrued dividends) are as follows:

$5 Cumulative Preferred Stock	$ 105.00
Cumulative Preferred Stock:	
Series A	$ 102.00
Series B	102.00
Series C	101.00
Series D	101.00

PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

Con Edison is required to redeem 25,000 of the Series I shares on May 1 of each year in the five-year period commencing with the year 2002 and to redeem the remaining Series I shares on May 1, 2007. Con Edison is required to redeem the Series J shares on August 1, 2002. In each case the redemption price is $100 per share plus accrued and unpaid dividends to the redemption date. In addition, Con Edison may redeem Series I shares at redemption price of $103.60 per share, plus accrued dividends, if redeemed prior to May 1, 1998 (and thereafter at prices declining annually to $100 per share, plus accrued dividends, after April 30, 2002). Neither Series I nor Series J shares may be called for redemption while dividends are in arrears on outstanding shares of $5 cumulative preferred stock or cumulative preferred stock.

PREFERRED STOCK REFUNDING In March 1996 Con Edison canceled approximately $227 million of its preferred stock purchased pursuant to a lender offer and redeemed an additional $90 million of its preferred stock. In accordance with the PSC order approving the issuance of subordinated deferrable interest debentures to refund the preferred stock, Con Edison offset the net gain of $13.9 million by accruing an additional provision for depreciation equal to the net gain.

DIVIDENDS Beginning in 1998, dividends on CEI's common shares will depend primarily on the dividends and other distributions that Con Edison and the other subsidiaries will pay to CEI and the capital requirements of CEI and its subsidiaries. The PSC Settlement Agreement limits the dividends that Con Edison may pay to not more than 100 percent of Con Edison's income available for dividends, calculated on a two-year rolling average basis. Excluded from the calculation of "income available for dividends" are non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events. The restriction also does not apply to dividends necessary to transfer to CEI proceeds from major transactions, such as asset sales, or to dividends reducing Con Edison's equity ratio to a level appropriate to Con Edison's business risk.

Payment of Con Edison common stock dividends to CEI is subject to certain additional restrictions. No dividends may be paid, or funds set apart for payment, on Con Edison's common stock until all dividends accrued on the $5 cumulative preferred stock and cumulative preferred stock have been paid, or declared and set apart for payment, and unless Con Edison is not in arrears on its mandatory redemption obligation for the Series I and Series J cumulative preferred stock. No dividends may be paid on any of Con Edison's capital stock during any period in which Con Edison has deferred payment of interest on its subordinated deferrable interest debentures.

LONG-TERM DEBT In December 1997 Con Edison issued $330 million of 10-year 6.45% Series 1997 B debentures to refund in January 1998 three series of tax-exempt debt that Con Edison issued through the New York State Energy Research and Development Authority: 7-1/2% Series 1986 A, 9-1/4% Series 1987 B and 7-3/4% Series 1989 A.

Long-term debt maturing in the period 1998-2002 is as follows:

1998	$ 200,000,000
1999	225,000,000
2000	275,000,000
2001	300,000,000
2002	300,000,000

Con Edison's long-term debt is stated at cost which, as of December 31, 1997, approximates fair value. The fair value of the company's long-term debt is estimated based on current rates for debt of the same remaining maturities.

NOTE C SHORT-TERM BORROWING

Con Edison has been authorized by FERC to issue short-term debt of up to $500 million outstanding at any one time. At December 31, 1997 Con Edison had no short-term debt outstanding. In January 1998 Con Edison initiated a $500 million commercial paper program, supported be revolving credit agreements with banks. Bank commitments under the revolving credit agreements may terminate upon a change in control of CEI and borrowings under the agreements are subject to certain conditions, including that Con Edison's ratio (calculated in accordance with the agreements) of debt to total capital not at any time exceed 0.65 to 1. At December 31, 1997 this ratio was 0.43 to 1. Borrowings under the commercial paper program or the revolving credit facilities are expected to be at prevailing market rates.

NOTE D PENSION BENEFITS

Con Edison has pension plans that cover substantially all of its employees and certain employees of other CEI subsidiaries. The plans are designed to comply with the Employee Retirement Income Security Act of 1974 (ERISA). Contributions are made solely by Con Edison and the other subsidiaries based on an actuarial valuation, and are not less than the minimum amount required by ERISA. Con Edison's policy is to fund the actuarially computed net pension cost as such cost accrues subject to statutory maximum (and minimum) limits. Benefits are generally based on a final five-year average pay formula.

In accordance with SFAS No.87, "Employers' Accounting for Pensions," Con Edison uses the projected unit credit method for determining pension cost. Pension costs for 1997, 1996 and 1995 amounted to $11.8 million, $73.2 million and $11.4 million, respectively, of which $9.3 million for 1997, $57.8 million for 1996 and $8.9 million for 1995 was charged to operating expenses. Pension costs reflect the amortization of a regulatory asset established pursuant to SFAS No.71 to offset the $33.3 million increase in pension obligations from a special retirement program Con Edison offered in 1993, which provided special termination benefits as described in SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Pension cost for 1995 also includes an actuarially determined credit of $7.3 million representing a prepayment on one of the plans. This credit reduced pension funding in 1996.

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over ten years.

The components of net periodic pension cost for 1997, 1996 and 1995 were as follows:

(Millions of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	$ 111.4	$ 120.2	$ 98.2
Interest cost on projected benefit obligation	334.3	320.1	296.7
Actual return on plan assets	(878.6)	(593.6)	(865.8)
Unrecognized investment gain (loss) deferred	471.3	217.6	521.6
Net amortization	(28.8)	6.7	(41.5)
Net periodic pension cost	9.6	71.0	9.2*
Amortization of regulatory asset	2.2	2.2	2.2
Total pension cost	$ 11.8	$ 73.2	$ 11.4

* Includes a prepayment credit of $7.3 million.

The funded status of the pension plans as of December 31, 1997, 1996 and 1995 was as follows:

(Millions of Dollars)	1997	1996	1995
Actuarial present value of benefit obligation:			
Vested	$ 3,800.7	$3,525.9	$3,319.2
Nonvested	175.9	190.5	267.9
Accumulated to date	3,976.6	3,716.4	3,587.1
Effect of projected future compensation levels	964.0	906.6	1,070.3
Total projected benefit obligation	4,940.6	4,703.0	4,657.4
Plan assets at fair value	5,988.7	5,269.3	4,775.8
Plan assets less projected benefit obligation	1,048.1	566.3	118.4
Unrecognized net gain	(1,157.4)	(703.0)	(240.3)
Unrecognized prior service cost*	90.4	100.1	85.3
Unrecognized net transition liability at January 1, 1987*	11.3	14.3	17.2
Accrued pension cost**	$ (7.6)	$ (23.1)	$ (19.4)

* Being amortized over approximately 15 years.
** Accrued liability primarily for special retirement program, reduced in 1997 by a prepayment credit.

To determine the present value of the projected benefit obligation, the discount rates assumed were 7.25 percent for 1997 and 1996 and 7 percent for 1995. A weighted average rate of increase in future compensation levels of 5.8 percent and long-term rate of return on plan assets of 8.5 percent were assumed for all years.

The pension plan assets consist primarily of corporate common stocks and bonds, group annuity contracts and debt of the United States government and its agencies.

NOTE E   POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Con Edison has a contributory comprehensive hospital, medical and prescription drug program for all retirees, their dependents and surviving spouses. Con Edison also provides life insurance benefits for approximately 6,400 retired employees. All of Con Edison's employees becomes eligible for these benefits upon retirement, except that the amount of life insurance is limited and is available only to management employees and to those bargaining unit employees who participated in the optional program prior to retirement. Con Edison has reserved the right to amend or terminate these programs.

Con Edison's policy is to fund in external trusts the actuarially determined annual costs for retiree health and life insurance subject to statutory maximum limits.

Con Edison recognizes investment gains and losses over five years and amortizes unrecognized actuarial gains and losses over ten years.

The cost to Con Edison for retiree health benefits for 1997, 1996 and 1995 amounted to $76.7 million, $89.2 million and $65.5 million, respectively, of which $61.0 million for 1997, $70.5 million for 1996 and $51.6 million for 1995 was charged to operating expenses. The cost of the retiree life insurance plan for 1997, 1996 and 1995 amounted to $20.8 million, $22.8 million and $18.0

million, respectively, of which $16.5 million for 1997, $18.0 million for 1996 and $14.2 million for 1995 was charged to operating expenses.

the components of postretirement benefit (health and life insurance) costs for 1997, 1996 and 1995 were as follows:

(Millions of Dollars)	1997	1996	1995
Service cost - benefits earned during the period	$ 15.7	$ 17.4	$ 10.7
Interest cost on accumulated postretirement benefit obligation	71.0	68.9	61.2
Actual return on plan assets	(100.3)	(51.3)	(60.8)
Unrecognized investment gain (loss) deferred	63.8	23.5	40.4
Amortization of transition obligation and unrecognized net loss	47.3	53.5	32.0
Net periodic postretirement benefit cost	$ 97.5	$ 112.0	$ 83.5

The following table sets forth the program's funded status at December 31, 1997, 1996 and 1995:

(Millions of Dollars)	1997	1996	1995
Accumulated postretirement benefit obligation:			
Retirees	$ 470.6	$ 471.1	$ 447.7
Employees eligible to retire	240.1	248.8	250.7
Employees not eligible to retire	253.4	279.2	305.6
Total projected benefit obligation	964.1	999.1	1,004.0
Plan assets at fair value	574.1	444.2	322.2
Plan assets less accumulated postretirement benefit obligation	(390.0)	(554.9)	(681.8)
Unrecognized net loss	41.3	139.9	240.8
Unrecognized net transition liability at January 1, 1993*	322.6	415.0	441.0
Accrued postretirement benefit cost	$ (26.1)	$ 0	$ 0

* Being amortized over a period of 20 years.

To determine the accumulated postretirement benefit obligation, the discount sales assumed were 7.25 percent for 1997 and 1996 and 7 percent for 1995. The assumed long-term rate of return on plan assets was 8.5 percent for these years. The health care cost trend rate assumed for 1997 was 8.5 percent, for 1998, 8 percent, and then declining one-half percent per year to 5 percent for 2004 and thereafter. If the assumed health care cost trend rate were to be increased by one percentage point each year, the accumulated postretirement benefit obligation would increase by approximately $114.8 million and the service cost and interest component of the net periodic postretirement benefit cost would increase by $12.6 million.

Postretirement plan assets consist of corporate common stocks and bonds, group annuity contracts, debt of the United States government and its agencies and short-term securities.

NOTE F CONTINGENCIES

INDIAN POINT Nuclear generating units similar in design to Con Edison's Indian Point 2 unit have experienced problems that have required steam generator replacement. Inspections of the Indian Point 2 steam generators since 1976 have revealed various problems, some of which appear to have been arrested, but the remaining service life of the steam generators is uncertain. The projected service life of the steam generators is reassessed periodically in the light of the inspections made during scheduled outages of the unit. Based on the latest available data and current NRC criteria. Con Edison estimates that steam generator replacement will not be required before 2001. Con Edison has replacement steam generators, which are stored at the site. Replacement of the steam generators would require estimated additional expenditures of approximately $108 million (1997 dollars, exclusive of replacement power costs) and an outage of approximately four months. However, securing necessary permits and approvals or other factors could require a substantially longer outage if steam generator replacement is required on short notice.

NUCLEAR INSURANCE The insurance policies covering Con Edison's nuclear facilities for property damage, excess property damage, and outage costs permit assessments under certain conditions to cover insurers' losses. As of December 31, 1997, the highest amount that could be assessed for losses during the current policy year under all of the policies was $24 million. While assessments may also be made for losses in certain prior years, Con Edison is not aware of any losses in such years that it believes are likely to result in an assessment.

Under certain circumstances, in the event of nuclear incidents at facilities covered by the federal government's third-party liability indemnification program, Con Edison could be assessed up to $79.3 million per incident, of which not more than $10 million may be assessed in any one year. The per incident limit is to be adjusted for inflation not later than 1990 and not less than once every five years thereafter.

Con Edison participates in an insurance program covering liabilities for injuries to certain workers in the nuclear power industry. In the event of such injuries, Con Edison is subject to assessment up to an estimated maximum of approximately $3.1 million.

ENVIRONMENTAL MATTERS The normal course of Con Edison's operations necessarily involves activities and substances that expose it to potential liabilities under federal, state and local laws protecting the environment. Such liabilities can be material and in some instances may be imposed without ___ to fault, or may be imposed for past acts, even though such past acts may have been lawful at the time they occurred. Sources of such potential liabilities include (but are not limited to) the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund), a 1994 settlement with the New York State Department of Environmental Conservation (DEC), asbestos, and electric and magnetic fields (EMF).

SUPERFUND By its terms Superfund imposes joint and several strict liability, regardless of fault, upon generators of hazardous substances for resulting removal and remedial costs and environmental damages. Con Edison has received process or notice concerning possible claims under Superfund or similar state statutes relating to a number of sites at which it is alleged that hazardous substances generated by Con Edison (and, in most instances, a large number of other potentially responsible parties) were deposited. Estimates of the investigative, removal, remedial and environmental damage costs (if any) that Con Edison will be obligated to pay with respect to each of these sites range from extremely preliminary to highly refined. Based on these estimates Con Edison had accrued at December 31, 1997 a liability of approximately $25.4 million. There will be additional costs with respect to those and possibly other sites, the materiality of which is not presently determinable.

DEC SETTLEMENT In 1994 Con Edison agreed to a consent order settling a civil administrative proceeding instituted by the DEC alleging environmental violations by the company. Pursuant to the consent order, Con Edison has conducted an environmental management systems evaluation and an environmental compliance audit. Con Edison also must implement "best management practices" plans for certain facilities and undertake a remediation program at certain sites. At December 31, 1997 Con Edison had an accrued liability of $16.9 million for these sites. Expenditures for environmental-related capital projects in the five years 1998-2002, including expenditures to comply with the consent order, are estimated at $148 million. These estimated expenditures do not reflect divestiture by Con Edison of generating plants pursuant to the Settlement Agreement (see Note A) or otherwise.

ASBESTOS CLAIMS Suits have been brought in New York State and federal courts against Con Edison and many other defendants, wherein several hundred plaintiffs sought large amounts of compensatory and punitive damages for deaths and injuries allegedly caused by exposure to asbestos at various premises of Con Edison. Many of these suits have been disposed of without any payment by Con Edison, or for immaterial amounts. The amounts specified in all the remaining suits total billions of dollars but Con Edison believes that these amounts are greatly exaggerated, as were the claims already disposed of. Based on the information and relevant circumstances known to Con Edison at this time, it is the opinion of Con Edison that these suits will not have a material adverse effect on the company's financial position, results of operations or liquidity.

EMF Electric and magnetic fields are found wherever electricity is used. Con Edison is the defendant in several suits claiming properly damage resulting from EMF. The aggregate amount sought in these suits is not material. In the event, however, that a causal relationship between EMF and adverse health effects is established, or independently of any such causal determination, in the event of adverse developments in related legal or public policy doctrines, there could be a material adverse effect on the electric utility industry, including Con Edison.

NOTE G NON-UTILITY GENERATIONS (NUGS)

Con Edison has contracts with NUGs for 2,059 MW of electric generating capacity. Payments by Con Edison under the contracts are reflected in rates. Assuming performance by the NUGs, Con Edison is obligated over the terms of these contracts (which extend for various periods, up to 2036) to make capacity and other fixed payments.

For the years 1998 - 2002, capacity and other fixed payments are estimated to be $510 million, $508 million, $478 million, $485 million and $494 million. Such payments gradually increase to approximately $600 million in 2013, and thereafter decline significantly.

For energy delivered under these contracts, Con Edison is obligated to pay variable prices that are estimated to be approximately at market levels.

NOTE H STOCK-BASED COMPENSATION

Under CEI's Stock Plan, options may be granted to officers and key employees for up to 10,000,000 shares of CEI's common stock. Generally, options become exercisable three years after the grant date and remain exercisable until ten years from the grant date.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," CEI has elected to follow Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of CEI's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Disclosure of pro-forma information regarding net income and earnings per share is required by SFAS No. 123. This information has been determined as if CEI had accounted for its employee stock options under the fair value method of that statement. The fair values of 1997 and 1996 options are $2.84 and $2.49 per share, respectively. They were estimated at the date of grant using the Black Scholes option pricing model with the following weighted-average assumptions used for grants in 1997 and 1996, respectively; risk-free interest rates of 6.46 percent and 6.74 percent; expected lives of eight years for 1997 and 1996; expected volatility of 14.00 percent and 16.28 percent; and dividend yields of 6.67 percent and 7.46 percent.

Had CEI used SFAS No. 123, basic and diluted earnings per share for 1997 and 1996 would be unaffected and pro-forma net income for common stock would be $693,680,000 or $799,000 less than the amount reported for 1997, and $687,938,000 or $231,000 less than the amount reported for 1996.

A summary of the status of the Plan as of December 31, 1997 and 1996 and changes during those years is as follows:

	1997		1996	
	Options	Exercise Price	Options	Exercise Price
Outstanding at beginning of year	697,200	$ 27.875	0	$ -
Granted	834,600	31.50	704,200	27.875
Exercised	0		0	
Forfeited	(14,000)	29.62	(7,000)	27.875
Outstanding at end of year	1,517,700	$ 29.85	697,200	$ 27.875
Options exercisable at end of year	0		0	
Fair value of options granted during the year	$ 2.84		$ 2.49	

The following summarizes the Plan's stock options outstanding at December 31, 1997 and 1998:

Plan Year	Exercise Price	Options Outstanding at 12/31/97	Remaining Contractual Life
1997	$ 31.50	827,600	9 years
1996	$ 27.875	689,900	6 years

NOTE 1 FEDERAL INCOME TAX

The net revenue requirements for the future federal income tax component of accumulated deferred federal income taxes (see Note A) at December 31, 1997 and 1996 are shown on the following table:

(Millions of Dollars)	1997	1996
Future federal income tax liability		
Temporary differences between the book and tax bases of assets and liabilities:		
Property related	$ 5,791.0	$ 5,595.0
Reserve for injuries and damages	(57.4)	(55.7)
Other	(112.9)	16.7
Total	5,620.7	5,556.0
Future federal income tax computed at statutory rate - 35%	1,967.2	1,944.6
Less: Accumulated deferred federal income taxes previously recovered	1,334.7	1,304.8
Net future federal income tax expense to be recovered	632.5	639.8
Net revenue requirements for above (Regulatory assets - future federal income taxes)*	973.1	904.3
Add: Accumulated deferred federal income taxes previously recovered		
Depreciation	1,188.7	1,115.5
Unbilled revenues	(98.3)	(94.6)
Advance refunding of long-term debt	30.1	32.7
Other	214.2	251.2

Subtotal	1,334.7	1,304.8
Total accumulated deferred federal income tax	$ 2,307.8	$ 2,289.1

* Net revenue requirements will be offset by the amortization to federal income tax expense of accumulated deferred investment tax credits, the tax benefits of which Con Edison has already realized. Including the full effect therefrom, the net revenue requirements related to future federal income taxes at December 31, 1997 and 1996 are $809.4 million, and $811.8 million respectively.

Year Ended December 31 (Thousands of Dollars)	1997	1996	1995
Charged to: Operations	$ 382,910	$ 397,160	$ 396,560
Other income	(3,190)	(970)	1,060
Total federal income tax	379,720	396,190	397,620
Deconciliation of reported net income with taxable income			
Federal income tax - current	357,100	355,590	328,600
Federal income tax - deferred	31,450	49,510	78,330
Investment tax credits deferred	(8,830)	(8,910)	(9,310)
Total federal income tax	379,720	396,190	397,620
Net income	712,823	694,085	723,850
Income before federal income tax	1,092,543	1,090,275	1,121,470
Effective federal income tax rate	34.8%	36.3%	35.5%
Adjustments decreasing (increasing) taxable income			
Tax depreciation in excess of book depreciation:			
Amounts subject to normalization	215,370	201,760	202,230
Other	(64,502)	(99,576)	(85,538)
Deferred recoverable fuel costs	(3,161)	42,008	61,937
Regulatory accounts receivable	(47,079)	51,878	(32,827)
Excess research and development	14,980	(13,025)	(2,969)
Pension and other postretirement benefits	(6,820)	(34,136)	38,102
Power contract termination costs	(40,657)	(38,759)	(56,397)
Other - net	(9,200)	(45,729)	25,356
Total	58,931	64,421	149,894
Taxable income	1,033,612	1,025,854	971,576
Federal income tax - current			
Amount computed at statutory rate - 35%	361,764	359,049	340,052
Tax credits	(4,664)	(3,459)	(11,452)
Total	357,100	355,590	328,600
Charged to: Operations	359,300	357,000	328,200
Other income	(2,200)	(1,410)	400
Total	357,100	355,590	328,600
Federal income tax - deferred			
Charged to: Operations	32,440	49,070	77,670
Other income	(990)	440	660
Total	$ 31,450	$ 49,510	$ 78,330

NOTE J FINANCIAL INFORMATION BY BUSINESS SEGMENTS(a)

(Thousands of Dollars)	Electric 1997	Electric 1996	Electric 1995	Steam 1997	Steam 1996	Steam 1995
Operating revenues*	$ 5,646,916	$ 5,552,247	$ 5,401,524	$ 393,418	$ 405,040	$ 335,694
Operating expenses						
Purchased power	1,319,472	1,269,092	1,107,223	29,949	3,762	-
Fuel	429,324	377,351	354,086	167,500	195,924	150,018
Other operations and maintenance*	1,311,983	1,331,801	1,372,715	82,100	83,837	79,929
Depreciation and amortization	429,407	425,397	393,382	16,239	15,900	13,064
Taxes, other than federal income	989,791	980,309	951,095	53,108	51,361	45,788
Federal income tax	311,878	330,103	339,863	8,442	14,131	12,598
Total operating expenses*	4,791,855	4,714,053	4,518,364	357,338	364,915	301,397
Operating income	855,061	838,194	883,160	36,080	40,125	34,297
Construction expenditures	504,644	515,006	538,454	29,905	38,290	27,559
Net utility plant**	9,251,149	9,150,261	9,027,031	489,091	458,019	399,028
Fuel	51,629	64,231	40,444	2,068	478	62
Other identifiable assets	1,669,957	1,703,906	1,724,005	66,448	42,817	51,969
* Intersegment rentals included in segments' income but eliminated for total:						
Operating revenues	$ 11,341	$ 11,130	$ 12,116	$ 1,619	$ 1,491	$ 1,561
Operating expenses	2,605	2,472	2,513	12,519	12,190	13,102

	Gas 1997	Gas 1996	Gas 1995	Total 1997	Total 1996	Total 1995
Operating revenues*	$ 1,096,057	$ 1,017,124	$ 815,307	$ 7,121,254	$ 6,959,736	$ 6,536,897
Operating expenses						
Purchased power	-	-	-	1,349,421	1,272,854	1,107,223
Fuel	-	-	-	596,824	573,275	504,104
Gas purchased for resale	479,218	418,271	259,789	479,218	418,271	259,789
Other operations and maintenance*	204,687	221,011	214,818	1,583,633	1,621,974	1,651,834
Depreciation and amortization	57,133	55,115	49,330	502,779	496,412	455,776
Taxes, other than federal income	138,182	134,529	123,349	1,181,081	1,166,199	1,120,232
Federal income tax	62,590	52,926	44,099	382,910	397,160	396,560
Total operating expenses*	941,810	881,852	691,385	6,075,866	5,946,145	5,495,518
Operating income	154,247	135,272	123,922	1,045,388	1,013,591	1,041,379
Construction expenditures	119,672	121,937	126,790	654,221	675,233	692,803
Net utility plant**	1,526,862	1,459,030	1,388,344	11,267,102	11,067,310	10,814,403
Fuel and gas in storage	37,209	44,979	26,452	90,906	109,688	66,958
Other identifiable assets	165,977	197,033	177,374	1,902,382	1,943,756	1,953,348
Other corporate assets				1,462,128	936,431	1,115,181
Total assets				$14,722,518	$14,057,185	$13,949,890
* Intersegment rentals included in segments' income but eliminated for total:						
Operating revenues	$ 2,177	$ 2,054	$ 1,951	$ 15,137	$ 14,675	$ 15,628
Operating expenses	13	13	13	15,137	14,675	15,628

** General Utility Plant was allocated to Electric and Gas on the departmental use of such plant. Pursuant to PSC requirements the Steam department is charged an interdepartmental rent for general plant used in Steam operations, which is credited to the Electric and Gas departments.

(a) Con Edison supplies electric service in all of New York City (except part of Queens) and most of Westchester County. It also supplies gas in Manhattan, the Bronx and parts of Queens and Westchester, and steam in part of Manhattan.

CONSOLIDATED EDISON INC.

FINANCIAL DATA

(b)

	Year 1997	Year 1996	Year 1995
Interest coverage (Times)			
SEC-Book	4.09	4.18	4.20
Earnings per share	$ 2.95	$ 2.93	$ 2.93
Return on average common Equity	12.1%	12.3%	12.8%
Book value per share			
Average	$ 24.49	$ 23.74	$ 22.89
End of period	25.18	24.37	23.51
Effective tax rate	34.8%	36.3%	35.5%
Capitalization ratios:			
SEC Basis			
Long term debt	40.1%	41.2%	38.9%
Preferred stock	3.1	3.1	6.3
Common equity	56.8	55.7	54.8
	100.0%	100.0%	100.0%
PSC Basis			
Long term debt	40.8%	41.3%	39.4%
Preferred stock	2.9	3.0	6.1
Customer deposits	1.5	1.5	1.5
Common equity	54.8	54.2	53.0
	100.0%	100.0%	100.0%

(c) The complete terms, preferences, privileges and voting powers of the $5 Cumulative Preferred Stock, Cumulative Preferred Stock 5-3/4% Series A, 5-1/4% Series B, 4.65% Series C, 4.65% Series D, 5-3/4% Series E, 6.20% Series F, 7.20% Series I, 6-1/8% Series J and Cumulative Preference Stock, 6% Convertible Series B, are as set forth in Con Edison's Certificate of Incorporation, as amended, previously filed with the Commission to which reference is made. In March 1996 Con Edison canceled approximately $227 million of its preferred stock purchased pursuant to a tender offer and redeemed an additional $90 million of its preferred stock. In December 1997 Con Edison redeemed its Series B preference stock. In general the preferences of such stocks are as follows:

$5 Cumulative Preferred Stock

The $5 Cumulative Preferred Stock shall be entitled to receive, when and as declared from surplus or net profits, dividends at the rate of five dollars a share per annum and no more, which dividends shall be cumulative from the dividend date next preceding the date of issue of the respective shares (or from the date of issue if that be a dividend date), and shall be payable quarterly on the first day of February, May, August, and November in each year.

Upon any liquidation or distribution of capital assets, the $5 Cumulative Preferred Stock shall be entitled to receive $100 a share and in addition thereto, a sum equivalent to all unpaid dividends accumulated thereon, and any preferred stock of any class ranking equally with the $5 Cumulative Preferred Stock in the distribution of capital assets shall be entitled to receive an equivalent amount before any distribution shall be made to any other preferred stock or common stock, which shall be entitled to receive all the remainder of such capital assets so distributed in accordance with provisions governing their respective rights thereto.

Con Edison shall have the right to redeem the $5 Cumulative Preferred Stock on any dividend date, either in whole or in such portions as, from time to time, the Board of Trustees may determine, upon the payment of the sum of $105 a share and the amount of all unpaid dividends accumulated thereon to the date fixed for such redemption, provided, that, if less than all of the outstanding shares of $5 Cumulative Preferred Stock shall be redeemed at any time, the shares to be redeemed shall be selected in such manner as the Board of Trustees may determine.

(c) (Continued)

Cumulative Preferred Stock

The Cumulative Preferred Stock may be issued from time to time in one or more series, the Board of Trustees having the authority to fix from time to time the designations, preferences, privileges and voting powers of each series except for such provisions as are to be applicable to all series. The $5 Cumulative Preferred Stock shall rank superior in all respects to the new Cumulative Preferred Stock except that one or more series of new Cumulative Preferred Stock may rank equally with the $5 Cumulative Preferred Stock with respect to priority in the payment of dividends and the distribution of assets if the earnings of Con Edison and its affiliated companies, as defined, for the fiscal year ending next prior to the date of issue of the new Cumulative Preferred Stock are at least equal to three times the annual dividend on all shares of preferred stock to be outstanding immediately after the issue of such new Cumulative Preferred Stock. In such case, however, any series of new Cumulative Preferred Stock theretofore or thereafter issued shall also rank equally with the $5 Cumulative Preferred Stock and shall also comply or have complied with such earnings requirements.

With respect to each series of new Cumulative Preferred Stock, the Board of Trustees may determine, among other things, the provisions relating to the dividend rate, the sum per share (not less than $100) payable upon voluntary or involuntary dissolution, liquidation or winding up of Con Edison, the redemption price and the conversion rights and sinking fund provisions, if any, applicable thereto and any other provisions not inconsistent with the provisions applicable to all shares.

Cumulative Preferred Stock, 5-3/4% Series A

The Cumulative Preferred Stock, 5-3/4% Series A has a par value of $100 per share; is entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon and is redeemable at $102 per share plus accrued but unpaid dividends to the redemption date.

Cumulative Preferred Stock, 5-1/4% Series B

The Cumulative Preferred Stock, 5-1/4% Series B has a par value of $100 per share; is entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon and is redeemable at $102 per share plus accrued but unpaid dividends to the redemption date.

(c) (Continued)

Cumulative Preferred Stock, 4.65% Series C

The Cumulative Preferred Stock, 4.65% Series C has a par value of $100 per share; is entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon and is redeemable at $101 per share plus accrued but unpaid dividends to the redemption date.

Cumulative Preferred Stock, 4.65% Series D

The Cumulative Preferred Stock, 4.65% Series D has a par value of $100 per share; is entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon and is redeemable at $101 per share plus accrued but unpaid dividends to the redemption date.

Cumulative Preferred Stock, 5-3/4% Series E

The Cumulative Preferred Stock, 5-3/4% Series E had a par value of $100 per share; was entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon.

Cumulative Preferred Stock, 6.20% Series F

The Cumulative Preferred Stock, 6.20% Series F had a par value of $100 per share; was entitled to receive (1) on voluntary liquidation an amount equal to the redemption price then in effect and (2) on involuntary liquidation $100 per share plus accrued but unpaid dividends thereon.

Cumulative Preferred Stock, 7.20% Series I

The Company is required to redeem 25,000 of the Series I shares on May 1 of each year in the five-year period commencing with the year 2002 and to redeem the remaining Series I shares on May 1, 2007. The redemption price is $100 per share plus accrued and unpaid dividends to the redemption date. In addition, the Company may redeem Series I shares at a redemption price of $103.60 per share, plus accrued dividends, if redeemed prior to May 1, 1998. Series I shares may not be called for redemption while dividends are in arrears on outstanding shares of $5 Cumulative Preferred Stock or Cumulative Preferred Stock. Nevertheless, the redemption obligation of Con Edison with respect to such shares is cumulative and if the redemption requirement is in arrears Con Edison may not purchase or redeem or pay any dividends on the common stock or any other stock ranking junior as to dividends or assets to the Cumulative Preferred Stock, except for payments or distributions in common stock or such junior stock.

(c) (Concluded)

Cumulative Preferred Stock, 6-1/8% Series J

Con Edison is required to redeem the Series J shares on August 1, 2002. The redemption price is $100 per share plus accrued and unpaid dividends to the redemption date. Series J shares may not be called for redemption while dividends are in arrears on outstanding shares of $5 Cumulative Preferred Stock or Cumulative Preferred Stock. Nevertheless, the redemption obligation of Con Edison with respect to such shares is cumulative and if the redemption requirement is in arrears Con Edison may not purchase or redeem or pay any dividends on the common stock or any other stock ranking junior as to dividends or assets to the Cumulative Preferred Stock, except for payments or distributions in common stock or such junior stock.

Cumulative Preference Stock

The Cumulative Preference Stock was issued from time to time in one or more series, the Board of Trustees having the authority to fix from time to time the designations, preferences, privileges and voting powers of each series except for such provisions as are applicable to all series. The $5 Cumulative Preferred Stock and the Cumulative Preferred Stock rank superior in all respects to the Cumulative Preference Stock. No holder of any Cumulative Preference Stock had any preemptive rights and, except as otherwise provided by law and the Certificate of Incorporation, as amended, had any voting rights.

With respect to each series of Cumulative Preference Stock, the Board of Trustees determined, among other things, the provisions relating to the dividend rate, the sum per share (not less than $100) payable upon voluntary or involuntary dissolution, liquidation or winding-up of Con Edison, the redemption price, the conversion rights and sinking fund provisions, if any, applicable thereto and any other provisions not inconsistent with the provisions applicable to all shares.

Cumulative Preference Stock, 6% Convertible Series B

The Cumulative Preference Stock, 6% Convertible Series B had a par value of $100 per share; was convertible, unless previously redeemed, into Common Stock at a conversion price of $7.69 per share subject to adjustment under certain conditions; was redeemable at $100 per share, plus dividends accrued to the redemption date.

(d) Rate and amount of dividends declared upon the Capital Stock and the amount of dividends paid during each of the years 1993 to 1997.

	Dividends Declared		Dividends
	Rate	Amount	Paid
$5 Cumulative Preferred Stock			
1993	$ 5.00	$ 9,576,595	$ 9,576,595
1994	5.00	9,576,595	9,576,595
1995	5.00	9,576,595	9,576,595
1996	5.00	9,576,595	9,576,595
1997	5.00	9,576,595	9,576,595
Cumulative Preferred Stock			
5-3/4% Series A			
1993	5.75	3,450,000	3,450,000
1994	5.75	3,450,000	3,450,000
1995	5.75	3,450,000	3,450,000
1996	5.75	406,019	406,019
1997	5.75	406,019	406,019
5-1/4% Series B			
1993	5.25	3,937,500	3,937,500
1994	5.25	3,937,500	3,937,500
1995	5.25	3,937,500	3,937,500
1996	5.25	726,800	726,800
1997	5.25	726,800	726,800
4.65% Series C			
1993	4.65	2,790,002	2,790,002
1994	4.65	2,790,002	2,790,002
1995	4.65	2,790,002	2,790,002
1996	4.65	712,828	712,828
1997	4.65	712,828	712,828
4.65% Series D			
1993	4.65	3,487,502	3,487,502
1994	4.65	3,487,502	3,487,502
1995	4.65	3,487,502	3,487,501
1996	4.65	1,033,836	1,033,836
1997	4.65	1,033,835	1,033,835
5-3/4% Series E			
1993	5.75	2,875,003	2,875,003
1994	5.75	2,875,002	2,875,002
1995	5.75	2,875,002	2,875,002

(d) Rate and amount of dividends declared upon the Capital Stock and the amount of dividends paid during each of the years 1993 to 1997.

	Dividends Declared		Dividends
	Rate	Amount	Paid
6.20% Series F			
1993	6.20	$ 2,480,000	$ 2,480,000
1994	6.20	2,480,000	2,480,000
1995	6.20	2,480,000	2,480,000
7.20% Series I			
1993	7.20	3,600,000	3,600,000
1994	7.20	3,600,000	3,600,000
1995	7.20	3,600,000	3,600,000
1996	7.20	3,420,000	3,420,000
1997	7.20	3,420,000	3,420,000
6-1/8% Series J			
1993	6.125	3,062,500	3,062,500
1994	6.125	3,062,500	3,062,500
1995	6.125	3,062,500	3,062,500
1996	6.125	2,269,313	2,269,313
1997	6.125	2,269,313	2,269,313
Cumulative Preference Stock 6% Convertible Series B			
1993	6.00	354,555	362,559
1994	6.00	325,715	331,974
1995	6.00	303,801	310,112
1996	6.00	283,562	287,370
1997	6.00	198,324	198,324
Common Stock			
1993	$ 1.94	453,902,284	453,902,284
1994	2.00	469,560,742	469,560,742
1995	2.04	479,262,332	479,262,332
1996	2.08	488,755,428	488,755,428
1997	2.10	493,711,770	493,711,770

(e) No Contingent Assets. See footnotes to Financial Statements for Contingent Liabilities.

APPENDIX E

ORANGE AND ROCKLAND UTILITIES, INC.

FINANCIAL CONDITION AS OF DECEMBER 31, 1997

(As defined by Part 3 of the Rules of Procedure of the New York Public Service Commission)

(a) Capital Stock Authorized by Amended Certificate of Incorporation

Preferred Stock - 1,000,000 shares - $100 Par value	$100,000,000
Preference Stock - 1,500,000 shares - No Par value	-
Common Stock - 50,000,000 shares - $5 Par value	250,000,000

	$350,000,000
	=============

(b) Commission Authorization for Capital Stock Outstanding

Case	Date of Commission Order		Number of Shares	Par Value		Amount Outstanding
Common Stock						
1322	8/05/25	885				
		(855)*				
			-			
3058	4/28/26	515,000				
	2/09/28	200,000				

		715,000		$10	$7,150,000	
		(400)*		$10	(4,000)	
			714,600	$10		$ 7,146,000
4135	2/09/28		261,535	$10		2,615,350
4577	11/01/28		125,000	$10		1,250,000
5062	12/20/28	120,000				
	2/07/30	137,509				

		257,509		$10	2,575,090	
		(5,591)*		$10	(55,910)	
			251,918	$10		2,519,180
15786	12/17/52		122,000	$10		1,220,000
16438	10/06/53		210,721	$10		2,107,210
18542	10/07/57		144,580	$10		1,445,800
18672	1/28/58		127,905	$10		1,279,050
21156	4/12/60		117,429	$10		1,174,290
22666	5/28/63		2,075,688	2 for 1 Stock Split		None
23966	4/12/66		200,736	$ 5		1,003,680
25419	1/08/70		700,000	$ 5		3,500,000
26036	2/22/71		700,000	$ 5		3,500,000
26168	11/03/71		1,000,000	$ 5		5,000,000
26301	9/26/72		1,500,000	$ 5		7,500,000
26557	2/14/74		1,500,000	$ 5		7,500,000
27067(1)	11/09/76		750,000	$ 5		3,750,000
27067(2)	11/09/76		20,916	$ 5		104,580
27369	7/25/78		44,190	$ 5		220,950
27638	1/08/80		1,000,000	$ 5		5,000,000
27645	10/08/80		40,019	$ 5		200,095
27858	12/30/80		8,606	$ 5		43,030
27878	1/27/81		150,000	$ 5		750,000
28078	12/09/81		43,794	$ 5		218,970
28295	10/06/82		778,453	$ 5		3,892,265
28297	12/22/82		26,820	$ 5		134,100
28449	4/20/83		31,305	$ 5		156,525
88M055	5/25/88		1,008,696	$ 5		5,043,480
97M1302	12/31/97		(65,900)	$ 5		(329,500)
			----------			-----------
Total Common Stock			13,589,011			$67,945,055
			==========			===========

CASE	DATE OF COMMISSION ORDER		NUMBER OF SHARES	PAR VALUE	AMOUNT OUTSTANDING
$1.52 Convertible Cumulative Preference Stock, Series A					
23966	4/12/66	159,669 (148,030)**	11,639	None	$ 379,310
Preferred Stock Series A					
14865	6/06/50		50,000	$100	5,000,000
Preferred Stock Series B					
16842	7/27/54		40,000	$100	4,000,000
Preferred Stock Series D					
18672	1/28/58		3,443	$100	344,300
Preferred Stock Series F					
23234	8/11/64		75,000	$100	7,500,000
Preferred Stock Series G					
25007	12/17/68		110,000	$100	11,000,000
Preferred Stock Series H					
26285	8/01/72		150,000	$100	15,000,000
TOTAL PREFERRED STOCK					42,844,300
TOTAL OUTSTANDING CAPITAL STOCK					$111,168,665

* Authorization canceled prior to issue.
** Converted to Common Stock.

(c) Information re: Capital Stock

	AMOUNT ACTUALLY PAID TO CORPORATION
Common Stock - $5 Par value (Includes Premium of $132,715,599)	$200,660,654
$1.52 Convertible Preference Stock, Series A - No Par Value***	379,310
Preferred Stock, Series A - $100 Par Value (Includes Premium of $26,000)	5,026,000
Preferred Stock, Series B - $100 Par Value	4,000,000
Preferred Stock, Series D - $100 Par Value	344,300
Preferred Stock, Series F - $100 Par Value	7,500,000
Preferred Stock, Series G - $100 Par Value	11,000,000
Preferred Stock, Series H - $100 Par Value (Includes Premium of $243,750)	15,243,750
Total Amount Actually Paid to Corporation	$244,154,014

***Net of shares converted to Common Stock. Original amount paid-$5,202,353.

(d) TERMS OF PREFERENCE FOR PREFERRED STOCK

Series A

The holders of the 50,000 shares of Cumulative Preferred Stock, Series A, 4.65%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions on the preference and common stock, cumulative preferential dividends at the rate of 4.65% per annum, payable quarterly on the first days of February, May, August and November.

The Cumulative Preferred Stock, Series A, 4.65% is redeemable at a price of $104.25 per share, plus an amount equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the Cumulative Preferred Stock, Series A, 4.65%, upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Preferred Stock, Series A, 4.65%; and

The shares of the Cumulative Preferred Stock, Series A, 4.65%, shall not be convertible or exchangeable for other securities of the Company.

Series B

The holders of the 40,000 shares of Cumulative Preferred Stock, Series B, 4.75%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions on the preference and common stock, cumulative preferential dividends at the rate of 4.75% per annum, payable quarterly on the first days of January, April, July and October.

The Cumulative Preferred Stock, Series B, 4.75% is redeemable at a price of $102.00 per share, plus an amount equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the Cumulative Preferred Stock, Series B, 4.75%, upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Preferred Stock, Series B, 4.75%; and

The shares of the Cumulative Preferred Stock, Series B, 4.75%, shall not be convertible into or exchangeable for other securities of the Company.

Series D
- --------

The holders of the 3,443 shares of Cumulative Preferred Stock, Series D, 4%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions of the preference and common stock, cumulative preferential dividends at the rate of 4% per annum, payable quarterly on the first days of January, April, July and October.

The Cumulative Preferred Stock, Series D, 4%, is redeemable at a price of $100.00 per share plus an amount equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the Cumulative Preferred Stock, Series D, 4%, upon the voluntary liquidation, dissolution or winding up of the corporation and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Preferred Stock, Series D, 4%; and

The shares of Cumulative Preferred Stock, Series D, 4%, shall not be convertible into or exchangeable for other securities of the Company.

Series F
- --------

The holders of the 75,000 shares of Cumulative Preferred Stock, Series F, 4.68%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions on the preference and common stock, cumulative preferential dividends at the rate of 4.68% per annum, payable quarterly on the first days of January, April, July and October.

The Cumulative Preferred Stock, Series F, 4.68% is redeemable at a price of $102.00 per share, plus an amount equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the Cumulative Preferred Stock, Series F, 4.68%, upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Preferred Stock, Series F, 4.68%; and

The shares of the Cumulative Preferred Stock, Series F, 4.68%, shall not be convertible into or exchangeable for other securities of the Company.

Series G

The holders of the 110,000 shares of Cumulative Preferred Stock,Series G, 7.10%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions on the preference and common stock, cumulative preferential dividends at the rate of 7.10% per annum, payable quarterly on the first days of January, April, July and October.

The Cumulative Preferred Stock, Series G, 7.10%, is redeemable at a price of $101.00 per share together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the Cumulative Preferred Stock, Series G, 7.10% upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Preferred Stock, Series G, 7.10%; and

The shares of the Cumulative Preferred Stock, Series G, 7.10% shall not be convertible into or exchangeable for other securities of the Company.

Series H

The holders of the 150,000 shares of Cumulative Preferred Stock, Series H, 8.08%, now outstanding, are entitled to receive, when and as declared by the Board of Directors, in preference to any dividends or other distributions on the preference and common stock, cumulative preferential dividends at the rate of 8.08% per annum, payable quarterly on the first days of January, April, July and October.

The Cumulative Preferred Stock, Series H, 8.08%, is redeemable at a price of $102.43 per share together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of Cumulative Preferred Stock, Series H, 8.08% upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon the involuntary liquidation, dissolution or winding up of the corporation shall be $100.00 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the Cumulative Stock, Series H, 8.08%; and

The shares of the Cumulative Preferred Stock, Series H, 8.08% shall not be convertible into or exchangeable for other securities of the Company.

Series I

On January 6, 1997, the Company redeemed the remaining 13,896 shares of Redeemable Cumulative Preferred Stock, Series I, 8 1/8% then outstanding, at $100 per share.

$1.52 Convertible Cumulative Preference Stock, Series A
- ---

The holders of the 11,639 shares of $1.52 Convertible Cumulative Preference Stock, Series A, now outstanding, are entitled to receive, when and as declared by the Board of Directors, after all dividends through the current period have been paid, or declared and funds set apart for payment, on the outstanding shares of the Company's Cumulative Preferred Stock, in preference to any dividends or other distributions on the common stock, cumulative preferential dividends at the rate of $1.52 per annum, payable quarterly on the second days of February, May, August and November.

The $1.52 Convertible Cumulative Preference Stock, Series A is redeemable at a price of $32.50 per share plus an amount equal to all dividends accumulated and unpaid to the date fixed for redemption.

The amount payable to the holders of the $1.52 Convertible Cumulative Preference Stock, Series A upon the voluntary liquidation, dissolution or winding up of the corporation shall be the redemption price per share in effect at the time of such voluntary liquidation, dissolution or winding up, and upon involuntary liquidation, dissolution or winding up of the corporation shall be $32.50 per share, together, with a sum, in each case, equal to all dividends accumulated and unpaid to the date fixed for the payment of such distributive amounts.

There shall be no sinking fund with respect to the shares of the $1.52 Convertible Cumulative Preference Stock, Series A.

The $1.52 Convertible Cumulative Preference Stock, Series A is convertible into Common Stock of the Company at any time. The conversion price is reduced upon issuance of additional shares of common stock according to the formula set forth in the Company's Certificate of Incorporation.

(e) Information re: No-Par Stock

$1.52 Convertible Cumulative Preference Stock, Series A - No Par Value

	Number of Shares	Stated Value
Issued May 2, 1966 (Case 23966)	159,669	$5,202,353
Converted to Common Stock during the period:		
5/02/66 - 3/31/67	5	163
4/01/67 - 9/30/68	62	2,020
10/01/68 - 9/30/69	459	14,954
10/01/69 - 11/30/70	440	14,335
12/01/70 - 8/31/71	383	12,478
9/01/71 - 4/30/72	169	5,506
5/01/72 - 5/31/72	10	326
6/01/72 - 12/31/72	331	10,784
1/01/73 - 10/31/73	3,239	105,527
11/01/73 - 8/31/74	870	28,345
9/01/74 - 4/30/75	1,080	35,186
5/01/75 - 7/31/76	10,174	331,469
7/31/76 - 12/31/76	11,806	384,639
1/01/77 - 6/30/77	28,515	929,019
7/01/77 - 9/30/77	7,875	256,568
10/01/77 - 3/31/78	17,362	565,654
4/01/78 - 7/31/79	24,935	812,382
8/01/79 - 6/30/80	9,814	319,740
7/01/80 - 12/31/80	1,895	61,739
1/01/81 - 6/30/81	1,698	55,321
7/01/81 - 5/31/82	3,032	98,782
6/01/82 - 11/30/82	2,584	84,202
12/01/82 - 6/30/83	1,913	62,344
7/01/83 - 6/30/84	1,516	49,407
7/01/84 - 3/31/85	1,577	51,394
4/01/85 - 12/31/87	4,616	150,436
1/01/88 - 3/31/89	784	25,550
4/01/89 - 12/31/90	6,529	212,780
1/01/91 - 6/30/92	1,378	44,909
7/01/92 - 9/30/92	271	8,832
0/01/92 - 9/30/94	1,169	38,097
10/01/94 - 9/30/96	957	31,188
10/01/96 - 12/31/96	41	1,336
1/01/96 - 3/31/97	84	2,738
4/01/97 - 12/31/97	457	14,893
Balance as of December 31, 1997	11,639	$ 379,310

(f) Commission Authorization for Bonds and Other Long-Term Debt

Case	Date of Commission Order	Description	Series	Percent	Due	Face Value Outstanding
89-M-120	9/01/89	Debentures	A	9.375	3/15/00	80,000,000
92-M-0862	10/22/92	Debentures	C	6.14	3/01/00	20,000,000
92-M-0862	10/22/92	Debentures	D	6.56	3/01/03	35,000,000
97-M-0822	08/26/97	Debentures	E/F	6.50	12/01/27	80,000,000
91-M-0437	09/14/92	Pollution Control Bonds	1994	6.09	10/01/14	55,000,000
95-M-0229	06/11/95	Pollution Control Bonds	1995	Variable	8/01/15	44,000,000
Total Face Value Outstanding						$314,000,000

(g) On October 1, 1997 the Company's First Mortgage Bonds, Series I, 6 1/2% were redeemed at maturity. The Series I Bonds were the final series of bonds outstanding under the Orange and Rockland Utilities, Inc. First Mortgage Indenture, and the Company has canceled its First Mortgage and discharged the lien thereon.

(h) Information re: Bonds and Other Long-Term Debt

Title	Date of Issue -	Date of Maturity	Authorized and Issued	Outstanding at Dec. 31, 1997
Orange and Rockland Utilities, Inc.				
Promissory Notes:				
Note 1(a) 6.90%	8/15/95	7/15/99	23,650	10,451
Note 2(a) 6.90%	8/15/95	7/15/99	24,000	10,601
Note 7 6.90%	8/15/95	7/15/99	26,016	17,636
Note 3 6.90%	2/15/95	1/15/01	27,865	22,087
Note 8 6.90%	2/15/95	1/15/01	27,865	22,087
Note 9 6.97%	5/15/95	4/15/01	27,310	23,696
Unsecured Promissory Notes:				
Pollution Control Bonds:				
1994 Series, 6.09%	8/31/94	10/01/14	55,000,000	55,000,000
1995 Series, Variable Rate	8/01/95	8/01/15	44,000,000	44,000,000
Debentures:				
Series A, 9.375%	3/15/90	3/15/00	80,000,000	80,000,000
Series C, 6.14%	3/10/93	3/01/00	20,000,000	20,000,000
Series D, 6.56%	3/10/93	3/01/93	35,000,000	35,000,000
Series E/F, 6.50%	12/18/97	12/01/27	80,000,000	80,000,000
				$314,106,558

(i) Indebtedness to Affiliated Companies, December 31, 1997

Payables to Associated Companies	$ 255,022

(j) Other Indebtedness, December 31, 1997

Customers' Deposits	$ 3,530,817

(k) Interest Expense and Rates of Interest - Year Ended December 31, 1997

Long-Term Debt:	
Mortgage Bonds Series I 6.50%	$ 1,121,250
Promissory Notes 6.9%	7,729
Unsecured Promissory Notes:	
Pollution Control Bonds:	
1994 Series, 6.09%	3,349,500
1995 Series, Variable Rate	1,566,904
Debentures:	
Series A, 9.375%	7,500,000
Series B, 6.50%	2,830,208
Series C, 6.14%	1,228,000
Series D, 6.56%	2,296,000
Series E/F, 6.50%	216,667
Total Interest on Long-Term Debt	$ 20,116,258

Short-Term Debt:

Interest on Short-Term Debt - 5.36% - 6.97%	$7,072,763
Interest on Underground Deposits - 5.65%	33,316
Interest on Customer Accounts Receivable 5.65%	104,761
Interest on Unrefundable Share of Savings from Gas Used in Generation - 5.65 - 7.875%	184,255
Interest on Customer Deposits - 5.65%	192,139
Interest on Deferred Directors Fees - 9.04%	84,346
Interest on Pipeline Supplier Refunds - 7.40%	56,167
Interest on GAC Revenues - 7.40%	140,348
Interest on Utility Low Income Energy Efficiency Program - 7.40%	6,672
Interest on Least Costs Annual Power Supply - 7.40%	51,754
Interest on Insurance Policy - 11.70%	189,857
Interest on Tax Audits - 7.00 - 11.00%	653
Interest on Pensions - 11.62% - 13.10%	234,260
Interest on OPEBs - 11.62% - 13.10%	15,704
Interest on Tilcon Settlement - 9.00%	181,587
Total Other Interest Expenses	$8,548,582

(i) Dividends Declared and Paid

Year	Rate	Declared	Paid
Common Stock			
1997	$2.58	$35,228,840	$35,228,840
1996	2.58	35,227,108	35,227,108
1995	2.57	35,088,740	35,088,740
1994	2.54	34,486,055	34,486,055
1993	2.49	33,693,780	33,586,839
$1.52 Convertible Preference Stock Series A - No Par Value			
1997	$1.52	$ 17,983	$ 17,983
1996	1.52	18,807	18,807
1995	1.52	16,241	16,241
1994	1.52	20,877	20,877
1993	1.52	21,093	21,093
Preferred Stock Series A			
1997	$4.65	$ 232,500	$ 232,500
1996	4.65	232,500	232,500
1995	4.65	232,500	232,500
1994	4.65	232,500	232,500
1993	4.65	232,500	232,500
Preferred Stock Series B			
1997	$4.75	$ 190,000	$ 190,000
1996	4.75	190,000	190,000
1995	4.75	190,000	190,000
1994	4.75	190,000	190,000
1993	4.75	190,000	190,000

Preferred Stock Series D

1997	$ 4.00	$ 13,772	$ 13,772
1996	4.00	13,772	13,772
1995	4.00	13,772	13,772
1994	4.00	13,772	13,772
1993	4.00	13,772	13,772

Preferred Stock Series F

1997	$ 4.68	$ 351,000	$ 351,000
1996	4.68	351,000	351,000
1995	4.68	351,000	351,000
1994	4.68	351,000	351,000
1993	4.68	351,000	351,000

Preferred Stock Series G

1997	$ 7.10	$ 781,000	$ 781,000
1996	7.10	781,000	781,000
1995	7.10	781,000	781,000
1994	7.10	781,000	781,000
1993	7.10	781,000	781,000

Preferred Stock Series H

1997	$ 8.08	$1,212,000	$1,212,000
1996	8.08	1,212,000	1,212,000
1995	8.08	1,212,000	1,212,000
1994	8.08	1,212,000	1,212,000
1993	8.08	1,212,000	1,212,000

Preferred Stock Series I

1997	$8.125	$ 1,568	$ 1,568
1996	8.125	197,202	225,371
1995	8.125	305,457	337,399
1994	8.125	422,775	450,304
1993	8.125	562,770	590,938

(m) Contingent Assets and Liabilities

There are no contingent assets or liabilities.

(n) Analysis of Unearned Surplus

There is no unearned surplus.

(o) Amortization of Deferred Debits and Credits

Unamortized Debt Discount:

Description		Yearly Amortization	Amortization Period to	Original Discount-Gross	Amortized to Dec. 31, 1997	Balance at Dec. 1, 1997
Debenture						
Series A	9.375%	$17,920	3/15/00	$179,200	$139,626	$39,574
Total Unamortized Discount on Debt - Dec. 31, 1997						$39,574

Unamortized Debt Expenses:

Description		Yearly Amortization	Amortization Period to	Cost of Issuing-Gross	Amortized to Dec. 31, 1997	Balance at Dec. 31, 1997
First Mortgage Bonds						
Series K	7.50%	8,336	4/01/01	499,236	342,849	156,387
Series L	8%	5,479	12/01/01	347,375	190,389	156,986
Series M	8.50%	17,072	5/15/03	877,692	420,407	457,285
Pollution Control Bonds						
1985	9%	66,384	8/01/15	2,471,473	288,388	2,183,135 (A)
1984	10.25%	53,835	10/01/14	2,544,525	413,485	2,131,040 (B)
1994	Var. Rate	100,000	10/01/14	2,000,000	325,000	1,675,000
1995	Var. Rate	55,455	08/01/15	1,109,109	129,248	979,861
Debentures						
Series A	9.375%	80,699	3/15/00	806,986	628,776	178,210
Series C	6.14%	30,754	3/01/00	212,718	143,520	69,198
Series D	6.56%	39,375	3/01/03	390,740	183,751	206,719
Series E/F	6.50%	27,500	12/01/97	825,000	1,146	823,854
Total unamortized Debt Expense - Dec. 1, 1997						$9,017,675

(A) $44 million of Pollution Control Debt was refinanced in July 1995. The net unamortized balance of $2,471,472 was transferred from PSC Account 181-Unamortized Debt Expense to PSC Account 189-Loss on Reacquired Debt and is being amortized over 20 years.

(B) $55 million of Pollution Control Debt was refinanced in September 1994. The net unamortized balance of $2,544,525 was transferred from PSC Account 181-Unamortized Debt Expense to PSC Account 189-Loss on Reacquired Debt and is being amortized over 20 years.

Amortization of Deferred Debits:

		Balance at Dec. 31, 1997
1)	Electric and Gas Rate Case Costs - By NYPSC Order in connection with Case 89-E-175 issued June 26, 1990, the deferral and amortization of program costs are covered by the Commission RDM Accounting Procedures and in Case 92-G-050 issued October 23, 1992 as outlined in the Order	$ 370,459
2)	Electric Underground Cable - By NYPSC Order dated February 13, 1993, in connection with Case 92-E-0866, the Company received permission to defer and amortize costs previously capitalized.	$ 4,251,034

Amortization of Deferred Credits:

	Balance at Dec. 31, 1997
1) Refunds from Natural Gas Suppliers - Refunds received during the year are refunded over the next twelve-month period.	$ 954,086
2) Fuel Savings from Gas Used in Electric Generation - Savings deferred during the year are refunded over the next twelve-month period.	$3,940,767
3) Stony Point Gate Station - By NYPSC Order dated June 20, 1984, in connection with Case No. 27554. Current amortization period is for fifteen years commencing December 1, 1985.	$ 12,478
4) TRANSCO Project - By NYPSC Order dated March 5, 1986 in connection with Case No.'s 27910 and 19047. Current amortization period is for fifteen years commencing March 1, 1986.	$ 81,153

ORANGE AND ROCKLAND UTILITIES, INC.

BALANCE SHEET AT DECEMBER 31, 1997

ASSETS AND OTHER DEBITS

Utility Plant	
Electric Plant in Service*	$ 880,453,423
Gas Plant in Service**	231,265,803
Common Utility Plant in Service	64,501,371
Electric Plant Held for Future Use	2,152,274
Gas Plant Held for Future Use	88,153
Construction Work in Progress	61,116,991
Utility Plant	1,239,578,015
Accumulated Provision for Depreciation:	
Electric	308,903,705
Gas	81,803,458
Common	27,227,703
Electric Plant Held for Future Use	160,938
Gas Plant Held for Future Use	2,055
Accumulated Provision for Amortization:	
Electric	1,973,257
Gas	6,933
Total Accumulated Provisions	420,078,049
Net Utility Plant	819,499,966
Other Property and Investments	
Non-Utility Property	264,076
Accumulated Provision for Depreciation	(160,788)
Investments in Subsidiary Companies	114,226,843
Other Investments	6,628
Total Other Property and Investments	114,336,759
Current and Accrued Assets	
Cash	1,245,871
Other Special Deposits	1,000
Working Funds	42,824
Notes Receivable	29,827
Customer Accounts Receivable	49,909,007
Other Accounts Receivable	19,712,394
Deferred Accounts Receivable	400,762
Accumulated Provision for Uncollectible Accounts	(2,427,954)
Accounts Receivable from Associated Companies	11,675,406
Materials and Supplies	17,213,972
Gas Stored Underground	11,103,456
Prepayments	23,315,519
Accrued Utility Revenue	20,545,578
Miscellaneous Current and Accrued Assets	19,138,309
Total Current and Accrued Assets	171,905,971

ORANGE AND ROCKLAND UTILITIES, INC.

BALANCE SHEET AT DECEMBER 31, 1997

(continued)

Deferred Debits

Unamortized Debt Expense	$ 9,017,675
Preliminary Survey and Investigation Charges	295,102
Miscellaneous Deferred Debits	119,058,241
Research and Development	(2,016,195)
Accumulated Deferred Federal Income Tax	28,196,559
Total Deferred Debits	154,551,382
TOTAL ASSETS AND OTHER DEBITS	$1,260,294,078

*Electric Plant in Service includes Franchise - $20,657
**Gas Plant in Service includes Franchise - $20,826

ORANGE AND ROCKLAND UTILITIES, INC.

BALANCE SHEET AT DECEMBER 31, 1997

LIABILITIES AND OTHER CREDITS

Proprietary Capital	
Common Stock Issued (13,589,011 shares outstanding)	$ 67,945,055
Preference Stock Issued (11,639 shares outstanding)	379,310
Preferred Stock Issued (428,443 shares outstanding)	42,844,300
Premium on Capital Stock	132,985,349
Capital Stock Expense	(6,058,678)
Retained Earnings	96,349,510
Unappropriated Undistributed Subsidiary Earnings	85,123,123
Total Proprietary Capital	419,567,969
Long-Term Debt	
Other Long-Term Debt	314,106,558
Unamortized Discount on Debt	(39,574)
Total Long-Term Debt	314,066,984
Current and Accrued Liabilities	
Notes Payable	147,457,000
Accounts Payable	56,721,241
Accounts Payable to Associated Companies	255,022
Customer Deposits	3,530,817
Taxes Accrued	999,189
Interest Accrued	4,702,621
Dividends Declared	636,493
Miscellaneous Current and Accrued Liabilities	39,272,302
Total Current and Accrued Liabilities	253,574,685
Deferred Credits	
Customer Advances for Construction	1,134,505
Other Deferred Credits	17,592,661
Accumulated Deferred Investment Tax Credits	12,313,109
Accumulated Deferred Income Taxes:	
Accelerated Amortization	13,088,521
Liberalized Depreciation	135,583,054
Other	48,679,490
Total Deferred Credits	228,391,340
Non-Current Liabilities	
Obligations Under Capital Leases	1,641,203
Accumulated Provision for Contingencies	43,051,897
Total Non-Current Liabilities	44,693,100
TOTAL LIABILITIES AND OTHER CREDITS	$1,260,294,078

ORANGE AND ROCKLAND UTILITIES, INC.

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 1997

	Electric Department	Gas Department	Total
Operating Revenues			
Residential Sales	$154,491,511	114,574,204	$269,065,715
Commercial and Industrial Sales	161,411,333	48,606,480	210,017,813
Public Street & Highway Lighting	3,952,282	-	3,952,282
Other Sales to Public Authorities	2,754,846	-	2,754,846
Sales for Resale	78,743,718	763,715	79,507,433
Interdepartmental Sales	10,047	28,561	38,608
Total Sales Revenues	401,363,737	163,972,960	565,336,697
Miscellaneous Service Revenue	145,773	2,925	148,698
Rent from Operating Property	4,998,282	33,072	5,031,354
Transportation of Gas for Others	-	4,506,212	4,506,212
Other Operating Revenue	5,924,866	(184,441)	5,740,425
Total Miscellaneous Revenues	11,068,921	4,357,768	15,426,689
Total Operating Revenues	412,432,658	168,330,728	580,763,386
Operating Expenses			
Production	163,264,201	66,764,495	230,028,696
Storage Well Rents	-	3,237,500	3,237,500
Transmission	8,540,466	31,169,976	39,710,422
Distribution	21,400,219	11,398,976	32,799,195
Customer Accounts	11,517,792	3,750,138	15,267,930
Customer Service	6,128,817	1,211,620	7,340,437
Sales Promotion	90,113	1,639	91,752
Administrative and General	41,464,855	13,174,167	54,639,022
Depreciation	25,373,256	4,958,573	30,331,829
Amortization of Limited Term Plant	847,230	125,411	972,641
Taxes Other than Income Taxes	61,513,743	17,162,443	78,676,186
Federal Income Taxes	14,023,071	1,325,625	15,348,696
Deferred Federal Income Taxes	3,664,826	1,180,819	4,845,645
Total Operating Expenses	357,828,589	155,461,382	513,289,971
Net Operating Income	$ 54,604,069	$ 12,869,346	67,473,415
Other Income			
Non-Operating Rental Income			13,025
Equity in Earnings of Subsidiary Companies			(7,896,157)
Interest Income			976,242
Allowance for Funds Used During Construction			1,347,797
Miscellaneous Non-Operating Income or (Loss)			(115,021)
Total Other Income			(5,674,114)
Total Income - Carried Forward			61,799,301

ORANGE AND ROCKLAND UTILITIES, INC.

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 1997

(CONTINUED)

Total Income - Carried Forward	$61,799,301
Other Income Deductions	
Miscellaneous Income Deductions	3,116,497
Total Other Income Deductions	3,116,497
Taxes Applicable to Other Income and Deductions	
Taxes Other than Income Taxes	206,404
Federal Income Tax	(1,084,931)
Deferred Federal Income Tax	28,700
Investment Tax Credit Adjustment	(689,336)
Total Taxes on Other Income and Deductions	(1,539,163)
Interest Charges	
Interest on Long-Term Debt	20,116,258
Amortization of Debt Discount and Expense	1,209,133
Amortization of Premium on Debt (Credit)	(1,150)
Interest on Debt to Associated Companies	843,435
Other Interest Expense	8,548,582
Total Interest Charges	30,716,258
Net Income	$29,505,709

Name of Respondent	This Report Is:	Date of Report	Year of Report
Orange and Rockland Utilities, Inc.	(1) [X] An Original (2) [_] A Resubmission	(Mo, Da, Yr) 04/30/98	Dec. 31, 1997

STATEMENT OF RETAINED EARNINGS FOR THE YEAR

1. Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the year.

2. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive). Show the contra primary account affected in column (b).

3. State the purposes and amount of each reservation or appropriation of retained earnings.

4. List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items in that order.

5. Show dividends for each class and series of capital stock.

6. Show separately the State and Federal income tax effect of items shown in account 439, Adjusted Retained Items.

7. Explain in a footnote the basis for determining the amount reserved or appropriated. If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated.

8. If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123.

Line No.	Item (a)	Contra Primary Account Affected (b)	Amount (c)
	UNAPPROPRIATED RETAINED EARNINGS (Account 216)		
1	Balance - Beginning of Year		$99,040,619
2	Changes (Identify by prescribed retained earnings accounts)		
3	Adjustments to Retained Earnings (Account 439)		
4	Credit:		0
5	Credit:		
6	Credit:		
7	Credit:		
8	Credit:		
9	TOTAL Credits to Retained Earnings (Acc. 439) (Total of lines 4 thru 8)		0
10	Debit: Common Stock Repurchase Program		(2,064,312)
11	Debit:		
12	Debit:		
13	Debit:		
14	Debit:		
15	TOTAL Debits to Retained Earnings (Acc. 439) (Total of lines 10 thru 14)		($2,064,312)
16	Balance Transferred from Income (Account 433 less Account 418.1)	* Note A	37,401,866
17	Appropriations of Retained Earnings (Account 436)		
18			
19			
20			
21			
22	TOTAL Appropriations of Retained Earnings (Acc. 436) (Total of lines 18 thru 21)		

23	Dividends Declared - Preferred Stock (Account 437)		
24	Preferred Stock	238	(2,781,840)
25	Preference Stock	238	(17,983)
26			
27			
28			
29	TOTAL Dividends Declared - Preferred Stock (Acct. 437) (Total of lines 24 thru 28)		(2,799,823)
30	Dividends Declared - Common Stock (Account 438)		
31	Common Stock	238	(35,228,840)
32			
33			
34			
35			
36	TOTAL Dividends Declared - Common Stock (Acct. 438) (Total of lines 31 thru 35)		($35,228,840)
37	Transfers from Acct. 216.1, Unappropriated Undistributed Subsidiary Earnings		
38	Balance - End of Year (Total of lines 01, 09, 15, 16, 22, 29, 36 and 37)		$96,349,510

Name of Respondent	This Report is:	Date of Report	Year of Report
Orange and Rockland Utilities, Inc.	(1) [X] An Original	(Mo. Da. Yr)	
	(2) [_] A Resubmission	04/30/98	Dec. 31, 1997

STATEMENT OF RETAINED EARNINGS FOR THE YEAR (Continued)

Line No.	Item (a)	Amount (b)
	APPROPRIATED RETAINED EARNINGS (Account 215)	
	State balance and purpose of each appropriated retained earnings amount at end of year and give accounting entries for any applications of appropriated retained earnings during the year.	
39		
40		
41		
42		
43		
44		
45	TOTAL Appropriated Retained Earnings (Account 215)	
	APPROPRIATED RETAINED EARNINGS-AMORTIZATION RESERVE, FEDERAL (Account 215.1)	
	State below the total amount set aside through appropriations of retained earnings, as of the end of the year, in compliance with the provisions of Federally granted hydroelectric project licenses held by the respondent. If any reductions or changes other than the normal annual credits hereto have been made during the year, explain such items in a footnote.	
46	TOTAL Appropriated Retained Earnings - Amortization Reserve, Federal (Account 215.1)	
47	TOTAL Appropriated Retained Earnings (Account 215, 215.1) (Enter total of lines 45 and 46)	0
48	TOTAL Retained Earnings (Account 215, 215.1, 216) (Enter total of lines 38 and 47)	$96,349,510
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (ACCOUNT 216.1)	
49	Balance -- Beginning of Year (Debit or Credit)	93,019,280
50	Equity in Earnings for Year (Credit) (Account 418.1)	(7,896,157)
51	(Less) Dividends Received (Debit)	
52	Other Changes (Explain)	
53	Balance -- End of Year (Total of Lines 49 Thru 52)	$85,123,123

Note A

Net Income	$29,505,709
Equity in Earnings of Subsidiary Companies	(7,896,157)
	$37,401,866

Name of Respondent	This Report Is:	Date of Report	Year of Report
Orange and Rockland Utilities, Inc.	(1) [X] An Original	(No. Da. Yr.)	
	(2) [ ] A Resubmission	04/30/98	Dec. 31, 1997

STATEMENT OF CASH FLOWS

1. If the notes to the cash flow statement in the respondents annual stockholders report are applicable to this statement, such notes should be included in pages 122-123. Information about noncash investing and finacing activities should be provided on pages 122-123. Provide also on pages 122-123 a reconciliation between "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.
2. Under "Other" specify significant amounts and group others.
3. Operating Activities - Other: Include gains and losses pertaining operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on pages 122-123 the amount of interest paid (net of amounts capitalized) and income taxes paid.

Line No.	Description (See Instruction No.5 for Explanation of Codes) (a)	Amounts (b)
1	Net Cash Flow from Operating Activities:	
2	Net Income (Line 722(c) on page 117)	$29,505,709
3	Noncash Charges (Credits) to Income:	
4	Depreciation and Depletion	31,304,470
5	Amortization of (Specify)	
6	Debt Discount and Expense	1,207,983
7		
8	Deferred Income Taxes (Net)	5,380,355
9	Investment Tax Credit Adjustment (Net)	(689,336)
10	Net (Increase) Decrease in Receivables	(14,921,638)
11	Net (Increase) Decrease in Inventory	646,115
12	Net (Increase) Decrease in Allowances Inventory	
13	Net Increase (Decrease) in Payables and Accrued Expenses	(25,821,745)
14	Net (Increase) Decrease in Other Regulatory Assets	14,774,328
15	Net Increase (Decrease) in Other Regulatory Liabilities	5,512,299
16	(Less) Allowance for Other Funds Used During Construction	
17	(Less) Undistrributed Earnings from Subsidiary Companies	(7,896,157)
18	Other Allowance for Borrowed Funds Used During Construction	(1,347,797)
19	* See insert page 120A	3,105,433
20		
21		
22	Net Cash Provided by (Used in) Operating Activities (Total of Lines 2 thru 21)	$56,552,333
23		
24	Cash Flows from Investment Activities:	
25	Construction and Acquisition of Plant (Including Land):	
26	Gross Additions to Utility Plant (less nuclear fuel)	(39,391,745)
27	Gross Additions to Nuclear Fuel	
28	Gross Additions to Common Utility	(28,932,600)
29	Gross Additions to Nonutility Plant	(83,451)
30	(Less) Allowance for Other Funds Used During Construction	
31	Other: Allowance for Borrowed Funds During Construction	1,347,797
32		
33		
34	Cash Outflows for Plant (Total of lines 26 thru 33)	($67,059,999)
35		
36	Aquisition of Other Noncurrent Assets (d)	
37	Proceeds from Disposal of Noncurrent Assets (d)	
38		

39	Investments in and Advances to Assoc. and Subsidiary Companies
40	Contributions and Advances from Assoc. and Subsidiary Companies
41	Disposition of Investments in (and Advances to)
42	Associated and Subsidiary Companies
43	
44	Purchase of Investment Securities (a)
45	Proceeds from Sales of Investment Securities (a)

Utility Plant (Net)	
Depreciation Reserve:	
Depreciation charged to clearing accounts	3,764,084
Depreciation held for future use	6,752
Salvage (net)	(1,154,060)
Retirements	(5,553,935)
Other debits and credits to reserve	(17,397)
Adjustments, transfers, retirements of utility plant	4,639,972
Nonutility Property (Net)	
Depreciation Reserve:	
Depreciation accrual	23,162
Salvage (net)	15,577
Other	
Prepaid and other current assets	(1,464,426)
Other investments	(234)
Preliminary survey and investigation charges	(89,188)
Miscellaneous deferred debits	4,302,673
Research and development	524,124
Unamortized debt expense	(825,000)
Capital stock expense	(13,706)
Reserve for claims and damages	693,266
Pension and other benefits	3,117,160
Provision for rate refunds	(1,132,434)
Customer advances for construction	207,138
Other deferred credits	(3,938,095)
	$ 3,105,433

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:	
Interest	$27,965,546
Federal income taxes	$10,000,000

1. Cash and Cash Equivalents	1997	1996
Account 131 - Cash	$ 1,245,871	$2,793,353
Account 135 - Working Funds	42,824	16,836
Account 136 - Temporary Cash Investments	0	0
	$1,288,695	$2,810,189
Net Change	($1,521,494)	

Name of Respondent	This Report Is:	Date of Report	Year of Report
Orange and Rockland Utilities, Inc.	(1) [X] An Original (2) [_] A Resubmission	(Mo. Da. Yr.) 04/30/98	Dec. 31, 1997

STATEMENT OF CASH FLOWS (Continued)

4. Investing Activities
   Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed on pages 122-123.
   Do not include on this statement the dollar amount of Leases capitalized per US of A General Instruction 20; instead provided a reconciliation of the dollar amount of Leases capitalized with the plant cost on pages 122-123.

5. Codes used:
   (a) Net proceeds or payments.
   (b) Bonds, debentures and other long term debt.
   (c) Include commercial paper.
   (d) Identify separately such items as investments, fixed assets, intangibles, etc.
6. Enter on pages 122-123 clarifications and explanations.

Line No.	Description (See Instruction No. 5 for Explanation of Codes) (a)	Amounts (b)
46	Loans Made or Purchased	
47	Collections on Loans	
48		
49	Net (Increase) Decrease in Receivables	
50	Net (Increase) Decrease in Inventory	
51	Net (Increase) Decrease in Allowances Held for Speculation	
52	Net Increase (Decrease) in Payables and Accrued Expenses	
53	Other:	
54		
55		
56	Net Cash Provided by (Used in) Investing Activities	
57	(Total of lines 34 thru 55)	($67,059,999)
58		
59	Cash Flows from Financing Activities:	
60	Proceeds from Issuance of:	
61	Long - Term Debt (b)	81,928,423
62	Preferred Stock	
63	Common Stock	17,138
64	Other:	
65		
66	Net Increase in Short - Term Debt (c)	47,725,000
67	Other:	
68		
69		
70	Cash Provided by Outside sources (Total of lines 61 thru 69)	$129,670,561
71		
72	Payments for Retirement of:	
73	Long - term Debt (b)	(78,237,201)
74	Preferred Stock	(1,407,231)
75	Common Stock	(3,011,294)
76	Other:	
77		
78	Net Decrease in Short - Term Debt (c)	
79		
80	Dividends on Preferred Stock	(2,799,823)
81	Dividends on Common Stock	(35,228,840)
82	Net Cash provided by (Used in) Financing Activities	

83	(Total of lines 70 thru 81)	$8,986,172
84		
85	Net Increase (Decrease) in Cash and Cash Equivalents	
86	(Total of lines 22, 57, and 83)	($1,521,494)
87		
88	Cash and Cash Equivalents at Beginning of Year	2,810,189
89		
90	Cash and Cash Equivalents at End of Year	1,288,695

Orange and Rockland Utilities, Inc.
Financial Data
December 31, 1997

Interest Coverage (Times)	
SEC - Book	N/A
Earning per Average Common Share:	
Continuing Operations	$ 3.09
Discontinued Operations	(1.13)

Consolidated Earnings per Average Common Share	1.96
	=======
Return on average common equity	7.09%
Book value per share	
Average	$ 27.60
End of Period	27.69
Effective tax rate	33%
Capitalization Ratios:	
SEC Basis	
Common Stock Equity	51.30%
Non-Reedemable Preferred and Preference Stock	5.89%
Long-Term Debt (includes current portion)	42.81%

	100.00%
	=======
PSC Basis	
Common Stock Equity	51.05%
Non-Reedemable Preferred and Preference Stock	5.86%
Long-Term Debt (includes current portion)	42.61%
Customer Deposits	0.48%

	100.00%
	=======

APPENDIX F

CONFORMING MODIFICATIONS TO CORPORATE STRUCTURE AND RELATED PROVISIONS OF CON EDISON SETTLEMENT AGREEMENT AND ORANGE AND ROCKLAND RESTRUCTURING PLAN

Except as otherwise discussed herein, the corporate structure section of the Con Edison Settlement Agreement (Article V and Appendix J) and the corporate structure and affiliate rules sections of the Orange and Rockland Restructuring Plan (Article IV.A - C and Appendices E, H and I) continue unchanged. The changes set forth below are conforming in nature and do not change the substance of the settlement agreements.

These modifications will take effect when approved by the Commission.

Con Edison Settlement Agreement

Formation of Holding Company

Section V.1.(iv) - Defining "Subsidiary" And "Affiliate" As described in the Joint Petition, Orange and Rockland will become a direct subsidiary of CEI. The subsidiaries of Orange and Rockland will therefore become indirect subsidiaries of CEI and affiliates of CEI's other subsidiaries, including Con Edison and CEI's existing unregulated subsidiaries.

Section V.1(iv) of the Con Edison Settlement Agreement states that "subsidiaries other than Con Edison are referred to collectively as 'the unregulated subsidiaries' or 'unregulated affiliates.'" CEI will now have more than one regulated subsidiary, and this provision will therefore be conformed to reflect the fact that the terms "subsidiary" and "affiliate" will include both regulated and unregulated subsidiaries and affiliates. Any provision intended to apply only to either regulated or unregulated subsidiaries and affiliates will be amended, where necessary, to make such limitation clear.

Affiliate Relations - In General

Section V.4(i) - Separate Building This provision provides that "[n]o unregulated affiliate may be located in the same building as Con Edison beyond 180 days after its formation. Con Edison and CEI may occupy the same building." This provision will be conformed to make it clear that Con Edison and Orange and Rockland may be located in the same building, subject to the provisions of the merger agreement.

Transfer of Assets

Section V.5(i) - Transfers Between Regulated Affiliates This provision will be amended to recognize that transfers of assets between Con Edison and Orange and Rockland will not require the Commission's approval under Section 70 of the Public Service Law.

Section V.5(ii) - Transfers Between Regulated Affiliates This provision will be amended to permit transfers of assets between regulated affiliates at net book value.

Section V.6(i) - Separate Operating Employees This provision will be amended to expressly permit Con Edison and Orange and Rockland to share operating employees. Accounting will be in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.6(iii) - Officers This provision provides that "[o]fficers of CEI may be officers of Con Edison." This provision will be amended by adding the words "and Orange and Rockland, Rockland Electric Company and Pike County Light & Power Company" to the quoted language.

Section V.6(iv) AND (v) - Employee Transfers These provisions will be amended to expressly permit the transfer of employees between Con Edison and Orange and Rockland and to recognize that the service limitation and compensation applicable to transfers with unregulated affiliates will not be applicable to the utility transfers.

Section V.6(viii) - Common Benefit Plans This provision permits employees of CEI, Con Edison and CEI's unregulated subsidiaries to participate in common pension and benefit plans. This provision will be amended to also permit employees of Orange and Rockland and other regulated affiliates to participate in such plans.

Provision of Services and Goods

Section V.7(i) - Corporate Services This provision will be amended to permit Con Edison to provide corporate services to Orange and Rockland. Such services will be provided by Con Edison in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(ii) - Other Services This provision will be amended to permit Con Edison to provide services other than corporate services to Orange and Rockland and to provide such services at fully-loaded cost, except as otherwise required under PSL sec. 110. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(iii) - Services Purchased From Affiliates This section will be amended to recognize that CEI and Con Edison may purchase services from regulated affiliates, including Orange and Rockland. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section V.7(iv) - Common Insurance This provision will be amended to permit CEI and all of its subsidiaries to be covered by common property/casualty and other business insurance policies.

Orange and Rockland Restructuring Plan

The affiliate rules applicable to Orange and Rockland are included in Article IV and Appendices H and I of the Orange and Rockland Restructuring Plan.

Corporate Structure

Section IV.A - Holding Company This section will be amended to conform to the merger agreement, pursuant to which Orange and Rockland will not form a registered holding company but instead will become a subsidiary of CEI.

This section will also be amended to recognize that to effectuate the mechanics of the merger, Orange and Rockland will transfer ownership of its common equity to CEI.

Appendix H - Standards of Competitive Conduct - A statement will be added to this appendix to make clear that the use of the term "Holding Company" refers to CEI rather than to the registered holding company that Orange and Rockland had intended to form.

Appendix I - Transfer of Assets

Sections 2(a) and (b) - Transfer of Assets These sections will be conformed to the changes indicated for Sections V.5(i) and (ii) of the Con Edison agreement, described, *supra*.

Appendix I - Personnel

Sections 3(a), (c) and (d) - Separate Operating Employees and Employee Transfers These sections will be conformed to the changes indicated for Sections V.6(i), 6(iv) and 6(v) of the Con Edison agreement, described, *supra*.

Sections 3(f) - Compensation This provision, which permits the stock of the Holding company to be used as an element of compensation of common officers of the Holding company and the Delivery company, will be conformed to substitute CEI for the Holding company.

Sections 3(g) - Common Benefit Plans This provision permits employees of the registered holding company that Orange and Rockland had intended to form, Orange and Rockland and its unregulated subsidiaries to participate in common pension and benefit plans. This provision will be amended to eliminate the reference to the to-be-formed holding company and also permit employees of Orange and Rockland and its affiliates to participate in common pension and benefit plans with CEI and its other subsidiaries consistent with the change indicated for Section V.6(viii) of the Con Edison agreement, described, *supra*.

Appendix I - Provision of Services and Goods

Section 4(a) - Corporate Services This provision was written with the expectation that Orange and Rockland would form a registered holding company with a service company that would provide services to a "Delivery Company" (i.e., Orange and Rockland) and unregulated subsidiaries. This provision will be conformed to reflect the merger.

Section 4(b) - Other Services This provision will be amended to recognize that Orange and Rockland may provide non-corporate services to Con Edison and to provide such services at fully-loaded cost, except as otherwise required under PSL sec. 110. Such services will be provided in accordance with the amended accounting procedures (Joint Petition, Appendix G).

Section 4(d) - Common Insurance This provision would be conformed to permit CEI and all of its subsidiaries to be covered by common property/casualty and other business insurance policies consistent with the change indicated for Section V.7(iv) of the Con Edison agreement described, supra.

* * * *

Development of a single set of procedures is indicated, and the Petitioners are willing to discuss such a step if other parties also believe such a step to be feasible.

APPENDIX G

CONFORMING MODIFICATIONS TO AFFILIATE TRANSACTIONS ACCOUNTING PROCEDURES OF CON EDISON SETTLEMENT AGREEMENT AND ORANGE AND ROCKLAND RESTRUCTURING PLAN

Except as otherwise discussed herein, the accounting appendices to the Con Edison Settlement Agreement (Appendix I) and the Orange and Rockland Restructuring Plan (Appendix J) would continue unchanged./1/ The changes set forth below are conforming in nature and do not change the substance of the settlement agreements.

MODIFICATIONS TO APPENDIX I TO CON EDISON SETTLEMENT AGREEMENT

Section 3.1 - Background This provision will be amended to (1) recognize Orange and Rockland and its subsidiaries as direct and indirect subsidiaries of CEI and as affiliates of Con Edison and CEI's other unregulated subsidiaries and (2) make this accounting procedure also applicable to Orange and Rockland.

Section 3.2(a) - Transfer of Assets This section will be amended to conform to the change to Section V.5(i) of the settlement, which establishes that transfers of assets between regulated affiliates will be made at net book cost.

Section 3.3(a) - Provision of Goods and Services This section will be amended to conform to the changes to Sections V.7(i) and (ii) of the settlement, which permit Con Edison to provide corporate and other services to Orange and Rockland. This section will also recognize that the provision of electric energy or gas to Orange and Rockland shall be governed by PSL sec. 110, subject to any applicable FERC requirements, and that Con Edison will charge Orange and Rockland the same rates for Con Edison's tariff services as Con Edison charges all similarly-situated customers.

Section 3.3(d) - Provision of Goods and Services This section will be amended to conform to the change to Section V.7(iii), which recognizes that Con Edison may purchase goods and services from Orange and Rockland and that the pricing of such services shall be in accordance with the accounting guidelines set forth in the Orange and Rockland Restructuring Plan.

/1/ The cost allocation guidelines in Appendix J to the Plan were in draft form. Orange and Rockland committed to "file with the Director of the Office of Accounting and Finance of the Department of Public Service all amendments and supplements to the guidelines, thirty days prior to making such change(s)" and the Plan provided that such changes would be considered in either the unbundling phase of the proceeding or as part of the application to form a holding company (Appendix I, section 1(b)). In light of the proposed merger, Orange and Rockland proposes that these changes be considered as part of the Joint Petition and will submit a copy of this Appendix G to the Director in satisfaction of the aforementioned filing requirement.

Section 3.4(a)(1) - Direct Cost Allocations This section will be amended to conform to the change to Section V.7(ii), which provides that other (non-corporate) services provided by Con Edison to Orange and Rockland will be provided on a fully-loaded cost basis.

Section 3.4(c)(2) and (3) - Proportional and Other Allocations These sections will be amended to conform to the changes to Sections V.6(viii) and 7(iv), which permit (1) Orange and Rockland employees to participate in common pension and benefit plans and (2) CEI and all affiliates to be covered by common property/casualty and other business insurance policies, respectively.

MODIFICATIONS TO APPENDIX J TO ORANGE AND ROCKLAND RESTRUCTURING PLAN

Section 3.1 - Background This provision will be amended to (1) recognize Orange and Rockland and its subsidiaries as direct and indirect subsidiaries of CEI and as affiliates of Con Edison and CEI's other unregulated subsidiaries and (2) make this accounting procedure also applicable to Con Edison.

Section 3.2 - Transfers of Assets and Employees A section will be added to Appendix J to provide accounting guidelines for transfers of assets and employees, consistent with the rules set forth in sections 2 and 3 of Appendix I.

Section 3.3(c) - Provision of Goods and Services This section will be amended to conform to the changes to Sections V.7(i) and (ii) of the Con Edison Settlement Agreement, which permits Con Edison to provide corporate and other services to Orange and Rockland at fully-loaded cost, recognizing that Con Edison's provision of electric energy or gas to Orange and Rockland shall be governed by PSL sec. 110, subject to any applicable FERC requirements, and that Orange and Rockland will pay the same rates for Con Edison's tariff services as all similarly-situated customers.

Section 3.4(c)(2)/2/ and Exhibit A, Section (4) - Cost Causative Allocations - These sections will be amended to clarify the bases for allocating costs by deleting, for example, reference to consolidated assets.

Sections 3.4(c)(2)/3/ and (3) - Proportional and Other Allocations These sections will be amended to conform to the changes to Sections 3(g) and 4(d) of the Orange and Rockland Restructuring Plan, which permit (1) employees of CEI, Con Edison, Orange and Rockland and their affiliates to participate in common pension and benefit plans and (2) CEI and all affiliates to be covered by common property/casualty and other business insurance policies, respectively.

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/2/ Note: there are two provisions numbered "(c)2." The Proposed change relates to the second one.
/3/ Note: there are two provisions numbered "(c)2." This proposed change relates to the second one.

Development of a single set of procedures is indicated, and the Petitioners are willing to discuss such a step if other parties also believe such a step to be feasible.

APPENDIX H

APPENDIX H

QUANTIFICATION AND ALLOCATION OF SYNERGY SAVINGS
(THOUSANDS OF DOLLARS)

	RY 3-00	RY 3-01	RY 3-02	RY 3-03	RY 3-04	RY 3-05	RY 3-06	RY 3-07	RY -3-08	RY 3-09
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	$19,991	$39,315	$45,195	$47,141	$49,163	$51,226	$53,357	$55,569	$57,865	$60,249
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(5,928)	(7,905)	(7,905)	(7,905)	(7,905)	(1,976)	-	-	-	-
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	14,063	31,410	37,290	39,237	41,256	49,250	53,357	55,569	57,865	60,249
DISPOSITION OF SAVINGS										
O&R CUSTOMER BENEFIT***	922	922	3,049	3,496	3,965	5,579	6,449	6,964	7,502	8,067
CON ED CUSTOMER BENEFIT***	7,409	13,484	15,597	16,122	16,664	19,046	20,229	20,821	21,430	22,058
TOTAL CUSTOMER BENEFIT	8,331	14,406	18,645	19,618	20,629	24,625	26,678	27,784	28,933	30,125
CEI SHAREHOLDER BENEFIT	5,732	17,004	18,645	19,618	20,629	24,625	26,678	27,784	28,933	30,125
TOTAL DISPOSITION	$ 14,063	$31,410	$37,290	$39,237	$41,258	$49,250	$53,357	$55,569	$57,865	$60,249

	Total	
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	$479,072	
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(39,523)	
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	439,549**	
DISPOSITION OF SAVINGS		
O&R CUSTOMER BENEFIT***	46,914	21%
CON ED CUSTOMER BENEFIT***	172,860	79%
TOTAL CUSTOMER BENEFIT	219,774	100%
CEI SHAREHOLDER BENEFIT	219,774	
TOTAL DISPOSITION	$439,549	

* Synergies begin July 1, 1999 and RY 3-00 includes 9 months of savings.

** Total savings of $467,576 inclusive of Orange and Rockland's out-of-state utility operations.

*** Total customer savings, inclusive of gross receipts taxes, amount to $50,445 for Orange and Rockland customers and $185,871 for Con Edison customers.

APPENDIX I

BENEFIT DISPOSITION AND METHODOLOGY

I. FRAMEWORK:

i) Amortize actual costs to achieve and transaction costs over five-year period ending June 2004.

ii) Allocate to customers one-half estimated synergies, net of transaction costs and costs to achieve, through March 31, 2002. Disposition thereof is per this appendix.

iii) For post March 2002 period, apply merger savings retention procedure (below, sec. IV) as part of next general rate case for each service indicated.

II. APPLICATION TO ORANGE AND ROCKLAND

Electric Operations

The following amounts will be accrued for electric ratepayer benefit on the books of Orange and Rockland and used to offset other deferred debits accrued under the Orange and Rockland Restructuring Plan:

12 months ending March 31, 2000: - $ 694,000
12 months ending March 31, 2001: - $ 694,000
12 months ending March 31, 2002: - $ 2,296,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $ 1,716,000
12 months ending March 31, 2001: - $ 2,288,000
12 months ending March 31, 2002: - $ 2,288,000

Gas Operations

The estimated share of benefits that will be applied to Orange and Rockland gas customers is:

12 months ending March 31, 2000: - $227,000
12 months ending March 31, 2001: - $227,000
12 months ending March 31, 2002: - $752,000

In the absence of a settlement agreement in effect, specific prospective application of such estimated savings benefit would be addressed in Orange and Rockland's next gas rate case.

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $ 562,000
12 months ending March 31, 2001 - $ 750,000
12 months ending March 31, 2002: - $ 750,000

POST MARCH 31, 2002:

Subject to the merger savings retention prescribed below (sec. IV), Orange and Rockland's electric and gas customers will realize merger savings under the revenue requirement set forth in Orange and Rockland's next general rate cases.

III. APPLICATION TO CON EDISON

Electric Operations

The following amounts will be accrued for ratepayer benefit on the books of Con Edison and used to benefit electric customers under the Con Edison Settlement Agreement.

12 months ending March 31, 2000: - $ 6,001,000
12 months ending March 31, 2001: - $10,922,000
12 months ending March 31, 2002: - $12,633,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $2,956,000
12 months ending March 31, 2001: - $3,942,000
12 months ending March 31, 2002: - $3,942,000

Gas Operations

The estimated share of benefits applicable to Con Edison gas customers is:

12 months ending March 31, 2000: - $1,111,000
12 months ending March 31, 2001: - $2,023,000
12 months ending March 31, 2002: - $2,339,000

These amounts will be credited to gas customers through the gas adjustment in the period indicated:

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $547,000
12 months ending March 31, 2001: - $730,000
12 months ending March 31, 2002: - $730,000

Steam Operations

The following amounts will be accrued for steam ratepayers benefit on the books of Con Edison and used to benefit customers:

12 months ending March 31, 2000: - $296,000
12 months ending March 31, 2001: - $539,000
12 months ending March 31, 2002: - $624,000

The following amounts will be amortized ratably to expense (subject to reconciliation):

12 months ending March 31, 2000: - $146,000
12 months ending March 31, 2001: - $195,000
12 months ending March 31, 2002: - $195,000

POST MARCH 31, 2002:

Subject to the merger savings retention prescribed below (sec. IV), Con Edison electric, gas and steam customers will realize merger savings under the revenue requirement set forth in Con Edison's next general rate case for each service.

IV. MERGER SAVINGS RETENTION PROCEDURE

The 50% shareholder retention in RY 3-03 through RY 3-09 will be based on actual achieved synergy savings. The respective utilities' cost of service will reflect the full realized synergy savings, offset by an entry to reflect the one-half sharing with the shareholder calculated in the manner herein set forth. The calculation compares the actual (reduced by synergy savings) cost of the affected areas to a target (i.e, projection of costs in the absence of Merger), crediting 50% of the difference to the shareholder up to a maximum annual amount. The target will be the actual 1998 costs of the affected areas shown on the attached, escalated by the CPI and reduced for non-synergy productivity of 2% annually. The shareholder benefit will be contingent on actual costs being below targeted levels, ensuring customer benefit. The maximum annual shareholder benefit will be 150% of the estimated savings for customers set forth in Appendix H. Under the methodology, the investor share can exceed estimated investor benefit only when customers' benefits are also in excess of the estimate.

The calculation of shareholder benefit will be done on a total company basis and allocated proportionately among services. Disposition of savings after RY 3-09 will be determined at that time.

CENTRAL FUNCTIONS AFFECTED BY SYNERGIES

Accounting (including public accounts)
Tax
Treasurer/Shareholders Services
Rate Engineering/Compliance

Auditing

Business Development

Office of CEO

Public Affairs

Employee Relations
Environmental, Health & Safety
Purchasing
Information Resources
R&D (including EPRI & GRI dues)

Legal

Corporate and Fiscal Expenses

Associations & Dues

Note: The target for the cost centers shown above for either company will be the actual costs recorded for the year 1998, adjusted to reflect generation divestiture and normalized for major organizational changes or extraordinary expenses or credits that may occur. The resulting target will be increased by the annual CPI and reduced by non-synergy productivity of 2% annually.

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

Joint Petition of Orange and Rockland Utilities, Inc. and Consolidated Edison, Inc., For Approval Of	BPU Docket No. EM98070433
The Agreement And Plan Of Merger And Transfer Of Control	VERIFIED JOINT PETITION

INTRODUCTION

1. Pursuant to N.J.S.A. 48:2-51.1 and 48:3-10 and/or any other provisions of Title 48 deemed applicable by the Board of Public Utilities ("Board"), Orange and Rockland Utilities, Inc. ("Orange and Rockland") and Consolidated Edison, Inc. ("CEI") (collectively "Petitioners"), by their undersigned counsel, hereby petition the Board: for approval of the Agreement and Plan of Merger ("Merger Agreement") entered into by CEI, Orange and Rockland and C Acquisition Corp., a wholly-owned subsidiary of CEI (the "Merger Subsidiary"); for authority to take all necessary actions to transfer control of Orange and Rockland to CEI and to consummate a subsequent corporate reorganization; and for certain other relief as set forth below. Petitioners respectfully request that the Board act on this Petition on or before February 1, 1999. In support of this Petition, petitioners submit the following information:

2. Orange and Rockland is the corporate parent of Rockland Electric Company ("RECO"), a public utility authorized by the Board to provide electric service within northern parts of Bergen and Passaic Counties and small areas in the northeastern and northwestern parts of Sussex County, New Jersey. RECO has offices at 82 East Allendale Road, Suite 8, Saddle River, New Jersey 07458. CEI is the corporate parent of Consolidated Edison Company of New York, Inc. ("Con Edison"), a public utility that provides service to

customers in New York City and Westchester County, New York. Neither Orange and Rockland nor RECO are currently affiliated with either CEI or Con Edison.

3. As described below, the proposed transfer of control will be accomplished through a transaction whereby the Merger Subsidiary will merge with and into Orange and Rockland (the "Merger") and Orange and Rockland will be the surviving corporation and will become a wholly-owned subsidiary of CEI. Following completion of the proposed transaction, RECO will continue to exist, will retain its present name and will remain an operating subsidiary of Orange and Rockland. RECO will continue to offer service under existing tariffs and service arrangements. Exhibit A compares the pre-and post-merger corporate structures of the entities involved in these transactions.

THE PARTIES

Orange and Rockland
- -------------------

4. Orange and Rockland is a New York public utility, incorporated in New York State, with a principal business office at One Blue Hill Plaza, Pearl River, New York 10965. Orange and Rockland with its two wholly-owned utility subsidiaries, RECO, and Pike County Light & Power Company ("Pike"), a Pennsylvania public utility, jointly operate a single fully integrated electric production and transmission system ("System") serving parts of New Jersey, New York and Pennsylvania. Orange and Rockland supplies electric and gas service in all of Rockland County, most of Orange County and part of Sullivan County, New York. Pike supplies electric and gas service in parts of Pike County, Pennsylvania. Orange and Rockland is an exempt holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"). The stock of Orange and Rockland is publicly held. Orange and Rockland is the sole shareholder of both RECO and Pike.

5. Recent information concerning Orange and Rockland is provided in Exhibit B, Orange and Rockland's most recent Form 10-K Annual Report, which contains

comprehensive information on Orange and Rockland's financial status, operations, management, and services.

CEI

6. CEI is a corporation organized under the laws of the State of New York and is an exempt holding company under PUHCA. CEI's principal business office is at 4 Irving Place, New York, New York 10003. The stock of CEI is publicly held. CEI is the sole common shareholder of Con Edison. A corporation organized under the laws of the State of New York, Con Edison provides electric service in all of New York City (except part of Queens) and in most of Westchester County, New York. Con Edison also provides gas service in Manhattan, the Bronx and parts of Queens and Westchester County, New York and steam service in part of Manhattan. Its electric, gas and steam retail rates are established by the New York Public Service Commission ("NYPSC"). Con Edison's principal business office is at 4 Irving Place, New York, New York 10003.

7. Recent information concerning CEI is provided in Exhibit C, CEI's most recent Form 10-K Annual Report, which contains comprehensive information on CEI's financial status, operations, management and services.

Designated Contacts

8. The designated contacts for questions concerning this Joint Petition are:

For Orange and Rockland:

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with a copy to:

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Senior Counsel

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Pearl River, New York 10965

Phone: 914-577-2426
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For CEI:

John D. McMahon
Deputy General Counsel
Consolidated Edison Company
of New York, Inc.
4 Irving Place
New York, New York 10003

Phone: 212-460-6330
Fax: 212-677-5850

REQUEST FOR APPROVAL OF THE MERGER

9. Orange and Rockland and CEI respectfully request that the Board approve the Merger. Orange and Rockland, CEI and the Merger Subsidiary have executed the Merger Agreement, a copy of which is attached hereto as Exhibit D. In the Merger, the Merger Subsidiary, a newly formed New York subsidiary of CEI created specifically for the purpose of consummating the transaction, will merge with and into Orange and Rockland and Orange and Rockland will be the surviving corporation and will become a wholly-owned subsidiary of CEI.

10. As set forth in Article II of the Merger Agreement, upon consummation of the Merger:

(i) each issued and outstanding share of Orange and Rockland's common stock not owned by CEI, Orange and Rockland or an Orange and Rockland subsidiary will be canceled and converted into the right to receive cash in the amount of $58.50; and

(ii) any shares of Orange and Rockland's common stock that are owned by Orange and Rockland as treasury stock or by CEI or by any Orange and Rockland subsidiary will be canceled and retired.

Prior to the consummation of the Merger, Orange and Rockland's Preferred Stock as well as Orange and Rockland's Preference Stock will have been redeemed.

11. The Merger will result in a change in the ultimate owners of Orange and Rockland but will not change the manner in which RECO provides electric transmission and delivery service to its customers. The services currently being provided by RECO will continue to be offered pursuant to tariffs on file with the Board upon the consummation of the Merger.

12. The respective Boards of Directors of CEI and Orange and Rockland have approved the Merger Agreement. The Merger Agreement requires the approval of the holders of two-thirds of the outstanding common stock in Orange and Rockland. Orange and Rockland will hold a meeting of its shareholders on August 20, 1998 to vote on the approval of the Merger Agreement. CEI's shareholders are not required to approve the Merger Agreement.

13. Consummation of the Merger is contingent upon obtaining certain required regulatory approvals, including approvals from this Board, if applicable. In addition to this filing, filings have been, or will be, made with the Federal Energy Regulatory Commission ("FERC"), the Securities and Exchange Commission, the U.S. Department of Justice and Federal Trade Commission, the NYPSC, and the Pennsylvania Public Utility Commission. RECO will provide the Board with copies of all such filings. Moreover, pursuant to the New Jersey Industrial Site Recovery Act, RECO must obtain certain determinations from or execute certain agreements with the New Jersey Department of Environmental Protection for three service centers located in New Jersey.

14. The target date for receiving all necessary regulatory approvals, fulfilling all other conditions of the Merger Agreement, and closing the Merger is March 31, 1999.

Delays beyond that time would likely increase the total transaction and transition costs while delaying the benefits of the Merger. RECO, therefore, requests that the Board expedite consideration of this Petition and render its determination sufficiently in advance of the closing date, i.e., by February 1, 1999. Consistent with the Board's usual practice with respect to petitions regarding changes in the ownership or control of New Jersey utilities or similar transactions,[1] Petitioners ask that the Board retain this matter for direct review and approval.

15. The primary purpose of the Merger is to create a regional company from two companies that share a common vision of the strategic path necessary to succeed in the increasingly competitive utility and energy services marketplace. As set forth below, the Merger will not have an adverse impact on the public interest factors set forth in N.J.S.A. 48: 2-51.1.

16. The Merger will not have an adverse effect on competition among suppliers of electric utility services. RECO owns no generating assets. Both RECO's corporate parent, Orange and Rockland, and Con Edison have committed to comprehensive generation divestiture programs and have established open access transmission tariffs consistent with the rules and requirements of the FERC. In fact, the Merger Agreement requires Orange and Rockland to use its best efforts to enter into a definitive agreement(s) to divest its generating assets pursuant to Orange and Rockland's NYPSC- approved divestiture plan.

17. The Merger should foster RECO's ability to compete fairly with the other large New Jersey utility companies due to cost reductions through greater efficiencies and economies of scale and scope, a more diverse customer base, and a regional platform for growth. More specifically the Merger will provide the opportunity to achieve cost savings through greater operating efficiencies than would otherwise be possible. Scale has importance

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/1/ See, e.g., Joint Petition of AT&T Corp. and Teleport Communications Group, Inc. for Declaratory Ruling that the Board Lacks Jurisdiction Over the Agreement and Plan of Merger, or, in the Alternative, for Approval of the Agreement and Plan of Merger, BPU Docket No. TM98020050, Order (May 15, 1998).

in many areas, including utility operations, product development, advertising and corporate services. The Merger also will create a regional platform for marketing utility and non-utility services which will strengthen the ability of the combined company to offer additional services to customers, consistent with Board-approved standards of conduct.

18. The technological innovations that have played a major role in facilitating competition, allowing new markets to form and expanding the types of transactions that utilities can accommodate, cannot be as effectively supported or encouraged on a small scale. The Merger will provide the resources to foster innovation and will add vitality and strength to the drive to competition and thereby increase operating efficiencies.

19. RECO has committed itself firmly to the development of a competitive electric market in its service areas and to the implementation of full retail access by May 1999. The Merger will not diminish this commitment. As the Board moves forward with its Energy Master Plan process and the restructuring of the electric industry in New Jersey, RECO expects that it will be better able to contribute to the new competitive environment as a result of the Merger. The end result will be a benefit to electric competition in New Jersey, as changes come to the industry. At the same time, the existence of the other competitors in the region will ensure that the combined companies have no market power over electricity supplies in their traditional service territories.

20. The Merger will not have a substantial impact on jobs located in New Jersey. RECO has no operating employees. As a wholly-owned subsidiary of Orange and Rockland, all the service requirements of RECO's customers, including transmission, distribution, new business, commercial, and general and administrative operations are furnished by Orange and Rockland. Orange and Rockland bills RECO for these services

pursuant to the terms of the Joint Operating Agreement between them dated February 5, 1976./2/ RECO will maintain its Saddle River, New Jersey office. Orange and Rockland, itself, will continue to maintain a significant local workforce. While the Petitioners will seek to identify and eliminate redundant functions in their operations, the Merger Agreement provides for the honoring of all collective bargaining agreements and for fair and equitable workforce reductions based upon prior experience and skills and without regard to prior affiliation. The Petitioners recognize that a local workforce is necessary to maintain excellent service levels and to respond to the particular needs within each of the States that the operating utilities will serve.

21. Indeed, the Merger will not adversely affect RECO's service to its customers in New Jersey in any manner. The companies are committed to maintaining RECO's existing high standards of reliability and customer service. Merger-related cost reductions will be obtained primarily through achieving economies of scale, such as elimination of duplicative departments and systems. As a result, the Merger will not have an adverse effect on the provision of safe, adequate and proper utility service at just and reasonable rates.

22. The Merger should strengthen the ability of RECO to offer additional services to its customers by providing access to innovative technology and methods now employed by Con Edison. For example, potential appears to exist with respect to the phasing in of voice-response unit technology currently employed by Con Edison and in the growth of options afforded to customers in the use of the Internet to pay bills and carry out other customer transactions. There are other significant potential benefits in the application of Internet technology, particularly in the data-transmission area, in implementing retail access.

/2/ After the consummation of the Merger, RECO will continue to be billed pursuant to the cost allocation methodologies set forth in the Joint Operating Agreement.

23. The Merger also will enable RECO to draw on Con Edison's expertise to assure continued system reliability. Because of its size and service area characteristics, Con Edison has developed comprehensive systems to support reliability. These include managerial systems such as performance tracking and root-cause analysis, systematic operating procedure and specification development, remote substation and overhead system monitoring, outage management systems and power quality services. With the Merger, Orange and Rockland will have the ability to consider improvements and enhancements to its own similar systems.

24. As a result of the Merger, RECO will be better positioned to maintain its strong commitment to the economic development and welfare of its service territory. This commitment will be enhanced by the improved ability of the combined entity to compete in the energy marketplace. In addition, RECO has a strong record of community involvement and charitable contributions which will be maintained after the Merger. The Merger Agreement provides for the continuation of charitable contributions in the RECO service area at levels comparable to those provided by RECO.

25. Economic development has been and will continue as a core objective of RECO. The Energy Master Plan Proceeding is creating significant new incentives for increased economic activity in RECO's service area. The Merger will add to this not only through a measurable increase in the efficiency of the energy infrastructure in the RECO service area, but also by the favorable impact that the Merger will have in facilitating the transition to competition for customers served by RECO.

26. The Merger Agreement provides that Con Edison and Orange and Rockland will remain separate operating utilities owned by CEI. RECO will remain as a wholly owned subsidiary of Orange and Rockland. As a consequence, the transaction will not impact the ability of RECO to continue to raise debt or preferred equity capital in the future. Moreover,

additional equity capital, whether raised publicly at the CEI level or generated internally, will be invested in Con Edison and Orange and Rockland (including RECO), as appropriate, to fund utility capital expenditures while maintaining a cost-effective capital structure at the utility level.

27. On November 3, 1993, Orange and Rockland entered into a Joint Cooperation Agreement with the Office of the Rockland County District Attorney, pursuant to which Orange and Rockland agreed:

> to establish independent from Orange and Rockland the position of Inspector General, for a period of at least seven (7) years, which will be assigned the authority and resources necessary, including staff, to investigate and report on improper or unethical conduct by Orange and Rockland officers or employees.

Orange and Rockland has established such an Inspector General and the Petitioners agree that Orange and Rockland will maintain such Inspector General for the seven year term set forth in the Joint Cooperation Agreement.

28. Petitioners voluntarily propose to make available for sharing with customers certain net savings above and beyond the savings proposed by RECO in its Stranded Cost Filing/3/ provided that the Board grants the remainder of the relief requested in this Joint Petition. Among other things, the Petitioners request that RECO's customers' share of such net savings be applied toward any minimum rate reduction target established by the Board in its electric restructuring proceedings./4/ The net savings from the Merger are driven by the operating efficiencies expected from the Merger. The forecast ten-year net synergy savings are set forth in Exhibit E. This exhibit indicates that the business combination of Orange and

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/3/ *In the Matter of Rockland Electric Company's Stranded Cost Filing*, BPU Docket No. E097070464, OAL Docket No. PUC 7310-97. RECO's Stranded Cost Filing was made in compliance with the Board's directives contained in *Restructuring the Electric Power Industry in New Jersey: Findings and Recommendations*, BPU Docket No. EX94120585Y (April 30, 1997).

/4/ Although the rate benefits of the Merger should be applied toward the restructuring proceeding rate reduction targets, the merger application can be processed apart from the restructuring proceeding and is being filed in a separate docket in order to facilitate such separate processing.

Rockland and Con Edison is anticipated to result in cost savings of approximately $468 million, net of transaction costs and costs to achieve, over the first ten years following the closing on the transaction (assumed closing date of March 31, 1999). Petitioners propose a reasonable allocation of the synergy savings between consumers and investors in the combined company. Such sharing will apportion synergy savings equitably between customers and investors and recognize the investment required to bring about desirable and efficient combinations such as the Merger.

29. Pursuant to the proposal set forth in Exhibit E, Orange and Rockland's net synergy savings over the 10-year period ending March 31, 2009 are approximately $121.9 million. RECO's customers' share (which reflects 50% of RECO's pro rata share of Orange and Rockland's net synergy savings) is $13.4 million. The allocation of these benefits is set forth in Exhibit E. RECO proposes to reduce its electric rates by $263,000 or 0.2% effective April 1, 1999 and by $871,000 or 0.6% (cumulative) effective April 1, 2001.

30. RECO proposes to implement the rate reductions set forth in Exhibit E even if the achieved savings are less than projected. If, on the other hand, actually achieved savings are greater than projected, such savings will foster rate stability by delaying the need for future rate increases.

31. For accounting purposes, the Merger is treated as an acquisition by CEI of Orange and Rockland. As such, the Merger will be recorded using the "purchase method" of accounting for business combinations in accordance with Accounting Principles Board Opinion No. 16. The purchase price will be compared to the book value of Orange and Rockland when the Merger is consummated with the difference reflected as "Goodwill" on the books and records of CEI.

32. RECO will defer its pro rata share of direct transaction costs related to the Merger and will amortize these expenses against synergy savings to be realized from the

combination before any benefits are passed on to ratepayers or shareholders. The direct transaction costs will be deferred in FERC account 182 "regulatory assets" and amortized against FERC account 930.2 "miscellaneous general expense" over a five year period. RECO will expense its pro rata share of indirect transaction and internal labor costs as incurred.

33. RECO will be charged its pro rata share of the amortization of the "Goodwill" balance that will be charged to Orange and Rockland. Assuming the relief sought in this Petition is granted, RECO would amortize this cost "below the line". The amortization will be on a straight-line basis over a period not to exceed forty years.

34. Separate financial statements, substantially the same as the current financial statements of Orange and Rockland and RECO, will continue to be issued. The assets of Orange and Rockland and RECO will continue to be recorded on their books and records at the same values as before the Merger.

35. The Merger will not deprive the Board of its continuing jurisdiction over RECO. It will in no way diminish the Board's statutory authority over the rates, service and the financial condition of RECO's utility business.

36. The following exhibits are attached to this Petition, incorporated herein and made a part hereof:

a. Exhibit A - Comparison of Pre- and Post-Merger Corporate Structures;

b. Exhibit B - Orange and Rockland's Form 10-K Annual Report;

c. Exhibit C - CEI's Form 10-K Annual Report;

d. Exhibit D - Agreement and Plan of Merger; and

e. Exhibit E - Forecast of Net Synergy Savings.

37. The Merger Agreement provides that, prior to the closing date, the Merger Agreement may be terminated for a variety of different reasons. In the event that the

Merger Agreement is so terminated in accordance with its terms, each Petitioner respectfully reserves the right to withdraw this Petition, and further reserves the right to decide not to consummate the transactions described herein, to the extent either of them is permitted to do so pursuant to the Merger Agreement.

38. In conclusion, Petitioners respectfully submit that the Merger will not have an adverse impact on competition in the electric industry, on either RECO's rates or the ability of the Board to regulate those rates, on RECO's obligations to its employees (since RECO has no operating employees), or on the provision of safe, adequate and proper service at just and reasonable rates. Accordingly, Petitioners respectfully request the approval of the Board under N.J.S.A. 48:2-51.1, 48:3-10 and any other provision of Title 48 deemed
- --------
applicable by the Board.

REQUEST FOR RELIEF

39. The allegations of paragraphs 1 to 38 are incorporated herein by reference as if set forth herein at length.

40. Orange and Rockland and CEI respectfully request that the Board issue an Order: (1) finding that the Merger will not negatively impact competition, will not negatively impact the rates of RECO customers, will not impact the employees of RECO, and will not impact the provision of safe, adequate and proper services; (2) approving the Agreement and Plan of Merger attached hereto as Exhibit D; (3) permitting Orange and Rockland and CEI to take all actions necessary to consummate the proposed transfer of control and proposed subsequent corporate reorganization; (4) applying RECO's customers' share of any net savings from the Merger toward any minimum rate reduction percentage target established by the Board in its electric restructuring proceedings; (5) retaining this matter for final disposition before the Board; and (6) granting all other relief as may be necessary and appropriate to

effectuate the Merger. Orange and Rockland and CEI respectfully request that the Board grant its approval on or before February 1, 1999.

Respectfully submitted,
ORANGE AND ROCKLAND UTILITIES, INC.

By ____________________________________
Vincent J. Sharkey, Jr., Esq.

Riker, Danzig, Scherer, Hyland & Perretti
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John L. Carley, Esq.
Senior Counsel
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Pearl River, New York 10965

Attorneys for Orange and Rockland Utilities, Inc.

John D. McMahon, Esq.
Deputy General Counsel
Consolidated Edison Company of New York, Inc.
4 Irving Place
New York, New York 10003

Attorney for Consolidated Edison, Inc.

Dated: July 2, 1998

VERIFICATION

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

JOAN S. FREILICH, being duly sworn, according to law, upon her oath deposes and says:

1. I am Executive Vice President and Chief Financial Officer of Consolidated Edison, Inc., petitioner in the within matter, and in that capacity I make the within Verification.

2. I have read the attached Petition, and the same is true to the best of my knowledge, information and belief.

____
Joan S. Freilich

Sworn to and subscribed
before me this _____ day
of July, 1998.

____
Notary Public

VERIFICATION

STATE OF NEW YORK)
) ss.:
COUNTY OF ROCKLAND)

R. LEE HANEY, being duly sworn, according to law, upon his oath deposes and says:

1. I am Senior Vice President and Chief Financial Officer of Orange and Rockland Utilities, Inc., petitioner in the within matter, and in that capacity I make the within Verification.

2. I have read the attached Petition, and the same is true to the best of my knowledge, information and belief.

____
R. Lee Haney

Sworn to and subscribed
before me this _____ day
of June, 1998

____
Notary Public

EXHIBIT A

EXHIBIT A

[ORGANIZATIONAL CHART APPEARS HERE]

[ORGANIZATIONAL CHART APPEARS HERE]

EXHIBIT E

QUANTIFICATION AND ALLOCATION OF SYNERGY SAVINGS
(THOUSANDS OF DOLLARS)

	TWELVE MONTHS ENDED							
	3/31/00*	3/31/01	3/31/02	3/31/03	3/31/04	3/31/05	3/31/06	3/31/07
CONSOLIDATED NET SYNERGY SAVINGS								
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	20,448	41,549	47,924	50,137	52,439	54,786	57,210	59,728
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(6,609)	(8,812)	(8,812)	(8,812)	(8,812)	(2,203)	-	-
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	13,837	32,737	39,112	41,325	43,627	52,583	57,210	59,728
ORANGE AND ROCKLAND NET SYNERGY SAVINGS								
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	1,976	9,714	11,864	13,026	14,245	15,476	16,752	18,087
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	(2,859)	(3,945)	(3,945)	(3,945)	(3,945)	(966)	-	-
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	(983)	5,769	7,919	9,081	10,300	14,490	16,752	18,087
ROCKLAND ELECTRIC ALLOCATION (22%)	(216)	1,269	1,742	1,998	2,266	3,188	3,685	3,979
CUSTOMER BENEFIT (50%)	263	263	671	999	1,133	1,594	1,843	1,990
SHAREHOLDER BENEFIT (50%)	263	263	671	999	1,133	1,594	1,843	1,990

	TWELVE MONTHS ENDED		
	3/31/08	3/31/09	TOTAL
CONSOLIDATED NET SYNERGY SAVINGS			
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	62,347	65,069	511,635
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	-	-	(44,060)
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	62,347	65,069	467,575
ORANGE AND ROCKLAND NET SYNERGY SAVINGS			
NET SYNERGY SAVINGS BEFORE COSTS TO ACHIEVE	19,405	20,955	141,560
5-YEAR AMORTIZATION OF COSTS TO ACHIEVE	-	-	(19,725)
NET SYNERGY SAVINGS AFTER COSTS TO ACHIEVE	19,485	20,955	121,855
ROCKLAND ELECTRIC ALLOCATION (22%)	4,267	4,610	26,008
CUSTOMER BENEFIT (50%)	2,144	2,305	13,405
SHAREHOLDER BENEFIT (50%)	2,144	2,305	13,405

* Synergies begin July 1, 1999 and the twelve months ended March 31, 2000 includes 9 months of savings.

EXHIBIT E

BENEFIT DISPOSITION AND METHODOLOGY

I. FRAMEWORK:

i. Amortize actual costs to achieve and transaction costs over five-year period ending June 2004.

ii. Allocate to customers one-half estimated synergies, net of transaction costs and costs to achieve, through March 31, 2002. Disposition thereof is per this appendix.

iii. For post March 2002 period, apply merger savings retention procedure (below, sec. III) as part of next general rate case for electric service.

II. APPLICATION TO ROCKLAND ELECTRIC COMPANY ("RECO")

RECO will reduce its electric rates by the following cumulative amounts:

12 months ending March 31, 2000:	$263,000
12 months ending March 31, 2001:	$263,000
12 months ending March 31, 2002:	$871,000

The following amounts will be amortized ratably to expense (subject to reconciliation)

12 months ending March 31, 2000:	$651,000
12 months ending March 31, 2001:	$868,000
12 months ending March 31, 2002:	$868,000

Post March 31, 2002

Subject to the merger savings retention procedures prescribed below (sec. III), RECO's customers will realize merger savings under the revenue requirements set forth in RECO's next general rate case (assumed date 3/31/02).

III. MERGER SAVINGS RETENTION PROCEDURE

The 50% shareholder retention for the twelve months ended March 31, 2003 through March 31, 2009 will be based on actual achieved synergy savings. RECO's cost of service will reflect the full realized synergy savings, offset by an entry to reflect the one-half sharing with the shareholder calculated in the manner herein set forth. The calculation compares the actual (reduced by synergy savings) cost of the affected areas to a target (i.e., projection of costs in the absence of the Merger), crediting 50% of the difference to the shareholder up to a maximum annual amount. The target will be the actual 1998 costs of the affected areas shown on the attached, escalated by the CPI and reduced for non-synergy productivity of 2% annually. The shareholder benefit will be contingent on actual costs being below targeted levels, ensuring the customer benefit. The maximum annual shareholder benefit will be 150% of the estimated savings for customers set forth in the first page of this Exhibit. Under this methodology, the investor share can exceed estimated investor benefit only when customers' benefits are also in excess of the estimate.

The calculation of the shareholder benefit will be done on a total company basis and allocated proportionately among the jurisdictions and services. Disposition of savings after March 31, 2009 will be determined at that time.

EXHIBIT E

CENTRAL FUNCTIONS AFFECTED BY SYNERGIES

Accounting (including public accountants)
Tax
Treasurer/Shareholders Services
Rate Engineering/Compliance

Auditing

Business Development

Office of CEO

Public Affairs

Employee Relations
Environmental, Health & Safety
Purchasing
Information Resources
R&D (including EPRI & GRI dues)

Legal

Corporate and Fiscal Expenses

Association & Dues

NOTE:

The target for the cost centers shown above for RECO will be its pro-rata share of the actual costs recorded for the year 1998, adjusted to reflect generation divestiture and normalized for major organizational changes or extraordinary expenses or credits that may occur. The resulting target will be increased by the annual CPI and reduced by non-synergy productivity of 2% annually.

EXHIBIT D-4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In Re: Application of Pike County Light & Power Company for a Certificate of Public Convenience Evidencing Approval under Section 1102(a)(3) of the Public Utility Code of the Transfer from Orange and Rockland Utilities, Inc. to Consolidated Edison, Inc. by Merger the Title to, or the Possession or Use of, All Property of Pike County Light & Power Company, Used or Useful in the Public Service	)	Docket No: A--

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

A. Introduction

1. By this Application, Pike County Light & Power Company ("Pike"), seeks, pursuant to Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. (S) 1102(a)(3), as interpreted in the Statement of Policy on Utility Stock Transfers, at 52 Pa. Code (S) 69.901, a certificate of public convenience evidencing the Pennsylvania Public Utility Commission's ("Commission") approval of the transfer by merger from Orange and Rockland Utilities, Inc. ("Orange and Rockland") to Consolidated Edison, Inc. ("CEI") the title to, or the possession or use of, all property of Pike, that is used or useful in the public service.

2. The complete name and address of the Applicant is:

Pike County Light & Power Company
One Blue Hill Plaza
Pearl River, New York 10965

3. The names, addresses and telephone numbers of the Applicant's attorneys are:

David B. MacGregor
Morgan, Lewis & Bockius LLP
2000 One Logan Square
Philadelphia, PA 19103-6993
Tel: (215) 963-5448
Fax: (215) 963-5299

Michael W. Hassell
Morgan, Lewis & Bockius LLP
One Commerce Square
417 Walnut Street
Harrisburg, PA 17101-1904
Tel: (717) 237-4024
Fax: (717 237-4004

4. The name, address and telephone numbers of an additional attorney for Pike is:

John L. Carley
Senior Counsel
Orange and Rockland Utilities, Inc.
One Blue Hill Plaza
Pearl River, NY 10965
Tel: (914) 577-2426
Fax: (914) 577-2959

5. The name, address and telephone numbers of the attorney for CEI is:

John D. McMahon
Deputy General Counsel
Consolidated Edison Company
of New York, Inc.
4 Irving Place
New York, New York 10003
Tel: (212) 460-6330
Fax: (212) 677-5850

B. The Parties to the Proposed Transaction

6. Pike is a Pennsylvania corporation organized in 1910, which provides electric and gas public utility service in the northeastern corner of Pike County, Pennsylvania. As shown in Exhibit F, Schedule 1 hereto, as of March 31, 1998, Pike served approximately 5,000 customers. Pike provides service throughout a 51 square mile service territory in Pike County. For the twelve months ended March 31, 1998, Pike's jurisdictional electric sales amounted to approximately 56,900 MWH and its jurisdictional gas sales amounted to approximately 129,000 MCF. As shown in Exhibit H, Schedule 1 hereto, for the same period, Pike's annual operating revenues were approximately $6,230,000. Pike's system does not include any bulk

transmission lines operating at or above 230,000 volts and it includes approximately 118 miles of other transmission and distribution lines operating at less than 230,000 volts.

7. Orange and Rockland is a public utility, incorporated in New York State, with a principal business office at One Blue Hill Plaza, Pearl River, New York 10965. Orange and Rockland with its two wholly-owned utility subsidiaries, Pike and Rockland Electric Company ("RECO"), a New Jersey public utility, jointly operate a single fully integrated electric production and transmission system ("Orange and Rockland System") serving parts of Pennsylvania, New Jersey and New York. Orange and Rockland is an exempt holding company under the Public Utility Holding Company Act of 1935 ("PUHCA"). The stock of Orange and Rockland is publicly held. Orange and Rockland is the sole stockholder of both Pike and RECO. Orange and Rockland, along with Pike and RECO, is a member system of the New York Power Pool ("NYPP"). Orange and Rockland's NYPP operations and other wholesale services are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission ("FERC").

8. CEI is a corporation organized under the laws of the State of New York and is an exempt holding company under PUHCA. CEI's principal business office is at 4 Irving Place, New York, New York 10003. The stock of CEI is publicly held. CEI is the sole stockholder of Consolidated Edison Company of New York, Inc. ("Con Edison"). A corporation organized under the laws of the State of New York, Con Edison provides electric service in all of New York City (except part of Queens) and in most of Westchester County, New York. Con Edison also provides gas service in Manhattan, the Bronx and parts of Queens and Westchester County, New York and steam service in part of Manhattan. Its electric, gas and steam retail rates are established by the New York Public Service Commission ("NYPSC"). Con Edison's

principal business office is at 4 Irving Place, New York, New York 10003. Con Edison is a member system of the NYPP./1/

C. Description of the Merger

9. The following is a summary of the principal steps which will be, or have been, taken to effect the proposed merger. A complete copy of the Agreement and Plan of Merger, dated as of May 10, 1998 ("Merger Agreement"), is provided as Exhibit A hereto.

a. CEI has caused a new wholly-owned subsidiary, C Acquisition Corp. (the "Merger Subsidiary"), to be organized under the laws of New York for the purposes of the proposed merger.

b. The Merger Subsidiary will be merged into Orange and Rockland ("Merger"). Orange and Rockland will be the surviving corporation, and the Merger Subsidiary will cease to exist.

c. As set forth in Article II of the Merger Agreement, upon consummation of the Merger:

(i) each issued and outstanding share of Orange and Rockland's common stock not owned by CEI, Orange and Rockland or an Orange and Rockland subsidiary will be canceled and converted into the right to receive cash in the amount of $58.50; and

(ii) any shares of Orange and Rockland's common stock that are owned by Orange and Rockland as treasury stock or by CEI or by any Orange and Rockland subsidiary will be canceled and retired.

Prior to the consummation of the Merger, Orange and Rockland's Preferred Stock as well as Orange and Rockland's Preference Stock will have been redeemed.

/1/ Con Edison Solutions, Inc., another wholly-owned subsidiary of CEI, is licensed to market energy in Pennsylvania.

d. The Merger will result in a change in the ultimate owners of Orange and Rockland but will not involve any immediate change in the manner in which Pike provides electric transmission and delivery service to its customers. Pike will continue to exist, will retain its present name, and will operate as a wholly- owned subsidiary of Orange and Rockland. The services currently being provided by Pike will continue to be offered pursuant to Commission-approved tariffs. Exhibit K compares the pre- and post-merger corporate structures of the entities involved in these transactions.

D. Benefits of the Merger

10. The Merger is expected to produce benefits, including cost savings through greater efficiencies and economies of scale and scope, a more diverse customer base, and a regional platform for growth. More specifically the Merger will provide the opportunity to achieve cost savings through greater operating efficiencies than would otherwise be possible. Scale has importance in many areas, including utility operations, product development, advertising and corporate services. The Merger also will create a regional platform for marketing utility and non-utility services will strengthen the ability of the combined company to offer additional services to customers.

11. The Merger will not have an adverse effect on competition among suppliers of electric utility services. Pike owns no generating assets. Both Pike's corporate parent, Orange and Rockland, and Con Edison have committed to comprehensive generation divestiture programs and have established open access transmission tariffs consistent with the rules and requirements of the FERC. The technological innovations that have played a major role in facilitating competition, allowing new markets to form and expanding the types of transactions that utilities can accommodate, cannot be as effectively supported or encouraged on a small

scale. This Merger will provide the resources to foster innovation and will add vitality and strength to the drive to competition and thereby increase the savings available to consumers. As a result, the Merger will not result in either anticompetitive or discriminatory conduct and will not prevent retail customers from obtaining the benefits of a competitive retail electricity market.

12. In its electric restructuring proceeding,/2/ Pike has entered into a complete settlement with the Office of Trial Staff, Office of the Consumer Advocate and Office of Small Business Advocate. A Joint Petition for Complete Settlement dated May 15, 1998 has been filed with the Commission. The Merger will not alter the terms of that settlement and Pike remains fully committed to carrying through the terms of that settlement fully and completely. Pike has committed itself firmly to the development of a competitive electric market in its service area and plans to implement full retail access by May 1999. As the Commission moves forward with its restructuring of the electric industry in Pennsylvania, Pike expects that it will be better able to contribute to the new competitive environment as a result of the Merger. The end result will be a benefit to electric competition in Pennsylvania, as changes come to the industry. At the same time, the existence of the other competitors in the region will ensure that the combined companies have no market power in the restructured electric power market.

13. The Merger will not have a substantial impact on jobs located in Pennsylvania. Pike has no operating employees. As a wholly-owned subsidiary of Orange and Rockland, all the service requirements of Pike's customers, including transmission, distribution, new business, commercial, and general and administrative operations are furnished by Orange and

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/2/ Pennsylvania Public Utility Commission v. Pike County Light & Power Company, Docket No. R-00974150.

Rockland. Orange and Rockland bills Pike for these services pursuant to the terms of the Joint Operating Agreement between them dated October 24, 1962./3/ Orange and Rockland will

continue to maintain a significant local workforce. The combined companies recognize that a local workforce is necessary to maintain excellent customer service levels and to respond to the particular needs within each of the States that the operating utilities will serve. The manner in which Orange and Rockland provides services to Pike should remain largely unaffected.

14. The Merger will not adversely affect Pike's service to its customers in Pennsylvania. The companies are committed to maintaining Pike's existing high standards of reliability and customer service. Merger-related savings will be obtained primarily through achieving economies of scale, such as elimination of duplicative departments and systems. As a result, the Merger will not have an adverse effect on the provision of safe, adequate and proper utility service at just and reasonable rates.

15. The Merger should strengthen the ability of Pike to offer additional services to its customers by providing access to innovative technology and methods now employed by Con Edison. For example, potential appears to exist with respect to the introduction of voice-response unit technology currently employed by Con Edison and in the growth of options afforded to customers in the use of the Internet to carry out customer transactions (e.g., bill payment). There are other significant potential benefits in the application of Internet technology, particularly in the data-transmission area, in implementing retail access.

16. The Merger also will enable Pike to draw on Con Edison's expertise to assure continued system reliability. Because of its size and service area characteristics, Con Edison has developed comprehensive systems to support reliability. These include managerial

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/3/ After the consummation of the Merger, Pike will continue to be billed pursuant to the cost allocation methodologies set forth in the Joint Operating Agreement.

systems such as performance tracking and root-cause analysis, systematic operating procedure and specification development, remote substation and overhead system monitoring, outage management systems and power quality services. With the Merger, these systems may be adopted to enhance similar systems presently operational on the Orange and Rockland System.

17. As a result of the Merger, Pike will be better positioned to maintain its strong commitment to the economic development and welfare of its service territory. This commitment will be enhanced by the improved ability of the combined entity to compete in the energy marketplace.

18. The Merger Agreement provides that Con Edison and Orange and Rockland will remain separate operating utilities owned by CEI. Pike will remain as a wholly owned subsidiary of Orange and Rockland. As a consequence, the transaction will not impact on the ability of Pike to continue to raise debt or preferred equity capital in the future. Moreover, additional equity capital, whether raised publicly at the CEI level, or generated internally, will be invested in Con Edison and Orange and Rockland (including Pike), as appropriate, to fund utility capital expenditures while maintaining a cost-effective capital structure at the utility level.

19. The Merger will make available certain net savings for sharing with customers which are driven by the operating efficiencies expected from the Merger. The forecast ten-year net synergy savings are set forth in Exhibit J. This exhibit indicates that the business combination of Orange and Rockland and Con Edison is anticipated to result in cost savings, net of transaction costs and costs to achieve, of approximately $468 million over the first ten years following the closing of the transaction (assumed closing date of March 31, 1999). Petitioners' propose a reasonable allocation of the synergy savings between consumers and investors in the combined company. Such sharing will apportion such savings equitably

between customers and investors and an appropriately recognizes investment required to bring about desirable and efficient combinations such as the Merger.

20. Pursuant to the proposal set forth in Exhibit J, electric and gas customers of Pike will benefit by one-half the savings over the 10-year period ending March 31, 2009, receiving a total benefit of $0.613 million. The disposition of these benefits is set forth in Exhibit J.

21. Pike would be at risk to achieve the level of projected savings and customers would benefit even if the achieved savings are less than projected. If, on the other hand, actually achieved savings are greater than projected, such savings will foster rate stability by delaying the need for future rate increases.

22. For accounting purposes, the Merger is treated as an acquisition by CEI of Orange and Rockland. As such, the Merger will be recorded using the "purchase method" of accounting for business combinations in accordance with Accounting Principles Board Opinion No. 16. The purchase price will be compared to the book value of Orange and Rockland when the Merger is consummated with the difference reflected as "Goodwill" on the books and records of CEI.

23. Pike will defer its pro rata share of direct transaction costs related to the Merger and amortize these expenses against synergy savings to be realized from the combination before any benefits are passed on to ratepayers or shareholders. The direct transaction costs will be deferred in FERC account 182 "regulatory assets" and amortized against FERC account 930.2 "miscellaneous general expense" over a five year period. Pike will expense its pro rata share of indirect transaction and internal labor costs as incurred.

24. Pike will be charged its pro rata share of the amortization of the "Goodwill" balance. Pike will amortize this cost "below the line". The amortization will be on a straight-line basis over a period not to exceed forty years.

25. Separate financial statements, substantially the same as the current financial statements of Orange and Rockland and Pike, will continue to be issued. The assets of Orange and Rockland and Pike will continue to be recorded on their books and records at the same values as before the Merger.

E. Rates

26. Presently, Pike provides service to Pennsylvania jurisdictional customers under tariffs and rates reviewed and approved by the Commission. Pike's rates will not change as a result of the Merger. As described in Exhibit K, customer benefits will be accumulated in the form of credits to offset future cost increases.

F. Service

27. As noted above in Sections 13-15, service provided by Pike will not be affected by the Merger.

G. Corporate Approvals

28. The Merger has been approved by the Board of Directors of Orange and Rockland and the Board of Directors of CEI.

29. The Merger Agreement requires the approval of the holders of shares of common stock in Orange and Rockland. Orange and Rockland will hold a meeting of its shareholders on August 20, 1998 to vote on the approval of the Merger Agreement. CEI's shareholders are not required to approve the Merger Agreement.

H. Regulatory Approvals

30. The Merger is subject to approval by this Commission as well as the NYPSC and the New Jersey Board of Public Utilities.

31. The proposed merger is subject to approval by the United States Securities and Exchange Commission ("SEC") under the PUHCA.

32. The Merger is subject to approval by the FERC under Section 203 of the Federal Power Act.

33. The expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, will be required.

34. The target date for receiving all necessary regulatory approvals, fulfilling all other conditions of the Merger Agreement, and closing the Merger is March 31, 1999. Delays beyond that time would likely increase the total transaction and transition costs while delaying the benefits of the Merger. Pike, therefore, requests that the Commission expedite consideration of this Petition.

I. Service Territories

35. Provided as Exhibit B hereto are copies of Pike's tariff sheets which identify the areas where it provides gas and electric service in Pennsylvania. Exhibit C hereto is a map depicting the portions of Pennsylvania where Pike provides service.

36. The gas and electric service territories of Pike would not be changed by the Commission's approval of this Application or by the consummation of the transaction proposed herein.

J. Pike Corporate History

37. Pike was organized in 1910 as a subsidiary of the Orange County Public Service Company of Port Jervis, New York. In 1913, Pike merged with Matamoras Gas Company and Pike Gas Company to form Pike County Light & Power Company. In 1914, Pike County Light & Power Company merged with Milford Electric Company, Milford Township Electric Company, and Westfall Electric Company to become what is known today as Pike County Light & Power Company. Pike County Light & Power Company was acquired by the Tenney Company in 1926 and merged into Rockland Light and Power Company. On February

28, 1958, Orange and Rockland Electric Company merged into Rockland Light and Power Company and the merged company became Orange and Rockland Utilities, Inc.

K. Supporting Data

38. Pike will employ, in furnishing service, plant in service presently used by it to furnish service, together with plant presently under construction and plant which may be added in the future prior to approval of this Application. Exhibit E is a Statement for Pike of the original cost, by primary account, of plant in service. Also shown on Exhibit E is the reserve for depreciation associated with plant in service. Approval by the Commission of this Application and the consummation of the transaction proposed herein will not alter the original cost of plant in service or the depreciation reserve of each company.

39. Exhibit F hereto indicates for Pike the number of customers, by class, as of March 31, 1998. Approval by the Commission of this Application and the consummation of the transaction proposed herein will not alter the number of customers served by Pike.

40. Exhibit G hereto contains balance sheets for Pike as of March 31, 1998. Approval by the Commission of this Application and the consummation of the transaction proposed herein will have no material effect upon Pike's balance sheets.

41. Exhibit H hereto is the statement of income for Pike, for the twelve months ended March 31, 1998. Approval by the Commission of this Application and the consummation of the transaction proposed herein will not affect Pike's income statement.

42. Exhibit I hereto is the Statement of Financial Condition of CEI as of December 31, 1997.

L. Miscellaneous

43. All of the annual reports, tariffs and other documents filed by Pike with the Commission and filings by its predecessors, are made a part hereof by reference.

44. The following exhibits are attached to this Petition, incorporated herein and made a part hereof:

a. Exhibit A - Agreement and Plan of Merger;
   Exhibit B - Description of Territory
   Exhibit C - Map of Pike
   Exhibit D - Tariff sheets
   Exhibit E - Statement of Pike Original Cost Plant in Service (March 31, 1998)
   Exhibit F - Customers Served as of March 31, 1998
   Exhibit G - Pike Balance Sheet
   Exhibit H - Pike Statement of Income
   Exhibit I - Statement of Financial Condition of CEI as of December 31, 1997
   Exhibit J - Synergy Savings
   Exhibit K - Comparison of Pre- and Post Merger Corporate Structure

45. The Merger Agreement provides that, prior to the closing date, the Merger Agreement may be terminated for a variety of reasons. In the event that the Merger Agreement is so terminated in accordance with its terms, Pike respectfully reserves the right to withdraw this Petition.

WHEREFORE, for all the foregoing reasons, Pike County Light & Power Company respectfully requests that the Pennsylvania Public Utility Commission approve this Application and issue a certificate of public convenience approving the transfer from Orange and Rockland Utilities, Inc. to Consolidated Edison, Inc. by merger the title to, or the possession or use of, all property of Pike County Light & Power Company, that is used or useful in the public service.

Respectfully submitted,

____

John L. Carley
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Attorneys for Pike County Light & Power Company, Orange and Rockland Utilities, Inc., and Consolidated Edison, Inc.

Dated: July 2, 1998

AFFIDAVIT

STATE OF NEW YORK :
: SS.
COUNTY OF ROCKLAND :

G. D. CALIENDO, being duly sworn according to law, deposes and states that he is Senior Vice President, General Counsel and Secretary of Pike Light & Power Company; that he is authorized to and does made this affidavit for it; and that the facts set forth above related to Pike Light & Power Company are correct to the best of his knowledge, information and belief.

____
R. Lee Haney

Sworn to and subscribed
before me this ____ day
of June, 1998.

____
Notary Public

PIKE COUNTY LIGHT & POWER COMPANY

BALANCE SHEET

ASSETS AND OTHER DEBITS

	Mar. 31, 1998
Utility Plant	
Electric Plant in Service	$7,307,305
Gas Plant in Service	845,327
Common Utility Plant in Service	68,406
Gas Plant Held for Future Use	10,096
Construction Work in Progress	152,881
Total Utility Plant	8,384,015
Accumulated Provision for Depreciation:	
Electric	1,725,378
Gas	267,149
Gas Held for Future Use	4,336
Common	38,318
Total Accum. Provision for Depreciation	2,035,181
Net Utility Plant	6,348,834
Other Property and Investments	
Nonutility Property	39,365
Accumulated Provision for Depreciation	(15,226)
Total Other Property and Investments	24,139
Current And Accrued Assets	
Cash	307,975
Special Deposits	96,259
Working Funds	150
Customer Accounts Receivable	427,085
Other Accounts Receivable	30,229
Accumulated Prov. for Uncollectible Accounts	(50,953)
Accounts Receivable from Assoc. Companies	4,179
Materials and Supplies	257,247
Prepayments	191,115
Accrued Utility Revenue	448,141
Total Current and Accrued Assets	1,711,427
Deferred Debits	
Unamortized Debt Expense	47,682
Preliminary Survey and Investigation Charges	12,081
Miscellaneous Deferred Debits	1,268,555
Accumulated Deferred Federal Income Tax	294,628
Total Deferred Debits	1,622,946
Total Assets and Other Debits	$9,707,346

PIKE COUNTY LIGHT & POWER COMPANY

BALANCE SHEET

LIABILITIES AND OTHER CREDITS

	Mar. 31, 1998
Proprietary Capital	
Common Stock Issued	$ 137,000
Miscellaneous Paid-In Capital	500,000
Retained Earnings	2,919,779
Total Proprietary Capital	3,556,779
Long Term Debt	
Bonds	2,683,500
Non-Current Liabilities	
Accum. Prov. for Pensions and Benefits	99,056
Current and Accrued Liabilities	
Accounts Payable	25,498
Accounts Payable to Assoc. Companies	1,294,555
Customer Deposits	53,433
Taxes Accrued	(8,223)
Interest Accrued	42,563
Misc. Current and Accrued Liabilities	302,625
Total Current and Accrued Liabilities	1,710,451
Deferred Credits	
Customer Advances For Construction	7,856
Other Deferred Credits	109,446
Accum. Deferred Investment Tax Credits	65,758
Accumulated Deferred Income Taxes:	
Liberalized Depreciation	1,051,357
Other	423,143
Total Deferred Credits	1,657,560
Total Liabilities & Equity	$9,707,346

PIKE COUNTY LIGHT & POWER COMPANY
Net Book Value of Electric Plant in Service
March 31, 1998

		Electric Plant in Service	Accumulated Provision for Depreciation & Amortization	Net Book Value
INTANGIBLE PLANT				
(302)	Franchise and Consents	$ 2,675	$	$ 2,675
	Total Intangible Plant	2,675		2,675
DISTRIBUTION PLANT				
(360)	Land and Land Rights	46,091	15,314	30,777
(361)	Structures and Improvements	2,327	2,524	(197)
(362)	Station Equipment	32,422	25,485	6,937
(364)	Poles, Towers and Fixtures	2,091,580	531,336	1,560,244
(365)	Overhead Conductors & Devices	1,982,750	245,826	1,736,924
(366)	Underground Conduit	207,339	21,927	185,412
(367)	Underground Conductors & Devices	512,287	82,774	429,513
(368)	Line Transformers	1,551,327	523,295	1,028,032
(369)	Services	467,204	157,700	309,504
(370)	Meters	299,093	87,906	211,187
(373)	Street Lighting & Signal Systems	112,210	39,431	72,779
	Total Distribution Plant	7,304,630	1,733,518	5,571,112
	Retirement Work in Progress	0	(8,140)	8,140
	Total	7,304,630	1,725,378	5,579,252
	Depreciation Deficiency *	0	0	0
	Total	$7,307,305	$1,725,378	$5,581,927

PIKE COUNTY LIGHT & POWER COMPANY
Net Book Value of Gas Plant in Service
March 31, 1998

		Gas Plant in Service	Accumulated Prov. for Deprec. & Amortization	Net Book Value
DISTRIBUTION PLANT				
(374)	Land and Land Rights	$ 1,551	$ 372	$ 1,179
(376)	Mains	484,572	147,832	336,740
(378)	Meas. and Reg. Equip. - General	67,784	23,722	44,062
(380)	Services	246,624	77,374	169,250
(381)	Meters	20,651	6,810	13,841
(382)	Meter Installations	23,115	7,936	15,179
(384)	House Regulator Installations	1,030	110	920
	Total General Plant	845,327	264,156	581,171
	Retirement Work in Progress		0	0
	Depreciation Deficiency		2,993	(2,993)
	Total	$845,327	$267,149	$578,178

PIKE COUNTY LIGHT & POWER COMPANY
Net Book Value of Common Plant in Service
March 31, 1998

		Common Plant in Service	Accumulated Prov. for Deprec. & Amortization	Net Book Value
GENERAL PLANT				
(389)	Land and Land Rights	$ 3,771	$	$ 3,771
(390)	Structures and Improvements	38,592	16,034	22,558
(391)	Office Furniture & Equipment	17,927	19,226	(1,299)
(392)	Transportation Equipment			
(393)	Stores Equipment			
(394)	Tools, Shop & Garage Equipment			
(395)	Laboratory Equipment			
(396)	Power Operated Equipment			
(397)	Communication Equipment	6,113	2,024	4,089
(398)	Miscellaneous Equipment	2,003	1,034	969
	Total General Plant	68,406	38,318	30,088
	Retirement Work in Progress			
	Total	$68,406	$38,318	$30,088

PIKE COUNTY LIGHT & POWER COMPANY

Statement of Income for Year Ending March 31, 1998

Utility Operating Income	Company Total	Electric Dept.	Gas Dept.
Operating Revenue	$6,230,156	$5,392,214	$837,942
Operating Expenses:			
Operation and Maintenance	5,094,432	4,308,537	785,895
Depreciation Expense	220,898	217,201	3,697
Taxes Other than Income Taxes	371,893	313,132	58,761
Federal Income Taxes	99,545	107,234	(7,689)
Provision for Deferred Income Taxes	137,830	130,947	6,883
Provision for Deferred Income Taxes - Cr.	(153,287)	(131,556)	(21,731)
Investment Tax Credit Adjustments	(5,420)	(5,196)	(224)
Total Operating Expenses	5,765,891	4,940,299	825,592
Total Utility Operating Income	464,265	$ 451,915	$ 12,350
Other Income			
Revenue from Nonutility Operations	0		
Non-Operating Rental Income	(487)		
Interest and Dividend Income	7,970		
Allowance for Funds Used During Construction	0		
Miscellaneous Non-Operating Income	(134)		
Total Other Income	7,349		
Other Income Deductions			
Loss on Disposition of Property	0		
Miscellaneous Income Deductions	6,647		
Total Other Income Deductions	6,647		
Taxes - Other Income Deductions			
Taxes Other Than Income Taxes	1,094		
Federal Income Taxes	(1,071)		
Deferred Federal Income Taxes	300		
Investment Tax Credit Adjustment	0		
Total Taxes - Other Income Deductions	323		
Net Other Income and Deductions	379		
Interest Charges			
Interest on Long Term Debt	258,615		
Amortization of Debt Discount & Expense	3,291		
Interest on Debt to Assoc. Companies	29,475		
Other Interest Expense	(2,931)		
Allowance for Borrowed Funds Used During Construction	(477)		
Total Interest Charges	287,973		
Net Income	$ 176,671		

[Orange and Rockland Utilities, Inc Electric Service Areas Map appears here.]

[Orange and Rockland Utilities, Inc Gas Service Areas Map appears here.]

EXHIBIT J

SECURITIES AND EXCHANGE COMMISSION
{RELEASE NO. 35 - ________}
FILINGS UNDER THE PUBLIC UTILITY HOLDING
COMPANY ACT OF 1935, AS AMENDED ("ACT")

Notice is hereby given that the following filing has been made with the Commission pursuant to provisions of the Act and rules promulgated thereunder. All interested persons are referred to the application for complete statements of the proposed transactions summarized below. The application and any amendments thereto are available for public inspection through the Commission's Office of Public Reference.

Interested persons wishing to comment or request a hearing on the application should submit their views in writing by ______________, 1999, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549, and serve a copy on the relevant applicants at the addresses specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing shall identify specifically the issues of fact or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After said date, the application, as filed or as amended, may be granted and/or permitted to become effective.

CONSOLIDATED EDISON, INC.

Consolidated Edison, Inc. ("CEI"), a New York corporation located at 4 Irving Place, New York, New York 10003, and an exempt holding company under Section 3(a)(1) of the Act, has filed an application under Sections 9(a)(2) and 10 of the Act. CEI's principal subsidiary is Consolidated Edison Company of New York, Inc. ("Con Edison"), a New York corporation and an electric and gas utility company. CEI seeks authorization to acquire all of the issued and outstanding common stock of Orange and Rockland Utilities, Inc. ("Orange and Rockland"), an exempt holding company under Section 3(a)(2) of the Act and an electric and gas utility company. Orange and Rockland has two public utility company subsidiaries, Rockland Electric Company ("RECO"), a New Jersey electric utility company and Pike County Light & Power Company ("Pike"), a Pennsylvania electric and gas utility company.

Con Edison supplies electric service in all of New York City (except portions of the Borough of Queens) and most of Westchester County, New York. Con Edison supplies gas service in the Boroughs of Manhattan, the Bronx and parts of Queens and Westchester County, New York, and steam in part of Manhattan. For the twelve months ended September 30, 1998, Con Edison's total operating revenues were $7.22 billion, of which approximately $5.74 billion was derived from electric operations, $1 billion from gas operations, and $355 million from steam operations. Consolidated assets of Con Edison as of September 30, 1998 were $14.5 billion. Con Edison is subject to the jurisdiction of the New York Public Service Commission.

Orange and Rockland provides electric and gas service in all of Rockland County, most of Orange County and a part of Sullivan County, New York. RECO supplies electricity to parts of Bergen, Passaic and Sussex Counties, New Jersey. Pike supplies electricity and gas to a portion of Pike County, Pennsylvania. For the twelve months ended September 30, 1998, Orange and Rockland's consolidated revenues were $643 million, of which approximately $496 million was derived from electric sales and $146 million from gas sales. Approximately 77 percent of consolidated revenues was derived from Orange and Rockland's operations in New York, and 22 percent of consolidated revenues was provided by the operations of Orange and Rockland's subsidiaries in New Jersey and Pennsylvania. Consolidated assets of Orange and Rockland and its subsidiaries at September 30, 1998 were approximately $1.3 billion.

Orange and Rockland is exempt from registration under the Act pursuant to Section 3(a)(2) by order of the Commission. Rockland Light and Power Company, 1 SEC 354 (1936). Orange and Rockland is subject to the jurisdiction of the New York Public Service Commission. RECO is subject to the jurisdiction of the New Jersey Board of Public Utilities, and Pike is subject to the jurisdiction of the Pennsylvania Public Utilities Commission.

Pursuant to the terms of the Agreement and Plan of Merger among Orange and Rockland, CEI and C Acquisition Corp., dated as of May 10, 1998 ("Merger Agreement"), Orange and Rockland will be merged with and into C Acquisition Corp., a New York corporation and wholly-owned subsidiary of CEI, with Orange and Rockland continuing as the surviving corporation and becoming a wholly-owned subsidiary of CEI. The Merger will be effected through the purchase of Orange and Rockland stock. Each share of Orange and Rockland stock will be cancelled and converted into the right to receive $58.50 in cash payable to the holder of each share upon surrender. Any Orange and Rockland common stock owned by Orange and Rockland as treasury stock or by CEI will be cancelled and no payment due to such holders. All preferred stock and preference stock of Orange and Rockland will be redeemed, prior to the effective date of the Merger, at a redemption price equal to the respective amount set forth in Orange and Rockland's restated Certificate of Incorporation, together with all dividends accrued and unpaid to the date of redemption.

The boards of directors of both Orange and Rockland and CEI have approved the Merger Agreement. Orange and Rockland held a meeting of its common shareholders on August 24, 1998, and the requisite two-third votes of Orange and Rockland's shareholders approved the Merger.

Following consummation of the Merger, CEI contends that it will qualify for an exemption from registration under the Act pursuant to Section 3(a)(1), and that Orange and Rockland will remain exempt from registration under Section 3(a)(2) of the Act pursuant to the Commission's order.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

EXHIBIT K-1

BEFORE THE NEW YORK STATE
PUBLIC SERVICE COMMISSION

- ---x

In the Matter of Consolidated Edison Company :
of New York, Inc.'s plans for (1) electric rate/
restructuring pursuant to Opinion No. 96-12, :
and (2) the formation of a holding company
pursuant to PSL, Sections 70, 108 and 110, and :
certain related transactions.

PSC Case No. 96-E-0897 :

- ---x

[AMENDED AND RESTATED]
AGREEMENT AND SETTLEMENT

[CONFORMED COPY OF AGREEMENT AND SETTLEMENT
DATED AUGUST 29, 1997, INCORPORATING REVISIONS
MADE BY ADDENDUM DATED SEPTEMBER 19, 1997]

Dated: September 19, 1997

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BEFORE THE NEW YORK STATE
PUBLIC SERVICE COMMISSION

In the Matter of Consolidated Edison Company of New York, Inc.'s plans for (1) electric rate/restructuring pursuant to Opinion No. 96-12, and (2) the formation of a holding company pursuant to PSL, Sections 70, 108 and 110, and certain related transactions.

P.S.C. Case No. 96-E-0897

[AMENDED AND RESTATED]* AGREEMENT AND SETTLEMENT

I. INTRODUCTION

1. The Commission's May 20, 1996 Order

a. Procedural History and Background

In 1993, the Public Service Commission (the "Commission") initiated a proceeding aimed at addressing numerous issues related to potential competition in the regulated energy markets in New York State. Case 93-M-0229, *Proceeding on Motion of the Commission to Address Competitive Opportunities Available to Customers of Electric and Gas Service and Develop Criteria for Utility Responses*, Order Instituting Proceeding (March 19, 1993) (changed to Case 94-E-0952, by order dated November 30, 1994, to reflect new focus on electric service) (the "COB proceeding").

On July 11, 1994, the Commission issued its *Opinion and Order Regarding Flexible Rates*, *Opinion No. 94-15*, Case 93-M-0229 (July 11, 1994). In the July 11, 1994 order, the Commission announced "a possible second phase of this proceeding: an investigation into the appropriate market structure and regulatory regime for the future." *Id.* at 32.

/*/ Conformed copy of Agreement and Settlement dated August 29, 1997, incorporating revisions made by Addendum dated September 19, 1997.

On August 9, 1994, the Commission instituted phase II of the COB proceeding, *Order Instituting Phase II of Proceeding*, Case 93-M-0229 (August 9, 1994). This phase of the COB proceeding was intended "to identify regulatory and ratemaking practices that will assist in the transition to a more competitive electric industry designed to increase efficiency in the provision of electricity while maintaining safety, environmental, affordability, and service quality goals." *Id.* at 1-2. Parties to phase II of the COB proceeding were urged to work together to "examine issues related to the establishment of a fully efficient wholesale market for electricity and any pricing reforms necessary to reflect those market efficiencies in retail customer rates." *Id.* at 3.

On June 7, 1995, the Commission adopted "final principles" to guide the transition to greater competition in the electric industry. See Opinion No. 95-7, Case 94-E-0952 (June 7, 1995).

On December 21, 1995, Administrative Law Judge Judith A. Lee and Ronald Liberty, then-Deputy Director of the Energy and Water Division, issued a Recommended Decision addressing implementation of the restructuring principles. On May 20, 1996, the Commission issued its *Opinion and Order Regarding Competitive Opportunities for Electric Service*, Opinion No. 96-12 ("May 20, 1996 order").

b. *The Requirements of the May 20, 1996 Order*

The Commission's stated vision for the electric utility industry is "(1) effective competition in the generation and energy services sectors; (2) reduced prices resulting in improved economic development for the State as a whole; (3) increased consumer choice of supplier and service company; (4) a system operator that treats all participants fairly and ensures reliable service; (5) a provider of last resort for all consumers and the continuation of a means to fund necessary public policy programs; (6) ample and accurate information for consumers to use in making informed decisions; and (7) the availability of information that permits adequate oversight of the market to ensure its fair operation." *Id.* at 24-25. In its May 20, 1996 order, the Commission directed Consolidated Edison Company of New York, Inc. ("Con Edison" or "the Company") and four other electric utilities to each file a rate/restructuring plan consistent with the Commission's policy and vision for increased competition. *Id.* at 74-75; see also *id.* at 92.

The Commission stated that these utility plans "should address, at a minimum," matters including "(1) the structure of the utility both in the short and long term, . . . a description of how that structure complies with our vision and, in cases where divestiture is not proposed, effective mechanisms that adequately address resulting market power concerns; (2) a schedule for the introduction of retail access to all of the utility's customers, and a set of unbundled tariffs that is consistent with the retail access program; (3) a rate plan to be effective for a significant portion of the transition" and numerous other issues relating to strandable costs, load pockets, energy services, and a system benefits charge. *Id.* at 75-76, 90.

In addition, the Commission directed the utilities to collaborate with the Department of Public Service Staff ("Staff") and other interested parties to "accomplish technical studies" on subjects including load pockets, market prices, energy services companies and reporting requirements. Collaborative efforts were also directed on public educational forums and on "necessary FERC filings," which have centered on development of the Independent System Operator and Power Exchange. *Id.* at 63-64.

c. Con Edison's October 1, 1996 Filing

On October 1, 1996, Con Edison filed a rate/restructuring plan in response to the May 20, 1996 order (the "October 1, 1996 plan"). The October 1, 1996 plan proposed a transition to a competitive electric market, including a plan for retail competition, a multi-year rate plan, and a corporate reorganization into a holding company structure.

2. Negotiations Among The Parties

The Commission established Case 96-E-0897 to examine Con Edison's plan, and the Hon. Judith A. Lee was appointed as presiding Administrative Law Judge. Nearly 70 parties intervened and about 40 actively participated in the proceeding. By *Order Establishing Procedures and Schedule* (issued October 9, 1996 as a one-Commissioner order and confirmed by the full Commission on October 24, 1996) ("the October 9 order"), the Commission established a schedule for this proceeding. Stating that "a negotiated outcome is preferable to a litigated outcome," the Commission stated that "discussions and negotiations among the parties are strongly encouraged" and established a "90-day [negotiating] period." *Id.*, p. 3. To facilitate negotiations, the Commission's October 9 order waived certain of its settlement guidelines (*Id.*; Case 90-M-0255, Settlement and Stipulation Agreements, Opinion No. 92-2, issued March 24, 1992).

Over the period of October 15 to December 20, 1996, Con Edison conducted a series of twelve "technical" meetings with the parties to this proceeding at which the Company provided detailed presentations on its October 1, 1996 plan, provided supporting data, and answered parties' questions and listened to their observations and concerns. Also during this period, the parties conducted extensive discovery of Con Edison. Following notice of impending settlement negotiations filed with the Secretary of the Commission and sent to all parties, Con Edison and the parties, including Staff, began settlement negotiations on November 20, 1996 to determine whether they could reach accord on a negotiated settlement of the issues presented by the Commission's vision for the electric industry and Con Edison's plan. All-party negotiation conferences were conducted on November 20, 22, 26, December 6 and 11, 1996, and February 25, 1997, and numerous other conferences among various parties were conducted as well.

On November 4 and 26, and December 16, 1996, Judge Lee conducted procedural conferences at which the parties, *inter alia*, reported on the progress of settlement negotiations. At these conferences, the Judge monitored the progress of the parties to assure compliance with the scheduling mileposts of the Commission's October 9 order. The Secretary of the Commission subsequently issued notice of various extensions of the negotiating period to facilitate settlement negotiations. In her December 20, 1996 Notice, Judge Lee stated that it was the "Commission's explicit preference for a negotiated resolution of this proceeding instead of a litigated outcome" and urged the parties "to continue to make good faith efforts to reach a settlement, if at all possible." Case 96-E-0897, Procedural Ruling, December 20, 1996, pp. 2-3.

On January 16, 1997, the Company and Staff informed the parties that they had made significant progress in resolving the issues to this case and that they were seeking to prepare a detailed settlement proposal. On March 13, 1997, an "Agreement and Settlement" dated March 12, 1997 ("the March 12, 1997 settlement agreement") was submitted to the Commission. By orders issued March 27, 1997 and April 9, 1997, the Commission set procedures to govern the settlement while it was being considered. Four days of hearings were conducted to review the March 12, 1997 settlement agreement. A Recommended Decision was issued June 20, 1997, and, as a result of the recommendations contained therein, the parties attempted to negotiate changes to the March 12, 1997 settlement agreement, but no changes were made prior to the Commission's scheduled August 20, 1997 consideration of the March 12, 1997 settlement agreement. At its August 20, 1997 session, the Commission requested Staff to seek to negotiate certain modifications to the March 12, 1997 settlement, with any such modifications to be filed by August 29, 1997, for consideration by the Commission at its September 10, 1997 session. Accordingly, a further all-parties' meeting was held on August 26. The undersigned have agreed to the terms set forth in this settlement agreement.

The issues involved in this proceeding are complex, and their resolution is likely to have long-term impacts on the New York City metropolitan area, including impacts on the cost of electric service, on the way electricity is provided in Con Edison's service area and on Con Edison's business. Nevertheless, after thorough investigation and discussion, the parties to this settlement have agreed to resolve these complex and vital issues by settlement rather than litigation. The signatories believe that this settlement gives fair consideration to the interests of Con Edison's customers, investors and other stakeholders and will facilitate implementation of the Commission's vision for a competitive electric industry as stated in its May 20, 1996 order.

II. RATE PLAN

Objectives and Time Period Covered

1. The Commission's May 20, 1996 order envisioned that a "rate plan" be established "to be effective for a significant portion of the transition." May 20, 1996 order, p. 76. The parties have agreed to the elements of such a "rate plan." The rate plan is designed with several objectives, including the following: to provide ratepayers with meaningful rate reductions during the transition to competition in order to enhance the economic vitality of the service area; to establish reasonable rate and revenue levels over an extended period to facilitate the transition to competition; to provide Con Edison with opportunities to earn reasonable rates of return on shareholder investment required for the development of the electric energy infrastructure in New York City and Westchester

County; to resolve difficult rate and rate-related issues arising from the transition, including the rate treatment of "strandable" costs; and to provide the Company with the ability to maintain the integrity and reliability of the electricity supply and delivery systems in its service territory.

2. The rate plan covers the five-year period ending March 31, 2002. The first year of the plan ("RY1") is the twelve months ending March 31, 1998. The second rate year ("RY2") is the twelve months ending March 31, 1999. The third rate year ("RY3") is the twelve months ending March 31, 2000. The fourth rate year ("RY4") is the twelve months ending March 31, 2001. The fifth rate year ("RY5") is the twelve months ending March 31, 2002. The rate plan (Section II. 11, 15, 16) also establishes certain principles to be considered in establishing revenue requirements in the period following RY5.

3. This rate plan covers Con Edison's rates and charges for retail electric sales and for electric delivery services. As currently effective, Con Edison's rates and charges for electric service are contained in Con Edison's Schedule for Electricity Service PSC No. 9 Electricity (this rate schedule and successors thereto are referred to herein as "PSC No. 9" or the "PSC No. 9 rate schedule"); in the PASNY No. 4 (FERC No. 96) Delivery Service Rate Schedule Implementing and Part of the Service Agreement between the Power Authority of the State of New York (PASNY) and the Consolidated Edison Company of New York, Inc. (the Company), dated March 10, 1989, for the delivery by the Company of Power and Associated Energy to Authority Public Customers (this rate schedule and successors thereto are referred to herein as "PASNY No. 4" or the "PASNY No. 4 rate schedule"); and in the Economic Development Delivery Service No. 2 (FERC Nos. 92 and 96) Economic Development Delivery Service Rate Schedule Implementing and Part of: (1) the "Service Agreement for the Delivery of Power and Energy" between the Power Authority of the State of New York ("PASNY") and the Consolidated Edison Company of New York, Inc. ("the Company"), dated March 10, 1989, for the Delivery by the Company of Power and Associated Energy to Authority Economic Development Customers; (2) the "Agreement for the Delivery of Power and Energy from the James A. FitzPatrick Power Project" between the County of Westchester, acting through the Westchester Public Utility Service Agency and the Company, made April 24, 1987; and (3) the "Agreement between the City of New York and Consolidated Edison Company of New York, Inc. for the Delivery of Power and Energy from the James A. FitzPatrick Nuclear Power Project" between the City of New York, acting through the New York Public Utility Service and the Company, made October 23, 1987 (this rate schedule and successors thereto are referred to herein as "EDDS" or the "EDDS rate schedule"). An additional tariff covering retail access will be established pursuant to Section III of this Agreement.

Rate and Revenue Levels
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4. The rate plan: (i) reduces PSC No. 9 rates and, therefore, the revenues that Con Edison will receive over the five-year period ending March 31, 2002 compared to the level it would receive had the PSC No. 9 schedule in effect as of the date of this rate settlement

remained in effect and implements the increase to the PASNY No. 4 tariff as authorized by the Commission in Case 94-E-0334 ("the Case 94-E-0334 settlement agreement") and as specifically described in Section II.31(i); (ii) implements rate design changes to the PSC No. 9 rate schedule in order to implement rate design provisions of the Case 94-E-0334 settlement agreement and to facilitate the transition to competition; and (iii) provides a framework for the transition to competition. This transition framework addresses mitigation and recovery of stranded costs, allocation of certain cost reductions and benefits that many expect to flow from the transition to competition, encourages the future infrastructure investments essential to support continued electric reliability, makes limited provision for increased costs associated with unanticipated developments possible during the transition, and provides incentives to maintain service quality and reliability during the transition.

5. Rates of all service classes in the PSC No. 9 rate schedule will be reduced under the rate plan. The allocation of these revenue benefits to the rate years covered by the rate plan and to the affected customers are set forth in the table below:

Revenue Reductions (incl. grt)
($millions)

P.S.C. No. 9 Customer Group	RY1 3 mos.	RY2	RY3	RY4	RY5	Cumulative Revenue Reduction by end of RY5
. SC 4 Rate II and 9 - Rate II						
Revenue reductions	$ 4.7	$ 37.4	$ 56.1	$ 74.9	$ 93.6	$ 266.7
Est. % average bill reduction	2.0%	4.0%	6.0%	8.0%	10.0%	
. All other*						
Revenue reductions	20.9	83.4	144.6	228.7	418.7	896.3
Est. % average bill reduction	2.0%	2.0%	3.5%	5.5%	10.0%	
. Industrial employment growth program per Section II.22	2.1	8.6	8.6	8.6	8.6	36.5
Total revenue reductions	$27.7	$129.4	$209.3	$312.2	$520.9	$1,199.5

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/*/ "All other" customer classes in PSC No. 9 rate schedule are Service Classification ("SC") No. 1 (residential and religious), 2 (general-small), 3 (back-up service), 4-Rates I and III (commercial and industrial-redistribution), 5 (electric traction systems), 6 (public and private street lighting), 7 (residential and religious - heating), 8 (multiple dwelling - redistribution), 9 -Rates I and III (general-large), 10 (supplementary service), 12 (multiple dwelling-space heating) and 13(bulk power-high tension-housing developments).

The above table includes, among other items, the application to ratepayer benefit of $36.0 million in credits to be accrued in the period April 1 - December 31, 1997. In order to effectuate the ratepayer benefit implicit in the table, the $36.0 million amount will be credited to income as follows: $4.8 million in RY1, $19.2 million in RY2, $6.0 million in RY4 and $6.0 million in RY5.

6. The rate and revenue benefits reflected in Section II.5 will become effective on January 1, 1998 and are subject to being increased during the transition. Additional savings can be derived from successful implementation of state programs authorizing "securitization" of certain generation and purchased power costs, from the successful implementation of utility tax reform in New York, from net gains available from sales of generating plants, and from the efficiency benefits of a competitive electricity market. Pending securitization legislation in New York would authorize the Commission to issue rate orders guaranteeing the application of specific utility revenue streams to trusts or other financing vehicles established for the purpose of financing (at lower cost) generation and generation-related assets and liabilities viewed as strandable under a fully competitive electric market. Legislation to reform the method of utility taxation in the state from a revenue-based method to an income-based method has also been under consideration and would be consistent with the need expressed in the May 20, 1996 order (pp. 91-92) to "ease the high tax burdens" in the state. Progress has recently been made in utility tax reform, and the gross receipts tax reductions prescribed by Chapter 389 of the 1997 Laws of the State of New York, which will be flowed through to customers under the Statement of Percentage Increase in Rates and Charges to the Company's electric rate schedule, are reflected in the revenue benefits set forth in Section II.5. Under this settlement agreement, unless otherwise required by law and subject to Section II.26, the financing savings resulting from securitization will be applied to benefit the PSC No. 9 customers based on class revenue ratios. Further tax reform savings, if achieved, are, unless otherwise required by law, anticipated to be applied to the benefit of the customers currently bearing the tax expenses under the Company's rate schedules. While it is difficult to predict the extent of the efficiency savings that will be produced by competition both during and after the transition, the achieved efficiency benefits of competition should generally accrue to all.

7. Other than as provided in Sections II. 11, 12, 25, 27 of this settlement agreement, the base rates established in the Company's PSC No. 9, PASNY No. 4, and EDDS rate schedules for RY1 through RY5 in compliance with the Commission order approving this settlement agreement will neither be increased nor decreased prior to April 1, 2002, from the rate levels to be set forth in the rate schedules from January 1, 1998 through March 31, 2002. The RY1-RY5 base rates will be set to achieve the base rate reductions reflected in Section II.5 herein. The Company's "base rates" are the demand, energy and customer charges in the PSC No. 9, PASNY No. 4, EDDS and retail access rate schedules; "base rates" do not include the fuel adjustment (applicable to PSC No. 9), the Statement of Percentage Increase in Rates and Charges (covering revenue and similar taxes), the Statement of Case 96-E-0897 Adjustments (Section II.11 herein) and the system benefits charge (Section II.26 herein). The rate plan precludes the Company from

increasing rates due to increased costs or lower sales levels prior to April 1, 2002, except as provided in Sections II. 11, 12 of this settlement agreement. The rate plan has the immediate impact of eliminating the $87.1 million electric rate increase filed on October 2, 1996 to implement the Case 94-E-0334 settlement agreement. This disposition of the Case 94-E-0334 settlement agreement equates to an additional estimated total five-year savings to customers of $436 million. The plan also requires the Company to absorb expected inflation through March 31, 2002.

Applicability of Case 94-E-0334 Settlement Agreement

8. Con Edison's current electric rates are governed by the Case 94-E-0334 settlement agreement. The third year in the Case 94-E-0334 settlement agreement is the twelve months ending March 31, 1998, and the third rate year, therefore, covers the same twelve months as RY1 of the rate plan. As stated in Section II.7, the parties agree that, in light of the rate plan, the provisions of the Case 94-E-0334 settlement agreement prescribing overall electric revenue levels for Con Edison for the twelve months ended March 31, 1998, will be superseded by this settlement agreement. The other provisions of the Case 94-E-0334 settlement agreement (*e.g.*, rate design, incentive mechanisms) will be implemented as prescribed in Section II.9 below and in Sections II. 19, 31, 32 of this settlement agreement.

9. Implementation of the principal accounting and general ratemaking provisions of the Case 94-E-0334 settlement agreement in RY1 will be as follows:

(i) the revenue requirement increase for the third rate year (12 months ending March 31, 1998) (Case 94-E-0334 settlement agreement, pp. 14-18) is agreed to be eliminated and all credits and debits recorded in order to implement the ratemaking provisions of the Case 94-E-0334 settlement agreement as of March 31, 1997 will be reversed and the effects of such reversals reflected in income; the Company will provide to Staff journal entries implementing this prescribed accounting within 30 days following Commission approval of this settlement agreement.

(ii) the revenue per customer clause (Case 94-E-0334 settlement agreement, p. 16 and Appendix C) will be terminated beginning with the month of April 1997.

(iii) the following expenses required to be reconciled (in full or in part) under the Case 94-E-0334 settlement agreement will no longer be subject to reconciliation beginning with the month of April 1997 (except insofar as reconciliation of them is implemented for the system benefits charge per Section II. 26 herein): demand-side management expenses, independent power production capacity charges, Home Insulation and Energy Conservation Act expenses, pension and other post-employment benefits ("pension/OPEBs") expenses, research and development expenses, renewables expenses and property tax expenses (Case 94-E-0334 settlement agreement, pp. 9-10, 17). Recovery of pensions/OPEBs is subject to Section II.10 of this settlement agreement; recovery of property tax expense is subject to Section II.11 of this settlement agreement.

(iv) the following provisions of the Case 94-E-0334 settlement agreement will not be effective for RY1 of the rate plan or thereafter: the demand-side management incentive, the customer service incentive, the electric service reliability incentive, the earnings calculations provision and the "miscellaneous provisions" provision (Case 94-E-0334 settlement agreement, Sections F, K, L, M and P [except subsection (iv) thereof, "nuclear refueling expense"], respectively).

(v) the following provisions of the Case 94-E-0334 settlement agreement, as implemented in Section II. 19, 31, 32 of this settlement agreement, will continue in effect in RY1: the electric fuel adjustment, buy back rates and marginal energy costs provision, and the rate design and revenue allocation provision (Case 94-E-0334 settlement agreement, Sections G and H and Appendix D, respectively).

<u>Pensions/OPEBs and Exceptions to Base Rate Freeze</u>

10. The Commission's policy statement on accounting and ratemaking for pensions/OPEBs was issued in 1993 and scheduled for re-examination beginning in 1998. Case 91-M-0890, <u>Statement of Policy and Order Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits other than Pensions</u>, issued September 7, 1993, p. 5. The parties have considered the application of the policy statement to Con Edison in view of the rate plan. The parties agree that, subject to approval of the settlement agreement by the Commission, effective April 1, 1997, the policy statement will no longer apply to Con Edison's electric, gas and steam rates and to its accounting policies, and the Company may determine to implement the "corridor" approach for pensions/OPEBs in accordance with Statement of Financial Accounting Standards Nos. 87 and 106. Con Edison agrees that during the term of the rate plan, it will fund its pensions/OPEBs expense to the maximum extent possible on a tax-effective basis. Con Edison also intends to manage its pension/OPEB expenses in a manner designed to produce equivalent levels of expense, subject to the implementation of the "corridor," after the rate plan period as if it had still been subject to the Commission's "true-up" policy. The Company's Annual Report to the Commission will contain information regarding pension/OPEB funding and expense levels that will enable Staff to verify that the Company's expense and funding levels are consistent with the foregoing objectives.

11. The Company's PSC No. 9, PASNY No. 4, EDDS and retail access base electric rates are subject to adjustment prior to March 31, 2002 for the following:

(i) If any law, rule, regulation, order, or other requirement or interpretation (or any repeal or amendment of an existing rule, regulation, order or other requirement) of a state, local or federal government body (including a requirement or interpretation resulting in Con Edison's refunding its tax-exempt debt and including income or other state, local and federal tax and state, local and federal fees and levies but excluding local property tax), results in a change in Con Edison's annual utility costs, compared to the levels in the year ending March 31, 1997, in excess of $7.5 million in any year, Con Edison will defer on its books of account the total effect of all such annual cost changes in excess of $7.5 million, with any such deferrals to be reflected in rates as set forth in this paragraph.

(ii) Con Edison's total local property taxes are estimated to be $525.9 million in RY1, $540.1 million in RY2, $554.6 million in RY3, $569.6 million in RY4, and $585.0 million in RY5. These rate-year estimates will be adjusted for the purposes of this subparagraph solely to reflect reductions in property taxes actually experienced due to the retirement, sale or transfer of generating units. Con Edison will defer on its books of account the full amount of its actual total property taxes above these estimated total levels (as adjusted as per the preceding sentence), with any such deferrals to be reflected in rates as set forth in this paragraph. The foregoing excludes the effects of property tax refunds. Eighty-six percent of any property-tax refund received by the Company in the RY1 through RY5 period will be deferred for the benefit of customers; the remaining 14 percent will be retained by the Company.

(iii) Con Edison will defer on its books of account and reflect in rates as prescribed by this paragraph the following environmental costs: (i) site investigation and remediation ("SIR") costs for electric operations in excess of $5 million annually (SIR costs are the costs Con Edison incurs to investigate, remediate, or pay damages (including natural resource damages but excluding personal injury damages) with respect to industrial and hazardous waste or contamination, spills, discharges and emissions for which Con Edison is responsible); and (ii) environmental compliance, prevention and improvement costs (excluding SIR costs) in excess of $10 million in annual revenue requirement (*i.e.*, expenses plus carrying charges on capital additions not reflected in the Company's 1997-2001 capital forecast) (these costs are the costs of complying with legislative, regulatory, judicial or other government rules or policies, including consent decrees, related to the environment, and the costs of proactive environmental initiatives not required by law, undertaken either by the Company alone or in conjunction with others to improve the environment). Any costs deferred under this subparagraph will be net of recoveries of these costs under insurance policies or from third parties. Amounts deferred hereunder will not be included as a cost of divestiture (Section IV.2 herein)

(iv) If in any rate year covered by the rate plan, the GDP Implicit Price Deflator as measured by Blue Chip Economic Indicators increases by an amount greater than four percent, Con Edison will, in such rate year, defer on its books of account an amount equal to the product of the actual experienced percentage increase above 4 percent times the escalation base in effect for that rate year, with such deferred amount to be reflected in rates as set forth in this paragraph. The escalation base in RY1 will be $1,050 million; the escalation base in RY2 through RY5 will be the escalation base in RY1 increased by the actual percentage increase in the GDP Implicit Price Deflator in the succeeding rate year or rate years except that the escalation base will be reduced to reflect reductions in operations and maintenance production expenses due to the retirement, sale or transfer of generating units. Expenses deferred under this subparagraph will be deferred in each succeeding year through RY5 but such succeeding deferrals will be netted against the amount by which escalation in a succeeding or preceding rate year falls below four percent multiplied by the escalation base for that year. If the GDP Implicit Price Deflator is no longer published or is re-constituted so as to make it unusable, a suitable alternative means of inflation measurement will be determined by the Commission.

(v) Deferrals of extraordinary expenses, including extraordinary operating and maintenance or capital costs, not covered by subparagraphs (i) through (iv) above, will be on petition to the Commission and subject to such materiality and other standards as may then apply as per PSC Case No. 94-M-0667, *In the Matter of Developing Guidelines for Use in Deferral*

Accounting in Ratemaking Matters for All Regulated Utilities or other Commission determination.

Amounts deferred on Con Edison's books of account under this paragraph and Section II.22 and VI.2 herein, whether they are credits or debits, will be reflected in rates through rate adjustments to be implemented in RY3 and RY5 of the rate plan. Deferred debits or credits remaining on the Company's books after RY5 will be reflected in rates set after March 31, 2002. Interest on deferred debits and credits will be applied at the Commission-determined unadjusted customer deposit rate. Any rate adjustment effective under this paragraph will be implemented pursuant to the "Statement of Case 96-E-0897 Adjustments" to be effective under the Company's rate schedules pursuant to this settlement agreement beginning in RY3. The Statement and changes thereto will be filed with the Commission and annexed to the Company's rate schedules. The Statement will set forth any adjustments to become applicable under this paragraph on a cents per kWhr basis for energy-only service classifications and on a cents per kWhr and kW basis for demand-billed service classifications. Such rate adjustments will be based on each class' relative contribution to total pure base electric revenues; generation related costs will not be allocated to the PASNY No. 9 and EDDS tariffs.

12. If a circumstance occurs which, in the judgment of the Commission, so threatens the Company's economic viability or ability to maintain safe and adequate service as to warrant an exception to this undertaking, Con Edison shall be permitted to file for an increase in base electricity rates at any time under such circumstances. Con Edison may seek a general rate increase should its forecast return on common equity fall below 8 percent (pro-formed to a common equity capitalization of 52 percent).

The parties recognize that the Commission reserves the authority to act on the level of Con Edison's base electricity rates pursuant to the provisions of the Public Service Law should it determine that intervening circumstances have such a substantial impact upon the range of Con Edison's earnings levels or equity costs envisioned by the agreement as to render the Company's electric rates unjust or unreasonable for the provision of safe and adequate service.

13. Disposition of Strandable Costs

13. Strandable costs are "those costs incurred by utilities that may become unrecoverable during the transition from regulation to a competitive market for electricity." May 20, 1996 order, p. 46. Con Edison's October 1, 1996 plan estimated its strandable electric generation costs to range from $4.7 billion to $6.2 billion, with about 60 percent of such costs attributable to costs of required power purchase contracts between Con Edison and non-utility generators ("NUGs"). The parties have not agreed to any estimate of strandable costs but as part of the rate plan have agreed on the rate treatment to be utilized for such costs.

Con Edison's October 1, 1996 plan maintained that to date the Company had mitigated the ratepayer impacts of strandable costs attributable to NUGs by $2.2 billion and its other generation costs by additional, substantial amounts. The parties have agreed to the following steps toward reducing generation costs under the rate plan:

(i) In developing the unbundled tariffs prescribed by Section II.20, the revenue reductions set forth in Section II.5 herein, exclusive of gross receipts taxes, will be allocated to the generation component of the applicable PSC No. 9 rates. These reductions reflect the mitigation of generation-related costs borne by ratepayers in the RY1 through RY5 period while additional mitigation of strandable costs is carried out as prescribed in the subparagraphs below.

(ii) During RY1 through RY5, Con Edison will continue to depreciate its generation plant at the rates prescribed by the Case 94-E-0334 settlement agreement. Con Edison commits, in furtherance of the rate plan, to mitigate strandable costs of its fossil generating units through the application of credits (reductions) to its generation plant balances during the period RY1 through RY5 in a total amount of $75 million above the depreciation accruals authorized by the Case 94-E-0334 settlement agreement. These credits will be recorded as depreciation expense for the Company's steam-electric generating stations (*i.e.*, Waterside and 74th Street). Con Edison will record this increased depreciation expense in RY 3 and RY4. Con Edison will notify Staff of the plant as to which these depreciation expense accruals are to be made under this subparagraph 30 days prior to the application of such accruals.

(iii) Mitigation of strandable costs will also be addressed through the application of 25 percent of the Company's common equity earnings in excess of 12.9 percent (calculated per Section III.18 herein) against generation-related plant balances during the period prescribed in Section II.18.

(iv) NUG contract cost mitigation efforts will continue in the RY1 through RY5 period and thereafter as per Section II.14 herein. As an additional incentive to mitigate NUG costs during the RY1 through RY5 period, the Company will, subject to Section II.14.(i)(c), retain (a) the full reductions in fixed NUG costs during the five-year period, and (b) thirty percent of reductions in variable NUG costs for a period of eighteen months, resulting from the renegotiation, termination, "buyout" or "buydown" of NUG contracts, exclusive of the financing-related savings resulting from securitization. The Company will petition the Commission to defer costs of contract terminations, "buyout" or "buydown" for recovery pursuant to the parameters set forth in Section II.15(ii) herein. After RY5, the net benefits of any NUG contract renegotiation, termination, "buyout" or "buydown" will be included in the calculation of mitigated amounts as prescribed by Section II.14(i)(a) and, in addition, allocated for ratemaking purposes as follows: 25 percent will be applied to credit (reduce) generation plant balances; 75 percent will be applied directly to rates in a manner to be determined by the Commission.

(v) Section IV of this agreement requires Con Edison to develop and submit a plan for the divestiture of electric generating plant and prescribes a minimum divestiture commitment by Con Edison. The Company will seek to mitigate strandable costs by developing a divestiture plan that yields the maximum sales or transfer price reasonably achievable under such plan. The Company will retain the first $50 million of after-tax gains realized from the divestiture of generation capacity. This retention amount reflects amounts on which the rate reductions set forth in Section II.5 are premised. This retention will be effectuated out of available after-tax gains from divestiture up to $50 million, net of any preceding after-tax losses. Divestiture costs defined in Section IV will not be considered in determining the availability of these net gains. Additional after-tax gains or losses resulting from the divestiture of generation during the rate plan (or the transfer to an affiliate), inclusive of divestiture costs per Section IV of this agreement, will be deferred on the Company's books of account for disposition by the Commission and, commencing with the first rate year beginning after each sale, interest at the Commission-prescribed other customer-contributed capital rate will be applied to such deferrals.

Following RY5 (March 31, 2002), Con Edison will reconcile the remaining book cost of plant to the "market values" defined by divestiture (including deferred gains or losses and excluding any gains retained by Con Edison pursuant to this paragraph) and the balance thereof (positive or negative) will be reflected in the post-rate plan period rates consistent with Section II.15 below.

14. Consistent with the Commission's order in the COB case, it is the objective of the parties to allow the Company a reasonable opportunity to recover the above-market costs of NUG contracts after RY5, while at the same time putting recovery of a portion of such stranded NUG costs at some reasonable degree of risk. Such recovery would be contingent upon the Company's success in mitigating these stranded costs or, to the extent stranded costs are not reduced or eliminated through mitigation, upon the implementation of the provisions of this settlement agreement intended to carry out the transition to a competitive electricity market.

Accordingly, the Company would be at risk for the disallowance of the lesser of (i) 10 percent of the actual or then estimated (on a net present value basis) above-market costs in each rate year after RY5 of all of the Company's now existing NUG contracts, and (ii) a maximum total of $300 million (net present value at the end of RY5), subject to the following two provisions:

(i) The Company will have the following opportunities to mitigate its stranded costs and thereby reduce or eliminate the disallowance risk.

a. if NUG contract costs are mitigated at any time after the beginning of RY1 (e.g., through successful renegotiation of NUG contracts concluded after, but not prior to, the beginning of RY1), the total reduction in NUG costs after RY5 (other than the 30 percent of mitigated variable NUG costs that may continue to be retained by the Company after RY5 pursuant to Section 13.iv) and 100 percent of reductions in NUG costs subject to flow through to ratepayers during RY1 through RY5 resulting from such mitigation will offset the amount at risk for disallowance; provided, however, that if the stranded costs under a NUG contract are mitigated not for reasons directly or indirectly related to the Company's efforts (including contract enforcement and administration), but for totally unforeseen and unnatural reasons (i.e., the destruction of a plant), such stranded costs would be considered fully mitigated but the resulting savings would not offset the remaining amount at risk. All the Company's NUG contracts would be potential sources of mitigation and NUG costs will be treated as a total, so that mitigation of an amount greater than 10 percent of above-market costs in one contract would be credited against other stranded NUG costs in determining the reduction in the Company's allowance risk.

b. to the extent payments under NUG contracts are securitized, the financing-related savings are expected to flow to ratepayers and would not offset any amounts at risk for disallowance. If as part of securitization the Company negotiates a buydown of the contract or the NUG contract is terminated through a buy-out, all above-market contract costs, even if securitized, would continue to be considered stranded costs for the purposes of determining the Company's 10 percent disallowance risk, and any reductions in total expected payments under the contract negotiated by the Company would offset any amounts at risk for disallowance.

c. this settlement agreement (Section II.13.iv) provides that the Company will retain the benefit of all mitigation in fixed NUG costs achieved during RY1 through RY5 and 30 percent of mitigation in variable NUG costs achieved during RY1 through RY5 for a period of 18 months. The Company will have the option to defer any and all such savings, in order to apply them towards disallowed NUG costs; provided, however, that if it later develops that the Company is able to achieve the 10 percent mitigation target without applying those deferred savings toward mitigation, it may then credit the deferred savings to income.

d. the settlement agreement provides for mitigation and divestiture of the Company's fossil generating units. Ten percent of the proceeds of divestiture (sale to third parties) of such generation will be applied as an offset to the amount of NUG costs at risk under this paragraph.

e. the Company would have the option of absorbing any ratemaking disallowance after RY5 in a lump-sum amount, with the amount of such absorption (only insofar as it relates to estimation of stranded costs remaining) to be subject to the Commission's approval. The Company would thereafter be permitted to retain all savings resulting from later mitigation efforts up to the lump sum amount absorbed by the Company.

(ii) For any amounts of stranded costs at risk that are not mitigated or eliminated through the mitigation efforts described in the previous subparagraph (i), the Company will nevertheless be permitted a reasonable opportunity to recover such amounts if the Company makes good faith efforts in implementing provisions of this agreement leading to development of a competitive electric market in the service area. The parties recognize that the development of a competitive electric market will depend to a large extent on developments outside the Company's control, and the Commission's assessment of the Company's efforts will reflect this fact. The Commission would not disallow an opportunity for recovery provided that the Company's efforts were otherwise sufficient. The Commission will consider the Company's actions in the following broad areas: divestiture, retail access, price levels and NUG mitigation. Each of these broad areas contain efforts that the Commission will consider in assessing the Company's success. For divestiture, the Company's development of a comprehensive divestiture plan, the pace and magnitude of the divestiture process, the successful development of a competitive electric market, and the Company's actions to facilitate the development of the ISO, will all be considered. For retail access, the Company's implementation of retail access in relation to the targets set for retail access, including timing regarding the scope and participation in retail access, and the Company's interactions with energy service companies and marketers in the program will be considered as well as the extent to which the Company facilitates the substantial construction of new generation capacity. The Company's success in implementing the affiliate relationship rules of this agreement, without substantial verified (*i.e.*, substantiated) complaints of non-compliance will also be considered. Concerning NUG mitigation, in addition to the quantifiable mitigation addressed in the preceding subparagraph (i), the Company's participation in available programs to securitize above-market payments will also be considered. Regarding price levels, the level of base electric rates in the post-RY5 period will be considered; this consideration will reflect experienced inflation since RY1 and the trend in prices charged by similarly-situated utilities. These activities are illustrative of the steps to be taken towards development of the market, and it is not the parties' expectation that the actions or lack thereof taken as to any single action or category would mean that full allowance or disallowance would result; the intent will be to reasonably assess the Company's actions leading to the transition on a generalized or overall basis.

15. The parties recognize the extensive litigation already conducted and related policy differences over the recovery of strandable costs. In light of the numerous factors and trade-offs reflected in this agreement, and subject to the limitation prescribed by Section II.14 herein, the parties agree that, subject to approval of this settlement agreement by the Commission, Con Edison will be given a reasonable opportunity to recover stranded and strandable costs remaining at March 31, 2002, including a reasonable return on investments. Parameters under which recovery will be carried out including, where applicable, the time period during which this reasonable opportunity is to be afforded, are as follows:

(i) charges for all customers served under the PSC No. 9 and retail access tariffs (and for PASNY No. 4 and EDDS customers to the extent set forth in Section II.31 herein) will reflect a non-bypassable charge for the continued collection of generation and generation-related costs as set forth in Sections II.29 and III.7, 11 herein.

(ii) the recovery period of NUG termination, "buy-out" or "buy-down" costs, if securitized, will be determined by the Commission at the time of securitization, but such recovery is expected to match the life of the securitized bonds. The recovery period of non-securitized NUG termination, "buy-out" or a "buy-down" costs, if any, will also be determined by the Commission, but not exceed the life of the specific contract. The recovery period of purchases made under NUG contracts will be the life of the contract.

(iii) for IP2, in the absence of securitization, the unit's costs, including above-market costs, and decommissioning expense for IP2 and the retired Indian Point No. 1 unit, will be recovered over a period no longer than the end of the unit's license term in the year 2013. Reconciliation of estimated and actual decommissioning costs may be reflected in rates after 2013.

(iv) for fossil generation, in the absence of securitization, stranded costs remaining after RY5 will be recovered over a period not to exceed the 10-year period ending March 31, 2012.

(v) recovery of Con Edison's other stranded costs will be over a period to be determined by the Commission.

(vi) the Company will petition the Appellate Division of the Supreme Court for permission to withdraw its December 24, 1996 appeal in *Energy Ass'n of N.Y.S.* v. *Public Service Commission*, Albany County Index No. 5830-96, with prejudice, following final Commission approval of this agreement (*i.e.*, when any appeals from such approval are exhausted or the time to appeal has expired). Until this petition is granted, the Company will discontinue its appeal to the extent it is able to do so without forfeiting the right to appeal.

Comprehensive Nature of Settlement Agreement

16. The foregoing reflects the parties' efforts to resolve complex revenue requirement and rate level issues in this proceeding. In this proceeding, the issues involved difficult questions arising from stranded cost recovery as well as issues arising from the corporate restructuring under review in this proceeding, including the issue of the need for and measurement of an imputation of "royalties." In developing the rate plan, the parties intended to develop a comprehensive plan that accounts for both typical revenue-requirement issues such as expected productivity achievement as well as for claims regarding stranded cost recoverability and the payment of "royalties." The rate plan is intended as a permanent and comprehensive resolution of the Company's revenue requirement in RY1 through RY5, of the principles under which stranded and strandable costs will be recovered after RY5 (pursuant to Section II.13-15 herein), and of claims that the Company should record as revenues royalties collected or imputed from its parent, affiliates or subsidiaries both before and after RY5 beyond any amounts specifically required by this settlement agreement. The plan resolves these issues on a basis that will allow the Company to remain under the Statement of Financial Accounting Standards No. 71 requiring regulated companies to follow cost-based ratemaking.

Reporting

17. The Company will make available to Staff, for its review, unbundled financial statements in the fourth quarter of 1997. The Company will also report to the Commission Staff, no later than 90 days after the close of each rate year (RY1 through RY5), the utility common equity earnings and supporting computations for the preceding rate year.

Calculation and Disposition of Certain Earnings

18. The Company will calculate its rate of return on common equity capital following RY1 through RY5. The Company will allocate the revenue equivalent of its earnings in excess of 12.9 percent in any rate year as follows: 50 percent will be retained by the investors; 25 percent will be applied to the benefit of utility customers through rate reductions or as otherwise determined by the Commission; and 25 percent will be applied to the Company's generation plant, as depreciation expense, to reduce plant balances. The earnings for any rate year will be calculated on a per books basis excluding the effects of incentives prescribed by Section II.11(ii), 13(iv) and 32 herein. In calculating earned return to determine if sharing is to be implemented, the Company will include amounts by which its earnings fell below 11.9 percent (excluding the effects of incentives) in any earlier rate year (RY1 through RY4) of this settlement agreement. The Company will not be subject to the earnings sharing prescribed by this paragraph beginning with the first rate year (i) in which the Company has divested (sold to third parties) 50 percent or more of the in-City fossil plants (measured in megawatt-rated capacity) owned by Con Edison as of the date of this settlement agreement (net of later re-ratings or retirements) or (ii) in which
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percent or more of the service area peak load (excluding load served by NYPA as of the date of this agreement) is supplied by other than Con Edison.

Rate Design and Revenue Allocation

19. Case 94-E-0334 Rate Design Changes

The following rate design changes to the PSC No. 9 rates prescribed by the Case 94-E-0334 settlement agreement will be implemented beginning on April 1, 1997 (or the date the Company's tariffs implementing RY1 of this settlement agreement become effective, if later):

(i) The Case 94-E-0334 settlement agreement (Appendix D, p. 7), prescribes that the customer charge in PSC No. 9 for SC Nos. 1 (residential and religious), 2 (small -general) and 7 (residential and religious-heating) will be gradually increased over a seven-year period. The annual increase of $0.57 per month is to take effect each April 1 through RY5, with the increase in revenues due to the customer-charge increase deducted from the energy charge revenue for the affected service classification. This Case 94-E-0334 settlement provision will continue in effect under the rate plan.

(ii) The Case 94-E-0334 settlement agreement (Appendix D, pp. 6-7) prescribes that the energy charges in PSC No. 9 for SC No. 4-Rate II (commercial and industrial-redistribution), 8-Rate II (multiple dwellings-redistribution), 9-Rate II (general-large), 12-Rate II, (multiple dwelling space heating) and 13 (bulk power-high tension-housing developments) will be reduced on April 1, 1997 and on April 1, 1998 (if rates were changed at that time pursuant to the Case 94-E-0334 settlement agreement). The reduction in the energy charge would equal 25 percent of the difference between the level of marginal energy costs adopted in Case 94-E-0334 and the level of the energy charge for the affected classes in effect at the time of the Case 94-E-0334 settlement agreement. The reduction in revenues associated with this change would be offset in full by adjusting the generation, transmission and distribution charges in the affected classifications. This Case 94-E-0334 settlement provision will be implemented under the rate plan by implementing the scheduled reduction in energy charges effective April 1, 1997 and April 1, 1998, offsetting the associated revenue reduction in full by increases to the transmission and distribution charges in the affected classification.

20. Unbundled Tariffs

Con Edison's October 1, 1996 plan included sample unbundled tariffs for two of its PSC No. 9 service classifications (SC No. 1 - residential and religious and SC No. 9 - general-large).

The sample tariffs disaggregate the major cost components of Con Edison's electric system (i.e., generation capacity, energy, transmission and distribution) to provide improved information about the cost structure on which the rates are based. The sample PSC No. 9 tariffs would not permit customers to purchase individual elements of the Company's major cost components. The Company agrees to continue with the process of reformatting its PSC No. 9 rate schedule to reflect the October 1, 1996 approach to "unbundling" or "disaggregating" major cost components to provide improved information to consumers and, on Commission approval of this settlement agreement, will file such unbundled rates for PSC No. 9 rate schedule by January 15, 1998 for all classes to become effective April 1, 1998:

(i) The unbundled PSC No. 9 rate components will be based on the "1994 Electric Embedded Cost of Service Study" ("1994 embedded cost study") that the Company provided to the parties in this proceeding and will include generation, transmission and distribution components, and per Section II.26 of this settlement agreement, a system benefits component. The unbundled tariffs will be revenue-neutral on a class-by-class basis.

(ii) The unbundling process begun in this settlement agreement is expected ultimately to lead to customers having the ability to choose from among the unbundled cost elements set forth in the tariffs. The Commission will not be precluded from implementing such service unbundling following approval of this settlement agreement. It is the intention of the parties that any such unbundling be consistent with the principle that the purchasers of such unbundled services not be subsidized by the Company or its other customers and that stranded costs resulting from such unbundling be allocated consistent with this no-subsidy principle.

21. Residential Time-of-Use Rates

There currently exists a mandatory TOU (time-of-use) rate for large-use residential customers (SC Nos. 1 and 7). The parties agree that the provision of TOU service will be voluntary beginning in October 1997 and, in anticipation of this change, the mandatory TOU customers have been informed that, subject to the Commission's approval of this settlement provision, commencing on the anniversary date they first received mandatory TOU service, they will be billed on the conventional rate or, if the customer so requests, on the voluntary TOU rate. The Company will recover the resulting revenue shortfalls either through rate adjustment when shortfalls are experienced or through deferred accounting, but the amounts to be recovered will be reduced by the amount of the late payment charge revenue recovered per Appendix A, Section 2.v herein.

22. Industrial Employment Growth

The Company will make provision in SC No. 4 -Rate II (commercial and industrial - redistribution) and SC No. 9 - Rate II (general - large) providing "industrial employment growth" credits, to industrial customers served thereunder. The term "industrial customers" to determine eligibility for the credits will include any mandatory SC No. 4 - Rate II or SC No. 9 - Rate II account, other than governmental customers, where 75 percent or more of the account's electric usage is used directly for manufacturing, *i.e.*, the assembly of goods to create a new product, the processing, fabrication or packaging of goods, including biotechnology products, electronic products and recycling; and, research and development by customers having greater than 2,000 workers engaged in research and development in the Con Edison service area. Industrial employment growth credits will not be available to retail establishments, restaurants, hotels, hospitals, schools, cultural, religious or public institutions or customers engaged in provision of services such as financial, insurance, real estate, legal or similar services. Customers taking service under Rider I (Area Development Rate), Rider J (Business Incentive Rate), Rider L (Economic Development Zones) or Rider O (Curtailable Electric Service) will not be eligible for industrial employment growth credits. Customers will not be eligible for industrial employment growth credits until written application for such credits is made by the customer and accepted by the Company. The industrial employment growth credits will, for each customer served thereunder, constitute the equivalent of a twenty-five percent reduction, exclusive of any separately-stated system benefits charge implemented per Section II.26 herein, from the applicable rates and charges under Rate II of SC Nos. 4 and 9 in effect as of the date of this settlement agreement. The Company will provide notice of the availability of this rate to all customers currently served under Rate II of SC 4 and 9.

The annual revenue reductions reflected in Section II.5 herein for large industrial customers reflect certain assumptions about the numbers of existing PSC No. 9 customers eligible for this program. If the actual revenue shortfall for this program (*i.e.*, the difference in revenues calculated under the applicable rates and charges under Rate II of SC Nos. 4 or 9 in effect as of the date of this settlement agreement and under the applicable industrial employment growth credits) in any rate year (RY 1 through RY5) varies from the revenue reduction level attributable to this program per Section II.5 herein, the variation will be deferred and reflected in the Statement of Case 96-E-0897 Adjustments per Section II.11 herein. In calculating revenue variations under this subparagraph, the Company will exclude revenue variations due to increases in load after a customer commences service under this program, and it will exclude the entire load of customers commencing manufacturing operations in the service territory after the date of this settlement agreement.

23. Low Income Rate Program

In its *Opinion and Order Approving Settlement* in Case 95-E-0964 (Opinion No. 96-6, dated March 27, 1996), the Commission approved a settlement agreement establishing a low-income rate program. The program included a targeted rate component under which the customer charge of certain SC Nos. 1 and 7 customers would remain fixed at $5.00 per month through March 31, 1999 (*id.* at 2). The parties agree to continue the rate component of the low-income settlement in effect through RY5, following the same revenue-neutrality provisions applicable to the low-income settlement approved in Opinion No. 96-6, and to continue the energy efficiency component of the program through October 1999.

24. *RY1 Through RY5 Tariffs Implementing This Agreement*

Following approval of this agreement, the Company will make a compliance filing to cover the rate changes required by this agreement for the period commencing January 1998. The compliance tariffs implementing RY1 through RY5 base rate reductions will be filed at least 30 days prior to their proposed effective date and will be subject to review in accordance with procedures generally applicable to compliance tariff filings. Con Edison may request the Commission to implement the RY5 base rate reductions via a base rate credit mechanism. Except where this settlement agreement prescribes specific filing requirements or schedules, all other tariff revisions will be filed in accordance with generally applicable Commission filing requirements, and reasonably in advance to allow reasonable Commission review.

25. *Rate Design Flexibility*

During the term of the agreement, the Company will have the right to seek to change rates in a revenue-neutral manner as set forth herein. All rate changes will be filed with the Commission and be subject to its approval and be consistent with the terms of the settlement agreement. The changes that may be proposed pursuant to this provision are as follows:

- Reallocation of revenues among customer groups based on changes in the cost of service not known or foreseen at the time of this settlement agreement

- Additions, deletions or other changes to rate blocks or seasonal differentials

- Segmentation of service classes according to consumption levels, load factors, and end-uses

- Reallocation of revenues within a class between demand, energy and customer charges, as applicable

- *De minimis* rate changes.

Where the Company is to propose more than one rate change to take effect at approximately the same time, it will, to the extent practicable, combine such proposals in a single filing with the Commission. Nothing herein is intended to preclude the Commission from initiating the rate change proposals covered by this paragraph. Nor is the Company precluded from proposing flexible rate programs pursuant to the Commission's *Opinion and Order Authorizing Flexible Rates*, Opinion No. 94-15, issued July 11, 1994, and the May 20, 1996 order.

26. System Benefits Charge Program

The Commission's May 20, 1996 order (p. 90) stated that "[c]osts required to be spent on necessary environmental and other public policy programs that would not otherwise be recovered in a competitive market will generally be recovered by a non-bypassable system benefits charge." The expenditures reflected in the SBC are for research and development (R&D), energy efficiency, environmental protection, and low income programs that are required or approved by the Commission to be funded by the SBC. In this settlement agreement and subject to prospective modification by the Commission following resolution of the generic system benefits charge proceeding (Case 94-E-0952, et al., Order Modifying Procedure, issued February 6, 1997), expenditure levels for system benefits charge programs will initially be covered in base rates, but they will be non-bypassable in any event. The formation of a third-party administrator, appropriately implemented, would serve the objectives embodied in the Commission's May 20, 1996 order. Therefore, subject to the Commission's approval, there will be a third-party administrator, and the Commission will choose the administrator of the SBC-funded programs. All SBC funds are expected to be allocated by the statewide administrator, although prior contractual and regulatory commitments will be honored.

R&D:	The costs of R&D programs required by the Commission (excluding NYSERDA contributions) or that would likely not be funded by the Company in a competitive environment will be recovered in the SBC.
Energy efficiency:	The costs of new energy efficiency programs required by the Commission will be recovered as a surcharge in the SBC.
Low income:	The costs of any new, existing or expanded low income programs, including low-income energy efficiency programs, approved or directed by the Commission will be recovered in the system benefits charge.
Environmental Protection:	The costs of environmental protection programs, as deemed necessary by the Commission, that are not likely to be carried out in a competitive market, including programs designed to mitigate environmental impacts of electric industry restructuring, will be recovered in the SBC.

Mechanism: Costs of programs ordered by the Commission in excess of the amounts set forth below in this Section II.26 will be recovered through a non-bypassable SBC surcharge. The SBC formula will be set forth in all rate schedules (PSC No. 9, PASNY No. 4, EDDS and retail access). The Company may unbundle the current SBC expenditures from base rates in a revenue-neutral manner in its January 15, 1998 filing pursuant to Section II.20 herein. The charge will not be subject to the rate increase limitation established in Section II.7 of this settlement agreement and will be set to cover costs when spending levels are re-set.

The Company's expenditures for R&D and for energy efficiency, other than those included in the SBC, will be determined by the Company in its internal budgeting process, and beginning with the calendar year 1998, a demand side management plan will no longer be filed with the Commission. Con Edison will be authorized to pursue both efficient sales growth and sales reduction initiatives utilizing customer-focused and other incentives. The NYPA (PASNY No. 4 and EDDS) SBC component will exclude generation-related costs.

Notwithstanding the foregoing provisions of this Section II.26, Con Edison will allocate $70.7 million of the amounts set forth in Appendix B for the four-year period ending December 31, 2001, inclusive of all Appendix B amounts for the year 2001, to system benefits charge programs over the three-year period ending March 31, 2001 (RY4). In addition, Con Edison will allocate to SBC programs over the three-year period ending in RY4, an additional amount of $35.0 million, for a three year total of $111.0 million. This expenditure level is approximately 1 mill per kWhr over this three-year period. Con Edison will defer unallocated program funding of $5.3 million from the year 1997 to the year 1998. Beginning in RY2, all energy efficiency expenditures will be expensed currently for rate making purposes (RY1 amortization will follow Case 94-E-0334 settlement agreement). SBC funding after RY4 will be determined by the Commission, with the full amount of SBC funding in such period to be recovered under the SBC surcharge mechanism set forth in this section.

The Company's system benefits charge programs for energy efficiency will be determined following procedures that are expected to be prescribed by the Commission. Ten percent of energy efficiency spending over the RY2-RY4 period will be allocated to low-income energy efficiency programs. Con Edison supports reasonable use of system benefits charge amounts to develop clean on-site generation technologies that are not presently, but that have reasonable potential to become, commercially feasible (e.g., fuel cells). The Company and Staff recommend that if financing savings become available through the enactment of securitization, the Commission, if permitted by law, consider allocating a portion of such savings for energy efficiency and new clean technologies.

27. Miscellaneous Rate Provisions

Con Edison's October 1, 1996 plan contained rate proposals that the Company maintained were needed in order to facilitate the transition to competition. Rate changes to implement a minimum monthly charge for demand-billed customers will be implemented effective April 1, 1998, as provided in Appendix A and rate changes to reflect the unbundling of certain charges will be implemented for Con Edison effective as prescribed in Appendix A hereto. In addition, the Company's October 2, 1996 filing to implement the third-stage of the Case 94-E-0334 settlement agreement contained proposals to institute a new real time pricing program; to modify eligibility rules in the provision of service under Rider J (Business Incentive Rate); and to clarify the PSC No. 9 tariff in respect to demand meter installation procedures and the correction of a cross-reference in the tariff. These Case 94-E-0334 rate proposals will be implemented effective as prescribed in Appendix A hereto. The parties agree to support in principle the Con Edison modified high-tension proposal and DC service proposals, both contained in Con Edison's October 1, 1996 plan and described in Appendix C hereto, when filed after the date of this settlement agreement.

The Company will explore the development of a hedging program to be made available to full-service customers interested in a full or partial non-adjustable fixed rate for electric service. The Company will report the results of its review and submit any proposals resulting therefrom to the Commission by November 15, 1997.

28. Economic Development Rate Programs

The parties agree that electric rates can be useful in promoting economic development, and they have reflected this principle in the allocation of rate reductions in the rate plan. Con Edison's tariffs in effect as of the date of this settlement agreement provide economic-development rate reductions principally pursuant to two location-specific programs, Rider I - Area Development ("ADR") and Rider L - Rate Available Under New York State Economic Development Zones Act ("EDZ") and one service-area wide program, Rider J - Business Incentive Rate ("BIR"). The parties have agreed in the context of the rate plan to institute a phase-out of the application of the Company's location-specific rate programs (Riders I and L), and, accordingly, applications under those programs will not be accepted after March 31, 1997. The Company will continue to consider, and will implement on a revenue-neutral basis, new economic development programs developed during the rate plan. The ADR, EDZ and BIR rate programs will be adjusted to provide customers approximately the same level of bill reductions provided under these riders as of the date of this agreement using a combination of the RY1 through RY5 bill reductions provided to all similarly-situated business customers under this agreement and rider-specific bill reductions (except as prescribed in the Commission's March 27, 1997 order in this proceeding (p. 7)).

29. *Retail Access Tariff and Retail Access Regulation*

The Company will prepare and file retail access tariffs in order to implement the retail access program set forth in Section III herein, and the provisions of Section III will be considered to be part of this "rate plan." At the outset, the retail access tariffs will include the same number of service classifications, with the same applicability rules for each class, adapted to a retail access program, as set forth in PSC No. 9 for the Company's retail sale of electricity, but Staff and the Company will confer on ways to reduce the number of service classifications and rate programs applicable under the retail access tariffs. Pending such effort, the retail access tariffs will be prepared following the same methods and format utilized in the sample retail access tariffs included in Appendix 9 to the Company's October 1, 1996 plan. The following charges in retail access tariffs will equal the charges set forth in the corresponding PSC No. 9 tariff: customer charge, distribution charge, and transmission charge. As set forth in Section III, the transportation/delivery component of the retail access charge will be set to collect the portion of the generation demand and energy charges set forth in the corresponding PSC No. 9 tariff that are not avoided by the provision of power and energy via the retail access tariffs. Therefore, the transportation/delivery component of the retail access tariff will include the generation and energy charges in effect for the corresponding PSC No. 9 service classification, subject to adjustment as prescribed in Section III herein.

The Company's retail access tariff will be filed with the Commission and cover all components of the retail access tariff described herein. If the Federal Energy Regulatory Commission ("FERC") should require that the transmission or other component of retail access service be provided under the Company's "open access" tariff under FERC Order 888 or another FERC tariff, the Company and Staff will cooperate in the development of retail access tariffs that carry out the commitments of this settlement agreement. Adjustments will be made in the rates remaining subject to the Commission's jurisdiction to offset any differences (positive or negative) in rate levels for retail access service that are set by FERC compared to the rates provided by this settlement agreement.

Any generator supplying power on an interstate radial that it paid for directly and for which it continues to directly or indirectly pay the maintenance will not be deemed to be taking transmission service for the use of that line, regardless of the line's ownership. Nor will use of such a radial line incur any charges of any type for transmission service (*e.g.*, transmission service charges).

30. Regulatory Reform, Customer Operations Procedures, and Classification of Facilities

(i) Legislative action for the prospective repeal of the mandatory purchase requirements of the Public Utility Regulatory Policies Act of 1978 ("PURPA") (16 USC (S)824a-3) and Public Service Law Section 66-c (McKinney) is expected as the transition to competition in the electric utility industry is implemented. Implementation of these requirements is a matter of Commission judgment. Case 93-E-0912, Order Denying Petitions For Rehearing, issued December 27, 1994, pp. 2-4. Therefore, pending repeal of these requirements, and subject to Commission approval of this settlement agreement, Con Edison will be permitted to condition payments under mandated contracts requiring fixed payments for a period longer than one year upon recovery of such payments in rates.

(ii) Con Edison will not be responsible for the performance of energy service companies ("ESCOs"). Con Edison's ESCO will have the same duties (licensing requirements and load serving entity ["LSE"] duties) as other ESCOs.

(iii) To facilitate the Company's operations under the rate plan, provisions of Part 11, Part 13, Part 140, and Part 273 of 16 N.Y.C.R.R. and the requirements for a plain language bill format adopted in Case 28080, Order Requiring Gas and Electric Utilities To File Revised Billing Formats (Oct. 31, 1985), are waived to the extent that any such provisions are inconsistent with the Company's ability to:

a. institute non-discriminatory procedures which require an applicant to provide reasonable proof of the applicant's identity as a condition of service;

b. modify its bill content and format in response to industry restructuring; provided, however, the Company's bills will contain the following:

- an explanation of how bills may be paid
- total charges due
- due date
- unit price of energy consumed or other appropriate itemization of charges (including sales taxes and other informative tax itemization)
- complete name and address of customer
- unique account number or customer number assigned to the customer
- meter readings
- period of time associated with each product or service

- name of entity rendering bill

- local or toll-free telephone number customers may call with inquiries

c. include non-tariffed items in a bill; provided, however, that customer payments are credited first to tariffed items and service cannot be terminated for failure to pay non-tariffed items.

(iv) Con Edison will be permitted to disclose residential and non-residential customers' current payment status information to other service providers to the extent such information is limited to: whether or not a deposit could be requested from the customers by Con Edison due to delinquency, as defined in 16 NYCRR (S)11.12(d)(2) or in 16 NYCRR (S)13.1(b)(13), or for any reason provided in 16 NYCRR (S)13.7(a)(1); whether or not a customer could be denied service by Con Edison due to unpaid bills on an existing or prior account; or, whether a customer's service could be terminated by Con Edison, provided that:

- such information is to be used by other service providers only for the purposes of determining whether unregulated energy services will be provided to the customer, whether a deposit will be collected from such customer, or for other purposes approved by the Commission;

- ownership of the data remains with Con Edison; and

- such information request is made by a service provider in response to a *bona fide* request from the customer to the service provider for electric service or with other customer consent.

Changes to Parts 11 and 13 of the Commission's regulations are expected to be made. If changes are not made, the Company may petition for further waiver of such rules.

(v) The Company will be permitted to accept credit card payments for utility service, provided, however, that any costs imposed on Con Edison associated with the receipt of payment by credit card are to be considered among the general costs of doing business and will not be a separate additional charge to the customers whose payments are made by credit card.

(vi) In its May 20, 1996 order (p. 73), the Commission expected "filings by each utility" to it and subsequently to FERC "to distinguish and classify transmission and distribution facilities." Con Edison's 138 kV feeders, which radially supply the area substations, are currently classified as transmission facilities in the Company's records. However, these area substations supply only local distribution load within the Company's service area. Therefore, these feeders, along with ancillary equipment, will be reclassified as distribution facilities following approval thereof by the Commission consistent with Commission Opinion No. 97-12 in Case 97-E-0251 (July 24, 1997), and the FERC. Staff currently supports the Company's position and planned application to FERC.

31. NYPA

(i) Revenue Deficiency Under the 1994 Cost-of-Service Study

Con Edison's 1994 embedded cost study indicates that the rates and charges applicable to the PASNY No. 4 rate schedule should be increased by $22 million annually in order to bring the revenue contribution provided by this service to the overall average return (consistent with the tolerance band) for the Con Edison system. The third year of the Case 94-E-0334 settlement agreement (App. D, p. 3), provides for a $9 million annual increase in NYPA's revenues from delivery service to take effect beginning April 1, 1997. Implementation of the Case 94-E0334 increase, would reduce the indicated revenue deficiency to $13 million annually. The Case 94-E-0334 increase will be implemented hereunder by increasing the PASNY No. 4 delivery rates by a total of $45 million over the rate plan period. This amounts to an annual increase of $9 million. The amount that would have been collected over the April 1, 1997 - December 31, 1997 period will be collected in three equal monthly payments over the period January 1, 1998 -March 31, 1998. The increased revenues received pursuant to this section in RY1-RY4 will be deferred and credited to income in RY5. The $13 million deficiency is addressed in the Memorandum of Agreement on 25 Cycle Service attached hereto as Appendix D.

(ii) In-City Generation. If NYPA becomes subject to specific locational generation capacity requirements by an ISO, Con Edison will credit NYPA with Con Edison's available in-City generation capacity resources in excess of Con Edison's own locational requirements (including capacity maintained on behalf of LSEs through June 1, 1999) and capacity sold to LSEs through RY5 and provide the reimbursement prescribed herein, provided NYPA maintains for its PASNY No. 4 and EDDS loads the committed NYPA resources (i.e., NYPA's current level of committed resources totaling 822 MW, such amount to be increased to account for any increase in the capacity of the Poletti unit or any termination of Con Edison's purchase of Poletti capacity plus any other increase in NYPA's in-City capacity) and provided further that NYPA obtains any additional capacity required for it to comply with the ISO. The reimbursement will cover the full amount of NYPA's reasonable increased in-City generation capacity costs less the reasonable value of an equal amount of NYPA's out-of-City capacity, such reimbursement to be provided in the manner described in this provision. Reimbursement under this paragraph will be made through RY5, both with respect to PASNY No. 4 loads at or below the load levels stated in Appendix E and with respect to EDDS accounts at or below the aggregate allocation level of 185 MW. Above those levels, NYPA will cover in-City requirements from the "other" increases in NYPA's in-City capacity included in the above description of committed NYPA resources and receive no benefit from available Con Edison capacity and receive no reimbursement. To obtain reimbursement for the capacity costs for which reimbursement is to be provided, NYPA will submit its request for payment and supporting documentation to the Commission Staff and Con Edison, and, subject to Commission review of the requested payments for reasonableness, Con Edison will recover amounts to be paid to NYPA on a non-bypassable basis through the fuel adjustment or such other adjustment mechanism prescribed by the Commission if the fuel adjustment is no longer in effect. NYPA will submit any such requests for payment to Con Edison on a current basis, and Con Edison will make payments to NYPA as and to the extent they are recovered from customers. Con Edison's right to sell, transfer or otherwise dispose of its generation capacity would not be restricted by this mechanism (*i.e.*, if capacity is sold or is unavailable or becomes unavailable for another reason, such capacity would not be required to be made available to NYPA).

Reimbursement of NYPA transition costs provided herein will terminate immediately after RY5, and it is the parties' understanding that prior thereto NYPA will act in a manner, in respect of costs, loads or other relevant factors, that minimizes reimbursement amounts. NYPA will not be responsible under the program for more in-City generation capacity than required to meet requirements prescribed by the ISO.

Application of Transportation/Delivery Charge. The transportation/delivery (*i.e.*, stranded cost) charge component of Con Edison's retail access tariff, which will be a wires charge applicable to other retail access customers served by Con Edison, will not apply to service under the PASNY No. 4 tariff to the extent that the weather-adjusted contribution of the PASNY No. 4 customers to the franchise area peak load does not exceed the load stated in Appendix E for such year. Nor will the transportation/delivery charge be applicable to service under the EDDS tariff to the extent that the aggregate allocations to the EDDS customers do not exceed 185 MW. If such amounts under either tariff are exceeded, the charge will apply to such excess. Customers served under PASNY No. 4 as of October 1, 1996 will not be subject to charges for stranded generation capacity costs irrespective of the Con Edison tariff under which they receive service. If such PASNY No. 4 customers transfer to another tariff and do not pay stranded costs under the other tariff, then the cap set forth in Appendix E will be reduced by the amount of such transferred load. Conversely, the cap will not be reduced where a former PASNY No. 4 customer or successor customer pays stranded costs under the tariff to which the customer transfers. When a customer served under PASNY No. 4 as of October 1, 1996 adds additional accounts to that tariff (other than accounts transferred to the PASNY No. 4 tariff from the PSC No. 9 tariff, EDDS tariff or retail access tariff), the additional account will be considered part of the customer's load served as of October 1, 1996. "In-rem" accounts of the City of New York listed in the October 16, 1996 letter from the City of New York to Con

Edison and accounts of the New York State Urban Development Corporation at the Queens West Development will be considered part of such customers' load served as of October 1, 1996 whenever transferred to the PASNY No. 4 tariff. The transportation/delivery charge will be applicable to EDDS customers served under any other retail access tariff. Nothing in this subparagraph affects any rights of any party respecting eligibility for NYPA service.

(iii) Con Edison agrees not to challenge, either before NYPA or in the courts, the allocation of economic development power recommended by the New York State Economic Development Power Allocation Board dated December 17, 1996 (agenda item No. 2) or future extensions of such allocation, including novations.

32. Fuel Adjustment Clause

The incentive electric fuel adjustment prescribed by the Case 94-E-0334 settlement agreement will continue to operate in RY1 through RY5, except as limited below in paragraph vi:

(i) the 30-70 Company-customer sharing ratio for variations from targets will be retained.

(ii) the Company's overall cap (i.e., the maximum reward or penalty in *any* rate year, including the effect of IP2 generation and its replacement) will continue to be $35.0 million. The Indian Point 2 sub-cap (i.e., the maximum reward or penalty in *any* rate year for the target for the IP2 capacity factor and its replacement generation) will continue to be $10 million.

(iii) for each rate year through RY5, the capacity factor for IP2 will continue to be set at an annual period level of 73.5 percent. The setting of an annual equivalent capacity factor between refuelings will be in accordance with the Case 94-E-0334 settlement agreement, p. 25. By April 1, 1997, the Company will provide to Staff a forecast of the IP2 outage schedule through RY5.

(iv) the fuel targets for RY1 will be based on the PROMOD data base set forth in Appendix F. The parties will continue to cooperate in exploring alternate methods for establishing performance-based incentives, including market-price-based indexing when a visible energy market is sufficiently developed.

(v) the monthly fuel targets will continue to be calculated using the monthly adjustments set forth in Appendix F.

(vi) the monthly fuel adjustment will be credited with the actual reliability-related and other unavoidable energy costs to be recovered from retail access customers through the transportation/delivery service charges, as provided in Sections III.8.(i) and III.11.(i). In addition, the following cost factors will be fixed in base rates at their actual annualized 1996 cost levels and will be eliminated from the calculation of the fuel adjustment and the reward/penalty provisions:

- oil storage and handling charges

- fixed gas transportation charges (*i.e.*, local transportation facilities use charges)

Furthermore, commencing April 1, 1997 (or the date of the tariffs filed to implement RY1 in compliance with this settlement agreement following Commission approval, if later), the Company will allocate to base rates the costs, fixed as of the date of this agreement, of diversity power (capacity and transmission fixed charges) from Hydro-Quebec purchased through NYPA, and of the capacity purchased from NYPA's Indian Point 3 and Poletti stations, and the costs of the 2.6 cents/kWh fixed "adder" applicable to 6,600 GWH pursuant to the energy purchase agreement with Sithe Energies, Inc. In addition, the Company will recover through the fuel adjustment clause (not subject to the reward/penalty provisions) payments for energy to Sithe (excluding the 2.6 cents/kWh adder) that would be due absent the discount to the buy-back tariff rate specified by contract beginning in the sixth year of the contract term (*i.e.*, payments at the full buy-back tariff rate). The parties will consider continuing such recovery after RY5. The base cost of fuel will be established at 2.2 cents/kilowatthour.

(vii) the incentive applicable to contract renegotiations with NUGs (including terminations, buyouts or buydowns) set forth in Sections II.13(iv) will be implemented in a manner to carry out its incentive objective irrespective of any monthly adjustments for such NUGs under the preceding paragraph (v). *E.g.*, if the Company successfully negotiates improved contract terms with a NUG which lower the Company's energy costs, the incentive set forth in Section II.13 (iv) would be implemented by permitting the Company to collect, in addition to actual energy costs, thirty percent of the energy cost reductions through the fuel adjustment clause (not subject to the reward/penalty provision) for a period of eighteen months.

(viii) when the ISO assumes control of energy dispatch in the state, the parties will cooperate in revising the framework of the fuel adjustment and its incentive mechanism as may be necessary to reflect the spot market purchase price and other applicable costs resulting from the establishment of the ISO/PE (*e.g.*, transmission-related costs). Con Edison will submit a proposed revised framework within 180 days after the point at which the ISO assumes control of energy dispatch in the state.

(ix) the Company will amortize over RY1 the deferred fuel and purchased power costs resulting from the transfers to base rates specified in paragraph (vi) above. At the end of RY1, the Company will reconcile the actual costs and the amounts collected, with appropriate credits or charges for overcollections or undercollections at the time of this reconciliation.

33. Customer Service and Electric Service Reliability Incentives

To address the importance of a satisfactory level of service to its customers over the term of this agreement, a customer service and electric service reliability incentive program will be implemented. This mechanism is set forth in Appendix G herein.

34. SC No. 11 Buy-Back Energy Rates

(i) The SC No. 11 Buy-Back energy rates applicable to RY1 were adopted by the Commission in Case 96-E-0798, *Order Adopting Settlement Agreement*, June 24, 1997.

(ii) The SC No. 11 Buy-Back energy rates for transmission-level sellers applicable to RY2 will be as set forth in Appendix K herein. The Company will file revised tariff leaves reflecting these energy rates by February 1, 1998.

(iii) The parties agree that, after the ISO is fully operational, the SC No. 11 Buy-Back energy rates may, if consistent with PURPA, be based on appropriate market data to be available from the ISO. To that end, the parties agree to convene technical conferences during the month of November 1998 to discuss the method for setting the SC No. 11 Buy-Back energy rates for RY3. The rates applicable to RY 2 set forth in the preceding sub-paragraph (ii) will not be revised as a result of such conferences. Among the issues to be addressed during these conferences are the point in time at which the ISO is sufficiently developed, both in terms of commercial operation experience and volume of energy and related products processed, to yield data that may appropriately be used to determine the SC11 Buy-Back energy rates and the specific market data available from the ISO which should be so used. If the parties are unable to reach a consensus by November 30, 1998, the parties will request the assignment of a settlement judge, and no party will oppose a request to the settlement judge for evidentiary hearings followed by briefs and a recommended decision if such request is made by half or more of the parties.

(iv) In the event that the SC No. 11 Buy-Back energy rates for RY3, or a part thereof, are to be administratively set (*e.g.*, because of the unavailability of appropriate ISO market data), and the parties are unable to reach a consensus on such revised rates for RY3 by November 30, 1998, then the Company will file proposed rates for RY3 with the Commission by no later than December 30, 1998, which shall be subject to formal discovery and public comment under SAPA. The Company's filing will also propose a procedure for setting rates for RY4.

(v) Nothing in the settlement agreement is intended to affect the determination of the SC No. 11 Buy-Back capacity rates for RY1 and beyond.

III. RETAIL ACCESS PROGRAM

Objectives and Phase-in Target Dates

1. A capacity and energy retail access program for up to 500 MW will begin no later than nine months following Commission approval of this settlement agreement (*i.e.*, by June 1, 1998, assuming approval is obtained no later than September 30, 1997).

   (i) This schedule is contingent upon approval, within one hundred and twenty days of the settlement approval order, of the retail access implementation plan prescribed by the settlement agreement and the retail access tariffs (to be filed with the Commission and FERC, as applicable) governing this program substantially as submitted. Con Edison will file the plan and tariffs, including operating and enrollment procedures governing this program for at least the initial twelve months, within thirty days following the issuance of the settlement approval order. The schedule will be subject to reasonable change if significant revisions to the plan or tariffs are required or if approval of the plan and tariffs are otherwise delayed.

   (ii) A total of up to 300 MW will be made available to up to approximately 100 customers who have real time metering (*i. e.*, large TOU customers).

   (iii) A total of up to 200 MW will be made available to up to approximately 160 groups of non-TOU customers from all service classifications, totaling about 60,000 customers subject to aggregation rules, to test the use of load shapes instead of real time metering. A group is a number of customers in a single service classification with homogenous load characteristics served by a single LSE. Low income aggregation in multi-family buildings (five or more units) in low-income neighborhoods and low-income small home residential aggregation will be targeted. The Company's retail access implementation plan will include proposals for a program to encourage participation in this initial phase by small (SC 1, 2 and 7) non-TOU customers. The programs to be considered will include, among others, a temporary, non-recurring increase to the backout credit as well as a payment to encourage the enrollment of such customers during the initial phase. The total one-time incremental cost of the program will be approximately, but not exceed, $5 million. Any portion of the $5 million not used for the program will be deferred for credit to the "all other" customer groups defined in Section II.5 herein.

   (iv) The number of non-TOU customers in each service classification will be set to bring the minimum group size to approximately 1 MW.

   (v) Hourly energy usage for customers in the aggregated groups will be derived from the monthly energy usage through the use of customer load shapes to be determined by Con Edison from its load research data subject to Staff review.

(vi) The parties recognize that implementation of retail access within nine months of Commission approval of this settlement agreement is contingent upon the timely establishment of the aggregation, eligibility and other rules applicable to retail access. The parties will fully cooperate in this development. Within 30 days of approval of this settlement agreement, the Company will file with the Commission, with a copy to all parties, a plan and proposed retail access tariffs outlining the manner in which the Company will carry out this initial phase (first twelve months) of the retail access plan. Following the Company's filing, the parties will collaborate in reviewing the filed plan and in developing procedures for its periodic evaluation. Otherwise eligible utilities and their affiliates may participate along with other LSEs in the retail access program except that, if Con Edison or its affiliates are restricted from participating in retail access programs being conducted by utilities, participation by such other utilities and their affiliates in Con Edison's programs will be similarly restricted.

2. The retail access program will be expanded by 1,000 MW, to a total of 1,500 MW, within 10 months of the date on which the initial 500 MW program begins. To the extent feasible, the Company will begin to phase in this program expansion beginning six months after the initial 500 MW program begins. Assuming resolution of administrative and operational problems that are likely to be encountered in implementing the first 500 MW of retail access, participation will be encouraged from all customer classes, subject to aggregation and eligibility requirements and other applicable rules.

3. Within 12 months after the beginning of the second phase of the retail access program, (*i.e.*, the 1,000 MW program expansion) and within each 12 months thereafter, retail access will be expanded by 1,000 MW or more. The Company would target the phase-in of retail access to make it available to all customers by the earlier of 18 months after a fully operational ISO is implemented, or year-end 2001. For purposes of this agreement, the ISO will be considered to be "fully operational" when energy is being provided via a competitive wholesale market facilitated by the ISO and upon commencement of the first period during which capacity is being provided pursuant to a statewide (*i.e.*, including the Con Edison service area) capacity auction or capacity rules, or it has been determined that there is to be no separate statewide capacity program.

4. The parties recognize that even with widespread discussion of retail access, there has been little actual experience with retail access to date, particularly on a large scale, and that industry experience to date indicates that approximately one-half the customers eligible for similar programs would choose to participate in such programs in the initial period that retail access is made available. The parties also recognize the need for customer input and a gradual and orderly phase-in of retail access to allow for the proper resolution of unexpected, but inevitable, operational difficulties and customer-related issues. Accordingly, the parties acknowledge that the retail access objectives and phase-in dates specified herein are targets and that flexibility to change the program schedule indicated herein as issues and obstacles are addressed more slowly (or more rapidly) than anticipated is essential. The schedule, therefore, will (with appropriate

Commission oversight) be subject to adjustment (*e.g.*, via queuing, phasing, or similar procedures) to address these developments.

5. The parties also acknowledge that the transition to a competitive market, which is desirable, needs to address the Company's statutory service obligation. Specifically, the parties acknowledge the Company's concern that it may be acting in a manner inconsistent with its statutory duty to serve if it were to make irrevocable commitments toward a competitive capacity market, such as divesting generation or shutting down generating stations, without recognizing that Con Edison's ability to carry out its service obligation reliably may be threatened by such commitments. Con Edison will not be required to make irrevocable commitments that are inconsistent with its obligations at the time.

Retail Access Prior to A Fully Operational ISO

It is the intent of the parties that the rates charged to LSEs for energy and/or capacity and the rates charged to retail access customers for transportation/delivery service would not result in subsidization of such LSEs and retail access customers by the Company or its full service customers and that stranded costs resulting from retail access be allocated consistent with this no-subsidy principle. Subject to this principle, the method of determining the capacity charges to LSEs and the related Generation Capacity Adjustments set forth below will be re-evaluated prior to the second year of the retail access program.

6. Energy: LSEs, including Con Edison's ESCO, providing service to retail access customers will have the option of purchasing energy directly from suppliers through bilateral arrangements (subject to operational requirements), or from Con Edison at FERC-filed energy tariff rates. These tariff rates, expressed on a cents/kWh basis, will be set at the applicable SC No. 11 Buy-Back energy rates or will reflect the Company's hourly incremental costs, and will be applicable to energy purchases by LSEs as set forth below. Any LSEs desiring to purchase energy from Con Edison at the SC No. 11 Buy-Back energy rates will be required to contract with the Company for the purchase of all or a pre-determined fixed portion of the LSE's load within thirty days of the Commission's order setting the applicable SC No. 11 Buy-Back energy rate, but in no event later than the commencement of the 12-month period for which such energy rates are fixed. The contracting LSE will be required to purchase the pre-determined fixed percentage of its energy requirement during all hours of the year. All other energy purchases by LSEs from the Company, including energy above contracted-for percentage levels (*e.g.*, during import curtailments), will be priced at the Company's hourly incremental costs (differentiated, as necessary, to reflect in-City generation costs). As to bilateral arrangements:

- Deliveries will be scheduled through the NYPP and/or Con Edison and must be curtailable for reasons such as in-City generation requirements for the purpose of reliability. LSEs will be required to purchase energy from in-City sources to replace curtailed deliveries.

- LSEs will be required to provide Con Edison with any necessary data needed to evaluate this program.

- LSEs will be responsible for delivery to Con Edison's franchise area border.

- LSEs will be responsible for delivery of sufficient energy to cover all losses in delivery to customers' premises, with such loss factors reflected in applicable tariffs.

- Con Edison will verify LSEs' deliveries and will provide balancing services for LSEs at a charge to be filed with FERC.

- LSEs serving in-City load should have no greater rights (or access) to the available transmission capacity for energy imports into NYC than their pro-rata share of such available capacity if the location based marginal cost transmission congestion contract approach proposed by NYPP is not approved by FERC in time for its implementation herein.

7. Capacity: LSEs, including Con Edison's ESCO, providing service to retail access customers, will have the option of purchasing capacity from Con Edison at FERC-filed capacity tariff rates, expressed on a $/kW-year basis. Such tariff rates will not, at least for RY1, exceed the PSC No. 9 generation component charge and will be established annually based on an auction to be conducted by the Company for the sale of installed capacity in excess of capacity required for its full service customers and its in-City capacity requirements. LSEs will also be able to provide capacity from any other available source subject to the following:

   - LSEs will be required to contract for capacity equal to 118 percent of the coincident peak load to be supplied.

   - Until June 1, 1999, LSEs will be required to contract for capacity from in-City sources equal to no less than 70 percent of the in-City peak load to be supplied by such LSEs. During such time, to the extent that the in-City capacity obtained by LSEs is less than 80 percent of the in-City peak load to be supplied by such LSEs, Con Edison will maintain existing in-City generating capacity to cover such difference. Thereafter, until the ISO establishes locational generation capacity requirement rules applicable to New York City, LSEs will be required to contract for capacity from in-City sources equal to 80 percent of the in-City peak load to be supplied, unless the Commission orders otherwise. The Company will not be required to contract for or construct in-City generation capacity to meet LSEs' in-City capacity requirements.

   - Capacity obtained from sources other than Con Edison will be subject to the same reliability requirements to which Con Edison's resources are subject, such as NYPP rules for capacity reliability/availability, including installed capacity criteria, and disqualification of capacity obtained from generators that have committed the same capacity to another entity.

   - Con Edison will prepare and file with the Commission a proposed program to allow customer-owned emergency generation facilities to address applicable locational generation requirements. The program will be designed to cover not greater than 100 MW of emergency generation when initially effective inclusive of any load participation by NYPA customers.

8. Delivery Service: The transportation/delivery service rate for all retail access customers will be equal to the full service rate in the applicable PSC No. 9 tariff (*e.g.*, large commercial retail access customers will be subject to the rates and charges in the PSC No. 9 tariff rate for large

commercial customers), subject to the adjustments to the energy and generation capacity components of the full service rate described below. The transmission and distribution component and customer charge component of the PSC No. 9 rate will not be impacted.

(i) Energy Adjustment: Subject to any program to encourage participation in the initial phase of the retail access program by small customers adopted pursuant to Section III.1.(iii), the applicable PSC No. 9 energy component charge (on a cents/kWh basis, after adjustment to reflect total actual energy costs net of revenues received from sales of energy to LSEs) will be credited on a monthly basis for all retail access customers by an amount equal to the lesser of the SC No. 11 Buy-Back energy rate (including appropriate loss factors) or such applicable PSC No. 9 energy component charge. The remaining portion of the energy component charge included in the transportation/delivery service rate (*e.g.*, reliability-related and other unavoidable energy costs) would be subject to adjustment for actual costs as required. To the extent the energy tariff approved by FERC provides for the recovery of less than the full energy costs incurred by the Company, including the reliability-related and other unavoidable energy costs, such shortfall shall be recovered from all retail access customers through the transportation/delivery service rate.

(ii) Generation Capacity Adjustment: The applicable PSC No. 9 generation capacity component charge (on a $/kW year basis) will be credited on an annual basis for all retail access customers by an amount equal to the ratio of: (1) the actual revenues to be received by Con Edison in such year from sales of capacity made available at auction, if any, including capacity sales to LSEs serving Con Edison delivery customers, plus estimated identifiable capacity-related savings, if any, resulting to the Company directly from the purchase of capacity by LSEs from third parties (excluding savings associated with contract terminations and reductions in capacity purchases from Hydro Quebec and I.P.3/Poletti), divided by (2) the total amount of capacity made available for sale at auction to LSEs; provided, however, that the total credit cannot exceed the then-current-applicable PSC No. 9 generation capacity component charge. To the extent the capacity tariff rate approved by FERC is less than the filed tariff rate, any resulting revenue shortfalls shall be recovered from all retail access customers through the transportation/delivery service rate.

Retail Access After A Fully Operational ISO

9. Energy: Same options and requirements as prior to a fully operational ISO (as described above, paragraph 6), except that:

- LSEs will also have the option of purchasing energy directly through a Power Exchange.
- ISO will schedule energy deliveries obtained through bilateral arrangements.
- ISO will provide for any in-City requirements for energy.
- ISO will provide verification of LSEs' deliveries and balancing services.

10. Capacity: Same options and requirements as prior to a fully operational ISO (as described above, paragraph 7), except that ISO reliability rules will govern. The parties will actively support the expeditious adoption of in-City capacity requirements by the ISO. In the event that the ISO requires that LSEs contract for in-City capacity in excess of 70 percent of the in-City peak load to be supplied prior to June 1, 1999, LSEs will be required to provide no more than 70 percent of such in-City peak load until June 1, 1999, and Con Edison will maintain sufficient existing in-City generation capacity to provide the additional in-City capacity required by the ISO.

11. Delivery Service: Same starting point for determining the transportation/delivery service rate as prior to a fully operational ISO (as described above, paragraph 8), except that:

(i) The Company would bid its energy into the ISO/Power Exchange ("PE") at a price which would be expected to reflect the avoidable (i.e., marginal and other "running") energy costs, at a minimum (or at a higher price, up to the expected market clearing price for energy, consistent with the market structure that develops). Under the Energy Adjustment, the applicable PSC No. 9 energy component charge (after adjustment to reflect total actual energy costs net of revenues received from the sales of energy to LSEs) would be credited for all retail access customers by an amount equal to the lesser of the market price of energy or such applicable PSC No. 9 energy component charge. Any remaining portion of the energy component charge included in the transportation/delivery service rate (i.e., unavoidable energy costs not reflected in the market value of energy) would be subject to adjustment for actual costs as required.

(ii) To the extent practical and prudent, the Company would bid all of its capacity into the ISO/PE at a price which would be expected to reflect the "to go" (or avoidable) costs (or at a higher price, provided that such price does not exceed total embedded costs, including unrecovered energy costs, until market power concerns have been addressed). Under the Generation Capacity Adjustment, subject to necessary adjustments based upon the operation of the ISO, the applicable PSC No. 9 generation capacity component charge would be credited for all retail access customers by the lesser of the market value of capacity or such applicable PSC No. 9 generation capacity component charge.

(iii) A system-wide delivery rate will apply until the ISO is operational and thereafter until the Commission determines based on consideration of all relevant factors that a separate rate should apply to Westchester County.

(iv) In bidding its fossil-fueled capacity and energy into the ISO/PE at a price which would be expected to reflect, at least, the "to go" or avoidable costs, the Company will consider all costs avoidable as a result of a generating unit being backed down, taken off line, placed on cold standby or retired, and will include in its bid all "to go" costs that are appropriately considered avoidable for the action that it plans to take if the unit is not successful in that auction. The Company will have the discretion to choose the action appropriate for each unit it bids into the

ISO/PE. The categories of avoidable costs to be evaluated include fuel and other variable and fixed costs such as equipment and supplies, labor and outside services, allocated administrative and general (A&G) expenses and property taxes. As a general rule, being backed down would entail the lowest level of avoidable costs, followed by, in ascending order of avoidable costs, being taken off line and being placed on cold standby, and lastly, by retirement.

(v) Until Con Edison sells or transfers all of its fossil units, Staff will review the appropriateness of Con Edison's energy and capacity bids associated with any remaining units to ensure that all "to go" costs are properly bid. To facilitate such review, the Company will submit to Staff, by June 1, 1998, detailed procedures for identifying and allocating all direct and indirect costs related to generation, along with criteria for including such costs in the Company's bids consistent with the actions that the Company plans to take if its bids were unsuccessful. The Company's submission will also include appropriate procedures for bidding generation from Indian Point No. 2 at applicable "to go" costs. These procedures and criteria will form the baseline analysis that will guide Con Edison's bidding actions and facilitate Staff's review of the appropriateness of those actions. Based upon an audit of the procedures and criteria proposed by Con Edison and by an independent analysis of the costs of generation, both direct and indirect, Staff will ascertain and verify, by September 1, 1998, the propriety and reasonableness of the baseline analysis proposed by the Company, including the actions that the Company plans to take if its bids were unsuccessful. No later than thirty days after each bidding period, Con Edison will provide Staff with the bids that it has submitted to the ISO/PE. Competitive bid data are considered to be commercially valuable and, assuming the data qualify for trade secret protection under then- applicable Commission rules, the Company's bid data would be subject to trade secret and other confidentiality protections against disclosure to any party other than Staff. For capacity bids, these submissions will be made no less than every six months and no more often than once a month, depending on the period covered by the capacity auctions. Energy bids will be submitted no more often than once a month, Staff will review the bids for conformity to the bidding procedures and criteria submitted by the Company. In addition, Staff will audit once a year the details of Con Edison's bids, using the appropriate baseline analysis, to determine if the "to go" costs are being appropriately included in the bid for each plant. At such time as the Company seeks rate recovery of generation costs, the Commission may disallow recovery of costs related to imprudent bidding actions.

Disposition of Petitions

In light of the retail access plan set forth herein, the retail access pilot petitions referred to this proceeding in the Commission's *Order Concerning Retail Access Proposals* in Case 94-E-0385 (issued February 25, 1997) are incorporated solely to the extent consistent with this settlement agreement and denied in all other respects. The petitioners will not be foreclosed from participating in the retail access program set forth herein for which they are otherwise eligible.

IV. DIVESTITURE

Consistent with the objective of developing a fully competitive electric market, the Company commits to divest at least 50 percent of its in-City electric generating fossil-fueled MW capacity (*i.e.*, the in-city fossil plants, either in service or on reserve shutdown owned by Con Edison as of the date of this settlement agreement, net of re-ratings or retirements that occur after the date of this settlement agreement) by year-end 2002. The Company will develop a plan with the objective of divesting and transferring all plants, with the exception of Indian Point No. 2 and its associated gas turbines, to unregulated entities, including third parties and affiliates, by year-end 2002. This plan will be designed with the objective of developing a fully competitive electric market and maximizing the sales proceeds of divestiture.

1. Requirements for Divestiture

The parties agree that the divestiture program outlined herein will be a major step toward the development of a competitive, deregulated electricity market. The Company will, therefore, implement its divestiture commitment. The only exceptions would be (i) if the Commission found that the level of divestiture should be delayed or reduced (for example, to address factors such as the need to maximize the sales price or avoid a "fire sale" of assets, to address unforeseen legislative, regulatory, economic, business or other developments, or a *force majeure*, or to address the electric system integrity) or (ii) pending issuance of a finding by the Commission, upon petition by the Company to which parties will be offered opportunity to comment, that such divestiture commitment by the Company is consistent with the Company's then-existing obligation to serve the load related to customers whose loads (and associated locational and reserve margin requirements) exceed the Company's remaining generation and that the extent of the Commission's then-existing regulation of electricity prices is not inconsistent with the objective of maximizing the sales price of assets to be divested.

2. Divestiture Parameters and Methodology

The divestiture of plants to third parties and the transfer of plants to the Company's unregulated subsidiary will be carried out through a process that will result in fair and reasonable treatment of all parties, including Company investors and customers. This process will be fully developed in the divestiture plan.

Per Section II.13.v, after tax gains or losses will reflect the netting out of divestiture costs (which have been deferred by the Company for recovery), i.e., the costs of developing and implementing the plan, including the incremental financial, environmental, transaction and employee costs associated with the plan, and the divestiture carried out to implement the plan, and any tax implications thereof. Employee costs will cover divestiture-related costs, if any, associated with plant and direct-support employees. The use of cash proceeds from the sale of any plants will be at the discretion of the Company subject to the provisions of Section V.8 (iii) of this settlement agreement. Any after-tax gains or losses made on the transfer or sale of divested assets, net of amounts retained per Section II.13.v, will be reflected in the determination of stranded costs to be collected after RY5 as prescribed in Section II.13-15 of this settlement agreement.

The divestiture plan will identify the units to be divested consistent with the objective of developing a competitive electric market in the service area without the need for continuing regulation. This includes the objective of addressing market power issues in the in-city area including the "sub-load pockets." Resolution of market power issues should not include mitigation measures such as price controls, revenue caps or other means which could limit the revenues of the future owner of the generating unit. The divestiture plan submitted by the Company will also identify how plants and units would be packaged for sale or transfer; what restrictions, if any, would be placed on the capacity that any one generating company could purchase; the procedures to be followed in the sale or transfer of generating assets; key dates and milestones to achieve the schedule of divestiture; and which properties Con Edison would make available for sale for the purpose of constructing new generating facilities by third parties. If the disposition of generating assets is not proposed to be carried out through a competitive auction process, then the Company's plan will justify the use of an alternative process. The schedule for divestiture would provide for the Company to initiate the divestiture process with respect to at least 30 percent of the in-City fossil-fueled electric generation within ninety days after the Commission's approval of a divestiture plan is obtained and, if justified in the Company's plan in order to maximize the sales proceeds of divestiture, not later than ninety days after the ISO in-City capacity requirement rules become effective. Con Edison's affiliates, consistent with the objective of achieving workable competition, will be included among the potential transferees in the Company's divestiture plan, and Con Edison's affiliate would be able to participate along with other unregulated sellers in the competitive electric market. As a market participant in the in-City load pocket, the unregulated affiliate will be allowed to own generation in amounts comparable to other unregulated unaffiliated market participants and not be restricted by virtue of its utility affiliation. The plan will also ensure that the process for, and the terms and conditions of, the transfer of plant to Con Edison's affiliate would be satisfactory to a neutral third party (the Commission or another party).

3. Divestiture Plan Procedures

The Company will submit its divestiture plan to the Commission within six months of the Commission order approving this settlement agreement. The Company will keep Staff and the parties informed about the development of the plan and submit to Staff for its comment a draft scope of work for the plan and the Company will brief Staff on the progress of the plan during its development. These steps are intended to be informal and informational with minimum intrusion on the plan's development. No rights of formal discovery or similar procedural requirements are intended to be provided although the Company will cooperate with reasonable inquiries during the plan's development and participate in collaborative efforts requested by Staff. The Company will submit the plan to the Commission following its completion, and interested parties will be given an opportunity to file comments on the submitted plan within sixty days of its submission. If the Company requests an exception from its divestiture commitment, the Commission will rule on the request expeditiously. If the Commission otherwise comments on the plan or recommends that to address market power or other concerns the plan should be modified, the Commission will either initiate a proceeding to consider such comments or recommendations or request Con Edison to respond to such comments or recommendations. The parties will propose to the Commission a schedule for such a proceeding or response that would allow for a Commission order on the plan by year-end 1998. Thereafter, the Commission will approve the plan or modify it in a manner consistent with the terms and conditions prescribed by this Section IV. The parties expect that the Commission's order on the plan will also identify the plants that should not be divested due to the need for continued regulation of such plants. The Company will not challenge the Commission's authority to implement this subparagraph, including any Commission implementation that modifies the plan submitted by the Company in a manner consistent with the overall parameters of this Section IV provided such modifications may be challenged on the grounds that they are arbitrary, capricious, and an abuse of discretion or not supported by substantial evidence. Nothing in this subparagraph precludes the Company from petitioning the Commission separately at any time for authorization to transfer generation or other plant pursuant to Section 70 of the Public Service Law.

4. <u>Post-Rate Plan Period</u>

Any residual unrecovered costs for fossil generation will be recovered through charges established as prescribed in Section II.15 of this settlement agreement.

V. CORPORATE STRUCTURE

1. Formation of Holding Company

(i) The Company is permitted to reorganize into a holding company form through the mechanism of a binding share exchange, after which Con Edison (referred to in this Section as "the RegCo") will be a subsidiary of the Holding Company ("the HoldCo")./*/ In addition to Commission and shareholder approval, the approval of the Federal Energy Regulatory Commission ("FERC") and the consent of the Nuclear Regulatory Commission ("NRC") will be required to form the holding company structure.

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/*/ In the other Sections of this settlement agreement, "Con Edison" and "the Company" refer to the corporation existing as of the date of the settlement agreement and, where the settlement agreement applies to periods after formation of Holdco, to the RegCo.

(ii) Upon the formation of the HoldCo, Con Edison's existing unregulated subsidiaries, Promark Energy, Inc. (established pursuant to the Commission's order dated May 13, 1993 in Case 92-G-0841, as amended by order dated January 7, 1994 in Case 92-G-0841, order dated October 12, 1994 in Case 93-G-0996, and order dated November 16, 1994 in Case 94-G-0294) (the "ESCO"), and Gramercy Development, Inc., (established pursuant to the Commission's order dated July 12, 1996 in Case 95-M-0418), will be transferred to and become direct or indirect subsidiaries of the HoldCo.

(iii) The HoldCo may form other subsidiaries from time to time, including an Energy Supply Company. To the extent that the RegCo's existing fossil-fueled generating stations are retained within the holding company structure, they will be transferred during the transition period from the RegCo to the Energy Supply Company in accordance with the RegCo's divestiture plan, where they will compete in the unregulated generation market. NUG contracts that are not securitized would remain with the RegCo.

(iv) An initial organization chart is attached as Appendix H. The subsidiaries other than the RegCo are referred to collectively as "the unregulated subsidiaries" or "unregulated affiliates." The HoldCo may also establish one or more intermediate subsidiary holding companies to hold its Con Edison common stock and the stock of its other subsidiaries, provided the Commission's rights under this settlement agreement are not impaired by such action.

2. Functional Unbundling

(i) Within the RegCo, the operations of its generating system, including fuel and power purchases, will be functionally unbundled from its transmission and distribution systems in a "business unit" structure.

(ii) Common services (including administrative, accounting, legal, purchasing, etc.) will continue to be provided within the RegCo to all of the RegCo business units.

(iii) The business unit structure contemplates realignment of existing organizations along functional lines. The latest step in the realignment was effective on December 1, 1996. The wholesale electricity purchasing function for franchise area customers was aligned with the purchase of fuel for fossil generation within the generation organization. The transmission pricing and planning functions were aligned within the transmission organization, increasing the separation of the generation and transmission functions. Future changes include realignment of the transmission organization with the distribution organization within the RegCo. Also the maintenance and construction organization will be realigned to provide functional separation between transmission and generation.

3. The RegCo

(i) At the inception of the holding company structure, the RegCo will continue to own all generation, transmission, electric and gas distribution and steam systems.

(ii) To the extent the RegCo continues to own generation assets or NUG contracts, it would be permitted to make wholesale electric energy sales outside its service territory, retail and wholesale electric energy sales within its service territory, and retail electric energy sales outside its service territory until the RegCo has an unregulated affiliate with all necessary approvals to make retail sales outside the RegCo's service territory. The RegCo will be permitted to provide service for the remaining terms of any contracts for retail sales outside the service territory in effect on the date the RegCo's authority to make additional sales otherwise terminates or assign its rights and obligations, under one or more of such contracts to its affiliates if permitted by the contract(s).

(iii) The RegCo may also continue to provide certain services, i.e., advisory services and maintenance and repair shop services provided by the Van Nest maintenance facility (until transferred to an unregulated subsidiary), both within and outside the service territory. After RY5, Van Nest, if still owned by RegCo, may not provide any service that the RegCo will stop providing pursuant to Section V.3(iv).

(iv) Through RY5, to the extent that the RegCo continues to have sales customers, the RegCo would be permitted to provide the full range of energy products and services to those sales customers, including "behind the meter" products and services, except for any behind the meter service that the Commission determines generically that the utilities should not provide, in which case the RegCo would terminate any such existing service(s) by the later of the date provided in the generic order or three (3) years from the effective date of the order approving this settlement. RegCo may, however, elect to provide only basic commodity service and advise customers to seek energy-related services from competitive energy service companies that offer such products and services. After RY5, the RegCo will, unless otherwise authorized by the Commission, not provide any separately offered and separately priced behind-the-meter gas or electric services that are available from unregulated providers, except: (a) those services that were part of its historical bundled service and (b) those reasonably necessary to provide transmission and distribution service (e.g., services necessary to ensure the safety and adequacy of service; incidental environmental work).

4. Affiliate Relations - In General

(i) The RegCo and the HoldCo's other subsidiaries will be operated as separate entities. No unregulated affiliate will be located in the same building as the

RegCo beyond 180 days after its formation. The RegCo and the HoldCo may occupy the same building.

(ii) Any transfer of assets or the provision of goods or services, other than tariffed services and corporate services (such as corporate governance, administrative, legal and accounting services), by the RegCo to an unregulated subsidiary or an unregulated subsidiary to the RegCo, will be pursuant to written contracts that will be filed with the PSC.

(iii) Cost allocation guidelines are attached as Appendix I. These guidelines will be amended and/or supplemented, if necessary, to reflect affiliate transactions not contemplated by the initial guidelines set forth in Appendix I. The Company will file with the Director of the Office of Accounting and Finance of the Department of Public Service all amendments and supplements to the guidelines thirty days prior to making such change(s).

5. Transfer of Assets

(i) Transfers of assets from the RegCo to an affiliate or from an affiliate to the RegCo will not require prior Commission approval except for the transfer of generating stations and other assets from the RegCo whose transfer requires Commission approval under PSL Sec. 70.

(ii) For all assets other than generating stations (whose value will be determined in the section 70 proceeding), transfers of assets from the RegCo to an affiliate shall be at the higher of net book value or fair market value and transfers of assets from an affiliate to the RegCo shall be on a basis not to exceed fair market value except that the RegCo may, as part of its reorganization, transfer to the HoldCo (at no charge) title to office furniture, equipment and other assets having an aggregate net book value not to exceed $5 million.

(iii) Fair market value shall be determined in accordance with the cost allocation guidelines (Appendix I). For example, the RegCo may transfer to an affiliate any computer software system that the RegCo is authorized to transfer, without data, at a price at which the RegCo would sell such software to an unaffiliated third party.

(iv) In general, the transfer of generating assets will be consistent with the divestiture plan.

6. Personnel

(i) The RegCo and the unregulated subsidiaries will have separate operating employees.

(ii) Non-administrative operating officers of the RegCo will not be operating officers of any of the unregulated subsidiaries.

(iii) Officers of the HoldCo may be officers of the RegCo.

(iv) Employees may be transferred between the RegCo and an unregulated subsidiary upon mutual agreement. Transferred employees may not be reemployed by the RegCo for a minimum of 18 months from the transfer date. Employees returning to the RegCo may not be transferred to an unregulated subsidiary for a minimum of 18 months from the date of return. The forgoing limitations will not apply to employees covered by a collective bargaining agreement.

(v) For employees transferred from the RegCo to an unregulated subsidiary, the unregulated subsidiary shall compensate the RegCo with an amount equal to 25 percent of the employee's prior year's annual salary on a one-time basis, except that there shall be no compensation (i) for employees transferred to an unregulated subsidiary not later than six months from the date the HoldCo becomes the parent of the RegCo or the unregulated subsidiary to which the employee is transferred is formed, whichever is later; (ii) for the transfer of employees covered by a collective bargaining agreement; or (iii) where the employee's transfer is attributable to the transfer or reduction of a RegCo function or major asset (e.g., a generating station).

(vi) The foregoing provisions in no way restrict any affiliate from loaning employees to RegCo to respond to an emergency that threatens the safety or reliability of service to consumers.

(vii) The compensation of RegCo employees may not be tied to the performance of any of the unregulated subsidiaries, provided, however, that stock of the HoldCo may be used as an element of compensation and the compensation of common officers of the HoldCo and RegCo may be based upon the operations of the HoldCo and RegCo.

(viii) The employees of HoldCo, RegCo and the unregulated subsidiaries may participate in common pension and benefit plans.

7. Provision of Services and Goods

(i) The RegCo may provide corporate services (such as corporate governance, administrative, legal and accounting) for the HoldCo and the HoldCo's unregulated subsidiaries may purchase such services from the RegCo. The services would be provided on a fully-loaded cost basis.

(ii) The RegCo may provide other services to an unregulated affiliate, except that the RegCo may not use any of its marketing or sales employees to provide services to an unregulated affiliate for business within the RegCo's service territory. The unregulated affiliate shall compensate the RegCo for the services of employees performing such services at the higher of the employees' fully-loaded cost plus 10 percent or the price that the RegCo charged a third party for such employees' services.

(iii) The unregulated affiliates may provide services to the HoldCo and the RegCo. Any management, construction, engineering or similar contract between the RegCo and an affiliate and any contract for the purchase by the RegCo from an affiliate of electric energy or gas shall be governed by PSL (S)110, subject to any applicable FERC requirements. All other goods and services will be provided to the RegCo at a price that shall not be greater than fair market value, determined in accordance with the cost allocation guidelines (Appendix I).

(iv) The RegCo, the HoldCo, and the unregulated affiliates may be covered by common property/casualty and other business insurance policies. The costs of such policies shall be allocated among the RegCo, the HoldCo and the unregulated affiliates in an equitable manner.

8. Maintaining Financial Integrity

(i) The debt of RegCo would be raised directly by the RegCo and would not be derived from the HoldCo.

(ii) Without the prior permission of the Commission, the RegCo will not (i) make loans to the HoldCo or any of the unregulated subsidiaries, (ii) guarantee the obligations of either the HoldCo or any of the unregulated subsidiaries; (iii) pledge its assets as security for the indebtedness of the HoldCo or any affiliate.

(iii) The RegCo will not pay out more than 100% of income available for dividends calculated on a two-year rolling average basis. Excluded from the calculation of "income available for dividends" for the purposes of this provision will be non-cash charges to income resulting from accounting changes or charges to income resulting from significant unanticipated events. The foregoing restriction will also not apply to dividends necessary to transfer to the HoldCo revenues from major transactions, such as asset sales, divestiture or securitization or to dividends reducing the RegCo's equity capital ratio to a level appropriate to the RegCo's business risk. Senior management personnel of the RegCo will discuss with senior Commission Staff personnel, on a confidential basis, the possibility of the payment of a dividend that would exceed the foregoing restriction at least 10 business days before declaration of such dividend.

(iv) The RegCo will be required to certify annually to the Commission that the RegCo has retained or otherwise has access to sufficient capital to maintain and upgrade its plant, works and system in order to continue the provision of safe and reliable service.

(v) Senior management personnel of the RegCo and the HoldCo will meet annually with senior Commission Staff personnel to discuss, on a confidential basis, the RegCo's and the HoldCo's activities, including plans related to capital attraction and financial performance.

9. Standards of Competitive Conduct

The following standards of competitive conduct shall govern the RegCo's relationship with any energy supply and energy service affiliates:

(i) There are no restrictions on affiliates using the same name, trade names, trademarks, service name, service mark or a derivative of a name, of the HoldCo or the RegCo, or in identifying itself as being affiliated with the HoldCo or the RegCo. However, the RegCo will not provide sales leads for customers in its service territory to any affiliate, including the ESCO, and will refrain from giving any appearance that the RegCo speaks on behalf of an affiliate or that an affiliate speaks on behalf of the RegCo. If a customer requests information about securing any service or product offered within the service territory by an affiliate, the RegCo may provide a list of all companies known to RegCo operating in the service territory who provide the service or product, which may include an affiliate, but the RegCo will not promote its affiliate.

(ii) The RegCo will not represent to any customer, supplier, or third party that an advantage may accrue to such customer, supplier, or third party in the use of the RegCo's services as a result of that customer, supplier or third party dealing with any affiliate. This standard does not prohibit two or more of the unregulated subsidiaries from lawfully packaging their services.

(iii) All similarly situated customers, including energy services companies and customers of energy service companies, whether affiliated or unaffiliated, will pay the same rates for the RegCo's utility services and the RegCo shall apply any tariff provision in the same manner if there is discretion in the application of the provision.

(iv) Transactions subject to FERC's jurisdiction will be governed by FERC's orders or standards as applicable.

(v) Release of proprietary customer information relating to customers within the RegCo's service territory shall be subject to prior authorization by the customer and subject to the customer's direction regarding the person(s) to whom the information may be released. If a customer authorizes the release of information to a RegCo affiliate and one or more of the affiliate's competitors, the RegCo shall make that information available to the affiliate and such competitors on an equal basis.

(vi) The RegCo will not disclose to its affiliate any customer or marketer information relative to its service territory that it receives from a marketer, customer or potential customer, which is not available from sources other than the RegCo, unless it discloses such information to its affiliate's competitors contemporaneously on an equal basis to the extent practicable.

(vii) If any competitor or customer of the RegCo believes that the RegCo has violated the standards of conduct established in this section of the agreement, such competitor or customer may file a complaint in writing with the RegCo. The RegCo will respond to the complaint in writing within twenty (20) business days after receipt of the complaint. Within fifteen (15) business days after the filing of such response, the RegCo and the complaining party will meet in an attempt to resolve the matter informally. If the RegCo and the complaining party are not able to resolve the matter informally, the matter will be referred promptly to the Commission for disposition.

(viii) The Commission may impose on the RegCo remedial action (including redress or penalties, as applicable) for the RegCo's violations of the standards of competitive conduct. If the Commission finds that the RegCo has engaged in a consistent pattern of material violations of the standards of competitive conduct during the course of this Agreement, it shall provide the RegCo notice of a reasonable opportunity to remedy such conduct. If the RegCo fails to remedy such conduct within a reasonable period after receiving such notice, the Commission may take remedial action with respect to the HoldCo to prevent the RegCo from further violating the standard(s) at issue. Such remedial action may include directing the HoldCo to divest the unregulated subsidiary, or some portion of the assets of the unregulated subsidiary, that is the subject of the RegCo's consistent pattern of material violations but exclude directing the HoldCo to divest the RegCo or imposing a service territory restriction on the unregulated subsidiary. If the HoldCo is directed to divest an unregulated subsidiary, it may not thereafter, without prior Commission approval, use a new or existing subsidiary of the HoldCo to conduct within its service territory the same business activities as the divested subsidiary (*e.g.*, energy services). The RegCo and the Holdco may exercise any or all of their administrative and judicial rights to seek a reversal or modification of remedial actions ordered by the Commission and may seek to obtain any and all legal and/or equitable relief from such remedial actions, including but not limited to injunctive relief. Con Edison will not challenge the Commission's authority to implement this subparagraph.

10. Access to Books and Records and Reports

(i) Staff will have access, on reasonable notice and subject to appropriate resolution of confidentiality and privilege concerns, to the books and records of the HoldCo and the HoldCo's majority-owned subsidiaries.

Staff will have access, on reasonable notice and subject to appropriate resolution of confidentiality and privilege concerns, to the books and records of all other HoldCo subsidiaries to the extent necessary to audit and monitor any transactions which have occurred between the RegCo and such subsidiaries, to the extent the HoldCo has access to such books and records.

(ii) The RegCo will supplement the information that the Commission's regulations require it to report annually with the following information: Transfers of assets to and from an affiliate, cost allocations relative to affiliate transactions, identification of RegCo employees transferred to an affiliate, and a listing of affiliate employees participating in common benefit plans.

(iii) The HoldCo will provide a list on a quarterly basis to the Commission of all filings made with the Securities and Exchange Commission by the HoldCo and any subsidiary of the HoldCo, including the RegCo.

(iv) A senior officer of the HoldCo and the RegCo will each designate a company employee, as well as an alternate to act in the absence of such designee, to act as liaison between the HoldCo, the RegCo and Staff ("Company Liaisons"). The Company Liaisons will be responsible for ensuring adherence to the established procedures and production of information for Staff, and will be authorized to provide Staff access to any requested information to be provided in accordance with this Agreement.

(v) Access to books and records shall be subject to claims of privilege and confidentiality concerns as set forth in Appendix J hereto.

11. Independent Auditor

(i) The Commission may, during the term of this agreement, require that an independent auditor review the compliance of the HoldCo, the RegCo and the unregulated subsidiaries with the terms of this agreement. The identity of the independent auditor will be determined by the Commission. The cost of such audit and review shall be reasonable under the circumstances and shall be recorded by RegCo as a deferred debit and be recoverable from ratepayers.

12. Royalty

(i) The rate plan covers all royalties that otherwise would be credited to RegCo's customers, at any time, including after the expiration of the agreement.

13. Miscellaneous

(i) If Con Edison has not received shareholder or other regulatory approvals necessary to form HoldCo prior to issuance of the order approving the settlement, Con Edison is permitted to use up to 5% of its consolidated capital to fund unregulated subsidiaries that currently exist or that it may form and the relationships among and restrictions on affiliates shall be governed by this settlement agreement. Accordingly, upon the date of the Commission's order approving this settlement, the existing limitations on the services that ProMark may provide are eliminated. ProMark, which will likely become the ESCO, will be permitted to offer all the retail and wholesale energy services and related services and products, both within and outside Con Edison's service territory, that other unregulated energy service companies are permitted to offer. Affiliate transactions between Con Edison and its subsidiaries, including the transfer of assets and employees and provision of goods and services, shall be governed in accordance with the terms of this agreement. Con Edison may, in its sole discretion, continue to seek the necessary approvals to reorganize into a holding company structure.

(ii) Upon the date of the Commission's order approving this settlement agreement, Con Edison's relationships with its existing and future affiliates will be governed prospectively by this settlement agreement. Accordingly, the following Commission orders will not apply to Con Edison:

- Order Approving Use Of Up To $50 Million To Invest In Unregulated Subsidiaries, issued July 12, 1996, in Case No. 95-M-0418;

- Order Approving Use Of Utility Revenue To Establish A Gas Marketing Subsidiary, issued May 13, 1993, and Order Denying Petition For Reconsideration, issued January 7, 1994, in Case No. 92-G-0841; and

- order approving use up to an additional $26,000,000 of utility revenue to invest in Con Edison Gas Marketing, Inc., filed in 92-G-0841, issued November 16, 1994, in Case No. 94-G-0294.

Similarly, Section 1.A.v of the June 7, 1994 Agreement and Settlement Concerning Gas Rates of Consolidated Edison of New York, Inc. in Case 93-G-0996 and Section L.7 of the October 24, 1996 Settlement Agreement in Case 96-G-0548, which address royalty and other affiliate issues, will have no prospective effect.

(iii) The standards of conduct set forth in this Agreement will apply in lieu of any existing generic standards of conduct (e.g., the interim gas standards established in Case 93-G-0932) and in lieu of any future generic standards of conduct established by the Commission through RY5 and will continue to apply after RY5 given the Company's need for stability in rules governing the HoldCo structure.

Thereafter, before the Commission makes any changes to these standards, it will consider the Company's specific circumstances, including its performance under the existing standards.

VI. RESTRUCTURING-RELATED ACTIONS

1. Con Edison has an issue of Cumulative Preference Stock 6% Convertible Series B. At December 31, 1996, 46,305 shares remained outstanding. Each share of stock is convertible at the option of the holder into 13 shares of common stock and is also redeemable by the Company at a redemption price of $100. Following the formation of HoldCo, all of Con Edison's common stock will be held by HoldCo. Con Edison's preferred stock will remain outstanding stock of Con Edison. To avoid having an issue of preferred stock that would be convertible into a minority common stock interest of Con Edison, Con Edison is authorized, subject to Commission approval of this settlement agreement, to call for redemption the remaining shares of the 6% Convertible Series B Cumulative Preference Stock.

2. The transition to competition envisioned by the Commission's May 20, 1996 order and this settlement agreement could have an impact on Company employees other than as a result of divestiture measures addressed in Section IV of this settlement agreement. To address this prospect, incremental retraining costs and severance payment, outplacement and related costs, if any, incurred in the RY1 through RY5 period and not covered in Section IV will be deferred and reflected in the Statement of Case 96-E-0897 Adjustments per Section II.11 herein. The cost of any pension modification intended to promote early retirement will be amortized to pension expense over a period approximating the remaining service period for the Company's employees, and unamortized costs will be reflected in rates after RY5. The programs covered by this subparagraph will be subject to review to assure that they are related to the transition to competition and reasonable compared to the cost and scope of similar programs implemented by other companies.

   The parties recognize that the Company and Local 1-2 Utility Workers' Union of America, AFL-CIO, are subject to a collective bargaining agreement effective through June 24, 2000, which includes a provision entitled "Successor Clause and Notice," but nothing in this settlement adds to, subtracts from or otherwise modifies any rights, duties or obligations set forth in said collective bargaining agreement.

3. Nothing in this settlement agreement is intended to preclude the Commission, at the time it exercises its authority over such actions under Sections 70 and 108 of the Public Service Law, from allocating to ratepayers appropriate savings resulting from a merger that takes place between Con Edison and another electric or gas utility or a purchase of another gas or electric utility by Con Edison or a purchase of Con Edison by any other utility.

4. The Company agrees to address certain restructuring-related issues raised by the Natural Resources Defense Council and others as follows:

Deferral of T&D Capital Projects:

The Company will continue to develop detailed annual forecasts of transmission and distribution ("T&D") capital budget requirements and will identify for each major T&D project (*i.e.*, projects of $10 million or more), the location, reason for project, scope of project, projected capital costs, appropriate load and other data. The Company will also perform load monitoring consisting of monitors at a significant sample of the transmission and area substations scheduled for expansion/upgrade in the five-year T&D capital plan. The Company will evaluate and implement cost-effective measures as alternatives to major T&D projects that defer major T&D system projects through the use of technologies or services that could reduce peak T&D loads. For such cost-effective projects, consideration will be given to technologies or services that minimize the environmental impacts of electricity usage including demand side and other new technologies where practicable. Con Edison will continue to seek to minimize costs and environmental impacts for T&D projects that are not major T&D projects.

Customer Information:

The Company and Staff agree that customer choice would be enhanced by the availability of environmental information concerning the power being provided to them. To effectuate such disclosure, Con Edison and Staff agree to work with LSEs and others to develop and implement, where feasible, meaningful and cost-effective, an approach to providing customers with fuel mix and emission characteristics of the generation sources relied on by the load serving entity. Such an approach would facilitate informed customer choice, promote resource diversity and improve environmental quality.

Building Codes:

Con Edison supports the adoption of improved building codes and standards as an appropriate mechanism for improving the energy efficiency of buildings and, in particular, their use of electricity. Con Edison supports the Summary of the Basic Requirements of the 1995 Model Energy Code and ASHRAE 90.1 (1989). Nothing herein requires any party to support different proposals for energy efficiency standards.

Performance-Based Ratemaking: In its first major electric rate filing following Commission approval of this agreement, Con Edison will address the merits of performance-based ratemaking including the relationship between sales and distribution revenues and energy efficiency and make ratemaking proposals as warranted.

VII. CUSTOMER EDUCATION PROGRAM

Con Edison will continue to develop and implement programs and materials that will aid its customers in understanding the changes in the electricity market that are coming and the nature of the services that customers can expect to receive from the Company in the future. Con Edison's overall goals in conducting these programs are to enable customers, particularly small customers, to make informed choices about utility service while understanding their rights and responsibilities as a utility customer and to get customer input into the design of the retail access program. For retail access and energy services choices in the competitive energy market, the Company's efforts would be complemented by those of the participating providers of competitive services, who can be expected to provide prospective retail access customers with information about the energy choices becoming available to consumers. The program will also attempt to reach out to customers eligible for the industrial employment growth program.

Con Edison will seek to achieve its goals through outreach and education activities. The outreach and education program will utilize the core outreach and education tools currently in use: communication through the Customer Handbook provided to new residential customers; customer information packages; "Customer News," which is mailed four or five times each year to all three million customers; and in-person presentations to groups, including the Company's Advisory Councils, social services providers' groups, and different segments of the Company's customer base. The Company will supplement this core program with a message on the Company's voice response unit telephone service, which will be available to more than 600,000 callers who contact the Company each month.

The Company will provide annually to Staff on September 30 of each year beginning 1998 a summary of its customer education efforts. This submission will include an assessment of the progress made by these efforts.

VIII. MISCELLANEOUS

1. Provisions Not Separable: Effect of Commission Modifications

The parties have negotiated and accepted this agreement *in toto* with each provision in consideration for, in support of, and dependent on the others. If the Commission does not approve this agreement in its entirety, without modification, any signatory may withdraw its acceptance of this agreement by serving written notice on the other parties, and shall be free to pursue its position in this proceeding without prejudice.

If the Commission approves this settlement agreement or modifies it in a manner acceptable to the parties, the parties intend that this settlement thereafter be implemented in accordance with its terms. If a material modification is thereafter authorized or required by the Commission that is unacceptable to any party to this settlement agreement adversely affected by such modification, then, in addition to any other remedies a party may have, such party may withdraw from the agreement and will not be bound thereafter to its provisions.

2. Provisions Not Precedent

The terms and provisions of this agreement apply solely to and are binding only in the context of the purposes and results of this agreement. None of the terms and provisions of this agreement and none of the positions taken herein by any party may be referred to, cited or relied upon by any other party in any fashion as precedent in any other proceeding before this Commission or any other regulatory agency or before any court of law except in furtherance of the purposes and results of this agreement.

Staff of the Department
of Public Service

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Consolidated Edison Company
of New York, Inc.

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(Signatures continued on the following pages)

/s/____________________________________
Association For Energy Affordability

/s/_____________________________________
Cogen Technologies Linden Venture, L.P.

/s/____
Independent Power Producers of New York, Inc.

/s/____
Multiple Intervenors

/s/____
Natural Resources Defense Council

/s/____
New York Power Authority

/s/____
NYS Consumer Protection Board

/s/____
NYS Department of Economic Development

/s/____
NYS Department of Law

/s/____________________________________
Owners Committee On Electric Rates, Inc.

/s/____
Sithe Energies, Inc.

/s/____
Strategic Power Management, Inc.

/s/____
U.S. Generating Company

/s/____________________________________
Utility Workers Union of America,
Local 1-2

Appendix A - Miscellaneous Tariff Changes

Appendix B - SBC Amounts

Appendix C - Other Rate Changes

Appendix D - 25 Cycle System

Appendix E - NYPA Load

Appendix F - Fuel Targets

Appendix G - Service/Reliability Incentives

Appendix H - Corporate Structure

Appendix I - Cost Guidelines

Appendix J - Privilege

Appendix K - SC No. 11 Buy-Back Rates

APPENDIX A

APPENDIX A

MISCELLANEOUS TARIFF CHANGES

1. Minimum Monthly Charge for Demand-Billed Customers

The Company will implement a minimum monthly charge applicable to all demand-billed customers. This charge will be in lieu of the contract demand charge proposed in the Company's October 1, 1996 plan and is designed to minimize the number of customers impacted by the charge while effectuating the overall objective of a cost-based rate to customers with highly variable loads. The charge is designed to be applicable to all demand-billed classes and follows the rate design principles approved by the Commission in Case 27574, *On-Site Generation*, Opinion No. 82-10 (May 12, 1982), at pp. 44-45 and *Order Concerning Compliance Filing* (Feb. 4, 1983), p. 14. The charge will ensure that a customer pays, at least, one-half of the distribution demand costs associated with meeting the customer's maximum demand. The applicability of a minimum monthly charge to all demand-billed classes would ensure that on-site generators taking back-up service from Con Edison under the "firm-rate option" (Special Provision A) will pay for the cost of that service.

Each month, the Company will determine for each customer, (i) the monthly pure base revenue calculated under the rates and charges applicable to such customer without reference to the minimum monthly charge and (ii) the minimum monthly charge. "Pure base revenues" are the total electric charges calculated for the customer each month under the rates and charges applicable to such customer without reference to the minimum monthly charge less the average cost of fuel applicable to the month and less revenue taxes. The minimum monthly charge equals the customer's contract demand multiplied by one-half the distribution demand charge applicable to such customer under the rate schedule. Each month the customer's charge for electric service will be the charge calculated under the rates and charges applicable to the customer's rate classification without reference to the minimum monthly charge unless the minimum monthly charge exceeds the pure base revenue, in which case the customer's charge for electric service will equal the minimum monthly charge plus the base cost of fuel and the applicable fuel adjustment for the month (inclusive of revenue taxes and system benefits charges).

The initial contract demand for a customer will be the customer's highest registered de-mand, or the predecessor customer's, at the premises in the previous 18 months.* The 18-month

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* The following rules would apply to "new customer" situations. When the customer is occupying previously-occupied premises, the contract demand will be the contract demand of the predecessor customer and be subject to adjustment in the same manner as contract demands applicable to other customers are adjusted, *i.e.*, on a going-forward basis. When the "new customer" is taking occupancy of premises that have not previously been occupied, the company will not set a contract demand at the outset, allowing the actual demands of the customer to set the contract level (e.g., in the first month of service, the contract *will* equal the new customer's actual maximum demand in that month. In the second month, the contract demand will be the higher of the first or second month, etc.)

period will roll forward with the contract demand thereafter being the highest demand billed in the rolling 18-month period. *

Any customer could request revision of the contract demand, and the contract demand will be adjusted to a lower level if the customer demonstrates to the Company, in advance, permanent changes in the electrical load in its premises through changes in equipment or changes in the kind of business or activity conducted that make it highly improbable that the contract demand for which the customer is then being billed (highest demand in last 18 months) will be experienced in the future. No such adjustment may be based on expectations of the weather being different in the future than it has been in the past. After being reduced, the contract demand is subject to being increased in the same manner as for all other customers, i.e., at any time the customer's billed demand exceeds the contract demand level.

In order to introduce this new but important billing concept to customers and to reasonably address potential customer impacts, the Company will phase in the minimum monthly charges beginning April 1, 1998. The minimum monthly charge will be phased in as follows: In any month in RY2 in which the minimum monthly charge would otherwise apply, the customer's bill will be equal to the greater of (1) the charge calculated without reference to the minimum monthly bill charge or (2) the minimum monthly charge multiplied by 25%. The 25% amount will be increased in succeeding years as follows: RY3-50%. RY4-75%, RY5-100%.

2. Charges For Services

i. Special Services at Stipulated Rates

To better reflect the economics of the services provided, the charges for high-potential proof tests and for insulating fuel ("dielectric fluid") tests performed by the Company at a customer's request will be increased, effective April 1, 1997,** as follows: (a) The charge for making the first high potential proof test will be $400 for up to two hours plus $200 for each additional hour or portion thereof. The charge for each additional test immediately following the first test will be $100; (b) The charge for taking and testing a sample of dielectric fluid, when the test is incidental to Company work at the premises, will be $65 per sample. The charge will be $270 for the first sample taken by the Company when the test is not incidental to Company work at the premises, and $65 for each additional sample taken by the Company at the same time. There will be a $65 charge for testing each customer-obtained sample.

ii. Special Services at Cost

To address customers' requests for special metering, which may increase with increased service options, the Company will be permitted, effective April 1, 1997, to install, as a special service at cost, customer-requested metering beyond that which is required to bill the

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* For customers taking back-up (SC 3), supplementary (SC 10) or buy-back (SC 11) service, the contract demand will be based on the higher of the contract demand specified in the application for service or on the maximum demand taken by the customer in any previous month.

** In this Appendix A, the changes to become effective on April 1, 1997, will become effective on the date the Company's tariffs implementing RY1 of this settlement agreement become effective.

customer under the rates and charges of the appropriate service classification. Where a metering device has remote communications capabilities, the customer shall furnish and maintain the communications equipment, arrange for the communications service, and pay ongoing costs associated with the communications service.

iii. Excess Distribution Facilities

The tariff provision regarding installation of excess distribution facilities will be modified, effective April 1, 1997, to permit the provision to be applicable to customer requests for additional facilities.* The tariff provision will indicate that the Company will provide, at the customer's expense, distribution facilities in excess of those normally provided by the Company. The Company will give customers the option to pay the tax and maintenance charges either in annual charges or in a lump sum on a net present value basis. Additionally, the application form for construction for excess distribution facilities will clarify that, after five years, the Company can withdraw from use only those facilities that are redundant.

iv. Services

By order issued July 16, 1997, the Commission approved tariff revisions implementing revised charges for certain services. The services covered included:

~ Theft of Service Investigation
~ Seasonal Turn On/Off
~ Special Meter Reading
~ Multi Dwelling Collection Charges
~ Collection Fees (non-residential only)
~ Dishonored Payments
~ Street Disconnect/Reconnect (non-residential only)
~ Collection Agency Fees (non-residential only)
~ Damaged Meter

Similar filings made during the term of this settlement agreement are not precluded.

v. Residential Late Payment Charge

A residential late payment charge for electric, gas and steam service will become effective in RY1 following Commission approval of this settlement agreement. The Company and Staff shall agree on an implementation plan that provides for advance notice to customers of the institution of the charge in the applicable service tariffs and for waiver of the first charge imposed on customers. Electric late payment charge revenues will be used to offset rate adjustments and accounting deferrals otherwise prescribed by Section II.21 (Residential Time-of-Use Rates).

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* The existing tariff language limits the provision to distribution facilities in excess of those normally provided by the Company "for the purpose of supplying equipment the operation of which involves inrush currents above the values otherwise allowed by the Company, or for the purpose of providing a service line in addition to that otherwise provided for supply to the Customer's premises."

vi. Incidental Environmental Remediation Work

Irrespective of other limitations prescribed for the Company by this agreement including limitations on "behind the meter" services, Con Edison will be permitted to perform and be reimbursed at cost for incidental environmental remediation work on customer premises associated with Con Edison's performance of its T&D service obligations. Company employees sent to a customer's premises to perform work in furtherance of the Company's utility operations who identify the area of the premises where work must be performed as potentially environmentally unsafe as a Company workplace would explain to the customer that OSHA imposes on Con Edison a safe-workplace requirement and that the customer has the obligation to prove that the area is safe or to make the area safe. The Company would inform the customer that many qualified contractors could perform the necessary environmental remediation work or, where the work is of an incidental nature that the Company would perform it, that the customer could choose to have the Company's employees perform the work. The Company will seek to perform such work with the customer's consent.

3. Real-Time Pricing Pilot Program

The Company has had an experimental real-time pricing ("RTP") program since 1992.* The Company will institute a pilot RTP program. The program will provide customers with energy prices that vary by hour based on the Company's day-ahead forecasts of marginal fuel costs. This program is expected to help participants begin to adapt to a competitive generation market. Up to 50 customers served under time-of -day rates in SC 4 or SC 9, plus any customers voluntarily transferring from the experimental RTP program in effect as of the date of this settlement agreement, will be eligible for service in this pilot program.

4. Rider J Business Incentive Rate (BIR)

Changes are being made to the Business Incentive Rate (Rider J) to improve the effectiveness of the tariff as a marketing tool to prospective business applications. No material substantive change is intended. The following changes, effective April 1, 1997, would be made:

- customers who qualify for the Rider because they receive both the comprehensive package of economic benefits and real property tax incentives or benefits will, for comprehensive packages negotiated after March 31, 1997, be considered to be eligible based solely on the "comprehensive package" criterion (and not "as of right") but the allocation will, nevertheless, continue to be allocated per Rider J (A)(2)(b).

- governmental agencies will be permitted to designate loads eligible for the Rider and to adjust the load levels; the dates previously governing new and vacant premises were deleted; and the minimum aggregate demand provision for vacant premises was deleted.

- the Rider will explicitly state that it is utilized for job attraction in addition to job retention, that separately metered residential usage does not affect the rider's applicability; that, for "as of right" applications, applications must be submitted within

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* The current program termination date was extended until December 31, 1997 by Commission order dated December 23, 1996 (Case 96-E-0837).

30 days of applying for the property tax or similar qualifying governmental incentive but service need not be taken immediately; that the distribution facilities cost test does not double count Rider J reductions.

. the second sentence of the first unnumbered paragraph after Section (A)(1)(b) of Rider J, which states that certain customers are ineligible for Rider J, will be deleted.

In addition, the Company will increase the total allocation of BIR power by 65 megawatts over the maximum amount already reflected in Rider J. Revenue shortfalls from the first 20 megawatts of this 65 megawatt increment will not be recovered. Of this increment, 50 megawatts will be allocated to the "comprehensive" program. Rate plan revenue shortfalls resulting from BIR allocations in excess of 20 megawatts out of this 65 megawatt increment will be deferred and recovered, either in the RY 3 and RY 5 rate changes prescribed by Section II.11 or in RY 6. Allocation to businesses reflecting new electric loads and new jobs would be assumed not to result in revenue shortfalls. BIR allocations made in Westchester County and New York City from this increment will be assumed to follow program experience.

5. Other Items

1. The wording relating to installation of demand meters based on kilowatt-hour usage, for Service Classification Nos. 2 and 12, will be clarified effective April 1, 1997, to reflect the longstanding administration of the provisions (Leaf Nos. 213 and 316).

2. On Leaf No. 21, a cross-reference to another tariff leaf will be revised effective April 1, 1997, to state the correct page reference.

APPENDIX B

APPENDIX B

Items and Expense Levels* Above Which Will Be Included In The System Benefits Charge (SBC)

(Thousands of Dollars)

Year	Expense Levels DSM**	R&D	Low Income
1997	$48,400	$7,700	$1,800
1998	$15,000	$7,700	$2,100
1999	$ 6,000	$7,700	$2,100
2000	$ 6,000	$7,700	$2,100
2001	$ 6,000	$7,700	$2,100

* Approximates average of one mill/kwhr through 10/99.

** Includes curtailable electric service.

APPENDIX C

APPENDIX C

SUPPLEMENTAL TARIFF FILINGS

1. Modified High Tension

Customers are presently permitted to take high-tension service through non-standard high-tension service installations, including non-standard installations resulting from the purchase of Company equipment. This practice, and the tariff provisions that supported it by allowing customers who own only transforming equipment and not switchgear to be treated as high-tension customers, should be withdrawn. The service, dubbed "modified high tension," which was established as an early economic development program, is no longer necessary given the other economic development programs now available. In addition, modified high-tension rates are not cost justified. Customers with non-standard installations will continue to be billed at high tension rates, but no new customers will be permitted to take high tension service except through standard high-tension service installations. Customers that have modified high-tension applications or a documented dispute pending as of October 1996, and complete requirements for the service prior to June 30, 1998 will be billed at the high tension rate. Customers that have not resolved their applications (i.e., entered into a purchase and/or maintenance agreement) with Con Edison by June 30, 1998 will have the option to file a customer complaint with the Public Service Commission by that date. In such event, requirements for modified high tension service must be satisfied by the customer by a date certain specified by the Commission or its designee in a final unappealable decision or order resolving the customer complaint.

2. DC Service

The Company currently provides non-standard DC service to about 5,000 customers, primarily for operating elevator motors, pumps and fire alarms. Since Con Edison's system is adequate to provide equivalent AC service for the entire DC load, DC customers should pay the total cost associated with Con Edison's continued operation of the DC system.

The unit cost of DC service is much greater than the unit cost of AC service because the DC system is much more lightly loaded than the AC system. Moreover, the DC system is old and, in general, requires additional maintenance and has a higher than average burnout rate. The Company is proposing to charge DC customers, all of whom also take AC service, for the costs incurred to serve them in order to encourage customers to convert to modern AC service and eliminate the subsidy provided by AC service.

The majority of customers taking DC service are located in Manhattan, with a few DC customers located in Brooklyn. On average, for customers taking DC service, the DC service represents only about 2 percent of the customers' total AC and DC loads. This means that increases in the cost of DC service would not generally have a major impact on DC customers' total electric charges.

The surcharge being proposed is based on the embedded cost of providing DC service. It would have two components: an incremental energy charge and a customer charge that would vary by service classification. Based on costs, the incremental energy charge would be 10 cents per kWhr and the incremental customer charge would be $9 per month for non-demand-billed customers and for unmetered DC fire alarms (Rider D) and $340 per month for demand-billed customers. The Company will develop a program to phase in these DC charges beginning in April 1998, depending on customer impacts.

APPENDIX D

UNCHANGED FROM 3/12/97 SETTLEMENT

APPENDIX E

APPENDIX E

NYPA PASNY NO. 4 PEAK LOAD AMOUNTS

Year	MW
1998	1727
1999	1766
2000	1800
2001	1847
2002	1885
2003	1938
2004	1974
2005	2013
2006	2047
2007	2080
2008	2112
2009	2144
2010	2178

APPENDIX F

APPENDIX F

FUEL TARGETS

I. The fuel targets for RY1 will be based on the updated PROMOD data base filed by Con Edison on November 15, 1996, with the following changes:

a) Reduce NYC DRA requirement from 80 to 70%

b) Delete must-run requirements for Roseton and Bowline units (on both the UBAS and UAPR records)

c) Add corrected capacity & energy to Peekskill (PEEKSK2) - TCAP and TENG records

d) Add corrected capacity & energy to O&R sales (OR SA WD) - TCAP and TENG records

e) Change NYSEG (NUGCGNSE31) FOR to 5%

f) Remove extra June entries for (NUGHCHG3)

g) Remove undated (TOWN) records & add TOW2 record for HQFRMO1 & RGEHQO1

h) Remove undated UCAP, UFOR & UHRD records for HILLBN T 1

i) Correct capacity & energy for O&RIPP1 - TCAP and TENG records

j) Change NYSEG NUG (NUGCGNSD27) fuel to ID #140

k) Reduce NMPC Sithe generation (NUGEONMC) to 960 GWh

l) Move NMPC NUG (NUGCGNMF35) to area 4

m) Delete O&R unit (NUGBDORG)

n) Retire Hickling unit 2, Jennison units 1 & 2, and NMPC NUG (NUGCGNME27)

II. Each month, the PFAC data base will be updated for the following parameters:

a) the currently existing indexed oil price mechanism, subject to updating of the "adders" and "factors"and target heat content for Con Edison's units, including Bowline and Roseton. As to the "adders" and "factors" and target heat content for units of other NYPP members (other than Bowline and Roseton), the current approach will continue to be used, unless Staff and the Company are able to develop updated data.

b) actual quantity and price of gas used by Con Edison.

c) other utilities' gas prices updated consistent with the Con Edison price.

d) actual generation and cost for new independent power producers through the sixth month of commercial operation.

e) actual energy and price of purchases from NUGs and/or sales to LSEs under the SC No. 11 buy-back tariff, including the actual generation and cost for purchases from the Westchester RESCO plant.

f) the currently existing method for adjusting the economy/HQ purchase price target wherein the monthly target price formula will be TP = SPP x SF + MF, subject to the following:

   1. The Starting Purchase Price (SPP) will be the weighted average price of the two-party and economy purchases for the 12-month period ending February 1997, increased by $1.0/MWh.

   2. The Seasonal Factor (SF), used to adjust the SPP, will reflect the 12-month period ending February 1997.

   3. The Market Factor (MF) will be 80% of the difference between the actual weighted average price of two-party and economy purchases for each month and the weighted average price in the corresponding month in the 12-month period ending February 1997.

   4. The target price formula will apply in all months in which the actual weighted average price of two-party and economy purchases is less than the specified trigger price. The trigger price will be updated to reflect the changes to be made to the SPP, MF and SF. When utilized, the trigger mechanism will operate so as to set a Target Price (TP) equal to the actual weighted average price of the two-party and economy purchases in a given month in lieu of a PROMOD derived NYPP purchased power price.

   5. An additional monthly update will be performed to adjust the target to reflect actual purchases of "Basic" energy from Hydro Quebec (HQ). A portion of the total purchases equal to the amount of HQ "Basic" energy purchased each month will be priced at the actual HQ "Basic" energy price in lieu of the target price otherwise set for economy purchases.

g) actual deliveries and cost of purchases by Con Edison under its contracts with Selkirk Cogen, Indeck-Corinth, Cogen Technologies and Brooklyn Navy Yard Cogeneration Partners (BNYCP).

h) Selkirk Cogen fuel cost adjusted to reflect the allocation per the contract between fuel costs and capacity costs.

i) Indian Point 2 outages or deratings resulting from regulatory directives -- upon mutual agreement or showing of good cause. Outages required for fish protection in the Hudson River, including any outages taken under the amended consent decree in NRDC v. NYSDEC (Albany County Index No. 6570-91), will be considered outages or deratings resulting from regulatory directives.

j) other adjustments that are required to reflect the allocation of costs to base rates as specified in the settlement agreement (Section II.32.vi).

k) variable NUG costs mitigated prior to RY1 that may be retained by the Company pursuant to the Case 94-E-0334 settlement agreement, p. 25.

l) actual costs to be recovered from retail access customers and credited to the fuel adjustment as specified in this settlement agreement (Section II.32.vi).

m) actual proportion of Con Edison full service customers' load to retail access customers' load.

III. The Company will continue to utilize PROMOD version 96.20.09 for its fuel target in RY1. In the absence of an alternate method for establishing an incentive fuel adjustment clause acceptable to Staff and the Company, the fuel targets for RY2-RY5 will be updated in accordance with the procedures set forth in the Case 94-E-0334 settlement agreement, pp. 28-29, using PROMOD or another acceptable production cost model. The monthly fuel targets will continue to be calculated using the monthly adjustments set forth in the preceding paragraph, subject to updating and revisions as agreed to by Staff and the Company.

APPENDIX G

APPENDIX G

Service Quality and Reliability Incentive

1. Operation of Incentive

The incentive mechanism will be in effect for the term of this agreement.

Con Edison's customer service performance and electric service reliability will be evaluated first against customer satisfaction with the Company's performance in four areas: PSC contacts, satisfaction of electric emergency callers, other callers to the Company's telephone centers, and visitors to the Company's service centers, as follows:

> if PSC contacts are maintained below the "minimum" threshold established in this agreement, or
>
> if PSC contacts are within the range defined in this agreement as the "acceptable range" and all three measures of customer satisfaction are at or above the threshold levels,

then service quality and reliability performance will be deemed fully satisfactory without reference to other measurements, and no penalties will accrue.

However,

> if PSC contacts are above the "maximum" threshold defined in this agreement, or (irrespective of the level of PSC contacts) all three customer satisfaction measures are below the threshold levels, or
>
> if PSC contacts are in the "acceptable range" and any one of the customer satisfaction measures is below the threshold level,

then a penalty review involving ten internal measures of performance will be conducted.

The Company's performance in these ten activities must fall within the standards set in this settlement agreement or be offset as described below to avoid penalties of up to 35 basis points on common equity (revenue requirement equivalent). Performance of any customer service activity worse than the threshold will be offset if the two-year (current year and prior or succeeding year) average performance of that activity is better than the threshold. Performance on any electric service reliability measure worse than the threshold will be offset by performance better than the threshold on any other electric service reliability measure in the same year or if the two-year (current year and succeeding year) average performance of the same measure is better than the penalty level. The threshold standards and penalty levels are stated on the attachment to this appendix.

Any resulting penalties will be deferred and credited to ratepayers in the second year following the measurement period in which the penalty would have been assessable. The measurement periods are the successive twelve-month periods ending March 31, 1998, 1999, 2000, 2001, and 2002. The threshold ranges and penalty and offset levels established in this agreement are fixed for the life of this agreement except as provided in Paragraph 2.ii. below.

2. Exclusions

i. For measurement purposes, results from periods having abnormal operating conditions will not be considered.

For purposes of customer service activities, abnormal operating conditions are deemed to occur during any period of emergency, catastrophe, strike, natural disaster, major storm, or other unusual event affecting more than ten percent of the customers in an operating area during any month. "Major storm" is defined as a period of adverse weather resulting in a service interruption affecting at least ten percent of the customers in an operating area or causing customers to be without electric service for at least 24 hours. In the event that normal operating conditions are interrupted in one of the Company's six geographical areas and the interruption affects the Company's ability to perform any activity that is part of this mechanism, the data for the geographic area(s) experiencing the interruption will be omitted from the calculation for the period of the interruption and the Company's results in the measured areas will be measured only by the data from the other geographic area(s). If normal operating conditions are interrupted in more than three geographical areas so that monthly results cannot be measured for a given activity, the month will be eliminated in the calculation of the actual annual average performance for each activity for the purpose of determining any penalty. In the event that normal operating conditions are interrupted in more than three geographical areas for an entire rate year, the activity will be inapplicable in that year unless Staff and the Company agree on an alternative method of determining how to allocate any assessable penalties and offsets under this incentive mechanism.

For the purposes of the electric reliability incentive, the following incidents shall be excluded from calculations of the reliability performance measures:

(a) any incident that occurs when the average wet dry bulb ("AWD") is above 86 degrees calculated as follows: the sum of 70% of the maximum AWD of the day of the incident, 20% of the maximum AWD of the previous day, and 10% of the maximum AWD of the day before the previous day. This formula represents the Company's design criteria for its transmission and distribution systems;

(b) any major storm as currently measured (more than 10% of the customers interrupted within a currently defined operating area or customers out of service for more than 24 hours);

(c) any incident resulting from a catastrophic event beyond the control of the Company, including but not limited to water main break, plane crash, or natural disaster;

(d) any incident occurring during a strike;

(e) any incident when a problem involving generation or the bulk transmission system is the key factor in the outage and any event directly leading to the outage is not under the direct control of the Company; and

(f) one incident every 5 years selected by the Company that does not otherwise meet the criteria for an excludable incident.

ii. If changes in Company operations render it impractical to continue to measure performance in an agreed-upon activity, the measurement method and/or threshold standard will be revised, an alternative method or activity selected, or the penalties or offsets associated with the affected activities spread proportionately among all remaining activities for the remainder of the period during which the incentive mechanism is operative. Any such modifications must be mutually agreed upon by Staff and the Company in writing.

3. Reporting

The Company will prepare an annual report on its performance that will be filed with the Director of the Consumer Services Division staff. The annual report will address (a) any changes anticipated to be implemented in the following measurement period in any activity reflected in this Agreement and (b) a summary of any significant changes in operations which led to the reported performance level during the measurement period. These reports are subject to an audit and review by Staff. The Company will maintain sufficient records to support such reports.

4. Establishment of performance criteria

The threshold standard for each activity is derived from the standards set in Cases 90-E-1119, 94-E-0334, and 95-E-0165 as modified herein. The threshold standards for Electric Reliability, Investigations, Billing Accuracy, New and Additional Service, Percentage of Calls Answered, and customer satisfaction surveys are the standards established in the above cited cases. The threshold standards for Percentage of Meters Read and PSC Contacts are shown in the Attachment.

5. Performance measurement:

The Company's performance is measured in each activity as follows:

i. "PSC Contacts" is the number of complaints per 100,000 Con Edison customers received by the Consumer Services Division of the Public Service Commission. A complaint is a contact by a customer, applicant, or customer's or applicant's agent that follows a contact with the utility about the issue of concern as to which the utility, having been given a reasonable opportunity to address the matter, has not satisfied the customer. The issue of concern must be one within the utility's responsibility and control, including an action, practice or conduct of the utility or its employees, not matters within the responsibility or control of an alternative service provider. One or more contacts by a rate consultant raising the same issue as to more than one account, whether such contacts are made at the same time or different times, shall not be counted as more than one complaint if the issue is under consideration by the Department or the Commission and no utility deficiency is found. Contacts by customers about the Shared Meter Law shall not be complaints if the contact is about the requirements of the shared meter law and no utility deficiency is found.

ii. "Days to Complete Routine Investigation" is the number of calendar days to complete investigation of a customer inquiry, received by telephone, mail, facsimile or in person, that cannot be resolved on the day it is received. Performance in any month will be measured by the number of investigations completed within 30 calendar days, when the date of completion falls within that month, divided by the total number of investigations completed during the reporting month.

iii. "Call Answer Rate" is the percentage of calls answered by Company Call Centers between the hours of 9:00 AM and 5:00 PM Monday through Friday (excluding holidays). The performance rate is the sum of the system-wide number of calls answered divided by the sum of the system-wide number of calls offered. Calls offered are calls received by the operating areas' Automatic Call Distributors. Calls abandoned are calls where the customer hangs up before the voice response unit ("VRU") responds or when the customer choses to speak to a representative but hangs up before contact is made. The number of calls answered is equal to the number of calls received minus the number of calls abandoned.

iv. "Satisfaction of Callers, Visitors, and Emergency Center Contacts" means the average of the satisfaction index ratings on the two semi-annual surveys (second and fourth quarter surveys) of callers, visitors, and emergency center contacts (electric portion only) conducted by Cambridge Research or other professional survey organization during each reporting year.

v. "Days to Complete (Initial Phase)" means, with respect to initial phase of work orders, the average number of business days from receipt of the customer's request for an electric non-vault service job by the Energy Services Department to issuance of a service layout to the customer for all initial phase jobs completed in the reporting month. The date of receipt of the customer's request will be the earlier of (1) the date on the Contractor Work Request Form or (2) the receipt date entered in the Commercial Operations Reporting System. The date of issuance of the service layout (Form 2-80) to the customer will be the earlier of (1) the date shown in the service date confirmation letter issued to the customer or (2) the completion date recorded in the Commercial Operations Reporting System.

vi. "Days to Complete (Final Phase)" means, with respect to final phase of work orders, on all non-vault electric final phase jobs completed in the reporting month, the average number of business days measured from receipt of a city certificate or completion of final inspection, whichever is later, to the date of final inspection displayed on the "field call sheets," which must be retained until staff has verified the reported performance level.

vii. "Percentage of Meters Read on Schedule" is determined by dividing the sum of actual meter readings obtained in the reporting month by the total number of meters scheduled to be read for all operating areas in the reporting month, as indicated in the Cycle Meter Reading Statistics Report. Actual meter readings are readings obtained from meter readers in the field, or through receipt of completed customer "drop cards" or through phoned-in readings from customers, either directly to a customer service representative or by message left on a VRU.

viii. "Bill Accuracy" means the number of bills not adjusted as a result of a Company error in the reporting month divided by the total number of bills rendered during the reporting month.

ix. "Electric Reliability" means the System Average Interruption Frequency Index ("SAIFI") and the Customer Average Interruption Duration Index ("CAIDI") for both the radial and network systems. Penalty and offset levels for electric servic reliability will be applied to each of these service measures.

Attachment

Customer Service and Electric Service Reliability Incentive
(threshold standards and penalty levels)

NEW AND INITIAL SERVICE JOBS
FINAL PHASE

Performance	Basis Points
* 10 days	0.000
10.0 - 10.9 days	-2.08
= ** 11.0 days	-4.17

INITIAL PHASE

Performance	Basis Points
*7.5 days	0.000
7.5 - 8.3 days	-2.08
=** 8.4 days	-4.17

SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX RADIAL SYSTEMS
(MINIMUM = 467)

Performance	Basis Points
* 350	2.5
350 - 537	0.000
** 537 (115% of minimum)	-2.5

CUSTOMER AVERAGE INTERRUPTION DURATION INDEX - RADIAL SYSTEMS
(MINIMUM = 1.58 HOURS)

Performance	Basis Points
*1.18 hours	2.5
1.18-1.81 hours	0.000
**1.81 hours (115% of minimum)	-2.5

METER READING
PERCENT READ ON CYCLE

Performance	Basis Points
**86.9	0.000
86.0 - 86.9	-2.08
=* 85.9	-4.17

TELEPHONE CALLS PERCENT
ANSWERED

Performance	Basis Points
**94.9	0.000
93.6 - 94.9	-2.08
=*93.5	-4.17

SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX NETWORK SYSTEMS
(MINIMUM = 11.78)

Performance	Basis Points
* 7.54	2.5
7.54 -13.55	0.000
** 13.55 (115% of minimum)	-2.5

CUSTOMER AVERAGE INTERRUPTION DURATION INDEX - NETWORK SYSTEMS
(MINIMUM = 3.05 HOURS)

Performance	Basis Points
*2.27 hours	2.5
2.27-3.5 hours	0.000
**3.5 hours (115% of minimum)	-2.5

* Less than
** Greater than

BILLING ACCURACY
% BILLS NOT ADJ. DUE TO CO. ERROR

Performance	Basis Points
**97.2	0.000
95.8 - 97.2	-2.08
=* 95.7%	-4.17

ROUTINE INVESTIGATIONS
PERCENT COMPLETED WITHIN 30 DAYS

Performance	Basis Points
**94.9	0.000
93.7 - 94.9	-2.08
=*93.6	-4.17

PSC CONTACTS
RATE PER 100,000 CUSTOMERS

Minimum Threshold	8.0
Acceptable Range	8.0 - 8.99
Maximum Threshold	8.99

CUSTOMER SATISFACTION SURVEYS
INDEX RATING (THRESHOLD LEVEL)

Emergency Calls (electric only)	80.5
Telephone Center Calls (non-emergency)	83.5
Service Center Visitors	84.2

* Less than
** Greater than

SUMMARY

New and Additional Service	
Initial Phase	-4.17
Final Phase	-4.17
Calls Answered	-4.17
Bill Accuracy	-4.17
Investigations	-4.17
Meter Reading	-4.17

Interruption Frequency Index	
Radial	+2.5/-2.5
Network	+2.5/-2.5
Duration Index	
Radial	+2.5/-2.5
Network	+2.5/-2.5

APPENDIX H

Corporate Structure

PROPOSED CORPORATE STRUCTURE

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                                ------------
                                HoldCo, Inc.
                                ------------
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 Con Edison      Esco, Inc.          Energy Supply, Inc   New Ventures, Inc.
(RegCo, Inc.)
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APPENDIX I

Appendix I

ACCOUNTING FOR AFFILIATE TRANSACTIONS

1.0 PURPOSE -- To provide accounting guidelines for the transfer of assets and employees and the provision of goods and services among the Holding Company and its affiliates.

2.0 APPLICATION -

- Corporate Accounting
  - Accounting Research and Procedures ("ARP")
  - Accounts Payable/Accounts Receivable ("AP/AR")
  - General Accounts ("GA")
- Treasury
- Real Estate
- Employee Relations
- Payroll
- All Other Applicable Organizations

3.0 PROCEDURES -

3.1 Background

On October 1, 1996, in the Competitive Opportunities proceeding, Con Edison submitted to the New York State Public Service Commission ("PSC") a petition which set forth a plan for corporate restructuring. Under this plan, Con Edison's regulated and unregulated businesses would be conducted through separate corporate entities which would be direct or indirect subsidiaries of a holding company. The holding company ("HoldCo") and its subsidiaries, including the regulated company ("RegCo") are considered affiliates for purposes of this procedure. The procedures outlined herein are designed to properly allocate costs among the HoldCo, the RegCo and unregulated affiliates.

3.2 Transfer of Assets and Employees

a. Transfer of Assets

The transition from the existing corporate structure to a holding company structure will require the transfer of assets from the RegCo to one or more of the affiliates.

Transfers of assets from the RegCo to an affiliate (other than generating stations whose value will be determined in the Section 70 proceeding) will be recorded at the higher of net book value or fair market value. Transfers of assets from an affiliate to the RegCo will be recorded on a basis not to exceed fair market value.

The fair market value of an asset will be determined by one of the following methods: (1) appraisals from qualified independent appraisers; or (2) bid and ask prices as published in newspapers or trade journals; or (3) on any other basis acceptable to both the RegCo and PSC Staff.

In order to ease administrative burdens for immaterial transactions, asset transfers may be recorded at net book value if this valuation is more easily determined than fair market value. In this case, immateriality is defined as an asset having an estimated fair market value or a net book value of $100,000 or less.

b. Transfer of Employees

For employees transferred from the RegCo to an unregulated subsidiary, the unregulated subsidiary will compensate the RegCo on a one-time basis, with an amount equal to 25% of the employee's prior year's annual salary except that there will be no compensation (i) for employees transferred to an unregulated subsidiary within six months of the date the HoldCo becomes the parent of the RegCo or the unregulated subsidiary to which the employee is transferred is formed, whichever is later; (ii) for the transfer of employees covered by a collective bargaining agreement; or (iii) where the employee's transfer is attributable to the transfer or reduction of a RegCo function or major asset (e.g., a generating station).

3.3 Provision of Goods and Services

a. Corporate operations under the new holding company structure will require the provision of goods and services from the RegCo and the HoldCo to one or more of the affiliates. The RegCo and the HoldCo will employ cost allocation procedures to ensure that all costs incurred on an affiliate's behalf are appropriately identified and assigned to the affiliate on a fully-loaded cost basis.

b. The cost allocations set forth in this procedure have been developed utilizing guidelines established by the (1) Securities and Exchange Commission's Staff Accounting Bulletin No. 55, "Allocation of Expenses and Related Disclosure in Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity"; and (2) Cost Accounting Standards Board's Standard 403, "Allocation of Home Office Expenses to Segments," Standard 410, "Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives," and Standard 418, "Allocation of Direct and Indirect Costs."

c. Expenses incurred by the RegCo and the HoldCo in support of an affiliate will be allocated directly to that affiliate to the maximum extent practicable.

Expenses that are not directly allocable will be accumulated into homogenous cost categories and allocated on a cost causative basis. If cost drivers cannot be determined, then allocations will be based upon reasonable and related proportional relationships (i.e., capitalization, number of employees, revenues, etc.).

d. The unregulated affiliates may provide services to the HoldCo and the RegCo. Any management, construction, engineering or similar contract between the RegCo and an affiliate and any contract for the purchase by the RegCo from an affiliate of electric energy or gas will be governed by PSL (S)110, subject to any applicable FERC requirements. All other goods and services will be provided to the RegCo at a price that will not be greater than fair market value, determined through reference within a specified market. In the absence of a specified market, fair market value may be determined, for example, by using independent qualified appraisers as described in paragraph 3.2a.

3.4 Costs Incurred by the RegCo on Behalf of Affiliates

a. Direct Cost Allocations

1. Salaries and labor related expenses incurred by the RegCo in support of affiliate activities will be directly assigned and billed to affiliates each month based on appropriate, fully costed allocation methods. RegCo corporate services (such as legal and accounting) will be billed on a fully-loaded cost basis while other RegCo services (such as engineering) will be billed on the higher of a fully-loaded cost basis plus a 10% additional charge or the price the RegCo charged a third party for such employee's services. (See Exhibit A.)

2. A cost allocation methodology has been developed for the following categories of RegCo personnel:

. Category I

Category I includes RegCo employees who serve as directors or officers of affiliates. Category I salaries and labor related expenses are charged to the affiliate based on an estimate of the percentage of time expected to be devoted to affiliate activities during the reporting period. (See Exhibit B.) This percentage will be reviewed and updated by ARP annually, or more frequently as changing circumstances warrant.

. Category II

Category II includes all other RegCo employees who provide services (both corporate and project specific) to affiliates. Category II salaries and labor related expenses are charged to the affiliate based on the number of hours devoted to affiliate activities as reported on the Time Record Form. (See Exhibits C, D, E and F.)

b. Cost Causative Allocations

1. Administrative support services incurred by the RegCo on behalf of the affiliates and which cannot be allocated directly will be billed to the affiliates each month based on appropriate cost causative allocations. These administrative support services may include, but are not limited to transactions processed by the following RegCo organizations: AP/AR, Employee Relations, Payroll, and Treasury.

2. The costs associated with these administrative support services will be allocated to the affiliates, as appropriate, based on one or a combination of the following measures of cost causation:

- the number of affiliate transactions processed in relation to the total number of transactions processed;
- the number of hours spent processing affiliate transactions in relation to the number of hours spent processing all transactions; or
- the value of affiliate transactions processed in relation to the value of all transactions processed.

c. Proportional and Other Allocations

1. The RegCo will bill affiliates for a proportionate share of corporate governance costs related to Board of Trustees and committee meetings, financial communications and investor relations, and public affairs. These costs will be billed to the affiliates based on the ratio of the affiliates' assets to total consolidated assets. This ratio will be updated each quarter at March 31, June 30, September 30, and December 31.

2. Affiliate employees may have the opportunity to participate in the benefit programs of the RegCo. These programs may include medical and hospitalization coverage as well as pension and other post retirement benefits. The RegCo will be reimbursed by the affiliates for costs associated with these benefits.

3. The RegCo, the HoldCo, and the unregulated affiliates may be covered by common property/casualty and other business insurance policies. The costs of such policies will be allocated among the RegCo, the HoldCo and the unregulated affiliates in accordance with the use or occupancy of such property.

3.5 Costs Incurred by the HoldCo on Behalf of Affiliates

a. Costs incurred by the HoldCo that are specifically attributable to the affiliates will be charged to the affiliates by direct cost allocations (as described in Section 3.4a) or cost causative allocations (as described in Section 3.4b).

b. Costs incurred by the HoldCo that are of a general corporate nature, such as organization costs and development stage activities, will be charged to the affiliates by proportional cost allocations (as described in Section 3.4c).

4.0 ADVICE: The Manager, ARP, will advise on this procedure.

5.0 EXHIBITS

Exhibit A-Allocation of Expenses Between the RegCo and Affiliates

Exhibit B-Allocation of Salaries and Other Expenses (Category I Employees)

Exhibit C-Time Record Form-Corporate Nature (Category II Employees)

Exhibit D-Allocation of Salaries and Other Expenses-Corporate Nature (Category II Employees)

Exhibit E-Time Record Form-Project Basis (Category II Employees)

Exhibit F-Allocation of Salaries and Other Expenses-Project Basis (Category II Employees)

EXHIBIT A

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

ALLOCATION OF EXPENSES BETWEEN THE REGCO AND AFFILIATES

Description of Expense	Basis for Allocation
1) Compensation	
A) Salaries	Category I Employees: Percentage of time devoted to affiliate operations. Category II Employees: Number of hours devoted to affiliate operations.
B) Other Compensation	Includes deferred compensation and imputed income and reimbursement for usage of Company cars. Allocated on same basis as salaries.
C) Support Services	Allocated on same basis as salaries of individuals for whom the support personnel work.
D) Fringe Benefits	RegCo fringe benefit rate to be applied to all straight-time labor.
E) Administrative and General Overhead	RegCo Administrative and General rate to be applied to all straight time labor.
2) Employee Expenses	
A) Office Space	Charged at the market rate per square foot, including utilities and building service maintenance (as provided by the Real Estate Department); multiplied by the space utilized (as provided by Facilities Management).
B) Office Supplies & Expenses (excluding expenses directly assignable to the affiliate or included in the office space charge)	Overhead percentage to be applied to total salary and other compensation (based on RegCo ratio of Office Supplies and Expenses-PSC Account 921, less Building Service costs and

		Trustee and Committee Meeting Fees to Administrative and General Salaries).
3)	Corporate Governance Expenses	Ratio of affiliate assets to total consolidated assets.
4)	Other Expenses Directly Assignable to Affiliates	These costs will be charged to an affiliate account and paid directly by the affiliate.

EXHIBIT B

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

ALLOCATION OF SALARIES AND OTHER EXPENSES

CATEGORY I EMPLOYEES

NAME: (I)	JOANNE RILEY	CATEGORY:	DIRECTOR
		ANNIVERSARY:	7/14/9x

COMPENSATION

SALARY, INCLUDING DEFERRED COMPENSATION	$20,000
SALARY OF SUPPORT PERSONNEL (A)	5,000
OTHER COMPENSATION	250
TOTAL SALARY & OTHER COMPENSATION	$25,250
FRINGE BENEFITS AND A&G OVERHEAD (41.67% x TOTAL SALARY & OTHER COMPENSATION)	10,522
TOTAL SALARY, COMPENSATION & BENEFITS	$35,772
OFFICE SUPPLIES & EXPENSES	4,641
OFFICE SPACE ALLOCATIONS (958 X SQ.FT. x $27 PER SQ. FT./12)	2,156
TOTAL - FULLY-LOADED COST	$42,569
AFFILIATE ALLOCATION (TOTAL x 3%)	$ 1,277

SUPPORT SERVICES:

(A)	NAME	ANNIVERSARY	POSITION	SALARY
	T. CARR	8/1/9x	SECRETARY	$ 5,000

EXHIBIT C

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

TIME RECORD FORM

CATEGORY II EMPLOYEES

(INCLUDING SUPPORT SERVICES)

Name: Joyce Forman Organization: ARP

Employee Number: 75000 Department: Corporate Accounting

Roll Number: 93804

Date Service Performed	Description of Activity	Time: Hours	Time: Quarters
1/1/9x to 1/31/9x	Prepare & update Workpapers, journal		
	entries, ledgers, financial statements;	40	0
	consult affiliate personnel		
	Total No. of Hours	40	0

Support Services

Name: None

Position:

Employee Number:

Roll Number:

Date Service Performed	Description of Activity	Time: Hours	Time: Quarters
	Total No. of Hours		

Prepared By: ______________________

Approved By: ______________________

EXHIBIT D

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

ALLOCATION OF SALARIES AND OTHER EXPENSES

CATEGORY II EMPLOYEES

NAME: JOYCE FORMAN

CATEGORY: OTHER (II)
ANNIVERSARY: 2/1/9x

COMPENSATION	
SALARY	$ 8,000
SALARY OF SUPPORT PERSONNEL (A)	0
OTHER COMPENSATION	200
TOTAL SALARY & OTHER COMPENSATION	$ 8,200
FRINGE BENEFITS AND A&G OVERHEAD (41.67% x TOTAL SALARY & OTHER COMPENSATION)	3,417
TOTAL SALARY, COMPENSATION & BENEFITS	$11,617
OFFICE SUPPLIES & EXPENSES	109
OFFICE SPACE ALLOCATIONS (225x SQ.FT. x $27 PER SQ. FT./12)	506
TOTAL - FULLY-LOADED COST	$12,232
AFFILIATE ALLOCATION (TOTAL x 40/174 hrs)	$ 2,812

SUPPORT SERVICES:

(A)	NAME	ANNIVERSARY	POSITION	SALARY

EXHIBIT E

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

TIME RECORD FORM

CATEGORY II EMPLOYEES

(INCLUDING SUPPORT SERVICES)

Name: John King

Organization: Central Operations

Employee Number: 76000

Department: Engineering

Roll Number: 00000

Date Service Performed	Description of Activity	Time: Hours	Time: Quarters
1/1/9x to 1/31/9x	Prepare Engineering specifications at the request of affiliate X for job XYZ	40	0
	Total No. of Hours	40	0

Support Services

Name: None

Position: ______________________

Employee Number: ______________________

Roll Number: ______________________

Date Service Performed	Description of Activity	Time: Hours	Time: Quarters
	Total No. of Hours		

Prepared By: ______________________

Approved By: ______________________

EXHIBIT F

CONSOLIDATED EDISON COMPANY OF NEW YORK, INC.

ALLOCATION OF SALARIES AND OTHER EXPENSES

CATEGORY II EMPLOYEES

NAME: John King

CATEGORY: OTHER (II)
ANNIVERSARY: 2/1/9x

COMPENSATION	
SALARY	$ 8,000
SALARY OF SUPPORT PERSONNEL (A)	0
OTHER COMPENSATION	200
TOTAL SALARY & OTHER COMPENSATION	$ 8,200
FRINGE BENEFITS AND A&G OVERHEAD (41.67% x TOTAL SALARY & OTHER COMPENSATION)	3,417
TOTAL SALARY, COMPENSATION & BENEFITS	$11,617
OFFICE SUPPLIES & EXPENSES	109
OFFICE SPACE ALLOCATIONS (225x SQ.FT. x $27 PER SQ. FT./12)	506
TOTAL - FULLY-LOADED COST	$12,232
5% Add-on	612
Total	$12,844
AFFILIATE ALLOCATION (TOTAL x 40/174 hrs)	$ 2,953

SUPPORT SERVICES:

(A)	NAME	ANNIVERSARY	POSITION	SALARY

APPENDIX J

APPENDIX J

Privileged Information

Nothing in this Agreement requires or will be construed to require the RegCo, the HoldCo or an unregulated subsidiary to provide Staff access to, or to make disclosure to Staff, of any information as to which the entity in possession of such information would be entitled to assert a legal privilege, such as the attorney-client privilege, if, either (i) the privilege could be asserted against Staff pursuant to CPLR 4503, CPLR 3101 (or any other applicable statute or constitution) in a judicial proceeding, action, trial or hearing, or (ii) providing Staff access to or making disclosure of such information to Staff would impair in any manner the right of the entity in possession of such information to assert such privilege against third parties.

If Staff seeks access to or disclosure of any information that either the RegCo, the HoldCo or an unregulated subsidiary believe is exempt from access or disclosure under the terms of this Agreement, counsel for the entity asserting such privilege will so inform Staff, detailing, to the extent practical without destroying the privilege, the reasons why the privilege is being claimed in sufficient detail to permit Staff to determine whether or not to dispute the claim of privilege. If Staff decides to dispute such claim, it may request that an assigned administrative law judge conduct an in camera review of such information to determine whether it is in fact exempt from access or disclosure under the terms of this section, which disclosure shall not be deemed waiver of the privilege. Such determination will be subject to review by the Commission and, if necessary, judicial review.

Confidentiality of Records

The HoldCo and the RegCo shall designate as confidential any non-public information to or of which Staff requests access or disclosure, and which the HoldCo, the RegCo or an unregulated subsidiary believe is entitled to be treated as a trade secret. Any party will have the right to contest the trade secret nature of such designated confidential information.

Each member of Staff who is accorded access to, or to whom disclosure is made of, designated confidential portions of books and records, financial information, contracts, minutes, memoranda, business plans, and the like, will agree to maintain such information as confidential, other than information that previously has been made public. For the purposes of this Agreement, "information that previously has been made public" will mean information that either (i) has been disclosed by either the HoldCo, the RegCo or any unregulated subsidiary in financial or other literature to the financial community or to the public at large, (ii) appears in documents contained in the public files of a local, state or federal agency, body or court and which has not been accorded trade secret protection, or (iii) information that otherwise is in the public domain.

In the event that Staff receives any information designated as confidential pursuant to the procedures described in this settlement agreement and desires to use such information in a litigated proceeding before the Commission, Staff will first notify counsel for the RegCo and the HoldCo and the unregulated subsidiary, if applicable, of the nature of such information as well as its intention to use such information in such proceeding and afford the RegCo, the unregulated subsidiary and/or the HoldCo the opportunity to apply to the administrative law judge presiding over such proceeding within ten (10) business days for a ruling designed to maintain the confidentiality of such information under Part 6-1 of the Commission's Rules of Procedure (16 NYCRR). Staff and any other party may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

In the event that a member of Staff receives any information designated as confidential pursuant to the procedures described in this settlement agreement and desires to use or refer to such information in a memorandum or other document which may become an "agency record" as that term is defined in the New York Freedom of Information Law, Staff first shall notify the Company Liaisons of the nature of such information as well as its intended use, and afford the RegCo, the unregulated subsidiary, if applicable, and/or the HoldCo the opportunity to apply to the Commission under Part 6-1 of the Commission's Rules of Procedure within ten (10) business days for a protective order designed to maintain the confidentiality of such information. Staff and any other party may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

APPENDIX K

APPENDIX K

Con Edison
S.C. No. 11 Buy-Back Rates
Applicable to Transmission Level Sellers
By Month and Period
($/MWh)

	ON PEAK	SHOULDER	OFF-PEAK
Apr-98	25.54	-	18.69
May-98	25.58	-	18.95
June-98	27.20	23.18	20.32
Jul-98	31.19	29.05	19.76
Aug-98	33.09	28.72	19.92
Sep-98	28.13	26.40	18.72
Oct-98	23.38	-	18.34
Nov-98	27.81	-	22.78
Dec-98	35.19	-	26.51
Jan-99	36.73	-	28.76
Feb-99	32.92	-	25.89
Mar-99	32.07	-	24.33

EXHIBIT K-2

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 96-E-0900 - In the Matter of Orange and Rockland Utilities, Inc.'s Plans for Electric Rate/Restructuring Pursuant to Opinion No. 96-12.

Electric Rate and
Restructuring Plan

Dated: November 6, 1997
Albany, New York

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

- --

Case 96-E-0900 - In the Matter of Orange and Rockland Utilities, Inc.'s Plans for Electric Rate/Restructuring Pursuant to Opinion No. 96-12.

- --

Electric Rate and Restructuring Plan

Overview of O&R Plan

This Electric Rate and Restructuring Plan (the "Plan") has been developed with three major goals in mind:

- Improve customer service and customer choice while ameliorating current price levels and introducing competition;

- Promote jobs and economic development in the region by significantly reducing industrial rates immediately;

- Continue steps taken in prior years to reduce rates for all other customers by further reducing their rates in 1997 and 1998 (with first claim going to non-Large Industrial Customers for benefits produced by the customers' share of net gains on the disposition of generating assets/1/), in order to reduce the impact of the cost of electricity on the budgets of all customers other than Large Industrial customers.

The signatories to this Plan view the accomplishment of these goals as essential to the future welfare of the region. Integral to this Plan is the principle that these economic goals can be pursued successfully while maintaining reliability, quality customer service and protection; maintaining essential environmental programs; and seeking ways to reduce the effects of energy prices on low-income customers.

Upon Commission approval, this Plan will further reduce rates for all O&R ratepayers. In the past two years, residential ratepayers have already experienced rate decreases, on average, of 4%. Commercial and industrial classes have experienced decreases between 4% and 14%.

Rate Plan

- -----------------

/1/ Hereinafter referred to as "Generating Assets" which include all units at Lovett and Bowline Generating stations, the Company's hydro-electric facilities and gas turbines.

- The Plan covers a four-year period.

- Large Industrial Customers have the opportunity to realize an average electric price of six cents per kWh beginning with the effective date of new rates. The Peak Activated Rate will be made optional.

- The rates of all other customers will be reduced in the first year by 1.09% and by another 1.0% effective one year later. Gross Receipts Tax Reform will result in additional savings./2/ Additional benefits to all other customers, up to the equivalent of an overall 5% rate reduction, are possible should sufficient net gains on the sale of Generating Assets be realized.

- The cumulative rate reductions over the four-year period are approximately $32.4 million. Additional opportunities for savings for all customers will become available with the expansion of the PowerPick(TM) program and the Gross Receipts Tax Reform./3/

- For each of the four rate years that this Plan is in effect, earnings on regulated electric operations in excess of 11.4% in New York will be shared with 75% being used to offset Commission-approved deferrals or otherwise inure to the benefit of O&R customers; and 25% being retained by O&R's shareholders.

- A flexible rate tariff will be designed and filed with the Commission. It will provide for the possibility of rate discounts for commercial and industrial customers who are currently taking service and who are at serious risk of relocating or closing their facilities.

Transition to Retail Access

- Full retail access to a competitive energy and capacity market will be available on May 1, 1999 for all customers.

- The existing PowerPick(TM) program (choice of purchasing energy from alternate suppliers) will be expanded to all customers on May 1, 1998. For Large Industrial Customers, the PowerPick(TM) program will be expanded at the time of Commission approval of the Plan.

- ------------------

/2/ Additional savings of about 1% for all customers including Large Industrial Customers are expected from the recent passage of Gross Receipts Tax Reform.

/3/ The $32.4 million does not include: 1) an opportunity for Large Industrial Customers to realize additional savings of about 3 1/2% in annual bill reductions from the expansion of the PowerPick(TM) program, 2) an opportunity for all customers other than Large Industrial Customers to realize benefits over the term of the Plan of about 2% in annual bill reductions beginning with the expansion of PowerPick(TM) in May 1998, and 3) the Gross Receipts Tax Reform. The PowerPick(TM) Program is intended to refer to the "Retail Access Pilot Program" as described in Appendix D to the Settlement approved by the Commission by Order Concerning Settlement Agreements issued May 3, 1996, in Cases 95-E-0491, 93-M-0849 and 93-G-0779.

. O&R will file proposed unbundled rates for electric service one month after Commission approval of the Plan.

Divestiture and Corporate Structure

. Upon Commission approval of the Plan, the Company will immediately commence a process to auction all of its electric Generating Assets. The Company will seek to restructure itself as a Registered Holding company to create structurally separate subsidiaries such as one or more unregulated Energy Services companies ("ESCOs"), and a regulated Transmission and Distribution company or Delivery company.

. Upon commencement of retail access, the Delivery company will provide basic energy services, including energy, capacity, ancillary services, metering and billing within the service territory.

. Unless and until relieved of the obligation, the Delivery company will be the Provider of Last Resort for all customers choosing to continue to purchase "packaged" energy services from it, for those customers who do not choose an energy provider, and for those customers who purchase from other providers but who later return as customers purchasing power from the Delivery company. The parties have agreed to study transferring this obligation to the competitive market and will present recommendations to the Commission by May 1, 1999.

. After issuance of the Staff report on metering issues ordered by the Commission in Opinion No. 97-13 (August 1, 1997), and before March 31, 1999, O&R will submit a plan regarding the provision of competitive metering services by December 31, 1999.

. Other companies will be able to enter into the market for providing billing services to Orange and Rockland's Delivery company customers consistent with the manner and in accordance with the schedule prescribed by the Commission.

Allocation of Net Book Gains and Losses from
the Disposition of Generating Assets

. The New York share of combined net book gains/losses from the divestiture of the Generating Assets shall be allocated on the following basis:/4/

  . If the Company selects a winning bidder prior to May 1, 1999, any gains shall be allocated between shareholders and customers on a 25/75 basis and any losses shall be allocated between shareholders and customers on a 5/95 basis.

- -------------------

/4/ 100% of the net book gains/losses shall be allocated among New York, New Jersey and Pennsylvania in accordance with the then-effective FERC-approved Power Supply Agreements. The sharing percentages (customers/shareholders) shall be applied to New York's share of the net book gains/losses. The parties intend that the allocation of the net book gains/losses among the three states be determined by FERC based upon appropriate consideration of the positions of the regulatory authorities in each state.

- If the Company selects a winning bidder on or after May 1, 1999, any gains or losses shall be allocated between shareholders and customers on a 20/80 basis.

- There shall be a cap of $20 million on the New York share of net book gains allocated to shareholders as a result of the divestiture of the Generating Assets.

- The Company will recover in full its Commission-approved regulatory assets and the remaining commitments to purchases from non-utility generators.

Performance Standards

- The Performance Standards, which were agreed to in the Company's most recent case, will be continued. There are five areas: three focus on customer service standards and two on reliability standards.

- If the Company fails to meet the target levels for these performance standards, there will be a downward adjustment of up to 25 basis points to the 11.4% return on equity sharing threshold.

Low Income Program

- A Low Income Customer Assistance Program will be conducted for a four-year period for approximately 400 customers in the City of Port Jervis. The Program will address energy efficiency, payment patterns, and/or arrears forgiveness. Energy efficiency measures, including refrigerator replacement, will be the first priority for expenditures.

- The Company will allocate up to $200,000 of DSM overcollections to support the development of a pilot program that would aggregate low income customers.

Customer Outreach and Education

- In conjunction with the parties, the Company will continue to develop and implement programs and materials that will aid its customers in understanding the changes in the electric industry that are coming and the nature of the services that customers can expect to receive from O&R in the future. The overall goals are to enable customers, particularly small customers, to make informed choices about utility service while understanding their rights and responsibilities as utility customers. These efforts will be complemented by those of participating energy providers.

- Up to $1 million of the present value of the fourth year equivalent of SBC funding levels will be spent on educating the Company's Residential and Commercial customers about electric competition. The Staff will develop a proposal to implement this education program and circulate it to the active parties by December 31, 1997.

Public Interest Program

. Public interest programs will be continued through a competitively neutral Systems Benefit Charge.

This summary is intended to be a general description of the terms of the Plan. The complete text of the Plan will control in the event of any conflict.

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Introduction

On May 20, 1996, the New York State Public Service Commission (the "Commission") issued its Opinion and Order Regarding Competitive Opportunities for Electric Service, Opinion No. 96-12 in Case 94-E-0952 (the "Competitive Opportunities Proceeding").

In Opinion No. 96-12 (at 24-25), the Commission articulated a vision for the electric utility industry that includes the following market characteristics:

1. effective competition in the generation and energy services sectors;

2. reduced prices resulting in improved economic development for the State as a whole;

3. increased opportunities for consumers to choose suppliers and service companies;

4. a system operator that treats all participants fairly and ensures reliable service;

5. a provider of last resort for all consumers and the continuation of a means to fund necessary public policy programs;

6. ample and accurate information for consumers to use in making informed decisions; and

7. the availability of information that permits adequate oversight of the market to ensure its fair operation.

The Commission directed Orange and Rockland Utilities, Inc. ("Orange and Rockland" "O&R" or "the Company") and four other electric utilities to file a rate/restructuring plan consistent with the Commission's policy and vision for increased competition. Id., at 74-75. The plans to be filed were to address such matters as the structure of the utility both in the short and long term, a schedule for transition to retail access for all of the utility's customers and a rate plan to be effective for a significant portion of the transition.

The Commission directed the utilities to collaborate with the Staff and other interested parties in developing a number of technical studies, undertaking public informational and educational forums and determining what Federal Energy Regulatory Commission ("FERC") filings were necessary to implement the Independent System Operator ("ISO"), Power Exchange ("PE") and Reliability Council.

On October 1, 1996, Orange and Rockland filed a rate/restructuring plan in response to Opinion No. 96-12. The Company's filing included a rate plan that would go beyond the third year of the rate settlement approved in Case 95-E-0491, a schedule for expanding its PowerPick(TM) Program and introducing retail access to all customers, a plan to separate the generation function from the regulated delivery function and a means of addressing the strandable cost issue.

By its Order Establishing Procedures and Schedule dated October 9, 1996, the Commission initiated Case 96-E-0900 to examine Orange and Rockland's October 1, 1996 filing. The Commission established a procedural schedule, including a 90-day negotiation period during which the parties were strongly encouraged to reach a negotiated settlement instead of pursuing a litigated outcome. To facilitate these negotiations, the Commission's Order of October 9, 1996, waived certain settlement guidelines established in Case 90-M-0255, Settlement and Stipulation Agreements, Opinion No. 92-2 (March 24, 1992).

Between October 29 and November 7, 1996, Orange and Rockland and Staff hosted four technical meetings with the intervenors in this case. The Company provided detailed presentations on its October 1, 1996 filing, furnished supporting data and responded to numerous questions of the parties.

Preliminary settlement negotiations were conducted between the Company and Staff during January and February 1997. After agreement in principle was attained, the negotiations included the Consumer Protection Board, the Industrial Energy Users Association and other parties. By notices issued December 19, 1996, January 9, 1997, February 13, 1997, February 26, 1997, and March 6, 1997, the Secretary of the Commission extended the 90-day negotiation period established in the Order of October 9, 1996 to March 25, 1997.

On February 28, 1997, the Company and Staff informed the active parties that they had made significant progress in resolving the issues in this proceeding and a summary of settlement terms was circulated to the active parties. The parties were invited to attend settlement negotiations on March 4, 1997, in order to discuss the summary of settlement terms and indicate their willingness to participate in the preparation of a detailed settlement proposal for submission to the Commission. Subsequent meetings of the active parties took place on March 11, 18 and 24, 1997, to review drafts of a detailed settlement proposal.

A Settlement Agreement was signed on March 25, 1997. Evidence relating to the terms of the proposed Settlement was submitted by the Company, the Staff and several other parties and hearings were held in Albany on May 19, 20 and 22, 1997, before Administrative Law Judge Stewart C. Boschwitz. Judge Boschwitz' Recommended Decision was issued on July 2, 1997, and after briefing by the parties was considered by the Commission at its session on September 10, 1997. At that session, the Commission expressed concerns about the terms of the Settlement Agreement and directed the parties to resume negotiations to address those concerns. The parties met on September 15, 16 and 22 and October 15 and 30, 1997, participated in several conference calls and renegotiated a number of Settlement terms consistent with the concerns expressed by the Commission. This Plan was signed on November 6, 1997, by the Company, the Staff, the New York State Department of Economic Development, the Industrial Energy Users Association, the National Association of Energy Service Companies, The Joint Supporters, the Independent Power Producers of New York, Inc., and Pace Energy Project. This Plan has been reviewed and approved by Orange and Rockland's Board of Directors as submitted at the Board meeting on November 6, 1997.

The term of this Plan is four years from the date of the effectiveness of new rates. The times for various actions to be accomplished by the various parties are set forth on Appendix A.

Terms of Plan

I. Rate Plan

Orange and Rockland shall implement a rate plan for the four years beginning with the effectiveness of new rates, which shall include the following provisions.

A. Electric Price Reductions

- In the event that the Commission approves the terms of this Plan on November 25, 1997, new rates shall become effective on November 26, 1997.

- Large Industrial Customers

  Large Industrial Customers/5/ will be provided the opportunity to realize an average electric price of six cents per kWh beginning with the effectiveness of new rates. This electric price reduction opportunity is to be achieved through a combination of energy choice (i.e., PowerPick(TM)) and rate reductions (i.e., one-time credits and base rate reductions).

	Cents/ kWh	Revenue Equivalent ($000)
Average Price	6.82	$31,661
Electric Price Reductions:		
PowerPick(TM) Savings Opportunity/6/	-.24	$ 1,108

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/5/ Large Industrial Customers are all customers in the existing S.C.9 class whose facilities are classified by the Standard Industrial Manual (1987 ed. or supplement thereto) as Mining [Division B] or Manufacturing [Division D] and where 60% or more of the account's electric usage is used directly for manufacturing and/or mining per the Standard Industrial Codes ("SIC") codes set forth in Appendix B.

/6/ The PowerPick(TM) savings opportunity is based on an estimate and represents energy-only choice for all energy requirements of the Large Industrial Customers. The Company will

(Footnote continued on next page)

Scheduled Rate Reductions	-.58	2,707
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Total	-.82	$ 3,815
Average Price Opportunity	6.00	$27,846

. All Other Customers

Reduce electric rates, through one-time credits and base rate reductions, by 1.09% at the time of the effectiveness of new rates, and an additional 1% effective one year later.

Classification	Revenue Levels @ May 3, 1996 Rates $000	Rate Reductions Year 1 (1.09%) $000	Rate Reductions Year 2 (1%) $000	Cumulative Total $000
Large Commercial	$ 25,600	-$ 280	-$ 256	-$ 536
Small C&I	120,298	- 1,317	- 1,203	- 2,520
Residential	146,023	- 1,599	- 1,460	- 3,059
	--------	---------	---------	---------
Total	$291,921	-$ 3,196	-$ 2,919	-$ 6,115

. Cumulative Price Reduction Summary ($000)

	Year 1	Year 2	Year 3	Year 4	Total
Lg. Industrial	-$ 2,707	-$ 2,707	-$ 2,707	-$ 2,707	
All Other	- 3,196	- 6,115	- 6,115	- 6,115	
	---------	---------	---------	---------	
Sub.Total	-$ 5,903	-$ 8,822	-$ 8,822	-$ 8,822	-$ 32,369
Lg. Industrial PowerPick(TM)	-$ 1,108	-$ 1,108	-$ 1,108	-$ 1,108	-$ 4,432
	---------	---------	---------	---------	---------
Total	-$ 7,011	-$ 9,930	-$ 9,930	-$ 9,930	$ 36,801

(Footnote continued from previous page)

permit all Large Industrial Customers to participate in the PowerPick(TM) program (energy-only) for all of their energy requirements at the time of the effectiveness of new rates. Guidelines for eligibility are set forth in Appendix C.

. Sources of Price Reductions ($000)/7/

	Year 1	Year 2	Year 3	Year 4	Total
PowerPick/8/	-$1,108	-$1,108	-$1,108	-$1,108	
Deferred Credits	- 4,271	- 3,256	- 3,256	0	
Expired Surcharge	- 498	- 498	- 1,849	- 7,150	
Cost Reductions	- 1,342	- 2,076	- 1,672	- 1,672	
Total	-$7,219	-$6,938	-$7,885	-$9,930	-$31,972

The sources of the above price reductions underlie the agreed-upon changes in rate levels./9/ The main objectives of this component of the Plan are 1) to achieve price reductions to Large Industrial Customers so that they have a reasonable opportunity starting in the first rate year to reduce their average price to 6 cents per kWh; and 2) to reduce all other customers' average rates by 1.09% in the first rate year, and by another 1% effective one year later. For Large Industrial Customers these price reduction opportunities are intended to remain in effect through the four-year term of this Plan; the 1.09% reduction for all other customers is intended to remain in place for the first rate year and the 2.09% reduction for all other customers is intended to remain in place through the end of the four-year term. It is the intention of the parties that cumulative rate reductions over the four-year period will equal approximately $32.4/10/ million. The parties acknowledge that the form of any price reduction provided for herein will vary among permanent base rate reductions and temporary credits which will expire when the related funding source is depleted.

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/7/ A detailed schedule of each source of price reductions is set forth in Appendix D.

/8/ Estimated savings for Large Industrial Customers are based on their participation in the PowerPick(TM) program for all of their energy requirements. For all other customers they are based on such customers being provided the opportunity to choose alternative providers under the PowerPick(TM) program effective May 1, 1998. In order to provide the opportunity to achieve the 6c/kWh rate for the first rate year, the Company will permit all Large Industrial Customers to participate in the PowerPick(TM) program (energy-only) at the time of the effectiveness of new rates. "Dump" energy losses incurred as a result of the expansion of the PowerPick(TM) program prior to the implementation of wholesale competition due to system load falling below minimum load requirements of the Company's generating plants will not be recoverable through the FCA.

/9/ The parties acknowledge that the difference between the cumulative price reductions and the sources of price reductions is $4,829,000 and that this Plan does not identify the sources of such price reductions.

/10/ This amount does not reflect the potential net book gain/loss associated with the divestiture of the Generating Assets. The $32.4 million does not include: 1) an opportunity for Large Industrial Customers to realize additional savings of about 3 1/2% in annual bill reductions from the expansion of the PowerPick(TM) program, 2) an opportunity for all customers other than Large Industrial Customers to realize benefits over the term of the Plan of about 2% in annual bill reductions beginning with the expansion of PowerPick(TM) in May 1998, and 3) the Gross Receipts Tax Reform.

After rates are unbundled in accordance with the provisions of Section II.E herein, the cost of Power Supply will not be included in rates for Delivery services. Delivery service customers will be charged for authorized services at the regulated rates approved by the Commission as a result of the Company's unbundling filing. Delivery service customers will be billed for power supply at market prices as charged by the customers' energy supplier plus any amounts necessary to cover stranded costs recoverable in accordance with Section III herein. It is expressly understood that the tariff reductions provided for in this Plan will be reflected in the unbundled Delivery rates and that the sources supporting these reductions will likewise be reflected in unbundled Delivery rates.

All parties acknowledge that there is no guarantee that the Company will realize a net book gain from the sale of the Generating Assets. In the event that the Company does realize a net book gain from the sale of the Generating Assets, the Company will file a plan with the Commission that will return the customers' share of such net gain over an appropriate period of time consistent with the principle of maintaining rate stability. These benefits will first be provided to customers other than Large Industrial Customers so that "All Other" customers could receive the annual equivalent of an additional 2.91% rate reduction that, when combined with the rate reduction of 2.09%, yields the annual equivalent of a 5% rate reduction. The parties acknowledge that such net gain, if any, may not be sufficient to provide an amount of customer benefits necessary to produce the full 2.91% equivalent rate reduction. Should the net gain be sufficient to provide customer benefits greater than the 2.91% equivalent rate reduction, the Company will propose for Commission approval the manner in which such additional benefits will be allocated among customer classes.

In the event the Company realizes a net book loss from the sale of the Generating Assets, the customers' share shall be recovered through a non-bypassable wires charge component of regulated delivery company rates over an appropriate period of time. The Company shall submit a proposal to recover the customers' share. Staff and other parties shall submit comments on the Company's proposal within 60 days after receiving such proposal. The Commission shall consider the Company's proposal expeditiously. The parties agree that the customers' share of any net book losses shall be recovered in rates as soon as practicable consistent with rate stability considerations.

. Total Rate Reductions Since 1995 ($000)

The rate plan provides for the further rate reductions for all O&R customers. Since May 1995, customers have already been provided significant rate reductions. Total electric rate reductions from May 1995 through 1998 and the annual benefit of the Gross Receipts Tax Reform once fully phased in by January 1, 2000, are as follows:

	1995-96	1997	1998	Total	GRT Reform
Large Industrial	$ (4,702)	$(2,707)	$ --	$ (7,409)	$
All Other Customers	$(17,241)	$(3,196)	$(2,919)	$(23,356)	
	--------	-------	-------	--------	

Total	$(21,943)	$(5,903)	$(2,919)	$(30,765)	$(3,315)
	-6.4%	-1.8%	-0.9%	-9.0%	-1.0%

B. Return on Equity Sharing

For each of the four rate years, earnings in excess of 11.4% on regulated New York electric operations will be shared as follows:

- 75% to be used to offset Commission-approved deferrals or otherwise inure to the benefit of customers;

- 25% to be credited to Orange and Rockland's shareholders.

To the extent that the Rate Settlement approved in Case 95-E-0491 provides for an adjustment to the calculation of the annual earnings for the earnings sharing mechanism incorporated in such Rate Settlement to take into account the levelized rate reduction, a similar adjustment will be permitted from the effective date of this Plan until April 30, 1999. Additional adjustments to the calculation of the actual return on equity set forth in the Rate Settlement will include:

- Any earned incentive or penalty from the partial pass-through Fuel Cost Adjustment (while still in effect), off-system sales imputations, property tax refunds, or other incentive or penalty mechanism made effective during the three-year rate period pursuant to an Order of the Commission.

- Revenues associated with the equalization of the return on equity provided by the Power Supply Agreements as approved by the Federal Energy Regulatory Commission and the 10.4% return on equity provided for in the Commission's Order Approving Settlement Agreements in Cases 95-E-0491, 89-E-0175 and 93-M-0849 (May 3, 1996).

Upon the implementation of full retail access, the return on equity will be calculated based on Delivery company operations excluding the assets, revenues and operating costs associated with generation.

The Company and Staff acknowledge that this Plan is intended to finally resolve a number of accounting and rate matters currently pending before the Commission, including calculations of earnings for any prior period (in accordance with the settlement approved by Commission Order Approving Settlement Agreements in Cases 95-E-0491, 89-E-0175 and 93-M-0849 (May 3, 1996)), deferral accounting petitions and compliance filings or studies submitted in accordance with the settlement approved by the Commission in Case 95-E-0491. These resolved matters include:

1. Earnings calculations (95-E-0491, 89-E-175 and 93-M-0849);

2. Accounting procedures and journal entries (95-E-0491);

3. Low income program;

4. Labor panel recommendations;/11/

5. Property tax benefits associated with March 1996 Special Franchise Tax Settlement;

6. The filing of studies associated with bus bar costs, transfer gas mark-up and cost allocation; and

7. DSM performance mechanism.

Pending the completion of Staff's analysis, the Company will be authorized to defer a maximum of $2,985,000 of expenditures it incurred to terminate the Company's contract for coal supply with Pittston Coal Sales Corporation (Case 96-M-1145) provided those expenditures can be matched to verifiable savings flowed through to customers. This deferral and any regulatory assets approved by the Commission during the term of this Plan may be deferred and written off against reductions in NUG contract purchased power costs below those reflected in rates, or any source of price reductions set forth in Appendix D when the total of such sources exceeds the totals shown on page 6 under "Sources of Price Reductions" for any of the four 12-month periods shown.

The Company will be given 60 days after the end of the relevant time period to submit to the Director of Accounting and Finance of the Department of Public Service any earnings calculations required herein. These calculations will be submitted in summary form to other requesting parties at the same time that the detailed calculations are provided to Staff. Other parties may request the detailed calculations subject to appropriate confidentiality protections. Staff will be given 60 days to review any such calculations and if the Company receives no written objections or comments from Staff or other parties, the Company's calculations will be deemed approved. Written objections or comments, if not resolved within 30 days from the date of receipt, shall be submitted to the Commission for a determination. Staff and the Company agree that any commercially sensitive data underlying any calculations submitted in accordance with this Plan will be given protection against disclosure as described in Appendix E.

C. Performance Standards

. The Company agrees to continue to operate under the performance standards incorporated in the Commission-approved settlement in Case 95-E-0491. These performance standards are set forth in detail in Appendix F and include customer service standards and reliability standards.

. The Company agrees to a maximum downward adjustment to the return on equity sharing threshold of 25 basis points for failure to meet the performance standards each year (five basis points per performance standard).

D. Rate Design

/11/ Subject to Staff field verification.

. Consistent with the Commission's order in Case 97-E-1795, the Company will submit a plan to phase out mandatory Time-of-Use Residential Rates for customers presently taking such service. No new residential customers will be added as mandatory Time-of-Use Customers. The Company will, however, continue to offer Time-of-Use rates to Residential customers on an optional basis. The Company shall be permitted to defer any revenue shortfalls that may result from changing the mandatory nature of this rate.

. The Company will offer the Peak Activated Rate ("PAR") for the SC-9 and Large Industrial Customers on an optional basis.

. The Company will eliminate the mandatory nature of the PAR by applying the rate decrease proposed for this customer class in this Plan. Should that decrease not cover the full elimination of the PAR, the Company shall make such related rate design changes as are required to ensure revenue neutrality.

. In response to requests from Staff and other signatory parties, the Company did not implement the PAR provisions of the existing SC-9 tariffs in 1997. Because the rate reductions and associated new rate design provisions of this Plan were not made effective until after the end of the PAR period, September 30, 1997, the Company deferred the resulting revenue requirement shortfall for the period June 1, 1997, through September 30, 1997. The parties agree that this treatment is appropriate.

E. Accounting Provisions

Orange and Rockland will defer all prudent and verifiable incremental costs associated with divesting its Generating Assets, such as developing an auction plan, obtaining approval of the plan, conducting the auction, transferring title to the Generating Assets, and any related environmental, transaction, financial and litigation costs. In addition, the parties recognize that all reasonable employee-related transition costs, including retraining, outplacement, severance, early retirement and employee retention programs should be recovered from customers. The Company will defer up to $7.5 million (New York electric share) of prudent and verifiable non-officer employee costs, such as retraining, outplacement, severance, early retirement and employee retention programs associated with the divestiture plan. Orange and Rockland shall be able to petition the Commission for recovery of employee costs in excess of $7.5 million./12/

Orange and Rockland will defer the $2,649,900 revenue shortfall associated with eliminating the mandatory PAR. The regulatory asset associated with the deferred PAR revenue requirement will be written off by the application of Orange and Rockland's share of PowerPickTM savings in accordance with the Retail Access Pilot Program approved by the Commission in Case 95-E-0491 and other customer credits that become available during the term of the Plan. Any remaining regulatory asset not otherwise offset will be addressed in Orange and Rockland's next base rate case or other suitable proceeding.

/12/ The costs of such programs for employees transferred to unregulated affiliates shall not be paid for by customers.

Orange and Rockland will be permitted to establish a major storm damage reserve/13/ of up to $3.0 million by transferring to a storm damage account overcollections from other cost elements which are subject to reconciliation. The Company will be permitted to charge storm damage costs incurred after the date of the Commission's approval of the Plan in excess of any costs included in rates (i.e., $200,000) to the storm damage reserve and will notify Staff accordingly. Storm costs charged to the reserve shall be subject to Staff verification and review.

Orange and Rockland will defer its New York share of incremental costs associated with establishing an ISO, PE and Reliability Council and, if not otherwise offset, these incremental costs will be addressed in the Company's next base rate case or other suitable proceeding.

Orange and Rockland will be permitted to defer environmental costs caused by the operation of the Generating Assets up to the date of transfer of title./14/ This provision is designed to protect the Company by providing for the recovery of reasonable and prudent expenditures incurred in connection with the investigation and/or remediation of environmental conditions associated with the ownership and operation of the Generating Assets.

Consistent with the terms of the approved settlement in Case 95-E-0491, the Company will retain 10% of any property tax refunds. The customers' 90% share of any property tax refunds shall be deferred and used to offset other regulatory assets or otherwise be returned to customers. This provision will remain in effect through the term of this Plan.

Consistent with the objectives set forth elsewhere in this Plan, the Company will have the discretion to offset deferred regulatory assets against deferred regulatory liabilities established in accordance with this Plan or pursuant to prior Commission approval. The Company will submit to Staff and other interested parties for its review an annual report showing the offsets recorded within 60 days after the end of each rate year covered by this Plan.

II. Transition to Retail Access

A. Sequence of Events

The parties anticipate the following sequence of events:

/13/ A "major storm" is defined as a period of adverse weather during which service interruptions affect at least 10% of the Company's customers within an operating area and/or results in customers being without electric service for durations of at least 24 hours.

/14/ These costs shall not include the cost of any NOx allowances purchased under applicable environmental laws and regulations.

- Expansion of PowerPick(TM) Program (energy only) to all Large Industrial Customers at the time of the effectiveness of new rates and to all other customers on May 1, 1998./15/

- The ISO becomes fully operational.

- Full retail access (energy and capacity) to all customers on May 1, 1999.

Unbundled tariffs, as described in detail below, should become effective at least several months prior to the effectiveness of full retail access in order to allow customers a reasonable time to understand and react properly to the pricing signals that will be in effect when full retail access is implemented.

B. Reciprocity

Staff and O&R agree that implementation of full retail access in O&R's service territory before O&R is able to gain comparable access to other New York electric utilities' service territories could result in a substantial financial disadvantage for O&R. Prior to the implementation of full retail access in O&R's service territory, the Commission is expected to determine the appropriate standards for reciprocity with respect to other New York utilities or their affiliates operating in O&R's service territory. Until the time of such Commission determination, the Company will not be required unconditionally to accommodate a full retail transaction between an O&R customer and a New York utility or affiliated company that does not offer comparable access to O&R. This provision is not applicable to the New York Power Authority ("NYPA").

C. Expansion of PowerPick(TM) Program

The existing PowerPick(TM) program (energy only) will be expanded to all customers on May 1, 1998. O&R affiliates (other than the Delivery company) will not be precluded from participating in the expanded PowerPick(TM) program. If it should appear that the energy-only ISO would not be in place by April 1998, and, in the Company's view, the failure to implement the energy-only ISO would present technical or financial obstacles to the expansion of the PowerPick(TM) program, the Company may petition the Commission and show cause why relief from this commitment, in whole or in part, is required. Staff will join the Company in requesting the Commission to address the petition expeditiously.

In order to enhance the participation of smaller customers (non-Large Industrial) in the retail access programs provided in this Plan, a competitive enhancement fund of $250,000 will be created for the first 12 months after the May 1, 1998 expansion of the PowerPick(TM) program. Funding shall be the equal responsibility of both customers and shareholders (50/50 sharing). The $250,000 fund is designed to produce a temporary stimulus to encourage the participation of small customers in the retail access program. Staff will initiate a process to determine the necessary details by December 31, 1997.

/15/ Customers in the PowerPick(TM) Program as of December 31, 1997, will remain eligible to participate through April 30, 1998.

D. Full Retail Access

Effective May 1, 1999, full retail access (capacity and energy) will be available to all customers. In the event the ISO is not fully operational on an energy and capacity basis by December 1998, and, in the Company's view, the failure to implement the ISO would present technical obstacles to the implementation of full retail access, the Company may petition the Commission and show cause why relief from this commitment, in whole or in part, is required. Staff will join the Company in requesting that the Commission address the petition expeditiously.

E. Unbundled Tariffs

O&R agrees to file with the Commission within one month of Commission approval of this Plan proposed unbundled draft electric tariffs based on an updated embedded cost of service study, or other appropriate studies, using calendar 1996 data, subject to necessary confidentiality protections. The proposed tariffs will disaggregate the Commission-approved bundled rate for each rate class into its functionalized components in a revenue neutral manner among classes. It is the parties intention that the unbundled tariffs will be designed to produce the same total revenue requirement underlying the rate levels reflected in Section I.A. of this Plan. It is anticipated that the Company's filing will separate the cost of:

-- Power Supply (energy and capacity)
-- Power Delivery
-- Metering
-- Billing
-- Governmental Tax Surcharges
-- Systems Benefits (mandated public policy programs)
-- Competitive Transition Charge
-- Non-Bypassable Wires Charge

Should the cost of service study show that one of the above cost components should be subdivided into more than one component or that other cost components should be separately identified, O&R will be permitted to propose them in its unbundling submittal . The transitional rate design proposed by IPPNY, including rate and bill impact concerns, particularly for low-use or low-income customers, will be addressed by the parties in the proceeding following the Company's filing. The parties agree that the entire record already developed on the transitional rate design proposed by IPPNY will be incorporated into the record developed in the phase of this proceeding involving unbundled rates.

The Power Supply component will be used to bill customers for energy and capacity costs, regardless of the provider, unless other approved billing procedures are chosen by the customer. Until the wholesale energy market becomes effective and/or full retail access is implemented, energy costs will continue to be charged through the existing FAC and the fixed costs of O&R's generation and purchased power will continue to be recovered through the base rates approved as part of this Plan. When wholesale competition is implemented, the FAC will reflect energy purchases at market prices made by the regulated delivery function on behalf of its customers. The embedded capacity cost of O&R's generation plant not yet transferred in accordance with the auction procedure provided for herein will continue to be charged at tariff rates until the implementation of full retail access. Any margin (wholesale revenues from sales of energy in excess of fuel costs) realized by the O&R generation function will be used as a mitigation measure to offset NUG purchased power costs during the interval between the implementation of wholesale competition and full retail access. In the event NUG purchased power costs incurred during that interval are fully offset, additional margins will be shared between the customers and the Company on an 80/20 basis. The parties acknowledge that the current FAC will need to be re-examined and may require modification in accordance with changes occurring in electricity markets and rates.

The Power Delivery charge(s) will recover the costs associated with transmission and distribution, and customer services (e.g., metering and billing). All regulatory assets will also be recovered in the Power Delivery charge(s).

The Governmental Tax Surcharge component will identify separately all gross receipts and franchise taxes and governmental surcharges to the extent consistent with the Tax Law.

The CTC, as described in Section III.C. herein, will also be separately identified as necessary and appropriate in the Company's unbundling filing.

The customers' share of any net gain or loss from the sale of Generating Assets as determined in accordance with Sections I.A. and III.D. of this Plan shall be recovered or refunded through a non-bypassable wires charge included in the regulated rates of the Delivery company. In addition, any stranded costs approved by the Commission resulting from the introduction of competitive metering and/or billing services in accordance with Sections IV.D. and E. of this Plan shall also be recovered through the non-bypassable wires charge.

It is contemplated that O&R's Generation Assets will continue to operate until title is transferred in accordance with the divestiture process set forth herein. The CTC, which will commence on May 1, 1999, if title has not been transferred by that time, will allow O&R to recover in customers' rates a portion of above-market generation costs as more fully described in Section III.C. herein. The CTC component of rates will be filed with Staff 90 days before its proposed effective date. Such filing shall be subject to review by Staff and approval by the Commission before implementation. In addition, the Company will provide to other requesting parties. Orange and Rockland can remove information it designates as confidential from copies of the filing provided to parties other than Staff and seek trade secret status for such designated confidential information in accordance with the Commission's rules of procedure. Any written objections to or comments on the CTC recalculation, if not resolved within 30 days from the date of receipt, shall be submitted to the Commission for a determination on an expedited basis.

With respect to transmission required to provide wheeling service to retail customers under the Plan, the Company will use its Open Access Transmission Tariff ("OATT") currently on file with the FERC, until such time as there is a pool-wide tariff available from the Independent System Operator. The Company will file, for the Commission's review and approval, a revised OATT which will contain those changes to the OATT that are necessary to implement retail wheeling. In the filing the Company will propose and justify requested changes to non-rate terms and conditions, and also indicate how rates should be designed for retail customers using the OATT. Following Commission approval, the Company will file the amended OATT and Commission order approving the tariff with the FERC with a request that the FERC defer to the state-approved tariff.

F. System Benefits Charge

Opinion No. 96-12 provides that "[c]osts required to be spent on necessary environmental and other public policy programs that would not otherwise be recovered in a competitive market will generally be recovered by a non-bypassable system benefits charge." The System Benefits Charge ("SBC") will be used to collect the costs of mandated public policy programs. This non-bypassable charge will be imposed on all Delivery company customers. The expenditures reflected in the SBC are for research and development ("R&D"), energy efficiency, environmental protection, and low income programs that are required or approved by the Commission to be funded by the SBC. One way of disbursing such expenditures would be by means of a standard performance contract with stipulated pricing approved by the Commission. In this Plan, expenditure levels of one mill per kWh on average for the first three years of this Plan for SBC programs will initially be covered in base rates and subsequently broken out in accordance with the unbundled rates approved by the Commission, but they will be non-bypassable in any event. The price levels established in this Plan include specific annual rate allowances for the costs of mandated public policy programs. Increases in these annual rate allowances are not provided for in the targeted price levels for the Large Industrial Customers, nor in the rate reductions proposed for all other customers. The parties agree that any increases in these spending levels resulting from changes required by law (including by order of the Commission) will be fully recoverable.

The parties agree that the Commission may appoint a third-party administrator to administer the SBC funded programs. All SBC funds will be allocated by the statewide administrator, although the establishment of such a statewide administrator shall not preempt program funding for commitments made prior to the date of this Plan. The statewide administrator may continue implementation of certain Company programs.

Over or under collections of SBC funds will be accumulated for future SBC program use. Commission-approved low income energy efficiency assistance program services for persons not included in the Port Jervis low income assistance program will be provided as a portion of the energy efficiency SBC budget. Appropriate funding levels for the SBC in Year 4 will be revisited by the Commission via a formal proceeding or other public process at the discretion of the Commission.

G. Low Income Program

The Company agrees to implement the Low Income Customer Assistance Program developed pursuant to the Commission-approved Settlement in May 1996. The specific provisions of this Program are set forth in detail in Appendix G hereto. The cost of this Program will not be included in the SBC.

The Program will commence as soon as practicable after the effectiveness of new rates and terminate four years after the effectiveness of new rates. The Program will be conducted solely for the residents of the City of Port Jervis, New York and residents of the zip code area 12771. The goal of the Program is to serve approximately 400 customers in total, and approximately 100 customers in each rate year. Expenditures per customer will be capped at $1,000. This expenditure includes the cost of an energy audit, disaggregated billing analysis, energy efficiency measures, and arrears forgiveness. Funding for this program including $35,000 of administrative costs per year shall come from unexpended DSM funds accumulated prior to the commencement of the SBC funding mechanism. Should unexpended DSM funds not be sufficient to cover this Program the remaining costs shall be deferred. Any additional unexpended DSM funds shall be deferred for future disposition in accordance with the Accounting Plan submitted in accordance with Section E above.

The Company will allocate up to $200,000 of DSM overcollections accumulated prior to the commencement of the SBC funding mechanism for the purpose of developing a pilot program that would aggregate low income customers. Such a pilot program could help advance the state of knowledge and experience with such programs if it included 1) several towns within the service territory (and one or more towns in the Eastern Division which can experience load pocket conditions) and 2) a representative mix of multi- and single-family homes. Staff will develop a proposal to implement the program and will circulate it to the active parties by March 31, 1998. The parties agree to meet thereafter to begin the development of this pilot. As directed by the Commission in its Order Concerning Retail Access Proposals, issued February 25, 1997, in Case 94-E-0385, the parties shall consider the petition of the New York State Division of Housing and Community Renewal, et al., in Case 97-E-0073.

III. Strandable Costs

A. Regulatory Assets

Generation-related regulatory assets/16/ established in accordance with Commission orders, policies or practices will be fully recoverable in regulated Delivery company rates. At the time rates are unbundled, an appropriate allowance for these regulatory assets will be identified in the rates for the Delivery company.

B. NUG Contract Purchased Power Costs

Until rates are unbundled, these costs will continue to be recovered through the FAC. When rates are unbundled, the recovery of these costs will be identified in the regulated rates for the Delivery company. The costs of these contracts escalate during their initial years and decline in later years. Therefore, these costs are to be recovered by means of a fixed annual rate until full recovery. An estimate of recoverable NUG purchased power costs will be made at the time of unbundling and converted to a fixed charge to be included in Delivery rates. Recoverable NUG purchased power costs will consist of actual NUG contract payments less an estimate of the revenues received from the resale of the NUG purchased power. A full reconciliation of recoverable NUG purchased power costs shall be permitted.

C. Divestiture

/16/ Excluding FAS 109 effects related to divestiture.

Upon the Commission's approval of the Plan, the Company will immediately commence a process to auction all of its electric generating assets (i.e., Lovett, Bowline, hydro-electric facilities and gas turbines) (collectively referred to as the "Generating Assets"). Neither the Company nor any of its affiliates will bid in such auction./17/

The divestiture of the Generating Assets to third parties will be carried out through a process that will result in a fair and reasonable treatment of all parties, including the Company, its employees, investors and customers. The Company will submit its divestiture plan to Staff and the other parties in this proceeding within three months of the Commission approving the Plan. Staff and the other parties shall submit their comments to the Company within 30 days of their receipt of the divestiture plan. This divestiture plan will identify how the Generating Assets will be packaged for sale; what restrictions, if any, will be placed on the capacity that any one bidder may purchase; the procedures to be followed in the sale of the Generating Assets, including minimum bids; and key dates and milestones to achieve the scheduled divestiture. The divestiture plan will also address the resolution of market power issues in any load pocket areas. At the time the Company submits its divestiture plan, it will submit supporting documentation subject to appropriate protection being provided for confidential information in accordance with Appendix E. The Company further agrees to provide a copy of the collective bargaining agreement to any party that indicates an interest in bidding in any auction of the Generating Assets.

The parties recognize that the Company and Local No. 503 of the International Brotherhood of Electrical Workers are subject to a collective bargaining agreement effective through midnight May 31, 2000, which includes the following provisions:

> This Agreement is made by and between Orange and Rockland Utilities, Inc., (hereinafter called the "Company") and Local Union No. 503 of the International Brotherhood of Electrical Workers (hereinafter called the "Union").
>
> This Agreement is made for the purpose of establishing stabilized conditions of employment, including rates of pay, and working conditions, facilitating the peaceful adjustment of differences that may arise between the parties hereto from time to time, and of promoting harmony and efficiency, to the end that the Company and the Union may be better able

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/17/ The Company and Con Edison are tenants in common in the Bowline Generating Station. The Company will attempt to coordinate the divestiture of its interest in Bowline with Con Edison. The agreement between the Company and Con Edison for the operation and maintenance of Bowline provides that if either tenant wishes to convey its ownership interest in Bowline to a third party, the other tenant shall have a six-month right of first refusal to purchase such interest in Bowline under the terms and conditions offered by the third party. For purposes of this Plan, the Company shall be deemed to have selected the winning bidder for its interest in Bowline on the date the Company selects the winning bidder's offer for the its interest in Bowline, regardless of whether Con Edison exercises its right of first refusal.

to fulfill their obligation to furnish uninterrupted and adequate electric and gas service to the public.

Identity of contracting parties: The parties to this Contract agree that it shall have force and effect as between them as herein named and described, and that this Contract, for any part of its term, shall be binding on the parties, their lawful successors and assigns. An absolute precondition to the sale, lease, transfer or takeover by sale, transfer, lease, assignment, corporate reorganization, receivership, bankruptcy proceeding of the entire operation or any part thereof is that any purchaser, transferee, lessee, assignee, etc., shall agree and become party to and bound by all the terms, conditions and obligations of this agreement.

If the above-named Local Union is merged into or consolidated with any other Local Unions of the Brotherhood, this Contract shall continue in force as between the Company and the successor Local Unions resulting from such merger or consolidation, when such merger or consolidation is sanctioned in accordance with the constitution of the International Brotherhood of Electrical Workers, AFL-CIO.

Agreement made by and between the Orange and Rockland Utilities, Inc., a corporation organized and existing under and pursuant to the Transportation Corporations Law of the State of New York, its successors or assigns, hereinafter referred to as the "Company" and Local 503 of the International Brotherhood of Electrical Workers hereinafter referred to as the "Union" the "Company shall provide notice of the existence of the terms of this Collective Bargaining Agreement to any purchaser, transferee, assignee or lessee. Such notice shall be in writing with a copy to the Union."

Nothing in this Plan in intended to add to, subtract from or otherwise modify any rights, duties or obligations set forth in said collective bargaining agreement.

Within six months of the Commission approving the Plan, the Company will submit a revised expanded divestiture plan. Staff and interested parties will be given an opportunity to file comments on the revised divestiture plan within thirty days of its submission. The Commission will review and act expeditiously on this plan and any comments submitted. Once the divestiture plan is approved, Orange and Rockland will use its best efforts to expeditiously complete the auction process and select the winning bidder(s) of the Generating Assets.

Following implementation of the ISO, Orange and Rockland agrees that its bids for energy from its fossil fuel resources shall not fall below the incremental cost of fuel plus variable O & M costs./18/

It is the objective of the parties that the Company should implement full divestiture, by an auction, of Orange and Rockland's Generating Assets. If title to the Generating Assets is

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/18/ Variable O&M costs are estimated at one mill per kwh of generation.

transferred prior to the implementation of retail access on May 1, 1999, no CTC will be required (other than to recover any net book losses associated with divestiture of the Generating Assets). In the event there is a delay in the transfer of title beyond May 1, 1999, Orange and Rockland will recover above-market generation costs by means of an incentive based CTC commencing May 1, 1999. The CTC will be established by identifying the non-variable electric production costs using an embedded cost of service study using 1996 as a guide. The unbundling process will establish the precise amount of non-variable production costs to be used in the calculation of the CTC.

Should a CTC be required, Orange and Rockland will be authorized to recover the difference between Orange and Rockland's non-variable cost of generation as identified in the unbundling proceeding and the revenues, net of fuel and variable O&M expenses, derived from the operation of Orange and Rockland's generation plants in a deregulated competitive market with the exception of 25% of fixed production labor expenses and property taxes on generation properties that cannot be recovered from customers, but should instead be recovered through the competitive market. The CTC will remain in effect until the earlier of the date title to the Generating Assets is transferred or April 30, 2000.

The Company will consider alternative, economically comparable means of allowing an individual customer to pay for its allocable share of above-market embedded fixed costs of generation that customers would otherwise pay through the CTC and/or a non-bypassable wires charge.

If title to the Generating Assets has not transferred as of May 1, 2000, the CTC will be modified to increase to 35% the level of fixed production labor expense and property taxes that cannot be recovered from customers, but should instead be recovered through the competitive market. The modified CTC will remain effective until the earlier of the date title to the Generating Assets is transferred or October 31, 2000. In the event title to the generation assets will not transfer by October 31, 2000, the Company may petition the Commission for permission to continue a CTC until the date title to the Generating Assets is transferred.

The parties acknowledge that the CTC does not allow for the recovery of inflationary increases in non-fuel O&M production costs, property tax increases, wage rate increases, and increased costs associated with capital additions or changes in the cost of capital applicable to production costs.

An illustration of the CTC mechanism is shown on the following page.

Illustration of CTC Mechanism

Competitive Market Revenues	Market Below @ Risk Amount	Revenues Above @ Risk Amount	Realized Above @ Risk Amount
Annual Competitive GENCO Revenues	$ 25	$100	$ 500
Less: Variable O&M & Fuel	(12)	(50)	(250)
Revenue Available for Fixed Costs	$ 13	$ 50	$ 250
Regulatory Revenue Requirement for Fixed Generation Costs:			
"Going Forward Costs":			
Fixed Production Labor	$ 50	$ 50	$ 50
Property Taxes	50	50	50
Other Production Costs	10	10	10
Total "Going Forward Costs"	110	110	110
Capital Costs:			
Depreciation	25	25	25
Interest	25	25	25
Return & FIT	30	30	30
Total Capital Costs	80	80	80
Total Regulated Revenue Requirement	$ 190	$190	$ 190
CTC Mechanism			
Competitive GENCO Revenues -- Net	$ 13	$ 50	$ 250
Less: 25% of Fixed Production Labor and Property Taxes	(25)	(25)	(25)
Available for CTC Eligible Costs	0	25	225
Less: Eligible "Going Forward Costs"	(85)	(85)	(85)
Less: Capital Costs	(80)	(80)	(80)
CTC Charge to Customers(A)	$ 165	$140	($60)
O&R Cost Recovery			
Competitive GENCO Revenues -- NET	$ 13	$ 50	$ 250
CTC Charge to Customers	165	140	(60)
Total Recovered	$ 178	$190	$ 190
Revenue Impact on Company	($12)	$ 0	$ 0

(A) CTC established to recover generation costs except 25% of Fixed Production Labor and Property Taxes, as defined above, which must be recovered through competitive market. If market revenues exceed total generation costs, the excess will be credited to customers.

Illustration
Gain (Loss) on Sale of Generation Assets
($000s)

	Gain On Sale (New York Share)	Loss On Sale (New York Share)
Sale Price (Winning Bid)	$185,000	$140,000
Cost of Sale:		
Net Book Value of Assets Sold(A)	150,000	150,000
Divestiture Plan Costs (Legal, Financial, etc.)(B)	7,500	7,500
Employee Costs(B)	7,500	7,500
NYS Revenue Taxes	995	-
Total Cost of Sale	165,995	165,000
Gain (Loss) Before Taxes	19,006	(25,000)
Reversal of FAS 109 Regulatory Asset	3,500	3,500
Federal Income Tax Expenses:		
Current FIT expense	24,152	8,750
Reversal of FAS 109 Deferred FIT	(3,500)	(3,500)
Reversal of Funded Deferred FIT	(14,000)	(14,000)
Total Federal Tax Expense	6,652	(8,750)
Net Gain (Loss) Eligible for Sharing	$ 8,854	$(19,750)
CTC Mechanism		
Refund 75% of Net Gain(C)	$ (6,640)	
Recover 95% of Net Loss(C)		$ 18,763

(A) Includes generation plant in service, net of accumulated provision for depreciation and related CWIP, fuel inventories, spare parts inventory, prepaid property taxes and insurance, etc.

(B) In accordance with the terms of the Plan, Section III, Para. D.

(C) Net gain or loss to be refunded or surcharged to customers with interest calculated on unamortized balance at the Commission-approved after-tax overall rate of return over appropriate period of time as determined by the Commission.

D. Allocation of Net Book Gains and Losses from the Disposition of Generating Assets

The parties agree that the combined net book gains/losses from the divestiture of the Generating Assets shall be determined as follows:

Net Book Gain or Loss	=	Bid - Cost of Sale - Tax Effects/19/

Where:

Bid	=	The Winning Bid
Cost of Sale	=	Net Book Value of the Generating Assets
	+	Costs of Developing and Implementing the Divesture Plan (including all incremental financial,/20/ environmental, transaction and litigation costs)
	+	Employee Costs/21/
Tax Effects	=	Revenue Taxes
	+	State, Federal and Local Taxes

These costs shall be prudent and verifiable. The net book gains/losses shall be allocated as follows:

(a) If the Company selects a winning bidder prior to May 1, 1999, the New York share of any net book gains shall be allocated between shareholders and customers on a 25/75 basis and any net book losses shall be allocated between shareholders and customers on a 5/95 basis.

(b) If Orange and Rockland selects a winning bidder on or after May 1, 1999, the New York share of any net book gains or losses shall be allocated between shareholders and customers on a 20/80 basis.

There shall be a $20 million cap on the New York share of net book gains to shareholders from the divestiture of the Generating Assets.

E. Other Strandable Costs

Orange and Rockland's Delivery service rates will be set so that the Company is provided a reasonable opportunity to recover from all customers other prudent and verifiable stranded

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/19/ All tax effects related to the divesture of the Generating Assets consistent with avoiding any violation of the IRS rules and regulations governing tax normalization and Investment Tax Credits.

/20/ Including any prepayment penalties incurred as a result of the redemption of the Company's financial obligations.

/21/ As defined under "Accounting Provisions."

costs associated with depreciable assets used in connection with the metering and billing functions.

F. Proceeds of Divestiture

The parties agree that the provisions of Public Service Law (S)(S) 70 and 107 shall not apply to any proceeds from the divestiture of the Generating Assets.

For ten years from the date of the Commission order approving the Plan, Orange and Rockland agrees that neither it nor any of its affiliates shall purchase or otherwise acquire an ownership interest in the Generating Assets or in generating assets owned by Con Edison, New York State Electric and Gas Corporation or Central Hudson Gas & Electric Corporation or any other utility in a service territory contiguous to the Orange and Rockland system. At the determination of the Commission, when considering an application for a merger or acquisition, this provision may or may not apply to any third party which merges with or acquires Orange and Rockland or a Company affiliate after the approval date of the Commission order approving the Plan. In the event that Orange and Rockland or any affiliated company acquires another company, the newly created company is prohibited from purchasing or acquiring an ownership interest in the Generating Assets until after the expiration of ten years from the date of the Commission order approving the Plan.

It is the intention of the parties that any winning bidder shall be free to own and/or operate the Generating Assets as an exempt wholesale generator pursuant to Section 32 of the Public Utility Holding Company Act of 1935 without first securing any additional approval from the Commission.

IV. Corporate Structure

A. Holding Company

Orange and Rockland agrees to apply to the appropriate regulatory authorities for permission to form a registered holding company. The formation of a registered holding company is intended to further the public interest by avoiding barriers to full and fair competition. Implementation of this holding company structure is conditioned upon shareholder and regulatory (i.e., Federal Energy Regulatory Commission ("FERC"), Securities and Exchange Commission ("SEC"), the Commission, the New Jersey Board of Public Utilities ("NJBPU") and the Pennsylvania Public Utility Commission ("PAPUC")) approvals. Orange and Rockland agrees to move expeditiously to secure such approvals and will use its best efforts to form a registered holding company prior to the introduction of full retail competition. The parties acknowledge, however, that shareholder approval can be obtained no earlier than the Company's April 1998 annual meeting. Staff will join the Company in requesting that the Commission act expeditiously on the petition required to implement this structural separation.

At the time that a registered holding company is formed, it will become the successor to Orange and Rockland as signatory hereto. Standards of Competitive Conduct and rules governing affiliate relations are set forth in Appendices H and I, respectively.

B. Section 107 Preauthorization

Orange and Rockland will be allowed to invest up to $15 million of retained earnings derived from revenues received from the rendition of public service within New York State without the need to make separate application under Section 107 of the Public Service Law for each investment. Orange and Rockland will limit its investments to energy services and marketing, telecommunication services, environmental services and related developmental projects. Staff will be given access to the books and records of each unregulated subsidiary which receives such investments in order to review any and all transactions between Orange and Rockland and such unregulated subsidiaries. This investment authority would be subject to immediate and automatic suspension by the Commission should the Standard and Poor's bond rating of Orange and Rockland (or the successor entity subject to a bond rating) fall to BBB- or below. In addition, Orange and Rockland would commit to entering into written contracts for all exchanges of goods and services between the Company and any unregulated subsidiary established pursuant to this pre-authorization which receives such investments and to file all such contracts with the Commission at least 30 days prior to their effective dates. The Company agrees that any purchase of electric supply (i.e., the commodity) from an unregulated affiliate shall be pursuant to competitive bidding.

C. Delivery Company and Affiliated ESCOs

At the time the Transmission and Distribution ("T&D") segment of O&R's electric system in New York is separated from Orange and Rockland's generation operations, the Delivery company will be authorized to continue to provide basic energy services, including energy, capacity, ancillary services, metering and billing within the service territory. In accordance with Paragraphs A and B herein, subject to certain conditions, O&R will be authorized to create an affiliated unregulated Energy Services Company ("ESCO"). O&R's affiliated ESCO will be authorized to provide energy services and products at market prices. O&R's affiliated ESCO shall operate in accordance with Standards of Competitive Conduct designed to prevent it from gaining an unfair competitive advantage as a result of its affiliation with the Delivery company. O&R's affiliated ESCO will be subject to the same regulatory requirements applicable to any other comparably situated ESCO. The Standards of Competitive Conduct that will govern the relationship between the Delivery company and its affiliated ESCO are set forth in Appendix H.

Affiliated ESCOs may be subjected to an annual examination by the Staff, if necessary, to determine whether the manner in which they conduct business impedes competition in the energy-related service or product markets within O&R's service territory in which they operate. The Company agrees that the Commission has authority to initiate an investigation and set a schedule to consider allegations of the Company's failure to meet the Standards of Competitive Conduct. The purpose of these conditions is to ensure the Commission can act promptly to eliminate unwarranted barriers to competition or require correction of anti-competitive behavior, consistent with its obligations and responsibilities under the Public Service Law. Remedial action for violations of the Standards of Competitive Conduct is covered in Appendix H, subp. (viii).

Upon separation of the Delivery company from generation pending divestiture, there will be no bilateral agreements between Delivery company and the generation department (except if necessary to address load pockets or other reliability issues, including ancillary transmission services). As part of its responsibility to continue to minimize energy costs, the Delivery company may petition the Commission for a waiver of the above restriction on bilateral agreements. Any such bilateral agreement shall be in writing and filed with the Commission for a review of its consistency with the transition to competition.

The Parties acknowledge that the Commission has determined that Provider of Last Resort ("POLR") responsibility should continue to exist to meet the needs of end-use customers including those who require service but have not chosen an ESCO or who require temporary service, and end-use customers who are unable to obtain service from an ESCO. The Commission has also concluded that, for the time being, this responsibility should be performed by the regulated utility company, although the Commission did not rule out alternatives to the regulated utility performing this function and specifically invited such alternative proposals. The parties agree that the transfer of the regulated utility's responsibility to serve as POLR to ESCOs through a competitive bid process is a desirable goal to explore. Accordingly, the parties agree that by May 1, 1999, they will submit their recommendations on this issue to the Commission for its consideration. Staff will initiate the process of this examination by May 1, 1998.

Unless and until relieved of its obligation, the Delivery company shall be the POLR for all customers choosing to continue to purchase "packaged" energy services from the Delivery company or failing to choose an energy provider and those customers deciding to purchase from providers other than the Delivery company, but who later return as customers purchasing power from the Delivery company.

To the extent that a disproportionate amount of higher risk, lower usage customers will continue to be supplied with power by the Delivery company, rates shall reflect an appropriate allowance for the billing and collection costs associated with such customers.

D. Metering Services

Following issuance of the Staff report required by Commission Opinion No. 97-13 (August 1, 1997), on or before March 31, 1999, O&R will submit a plan designed to make metering competitive by December 31, 1999. In the event that there remain significant implementation obstacles (such as open architecture, customer protections or necessary changes to Parts 92 and 93 of the Commission's regulations) which cannot be timely resolved, the Company may petition the Commission to delay the implementation schedule. Should the Commission order that metering services become competitive earlier than the schedule contemplated herein, the Company shall meet the schedule prescribed by the Commission and offer such services in the manner and to the extent prescribed by the Commission. Any resulting stranded costs/22/ approved by the Commission shall be fully recoverable (via a non-bypassable wires charge with recovery to commence during the term of this Plan) over an appropriate period of time as determined by the Commission. After the time that metering services become competitive, the Company may continue to provide such services to remaining customers at such rates as are determined by the Commission to be appropriate.

/22/ Including the costs of implementing this program (e.g., meter removal costs incurred by the Company, if any).

E. Billing Services

Other companies will be able to enter into the market for providing billing services to Orange and Rockland's Delivery company customers consistent with the manner and in accordance with the schedule prescribed by the Commission. Any resulting stranded costs shall be fully recoverable (via a non-bypassable wires charge with recovery to commence during the term of this Plan) over an appropriate period of time as determined by the Commission.

F. Load Pockets

Orange and Rockland has identified two separate load pocket areas in its service territory. A process will be established in which Staff, the Company, and other interested parties will address different measures,/23/ analyses of which are to be submitted in January 1998, for mitigating load pocket conditions in O&R's service territory. Incremental costs associated with a load pocket mitigation measure will be fully recovered in rates. The January 1998 filing will include a proposal to provide for such interim relief as may be necessary pending a final Commission determination. The parties anticipate that the divestiture plan will address the load pocket issue on an interim basis pending a final Commission determination on the load pocket issue.

G. System Upgrades

The Company will continue its annual forecasts of T&D capital budget requirements. For each major T&D upgrade (projects of $2 million or more), the Company shall identify the location, reason, scope and projected capital costs, and shall monitor circuit peaks for any affected substation and the load on any affected transmission lines. When deciding whether to implement major T&D upgrades, the Company shall consider a full range of alternative measures, their cost-effectiveness and their environmental impacts, including demand-side technologies and practices, fuel cells, photovoltaic systems or other alternatives that may both defer the need for implementing the upgrades and minimize the environmental impacts of electricity usage. The Company will also continue to seek to minimize costs and environmental impacts for T&D projects that are not major projects.

In the Company's first major electric rate filing following Commission approval of the Plan, unless otherwise directed by the Commission, Staff will address the merits of performance-based ratemaking, including the relationship among sales and distribution revenues and energy efficiency and concerning the appropriate measure of cost-effectiveness for alternatives to T&D projects, and make ratemaking proposals as warranted.

V. Other Provisions

A. Force Majeure

/23/ Examples of such measures are existing and new local distributed generation or energy efficiency/management measures.

If the Company because of an event of Force Majeure is rendered wholly or partly unable to perform its obligation under the Plan to select a winning bidder for its Generating Assets by May 1, 1999, or to transfer title to the Generating Assets by October 31, 2000, Orange and Rockland shall be excused from the performance affected by the Force Majeure and to the extent so affected, the time of performance shall be extended for a period equal to the time lost by reason of such Force Majeure. Orange and Rockland shall not be liable for the damage caused by such non-performance. The Company shall provide the Commission prompt notice of the occurrence of the Force Majeure, including an estimate of its expected duration and probable impact on the performance of the Company's obligations hereunder, and shall submit satisfactory evidence for Commission review of the existence of the Force Majeure.

For purposes of the Plan, the term "Force Majeure" shall include, but not be limited to acts of God, fires, floods, earthquakes, landslides, storms, lightning, strikes, labor disputes, riots, nuclear emergencies, insurrections, acts of war (whether declared or otherwise), changes in laws, regulation or ordinances and unforeseeable acts or failures to act by governmental, regulatory or judicial bodies, failure of any party to submit a bid for the Generating Assets or any other unforeseeable causes beyond the reasonable control of and without the fault and negligence of Orange and Rockland. Orange and Rockland shall use its best efforts to remedy expeditiously its inability to perform. Orange and Rockland shall not be required to settle any strike, walkout, lockout or other labor dispute on terms which in its sole judgment, are contrary to its interest. When Orange and Rockland is able to resume performance of its obligations under the Plan, it shall provide written notice to that effect to Staff and the Commission.

B. Changes in Laws or Regulations

If any law, rule, regulation, order or other requirement (or any repeal or amendment of an existing rule, regulation, order or other requirement) of a state, local or federal government body,[24] results in a change of 5% or more in the Company's net income from regulated electric operations, O&R will defer on its books of account the total effect of all such annual cost changes in excess of 5% of net income, with any such deferrals to be reflected in rates in a manner found reasonable and appropriate by the Commission.

C. Confidentiality and Privileged Information

Pursuant to the provisions of this Plan, the Company is required to and may be requested to provide information to the Commission and other parties. In responding to these requirements and/or requests, the Company reserves the right to assert the legal privileges and/or the right to designate as confidential certain information as described in Appendix E.

D. Changes in Rates

The Commission reserves the authority to act on the level of Orange and Rockland's base electric rates in the event of unforeseen circumstances that, in the Commission's opinion, have such a substantial impact upon the return on equity contemplated in this Plan as to render the Company's return unreasonable and unnecessary for the provision of safe and adequate service. If a circumstance occurs that, in the judgment of the Commission, so threatens the Company's economic viability or ability to maintain safe and adequate service, the Company shall be

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/24/ Excluding Gross Receipts and Franchise Taxes.

permitted to file for a change in base electric rates at any time. In the event of cost inflation (as measured by a generally accepted economic index, such as the GDP Price Deflator) in excess of 4% per year, the Company may petition the Commission for appropriate relief.

E. Rate Design Flexibility

During the term of this Plan, the Company will have the right to seek to change regulated rates in a revenue-neutral manner or to propose de minimis rate changes. All rate changes will be filed with the Commission and subject to its approval.

Where the Company proposes more than one rate change to take effect at approximately the same time, it will, to the extent practicable, combine such proposals in a single filing with the Commission.

Any changes in rate design will fairly reflect underlying costs of service in order to avoid or minimize the likelihood of customers using electricity uneconomically or wastefully.

F. Regulatory Reform and Customer Operations Procedures

In consideration of the Company's implementation of retail competition as described in this Plan and in light of the increased uncertainty of accurately forecasting avoided costs as competition is introduced, the parties agree that, upon the Commission's approval of this Plan, Orange and Rockland's obligation to purchase from qualifying facilities under the Public Utility Regulatory Policies Act of 1978 shall be limited to "as available" purchases or contracts for a period of no longer than two years setting forth the price schedules based on projections of Orange and Rockland's system avoided costs.

To facilitate the Company's operations under the rate plan, the parties agree that the provisions of Part 11, Part 13, Part 140, and Part 273 of 16 N.Y.C.R.R. and the requirements for a plain language bill format adopted in Case 28080, Order Requiring Gas and Electric Utilities To File Revised Billing Formats (Oct. 31, 1985), should be waived to the extent that any such provisions are inconsistent with the Company's ability to:

- institute non-discriminatory procedures which require an applicant to provide reasonable proof of the applicant's identity as a condition of service;

- modify its bill content and format in response to industry restructuring; provided, however, the Company's bills will contain the following:

    - an explanation of how bills may be paid
    - total charges due
    - due date
    - dates of present and previous meter readings
    - whether the consumption levels were based on estimated or actual readings
    - the amount of any penalty charges
    - any credits from past bills
    - any amounts owed and unpaid from previous bills

- the customer service classification
- any budget plan information, if applicable
- unit price of energy consumed or other appropriate itemization of charges (including sales taxes and other informative tax itemization)
- complete name and address of customer
- unique account number or customer number assigned to the customer
- meter readings
- period of time associated with each product or service
- name of entity rendering bill
- local or toll-free telephone number customers may call with inquiries

- include non-tariffed items in a bill; provided, however, that customers' current payments are credited first to tariffed items and that service cannot be terminated for failure to pay non-tariffed items.

Upon appropriate customer authorization, the Delivery company shall disclose to qualifying ESCOs and other service providers agreeing to such protective conditions as the Commission finds appropriate, residential and non-residential customers' current payment status information to other service providers to the extent such information is limited to: whether or not a deposit could be requested from the customers by the Delivery company due to delinquency, as defined in 16 NYCRR (S) 11.12(d)(2) or in 16 NYCRR (S) 13.1(b)(13), or for any reason provided in 16 NYCRR (S) 13.7(a)(1); whether or not a customer could be denied service by the Delivery company due to unpaid bills on an existing or prior account; or, whether a customer's service could be terminated by the Delivery company, provided that:

- such information is to be used by other service providers only for the purposes of determining whether unregulated energy services will be provided to the customer, whether a deposit will be requested from such customer, or for other purposes approved by the Commission; and

- such information request is made by a service provider in response to a bona fide request from the customer to the service provider for electric service or with other customer consent.

The Company supports the concept of informed customer choice and agrees that consumers are entitled to meaningful environmental information concerning the power provided to them. To effectuate such disclosure, the Company agrees to work with interested parties to develop and implement on a statewide basis a feasible, meaningful and cost-effective approach to providing customers with fuel-mix and emissions characteristics of the generating resources relied upon by the load serving entity.

G. Customer Outreach and Education

In conjunction with the parties, Orange and Rockland will continue to develop and implement programs and materials that will aid its customers in understanding the changes in the electricity market that are coming and the nature of the services that customers can expect to receive from the Company in the future. Such programs will include information on environmental programs as described above. The Company's overall goals in conducting these programs are to enable customers, particularly small customers, to make informed choices about utility service while understanding their rights and responsibilities as a utility customer. For retail access and energy services choices in the competitive energy market, the Company's efforts would be complemented by those of the participating providers of competitive services, who can be expected to provide prospective retail access customers with information about the energy choices becoming available to consumers.

The Company will provide to Staff by June 30 of each year of this Plan, a summary of its customer education efforts. This submission will include, but not be limited to, an assessment of the progress made by these efforts and the various methods used to communicate the information, how the information was distributed, and the most frequently asked questions by customers. The first report is due June 30, 1998.

As partial retail access is being offered to all customers by May 1998 and full retail access by May 1999, it is essential that the Company's customers are educated so that they can make informed energy choices. To achieve this goal, an information campaign would be undertaken by early next year. The Company agrees to the use of up to the equivalent of $1 million of the present value/25/ of fourth year SBC funds for the purpose of educating Residential and Commercial customers about electric competition. Staff will develop a proposal to implement the program to educate customers about electric competition and will circulate it to the active parties by December 31, 1997.

H. Interdepartmental Transfers

For purposes of this Plan, electric prices will be reduced by $375,000 annually to reflect an imputation of cost savings resulting from the separation of the gas and electric purchasing functions and the anticipated ensuing cost reduction in gas purchased for electric generation. Cost savings in excess of $375,000 will be preserved for the benefit of customers in the form of future price reductions or mitigation of stranded costs. The $375,000 annual imputation will initially be in the form of a credit to the FAC and, in the event of changes in the FAC, in an appropriate form of equivalent dollar impact.

As part of the Company's proposal to separate the gas and electric departments (to allow the electric department to purchase in an open market), the Company proposed a $.05 per Mcf rate for all gas volumes transported to the electric department for electric generation. Consistent with the principles set forth in Appendix K, the Company will submit to the Commission no later than January 1, 1998, proposed changes in the FAC and Gas Adjustment Clause that will accomplish the pricing contemplated herein. Staff will support such pricing and join with the Company in seeking expeditious consideration of the Company's proposal. This proposed charge to the electric department will be a minimum of $1,275,000. The actual annual dollar amount paid to the gas department will be dependent on the volume of gas transported (at $0.05 per MCF) each year for O&R's electric generation, but in no event will the total annual charge be less than $1.275 million. The Company's proposal will provide for a review of the minimum at two-year intervals unless the Company or Staff requests review within a shorter interval.

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/25/ Discounted at the authorized overall rate of return of 8.79%.

I. Other Accounting Provisions

Consistent with Commission policy and precedent and subject to Staff review for reasonableness, reconciliation and/or deferral accounting of the following costs will continue in effect through the term of this Plan for regulated operations, including 1) R&D, 2) Pensions, 3) Other Post Employment Benefits ("OPEBs"), 4) Demand-Side Management ("DSM"), 5) Cable gasification, 6) the Gas Turbine Maintenance Reserve, and 7) West Nyack and Manufactured Gas Plant site investigation and remediation costs.

J. Flex Rates and Economic Development Rate

The Flex Rate and Economic Development provisions contained in the approved Settlement in Case 95-E-0491 will remain in effect through the term of this Plan. Any existing NYPA EDP business customers served pursuant to the current statutory program, including Economic Development Power and high load factor customers served under Rider G, would be exempted from strandable cost recovery to the extent that portion of the customer's usage is provided by NYPA resources and so long as that customer continues to take service under Rider G or any successor tariff rider.

The Company will design and file a flexible rate tariff for commercial and industrial customers who are currently taking service and who are at serious risk of relocating or closing their facility absent a discount rate. Such tariffs will be available regardless of the supplier of electricity and such discounts will be fashioned in a competitively neutral manner. Additionally, a customer must be receiving a comprehensive package of economic incentives from a State or local authority to qualify for the discount, which, coupled with the rate discount, will enable the business to remain in New York. The mechanism for sharing net lost revenues caused by the discounts resulting from such a rate will be consistent with the Flexible Rate Tariff Provisions approved by the Commission in Case 95-E-0941. The Company will file the tariff within 60 days after the approval of this Plan.

K. Securitization

In the event of enactment of statewide securitization legislation providing cost savings to Orange and Rockland, the Company agrees to submit appropriate filings to provide the benefits to Large Commercial, Small Commercial and Industrial and Residential customers, unless otherwise prescribed by such statute or order of the Commission. The Commission will also consider the use of these savings for energy efficiency programs and clean energy technologies.

L. Gross Receipts and Franchise Taxes

Any changes in Gross Receipts and Franchise Taxes will be flowed through to Orange and Rockland's customers.

M. Merger

Should the regulated utility, within the next five years, merge, purchase or be purchased by any regulated utility or other company in this or any other state, such an event will be considered to be unforeseen for the purpose of this Plan. Such merger or purchase will not, in any manner, restrict the Commission's authority to consider appropriate actions regarding any savings that may result, or from taking any other action that the Commission deems reasonable.

N. Arrangements with Third Parties

Prior to the implementation of full retail competition, the Company may enter into arrangements with third parties. The Company acknowledges that the Commission may exercise such authority as is provided by the Public Service Law to approve or disapprove such an agreement or consider actions regarding any savings that may result from any such arrangements and to take any other action that the Commission deems reasonable, including the modification of this Plan.

O. Comprehensive Nature of Plan

The foregoing reflects the parties' efforts to resolve complex revenue requirement and rate level issues in this proceeding. The issues involved difficult questions arising from stranded cost recovery as well as issues arising from the corporate restructuring under review in this proceeding. In developing the rate plan, the parties intended to develop a comprehensive plan that accounts for both typical revenue-requirement issues such as expected productivity improvements as well as for claims regarding stranded cost recoverability. The rate plan is intended as a permanent and comprehensive resolution of the Company's revenue requirement for the four-year term of the Plan. The plan resolves these issues on a basis that is intended to allow the Company to remain under the Statement of Financial Accounting Standards No. 71 requiring regulated companies to follow cost-based ratemaking.

P. Provisions Not Separable

The parties have negotiated this Plan with each provision being in consideration for, support of, and dependent upon all others. This Plan is, therefore, presented for the Commission's approval as an integrated whole. If the Commission does not approve this Plan in its entirety, without modification, any signatory hereto may withdraw its acceptance of this Plan by serving written notice on the other parties, and shall be free to pursue its position in this proceeding without prejudice.

Q. Provisions Not Precedent

The terms and provisions of this Plan apply solely to and are binding only in the context of the purposes and results of this Plan. None of the terms and provisions of this Plan and none of the positions taken herein by any party may be referred to, cited or relied upon by any other party in any fashion as precedent in any other proceeding before this Commission or any other regulatory agency or before any court of law except in furtherance of the purposes of this Plan.

R. Plan Modification

Upon mutual agreement, the signatories may modify this Plan in writing to take into consideration material information that may become available after the execution of this Plan and submit such written modification to the Commission for its approval.

S. Term and Time Line

The term of this Plan runs for four years from the effective date of the new rates implemented upon Commission approval of this Plan. The dates scheduled for expansion of the PowerPick(TM) Program and the implementation of full retail access shall remain May 1, 1998 and

May 1, 1999, respectively. The times for various actions to be accomplished by the various parties are set forth on Appendix A.

T. Effect of Plan

. The Company will petition the Appellate Division of the Supreme Court for permission to withdraw its December 24, 1996 appeal in Energy Association of N.Y.S. v. Public Service Commission, Albany County Index No. 5830-96, with prejudice, following final Commission approval of this agreement (i.e., when any appeals from such approval are exhausted or the time to appeal has expired). Until this petition is granted, the Company will discontinue its appeal to the extent it is able to do so without forfeiting the right to appeal.

The Company has made the following additional concessions:

. Providing for substantial price reductions to large industrial customers and all other customers.

. Divestiture of the Generating Assets pursuant to an auction process.

. Allocating equity earnings in excess of the sharing threshold between shareholders and customers and to writing down Commission-approved deferred costs.

. Expanding PowerPick(TM) (energy only) to all Large Industrial Customers at the time of the effectiveness of new rates and to all other customers in 1998.

. Providing full retail access (energy and capacity) to all customers in 1999.

. Agreeing to address alternative ways of providing metering and billing services.

It is the express intention of the signatories hereto that Orange and Rockland be provided with:

. A reasonable rate of return while maintaining the overall level of rates for the term of the Plan.

. A reasonable opportunity to recover prudently incurred strandable costs as a result of divesting the Generating Assets, or otherwise during the effectiveness of the CTC.

The parties agree that the provisions of this Plan will result in rates that are just and reasonable to both customers and shareholders through the four-year term of this Plan.

. Future generic determinations by the Commission will be addressed in good faith by the parties to this Plan and will provide guidance for potential tailoring or application of those determinations or this agreement, as appropriate, to preserve this agreement and associated considerations and obligations of Orange and Rockland and the Commission.

U. Dispute Resolution

In the event of any disagreement over the interpretation of this Plan or the implementation of any of the provisions of this Plan, which cannot be resolved informally among the parties hereto, such disagreement shall be resolved in the following manner: the parties shall promptly attempt to convene a conference and in good faith shall attempt to resolve such disagreement. If any such disagreement cannot be resolved by the parties within 30 days, any party may petition the Commission for relief on a disputed matter.

V. Additional Public Statement Hearings

The parties agree that additional public statement hearings should be held in the Company's service territory prior to the Commission acting on this Plan in order to receive and consider public input on important matters included within this Plan. The parties strongly encourage the Secretary to schedule such hearings.

Orange and Rockland Utilities, Inc.

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G.D. Caliendo, Esq.
Senior Vice President, General Counsel and
Corporate Secretary

New York State Department of Public Service

Saul A. Rigberg, Esq.
Assistant Counsel

New York State Department of
Economic Development

- ---
Jeffrey Schnur
Director of Energy Policy

National Association of Energy Service Companies

- --
Ruben S. Brown

The Joint Supporters
By: The E Cubed Company

- ---

Ruben S. Brown

Industrial Energy Users Association

- --
Thomas A. Condon, Esq.
Birbrower, Montalbano, Condon & Frank, P.C.

- --
L.M. DiValentino
Strategic Power Management, Inc.

Exceptions to the following provisions of the Plan:

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____

Independent Power Producers of New York, Inc.

Carol E. Murphy
Executive Director

Pace Energy Project

David R. Wooley
Counsel for the Energy Project
Center for Environmental Legal Studies
Pace University School of Law

Time Line for Certain Actions

.November 6, 1997	Plan filed
.	Commission approves Plan
.	O&R withdraws from Article 78 appeal (4 months after Commission approval)
.Effectiveness of new rates	O&R provides Large Industrial Customers with opportunity to realize an electric price of 6c/kWh and reduces electric rates for all other customers by 1.09%. PowerPick(TM) is expanded to include all Large Industrial Customers (energy only)
.December 1997	O&R files proposed draft unbundled electric tariffs
.February 1998	O&R submits initial divestiture plan
.May 1, 1998	O&R expands PowerPick(TM) (energy only) to all customers
.May 1998	O&R submits detailed divestiture plan
.One year after effectiveness of new rates	O&R reduces rates for all other customers by an additional 1%
.	O&R forms Holding company
.	Unbundled electric tariffs become effective
.March 31, 1999	O&R submits metering proposal
.April 30, 1999	O&R selects winning bidders of auction
.May 1, 1999	O&R introduces full retail choice (energy and capacity) to all customers
.May 1, 1999	Recommendations on POLR obligation submitted
.May 1, 1999	CTC commences, if necessary
.December 31, 1999	Metering proposal becomes effective assuming significant technical obstacles are resolved
.October 31, 2000, or earlier	CTC terminates
.Four years after effectiveness of new rates	Plan terminates

Standard Industrial Codes

Division B

Mining

The Division as a Whole

This division includes all establishments primarily engaged in mining. The term mining is used in the broad sense to include the extraction of minerals occurring naturally; solids, such as coal and ores; liquids, such as crude petroleum; and gases such as natural gas. The term mining is also used in the broad sense to include quarrying, well operations, milling (e.g., crushing, screening, washing, flotation), and other preparation customarily done at the mine site, or as a part of mining activity.

Exploration and development of mineral properties are included. Services performed on a contract or fee basis in the development or operation of mineral properties are classified separately, but within this division. Establishments which have complete responsibility for operating mines, quarries, or oil and gas wells for others on a contract or fee basis are classified according to the product mined rather than as mineral services.

Mining operations are classified, by industry, on the basis of the principal mineral produced, or, if there is no production, on the basis of the principal mineral for which exploration or development work is in process. The mining of culm banks, ore dumps, and tailing piles is classified as mining according to the principal mineral product derived.

The purification and distribution of water is classified in Transportation and Public Utilities, Industry 4941, and the bottling and distribution of natural spring and mineral waters is classified in Wholesale Trade, Industry 5149.

Crushing, grinding, or otherwise preparing clay, ceramic, and refractory minerals; barite; and miscellaneous nonmetallic minerals, except fuels, not in conjunction with mining or quarrying operations, are classified in Manufacturing, Industry 3295. Dressing of stone or slab is classified in Manufacturing, Industry 3281, whether or not mining is done at the same establishment.

Division D

Manufacturing

The Division as a Whole

The manufacturing division includes establishments engaged in the mechanical or chemical transformation of materials or substances into new products. These establishments are usually described as plants, factories, or mills and characteristically use power driven machines and materials handling equipment. Establishments engaged in assembling component parts of manufactured products are also considered manufacturing if the new product is neither a structure nor other fixed improvement. Also included is the blending of materials, such as lubricating oils, plastics, resins or liquors.

The materials processed by manufacturing establishments include products of agriculture, forestry, fishing, mining, and quarrying as well as products of other manufacturing establishments. The new product of a manufacturing establishment may be finished in the sense that it is ready for utilization or consumption, or it may be semifinished to become a raw material for an establishment engaged in further manufacturing. For example, the product of the copper smelter is the raw material used in electrolytic refineries; refined copper is the raw materials used by copper wire mills; and copper wire is the raw material used by certain electrical equipment manufacturers.

The materials used by manufacturing establishments may be purchased directly from producers, obtained through customary trade channels, or secured without recourse to the market by transferring the product from one establishment to another which is under the same ownership. Manufacturing production is usually carried on for the wholesale market, for interplant transfer, or to order for industrial users, rather than for direct sale to the domestic consumer.

There are numerous borderline cases between manufacturing and other divisions of the classification system. Specific instances will be found in the descriptions of the individual industries. The following activities, although not always considered as manufacturing, are:

- Milk bottling and pasteurizing;
- Fresh fish packaging (oyster shucking, fish filleting);
- Apparel jobbing (assigning of materials to contract factories or shops for fabrication or other contracting operations) as well as contracting on materials owned by others;
- Publishing;
- Ready-mixed concrete production;
- Leather converting;
- Logging;
- Wood preserving;
- Various service industries to the manufacturing trade, such as typesetting, engraving, plate printing, and preparing electrotyping and stereotype plates, but not blue-printing or photocopying services;
- Electroplating, plating, metal heat treating, and polishing for the trade;
- Lapidary work for the trade;
- Fabricating of signs and advertising displays.

There are also some manufacturing-type activities performed by establishment which are primarily engaged in activities covered by other divisions, and are, thus not classified as manufacturing. A few of the more important examples are:

Agriculture, Forestry, and Fishing

Processing on farms is not considered manufacturing if the raw materials are grown on the farm and if the manufacturing activities are on a small scale without the extensive use of paid labor. Other exclusions are threshing and cotton ginning.

Mining

The dressing and beneficiating of ores; the breaking, washing, and grading of coal; the crushing and breaking of stone; and the crushing, grinding, or otherwise preparing of sand, gravel, and nonmetallic chemical and fertilizer minerals other than barite are classified in Mining.

Construction

Fabricating operations performed at the site of construction by contractors are not considered manufacturing, but the prefabrication of sheet metal, concrete, and terrazzo products and similar construction materials is included in the Manufacturing Division.

Wholesale and Retail Trade

Establishments engaged in the following types of operations are included in Wholesale or Retail Trade; cutting and selling purchased carcasses; preparing feed at grain elevators and farm supply stores; stemming leaf tobacco at wholesale establishments; and production of wiping rags. The breaking of bulk and redistribution in smaller lots, including packaging, repackaging, or bottling products, such as liquors or chemicals, is also classified as Wholesale or Retail Trade. Also included in Retail Trade are establishments primarily engaged in selling, to the general public, products produced on the same premises from which they are sold, such as bakeries, candy stores, ice cream parlors, and custom tailors.

Services

Tire retreading and rebuilding, sign painting and lettering shops, computer software production, and the production of motion picture films (including video tapes) are classified in Services. Most repair activities are classified as Services. However, some repair activity such as shipbuilding and boatbuilding and repair, the rebuilding of machinery and equipment on a factory basis, and machine shop repair are classified as Manufacturing.

Eligibility Guidelines for
Large Industrial Customer Classification

The following guidelines shall serve as eligibility requirements to take service under the Large Industrial Customer classification:

(i) General primary, substation and transmission service customers who maintain a minimum demand of 1,000 kW during any two of the previous twelve months.

(ii) The facility is classified by the Standard Industrial Classification Manual (1987 edition or supplements thereto) as Mining (Division B) or Manufacturing Division).

(iii) Energy use for mining or manufacturing purposes must be at least 60% of their total energy usage as determined by the Company.

(iv) At time of application for Large Industrial Classification a Minimum Eligibility Requirement for that facility representing 60% of customer's total energy usage at time of application will be established.

(v) If a customer's actual kWh energy usage for minings or manufacturing purposes falls below the Minimum Eligibility Requirement established in (iv) above by more than 25% the customer will be removed from this rate and transferred to as appropriate service classification.

(vi) A customer who fails to maintain criteria set forth in (i), (ii) and (iii) above may at the customer's option transfer to another appropriate service classification.

Sources of Price Reductions

Description	Year 1	Year 2	Year 3	Year 4	Total
Expiring Surcharges:					
RDM Rate Allowance	$ 468,000	$ 468,000	$ 468,000	$ 468,000	
Allowance for Rate Case Costs			253,000	253,000	
Amort. of OPEBs			1,016,000	1,016,000	
NUG Amortization				4,978,000	(A)
Subtotal	468,000	468,000	1,737,000	6,715,000	
One-Time Refunds (3 year Amortization):					
Ramapo Tax Settlement	1,855,600	902,200	902,200		
R&D Overcollection	541,000	541,000	541,000		
RDM Overcollection	82,000	82,000	82,000		
Investigation Refund Shortfall	40,000	40,000	40,000		
Unallocated Depreciation Reserve -- Net (71%)	1,491,873	1,491,873	1,491,873		
Subtotal	4,010,473	3,057,073	3,057,073	0	
Other Cost Reductions					
Special Franchise Property Tax Savings	185,000	185,000	185,000	185,000	
DSM Program Reductions	645,000	1,335,000	1,335,000	1,335,000	
R&D Reductions	300,000	300,000	300,000	300,000	
Gas Transfer Pricing (71%)	380,069	380,069	0	0	
Incremental Holding Company Costs(B)	-250,000	-250,000	-250,000	-250,000	
Subtotal	1,260,069	1,950,069	1,570,000	1,570,000	
Total Cost Reductions (Excl. GRT)	$5,738,542	$5,475,142	$6,364,073	$ 8,285,000	
GRT Gross-up	371,858	354,789	412,392	536,868	
Cost Reductions (Incl. GRT)	$6,110,400	$5,829,931	$6,776,465	$ 8,821,868	
PowerPick(TM) Savings Opportunity (Incl. GRT)	$1,108,000	$1,108,000	$1,108,000	$ 1,108,000	
Total Sources of Price Reduction (Incl. GRT)	$7,218,400	$6,937,931	$7,884,465	$ 9,929,868	$31,970,664

(A) Total NUG Amortization of $5,292,000 less amount applied to other regulatory assets in the amount of $314,000.

(B) Costs up to maximum of $1.0 million incurred in establishment of Holding company will be deferred and amortized over term of settlement.

Privileged Information

Nothing in this Plan requires or will be construed to require the Delivery company, the Holding company or an unregulated subsidiary to provide Staff or any other party access to, or to make disclosure of any information as to which the entity in possession of such information would be entitled to assert a legal privilege, such as the attorney-client privilege, if, either (i) the privilege could be asserted pursuant to CPLR 4503, CPLR 3101 (or any other applicable statute or constitution) in a judicial proceeding, action, trial or hearing, or (ii) providing access to or making disclosure of such information would impair in any manner the right of the entity in possession of such information to assert such privilege against third parties.

If Staff or any other party seeks access to or disclosure of any information that either the Delivery company, the Holding company or an unregulated subsidiary believe is privileged and not subject to access or disclosure under the terms of this Plan, counsel for the entity asserting such privilege will detail, to the extent practical without destroying the privilege, the reasons why the privilege is being claimed in sufficient detail to permit a determination of whether or not to dispute the claim of privilege. If Staff or any other party decides to dispute such claim, it may request that an assigned administrative law judge conduct an in camera review of such information to determine whether it is in fact exempt from access or disclosure under the terms of this section, which disclosure shall not be deemed waiver of the privilege. Such determination will be subject to review by the Commission and, if necessary, judicial review.

Confidentiality of Records

The Holding company and the Delivery company shall designate as confidential any non-public information to or of which Staff or any other party requests access or disclosure, and which the Holding company, the Delivery company or an unregulated subsidiary believe is entitled to be treated as a trade secret. The Holding company, Delivery company or unregulated subsidiary shall provide the requesting party with a redacted version of the information deemed to be confidential together with a non-confidential description of the information and a full explanation of why the information should be provided "trade secret" status. Any party will have the right to contest the trade secret nature of such designated confidential information in accordance with the Commission's Rules of Procedure.

Anyone who is afforded access to, or to whom disclosure is made of, designated confidential portions of books and records, financial information, contracts, minutes, memoranda, business plans, and the like, will agree to maintain such information as confidential, other than information that previously has been made public. For the purposes of this Plan, "information that previously has been made public" will mean information that either (i) has been disclosed by either the Holding company, the Delivery company or any unregulated subsidiary in financial or other literature to the financial community or to the public at large, (ii) appears in documents contained in the public files of a local, state or federal agency, body or court and which has not been accorded trade secret protection, or (iii) information that otherwise is in the public domain.

In the event that Staff or any other party receives any information designated as confidential pursuant to the procedures described in this Plan and desires to use such information in a litigated proceeding before the Commission, Staff or the party will first notify counsel for the Delivery company and the Holding company and the unregulated subsidiary, if applicable, of the nature of such information as well as its intention to use such information in such proceeding and afford the Delivery company, the unregulated subsidiary and/or the Holding company the opportunity to apply to the administrative law judge presiding over such proceeding within ten (10) business days for a ruling designed to maintain the confidentiality of such information under Part 6-1 of the Commission's Rules of Procedure (16 NYCRR). Staff and any other party may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

In the event that a member of Staff receives any information designated as confidential pursuant to the procedures described in this Plan and desires to use or refer to such information in a memorandum or other document which may become an "agency record" as the term is defined in the New York Freedom of Information Law, Staff first shall notify the Company Liaisons (as defined in Appendix H, p. 4, paragraph (iv)) of the nature of such information as well as its intended use, and afford the Delivery company, the unregulated subsidiary, if applicable, and/or the Holding company the opportunity to apply to the Commission under Part 6-1 of the Commission's Rules of Procedure within ten (10) business days for a protective order designed to maintain the confidentiality of such information. Staff and any other party may object to any such application on the grounds that such information is not entitled to be treated as a trade secret under Part 6-1.

Should O&R or any of its affiliates come into possession of any information protected by the provisions of Part 6-1 of the Commission's regulations, such information shall be afforded the same protection by the Company as is afforded the Company's confidential information under the provisions of this Appendix. Contract and pricing terms between Delivery company customers and providers other than O&R or its affiliates shall constitute confidential information and will be used by the Company solely as needed to comply with its required customer and supplier billing function under PowerPick(TM). O&R shall provide such confidential information to its own personnel on a need-to-know basis only and will not disclose such information to any affiliate without the written consent of the party with proprietary rights in the information. Any confidential information provided to O&R shall be clearly marked on every page to the effect that the information is confidential and protected by the Commission's rules on confidentiality and non-disclosure.

Customer Service and Reliability Performance Mechanism

Customer Service

The Company shall continue the customer service performance mechanism consisting of: 1) an annual Residential Customer Assessment Score ("RCAS"), 2) an annual Commercial and Industrial Customer Assessment Score ("CICAS"), and 3) an annual PSC complaint rate target.

The customer satisfaction surveys that will be used as the basis to establish the targets discussed below are intended to evaluate Company performance as rated by customers in the categories of overall favorableness, value and loyalty. The customer satisfaction survey shall be conducted for each year of this Plan. At the commencement of retail access, the Company and Staff will assess the appropriateness of the survey upon which the CAS is based and determine whether a modified survey is necessary.

The RCAS target shall be 2.73 for each rate year of the Plan. The actual RCAS will be subject to adjustment to account for any applicable margin of error. If the actual RCAS as adjusted falls below the 2.73 target or the customer satisfaction survey is not performed in any rate year, the Sharing Threshold (as defined in this Plan) will be reduced by five basis points in that rate year.

The CICAS target shall be 2.65 for each rate year of the Plan. The actual CICAS will be subject to adjustment to account for any applicable margin of error. If the actual CICAS, as adjusted, falls below the 2.65 target or the customer satisfaction survey is not performed in any rate year, the Sharing Threshold will be reduced by five basis points in that rate year.

The annual PSC Complaint Rate target shall be 10.6 complaints per 100,000 customers for each rate year. The actual complaint rate shall be calculated using a 12-month average. If the actual complaint rate exceeds 10.6 in any rate year, the Sharing Threshold will be reduced by five basis points in that rate year.

The Company will, upon request from Staff, provide such information as is available to verify survey results. Any confidential information or trade secrets given to Staff shall be held and used in accordance with Appendix E.

Average Duration of Interruptions

The weighted Company-wide average duration of interruption level target it 1.54 Hrs./Int. ("Interruption Duration Target"), which is a composite of the following minimum acceptable values established by the Commission's Order of May 30, 1995, in Case 95-E-0165:

OPERATING AREA	INTERRUPTION STANDARD	MINIMUM (HRS./INT.)
Eastern	Duration	1.46
Central	Duration	1.70
Western	Duration	1.53

If, for any of the rate years covered by this Plan, Orange and Rockland fails to achieve the Interruption Duration Target, the Sharing Threshold (as defined in this Plan) applicable to that rate year shall be reduced by five basis points.

Average Frequency of Interruptions

The weighted Company-wide average frequency of interruption level target is 1.70 Int./Cust. ("Interruption Frequency Target") which is a composite of the following minimum acceptable values established by the Commission in its order dated May 30, 1995, in Case 95-E-0165:

OPERATING AREA	INTERRUPTION STANDARD	MINIMUM (INT./CUST.)
Eastern	Frequency	1.46
Central	Frequency	1.70
Western	Frequency	2.25

If, for any of the rate years covered by this Plan, Orange and Rockland fails to achieve the Interruption Frequency Target, the Sharing Threshold applicable to that rate year shall be reduced by five basis points.

Low Income Customer Assistance Program

Introduction

On April 2, 1996, Orange and Rockland Utilities, Inc. ("Orange and Rockland" or the "Company"), New York State Department of Public Service Staff ("Staff"), the New York State Consumer Protection Board ("CPB") and the Industrial Energy Users Association ("IEUA") entered into a settlement agreement on electric rates in Case 95-E-0941 ("Rate Case Settlement Agreement") in this proceeding. As part of the Rate Case Settlement Agreement, the parties agreed to meet and discuss the feasibility of developing a new low income program. The Rate Case Settlement Agreement was approved by the Commission in Opinion No. 96-21 issued August 12, 1996.

Since the issuance of Opinion No. 96-21, representatives of the Company, Staff, Pace Energy Project ("Pace") and Public Utility Law Project of New York, Inc. ("PULP") have met on various occasions to discuss the development of a new low income program. The parties have agreed that the Company shall implement a low income program ("Program") in accordance with the terms and conditions set forth below.

1. Term

The Program will commence as soon as practicable after the effectiveness of new rates and terminate four years thereafter.

2. Eligible Customers

The Program will be conducted solely for the residents of the City of Port Jervis, New York and/or residents of the zip code area 12771. The goal of the Program is to serve approximately 400 customers in total, or approximately 100 customers for each of the four years included in this Plan. To be eligible, a customer must have been the current customer of record and been receiving service for at least one year at the present location.

3. Program Expenditures

Program expenditures will include all expenses for energy efficiency, arrears forgiveness, evaluation and administration. Funding for this Program, including $35,000 of administrative costs per year, shall come from unexpended DSM funds.

Expenditures per customer will be capped at $1,000. This expenditure includes the cost of an energy audit, disaggregated billing analysis, energy efficiency measures, and arrears forgiveness. If the Company finds that it is spending consistently less than $1,000 per customer, it will attempt to recruit more customers (in excess of the original 400 customers) into the Program in order to fully expend the available funds.

4. Financial Eligibility Criteria

Customers must be at or below 150% of the Federal Poverty Level to qualify for entry into the Program. HEAP eligibility guidelines will be used. Participating customers must apply for HEAP benefits, and, where applicable, customers also must apply to the Neighbor Fund for a grant.

The Company's target for recruiting customers who are on a direct payment program with the Department of Social Services will be 10% of the total customers served.

5. Budget Program

Participating customers will be required to participate in the Company's budget program.

6. Landlord Contribution

If a customer lives in a leased premise, a landlord contribution of 25% will be required for energy conservation measures. If the landlord does not contribute, the customer will not be eligible to participate in the Program.

7. Energy Audit

An energy audit will be conducted for each participant to identify the potential for the installation of an energy efficient refrigerator and/or weatherization measures. Weatherization measures will be considered for electric or gas heating customers only. The final determination of which measures, if any, to install will be based on the cost of the measures and the benefits to the customer.

8. Contract

A participating customer must execute a contract with the Company which sets forth the terms of the agreement including: the budget payments to be made, the amount of arrears forgiveness agreed on (if any), the energy measures to be installed, and the conditions upon which continued participation will be allowed. The contract will also provide that the customer will be removed from credit action while participating in the Program.

9. Program Measures

The Program will address energy efficiency, payment patterns, and/or arrears forgiveness, depending upon a customer's circumstances. Energy efficiency measures (including refrigerator replacement) will be the first priority for Program expenditures.

10. Arrears Forgiveness

Arrears forgiveness, capped at $250 per participant, is a customer option in the Program. Customers who choose this option will be required to make on-time monthly budget payments. If a customer fails to make three monthly payments by the due date for those payments, the customer will be removed automatically from the Program, will forfeit any further arrears forgiveness, will be returned to normal credit action.

All accounts complying with the payment criteria, as well as all other Program requirements, will then have 25% of the arrears agreed on between the customer and the Company removed from the customers account at the end of each successful three-month segment.

If a participating customer chooses not to take advantage of the arrears forgiveness component, the customer will be required to participate and remain on a mutually agreeable payment plan to address the customers arrears condition.

At the conclusion of a customer's participation in the Program, any arrears still existing will be subject to a mutually agreeable payment plan, and all normal collection activity will be reinstated.

11. Program Evaluation

At the conclusion of the Program's first year, the Company will prepare and provide to Staff a brief status report on the Program. The Company will evaluate the Program and prepare a detailed report within 75 days of the Program's conclusion.

12. Legislative, Regulatory or Related Actions

If any law, rule, regulation, order or other requirement (or any repeal or amendment of an existing rule, regulation, order or other requirement) of the state, local or federal government results in a material change in the terms of this Plan, the parties agree to reconvene promptly and consider any appropriate changes to this Plan.

Standards of Competitive Conduct

General Principles

The following standards of competitive conduct shall govern the Delivery company's relationship with any energy supply and energy service affiliates:

(i) There are no restrictions on affiliates using the same name, trade names, trademarks, service names, service mark or a derivative of a name, of the Holding company or the Delivery company or in identifying itself as being affiliated with the Holding company or the Delivery company. The Delivery company will not provide sales leads involving customers in its service territory to any affiliate, including the ESCO, and will refrain from giving any appearance in promotional advertising or otherwise that the Delivery company speaks on behalf of an affiliate or that an affiliate speaks on behalf of the Delivery company. If a customer requests information about securing any service or product offered within the service territory by an affiliate, the Delivery company will provide a list of companies of which it is aware operating in the service territory who provide the service or product, which may include an affiliate, but the Delivery company will not promote its affiliate.

(ii) The Delivery company will not provide services to its marketing affiliates or customers of its marketing affiliates on preferential terms, nor represent that such terms are available, exclusively to customers who purchase goods or services from, or sell goods or services to, an affiliate of the Delivery company. The Delivery company will not purchase goods or services on preferential terms offered only to suppliers who purchase goods or services from, or sell goods or services to an affiliate of the Delivery company. The Delivery company will not represent to any customer, supplier, or third party that an advantage may accrue to such customer, supplier, or third party in the use of the Delivery company's services as a result of that customer, supplier or third party dealing with any affiliate. This standard does not prohibit two or more of the unregulated affiliates from lawfully packaging their services. The Delivery company must process all similar requests for distribution services in the same manner and within the same period of time.

(iii) All similarly situated customers, including energy services companies and customers of energy service companies, whether affiliated or unaffiliated, will pay the same rates for the Delivery company's utility services and the Delivery company shall apply any tariff provision in the same manner if there is discretion in the application of the provision. The Delivery company must strictly enforce a tariff provision for which there is no discretion in the application of the provision.

(iv) Transactions subject to FERC's jurisdiction over the provision of sales or services in interstate commerce will be governed by FERC's orders or standards as applicable.

(v) Release of proprietary customer information relating to customers within the Delivery company's service territory shall be subject to prior authorization by the customer and subject to the customer's direction regarding the person(s) to whom the information may be released.

(vi) The Delivery company will not disclose to its affiliate any customer or market information relative to its service territory, including, but not limited to utility customer lists, that it possesses or receives from a marketer, customer, potential customer, or agent of such customer or potential customer other than information available from sources other than the Delivery company, unless it discloses such information to its affiliate's competitors on an equal basis and subject to the consent of the marketer, customer, or potential customer.

(vii) The Delivery company shall establish a complaint process consistent with the following. If any competitor or customer of the Delivery company believes that the Delivery company has violated the standards of competitive conduct established in this section of the agreement, such competitor or customer may file a complaint in writing with the Delivery company. The Delivery company will respond to the complaint in writing within twenty (20) business days after receipt of the complaint, including a detailed factual report of the complaint and a description of any course of action proposed to be taken. After the filing of such response, the Delivery company and the Complaining party will meet, if necessary, in an attempt to resolve the matter informally. If the Delivery company and the complaining party are not able to resolve the matter informally within 15 business days, the matter will be referred promptly to the Commission for disposition.

(viii) The Commission may impose on the Delivery company remedial action for violations of the standards of competitive conduct. If the Commission believes that the Delivery company has engaged in material violations of the standards of competitive conduct during the course of this Plan, it shall provide the Delivery company notice of and a reasonable opportunity to remedy such conduct or explain why such conduct is not a violation. If the Delivery company fails to remedy such conduct within a reasonable period after receiving such notice, the Commission may take remedial action with respect to the Holding company to prevent the Delivery company from further violating the standard(s) at issue. Such remedial action may include directing the Holding company to divest the unregulated subsidiary, or some portion of the assets of the unregulated subsidiary, that is the subject of the Delivery company's material violation(s), but exclude directing the Holding company to divest the Delivery company or imposing a service territory restriction on the unregulated subsidiary. If the Holding company is directed to divest an unregulated subsidiary, it may not thereafter, without prior Commission approval, use a new or existing subsidiary of the Holding company to conduct within the Delivery company's service territory the same business activities as the divested subsidiary (e.g., energy services). The Delivery company and the Holding company may exercise any and all legal and/or equitable relief from such remedial actions, including, but not limited to injunctive relief. Neither Orange and Rockland nor any affiliate or subsidiary will challenge the Commission's legal authority to implement the provisions of this subparagraph.

(ix) The Standards of Competitive Conduct set forth in this Plan will apply in lieu of any existing generic standards of conduct (e.g., the interim gas standards established in Case 93-G-0932) and may be proposed as substitutes for any future generic Standards of Competitive Conduct established by the Commission through the term of this Plan. Unless otherwise ordered by the Commission, the Standards of Competitive Conduct set forth in this Plan will continue to apply after the expiration of the term of this Plan, given the Company's need for stability in rules governing its structure. Before the Commission makes any changes to these standards, it will consider the Company's specific circumstances, including its performance under the existing standards.

(x) The rate levels provided for in this Plan cover all royalties that otherwise would be credited to the Delivery company's customers, at any time, including after the expiration of this Plan.

Access to Books and Records and Reports

(i) Staff will have access, on reasonable notice and subject to appropriate resolution of confidentiality and privileges, to the books and records of the Holding company and the Holding company majority-owned subsidiaries.

Staff will have access, on reasonable notice and subject to the provisions of Appendix E regarding confidentiality and privileges, to the books and records of all other Holding company subsidiaries to the extent necessary to audit and monitor any transactions which have occurred between the Delivery company and such subsidiaries, to the extent the Holding company has access to such books and records.

(ii) The Delivery company will supplement the information that the Commission's regulations require it to report annually with the following information: Transfers of assets to and from an affiliate, cost allocations relative to affiliate transactions, identification of Delivery company employees transferred to an affiliate, and a listing of affiliate employees participating in common benefit plans.

(iii) The Holding company will provide a list on a quarterly basis to the Commission of all filings made with the Securities and Exchange Commission by the Holding company and any subsidiary of the Holding company including the Delivery company.

(iv) A senior officer of the Holding company and the Delivery company will each designate a company employee, as well as an alternate to act in the absence of such designee, to act as liaison among the Holding company, the Delivery company and Staff ("Company Liaisons"). The Company Liaisons will be responsible for ensuring adherence to the established procedures and production of information for Staff, and will be authorized to provide Staff access to any requested information to be provided in accordance with this Plan.

(v) Access to books and records shall be subject to claims of privilege and confidentiality as set forth in Appendix E hereto.

Affiliate Relations

1. General

a) The Delivery company and the Holding company's other subsidiaries will be operated as separate entities, with separate books of account and other business records, within 180 days of formation of the Holding company. Unregulated affiliates will establish and maintain separate and distinct offices and work space from the Delivery company in a separate building or leasehold.

b) Draft cost allocation guidelines are attached as Appendix J. These guidelines are fully reviewable and non-binding proposals that may be amended and/or supplemented as necessary. The Company will file with the Director of the Office of Accounting and Finance of the Department of Public Service all amendments and supplements to the guidelines, thirty days prior to making such change(s). At the discretion of the Commission, these guidelines will be considered in either the unbundling phase of this proceeding or as part of the Company's application to form a Holding company as appropriate.

c) Neither the Delivery company nor marketing affiliate personnel shall communicate with any customer, supplier or third party that any advantage may accrue to such customer supplier or third party in the use of the Delivery company's service as a result of their dealing with the marketing affiliate.

d) If the Delivery company offers its affiliate or a customer of its affiliate a discount or special arrangement for distribution service, billing, metering on any other service offered, it must contemporaneously offer the same arrangement to all similarly situated non-affiliate merchants and must file with the Commission procedures that will enable the Commission to determine how the Delivery company is complying with those standards.

2. Transfer of Assets

a) Transfers of assets from an affiliate to the Delivery company will not require prior Commission approval. Transfers of assets from the Delivery company to an affiliate will not require prior Commission approval, except for assets of the Delivery company whose transfer requires Commission approval under Public Service Law, (S) 70.

b) For all assets other than generating stations, transfers of assets from the Delivery company to an affiliate shall be at the higher of net book value or fair market value net of deferred Federal income taxes, except that the Delivery company may, as part of its reorganization, transfer to the Holding company or affiliate, at no charge, title to office furniture, equipment and other assets having an aggregate net book value not to exceed $250,000 (on a system basis). Transfers of assets from an affiliate to the Delivery company shall be on a basis not to exceed fair market value.

c) Fair market value shall be determined in accordance with the cost allocation guidelines. For example, the Delivery company may transfer to an affiliate any computer software system that the Delivery company is authorized to transfer, without data, at a price at which the Delivery company would sell such software to an unaffiliated third party.

3. Personnel

a) The Delivery company and the unregulated affiliates will have separate operating employees.

b) Officers of the Delivery company may not be officers of the ESCO.

c) Employees may be transferred from the Delivery company to an unregulated affiliate upon mutual agreement. Transferred employees may not be reemployed by the Delivery company for a minimum of one year after the transfer date. Employees returning to the Delivery company may not be transferred again to an unregulated affiliate until one year after the date of return. The Delivery company will file annual reports to the Commission, beginning 45 days after the end of the first calendar quarter following structural separation showing transfers between the Delivery company and unregulated affiliates by employee name, former company, former position, new company, new position, and salary or annualized base compensation.

d) For each employee transferred from the Delivery company to an unregulated affiliate, the unregulated affiliate shall compensate the Delivery company by paying an amount equal to 25% of the employee's prior year's annual salary on a one-time basis, except that there shall be no compensation (i) for employees transferred to an unregulated affiliate not later than six months from the date of structural separation or the unregulated affiliate to which the employee is transferred is formed, whichever is later; (ii) for the transfer of employees covered by a collective bargaining agreement; or (iii) where the employee's transfer is attributable to the transfer or reduction of a Delivery company function or major asset.

e) The foregoing provisions do not restrict any affiliate from loaning employees to Delivery company to respond to an emergency that threatens the safety or reliability of service to consumers.

f) The compensation of Delivery company employees may not be tied to the performance of any of the unregulated subsidiaries, provided, however, that stock of the Holding company may be used as an element of compensation and the compensation of common officers of the Holding company and Delivery company may be based upon the operations of the Holding company and Delivery company.

g) The employees of Holding company, Delivery company and the unregulated subsidiaries may participate in common pension and benefit plans, provided that funding requirements for employees remaining with the regulated entity are readily determined. If the plans are maintained or amended in such a manner that employees of the unregulated entities are treated inconsistently with the employees of the regulated entity, then the plans of the regulated entity will be segregated and made independent.

4. Provision of Services and Goods

a) Corporate services (such as corporate governance, administrative, legal, purchasing and accounting) may be provided by the Holding company to or on behalf of the Delivery company and unregulated affiliates at a price equal to fully-loaded cost. This guideline will not operate as a prescription of the ratemaking treatment of requested allowances for the costs of such services.

b) The Delivery company may provide services to an unregulated affiliate, except that the Delivery company may not use any of its marketing or sales employees to provide services to any affiliated ESCO relating to business within the Delivery company's service territory. The unregulated affiliate shall compensate the Delivery company for the services of employees at the higher of the employees' fully-loaded cost or the price that the Delivery company would charge a third party for such employees' services. This guideline will not operate as a limitation on the projections of revenues from such services adopted for ratemaking purposes.

c) Subject to the provisions of this Appendix, the Company's unregulated affiliates may provide services to the Delivery company. Any management, construction, engineering or similar contract between the Delivery company and an affiliate and any contract for the purchase by the Delivery company from an affiliate of electric energy or gas will be filed with the Public Service Commission pursuant to Public Service Law (S) 110, and will be subject to any applicable FERC requirements. (As noted in Section IV.B. herein, certain electric supply contracts will be subject to competitive bidding.) All other goods and services will be provided to the Delivery company at a price that shall not be greater than fair market value. This guideline will not operate as a prescription of the ratemaking treatment of requested allowances for the costs of such services.

d) The Delivery company, the Holding company, and the unregulated affiliates may be covered by common property/casualty and other business insurance policies. The costs of such policies shall be allocated among the Delivery company, the Holding company and the unregulated affiliates in an equitable manner.

Interdepartmental Transfers

The Company's submission to the Commission to modify its Fuel Adjustment Clause and Gas Adjustment Charge will be consistent with the following principles:

1. The existing agreement in which the Company's gas department provided a bundled gas service (i.e., acquired gas and transported from production area to generation site) for generation is changed.

2. The new agreement functionally separates the electric and gas departments' business relationship. Electric department will now purchase gas separate from the gas department.

3. The gas department will not be obligated to provide gas services (including natural gas, transportation, capacity or balancing services upstream of the citygate) to electric department, except: under separately negotiated contracts at market based prices.

4. The new Transportation price will incorporate a charge of $0.05 per Mcf for all volumes transported to the electric department by the gas department, but in no event will the total annual charge be less than $1.275 million (Bowline By-Pass).

5. All gas transactions between gas and electric business units will be arms length, with separate purchasing personnel.

6. Negotiated agreements between gas and electric departments will be at posted bulletin board prices (market prices), consistent with FERC standards and regulations. Copies of agreements will be filed with the Commission by the gas business unit. This will include:

   . transportation and capacity services from production areas to citygate (i.e., all upstream capacity);

   . price of gas (commodity) sold; and

   . balancing services.

7. Absent a separate balancing agreement approved by the Commission, the electric department must balance its gas deliveries to the citygate and from the citygate to the generator site within the limits established for transportation customers, as described in the gas transportation tariff, or face penalty charges detailed in the gas tariff.

8. Expenditures associated with the upgrade of the existing pipeline to Bowline, in order to allow the pipeline to operate it at a higher pressure, and not for instance due to general safety considerations, will be allocated to the Company's electric department.

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WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONSOLIDATED BALANCE SHEET, INCOME STATEMENT AND STATEMENT OF CASH FLOWS FOR CONSOLIDATED EDISON, INC. AND ORANGE & ROCKLAND UTILITIES AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS AND THE NOTES THERETO.

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12-MOS	12-MOS	12-MOS	12-MOS
JAN-01-1998	JAN-01-1998	JAN-01-1998	JAN-01-1998
DEC-31-1998	DEC-31-1998	DEC-31-1998	DEC-31-1998
MAR-31-1998	MAR-31-1998	MAR-31-1998	MAR-31-1998
PER-BOOK			PRO-FORMA
11,264,989	935,276	437,708	12,637,973
331,970	10,505	0	342,475
1,277,449	165,983	(72,976)	1,370,456
590,088	67,279	35,200	692,567
938,053	76,829	0	1,014,882
14,402,549	1,255,872	399,932	16,058,353
588,724	67,594	(67,594)	588,724
856,661	126,244	(126,244)	856,661
4,531,810	183,625	(194,984)	4,520,451
5,977,195	377,463	(388,822)	5,965,836
84,550	0	0	84,550
233,468	43,220	0	276,688
4,198,152	356,637	790,000	5,344,789
0	0	0	0
0	0	0	0
0	0	0	0
200,000	121,398	0	321,398
0	0	0	0
39,180	1,603	0	40,783
2,778	173	0	2,951
3,667,226	355,378	(1,246)	4,021,358
14,402,549	1,255,872	399,932	16,058,353
7,133,644	628,536	0	7,762,180
377,796	22,916	(19,670)	381,042
5,712,848	528,536	20,023	6,261,407
6,090,644	551,452	353	6,642,449
1,043,000	77,084	(353)	1,119,731
10,487	2,037	0	12,524
1,053,487	79,121	(353)	1,132,255
330,819	31,893	47,400	410,112
0	(10,834)	0	(10,834)
722,668	36,394	(47,753)	711,309
233,468	43,200	0	276,688
0	0	0	0
306,016	23,1010	47,400	376,426
1,247,507	90,878	(861,730)	476,655
2.99	2.47	0	2.93
2.99	2.47	0	2.93