

O&R Market Supply Charge

- Provides for full and timely recovery of costs associated with providing electric supply to full service customers.
- Assessed on full service customers only – customers on whose behalf MSC costs are incurred.
- Consists of forecast of purchased power costs plus over/undercollection from a prior month, on a two-month lag.

O&R Energy Cost Adjustment

- The ECA is designed to recover:
 - the above-market portion of purchased power payments made pursuant to contracts with Non-Utility Generators;
 - load pocket mitigation costs; and
 - lost revenues resulting from flex rate contracts (the Company has not entered into any flex rate contracts).
- The ECA normally changes once per year.
- The ECA is assessed on all O&R customers.

Recovery of Purchased Power Costs

<u>Costs</u>	<u>MSC</u>	<u>ECA</u>
NYISO Energy	X	
NTAC	X	
Ancillary Services	X	
Capacity	X	
NUGS (Market Value)	X	
NUGS (Above Market)		X
Hedging Gains/Losses	X	
NYISO Settlement Adjustments	X	
TCC Credits	X	
Load Pocket Mitigation		X
Prior Month Reconciliation	X	

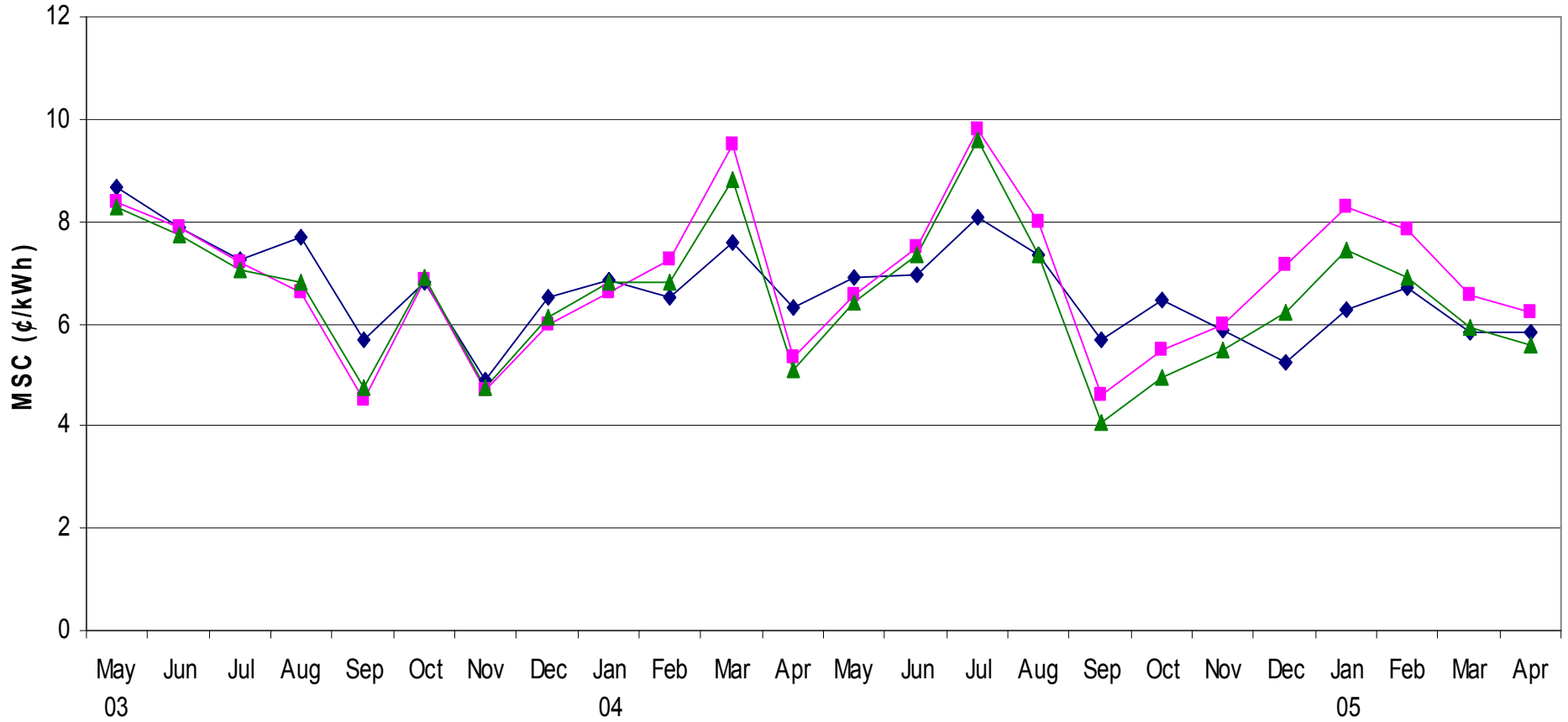
Hedging Costs/Benefits

- O&R hedges a portion of its electric supply to stabilize prices for full service customers.
- Hedging costs/benefits are flowed through the MSC since they are costs incurred/benefits realized on behalf of full service customers.
- Each month, an estimate of hedging cost/benefit is included in the forecast component of the MSC.
- A reconciliation of prior month's hedging actual result versus estimate is included in the reconciliation component of the MSC.

NYISO Adjustments

- O&R's monthly bill from the NYISO includes adjustments reflecting true ups of prior periods -- 4 months, 12 months and 24 months prior.
- The 4 month true up is by far the most significant.
- Recent months' true ups have been credits, in part due to problem with "backcast" used to determine O&R's full service share of monthly throughput on the O&R system.
- Backcast problem was corrected in January 2005 and correction is expected to reduce NYISO true ups beginning in May 2005 and impacting the reconciliation component of the July 2005 MSC.
- Future true ups are expected to consist of both credits and charges.

**Orange and Rockland Utilities, Inc.
Market Supply Charge
With Certain Adjustments**



◆ MSC As Filed

■ MSC Excl Hedging & NYISO Adj

▲ MSC Excl Hedging

Transmission Congestion Contracts

- TCC credits/charges are associated with use of the transmission system.
- Credits/charges associated with TCCs are flowed through the MSC.
- TCC impact on MSC is small (0.5 to 0.6%).