

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Cases 19-E-0378, 19-G-0379, 19-E-0380 and 19-G-0381

In the Matter of

NEW YORK STATE ELECTRIC & GAS CORPORATION

AND

ROCHESTER GAS & ELECTRIC CORPORATION

ELECTRIC AND GAS RATES

September 2019

Prepared Exhibits [Redacted] of:

Site Investigation and
Remediation Panel

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Cases 19-E-0378, 19-G-0379, 19-E-0380 and 19-G-0381

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Exhibit__(SIR-1)
Redacted

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0947 (DPS-441)

Date of Request: August 5, 2019

Response Due Date: August 12, 2019

Date of Reply: August 12, 2019

Witness: Steve Mullin

Subject: RG&E East and West Station Sites

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

In Rate Year 3 (4/1/22 to TME 3/31/23) the East Station MGP/Bedrock NAPL and West Station MGP have significant forecast changes from the previous year of \$14.900 and \$19.900 million, respectively.

- a. With regard to the East Station Site, describe or answer the following.
 - i. What is the current status of the site in relation to the projected conceptual schedule b in RC-RRP-2-WP-17?
 - ii. In Table 7 of the current RG&E Annual Report, it is described that there was a lag in NYSDEC approval for the remedial investigation report and the feasibility study was started later in 2018 than planned. How will this affect the schedule for remedial action?
 - iii. Has RG&E secured access or rights to conduct work on the site or any off-site properties? If yes, append documentation of such access rights. If access rights are being negotiated, provide a general background and status, with anticipated timeline.
 - iv. Has the feasibility study for the site been approved? If yes, append documentation.
 - v. If the site is in the bidding phase for remedial design, has the contract been awarded? If yes, explain and append relevant supporting documentation.
 - vi. Are there any permits needed for the remedial action phase to commence? If yes, describe the permit(s) and current status of approval.
 - vii. The Companies' response to NYRC-0532 (DPS-193)(f) indicates that the remedial action phase will be completed beyond 2023. How far into 2024 is the remedial action anticipated to extend?

- b. With regard to the West Station Site, describe or answer the following.
- i. What is the current status of the site in relation to the projected conceptual schedule b in RC-RRP-2-WP-17?
 - ii. Has RG&E secured access or rights to conduct work on the site or any off-site properties? If yes, append documentation demonstrating such access rights. If access rights are being negotiated, provide a general background and status, with anticipated timeline.
 - iii. If the site is in the bidding phase for remedial design, has the contract been awarded?
 - iv. Are there any permits needed for the remedial action phase to commence? If yes, describe the permit(s) and current status of approval

Response:

a. East Station Site:

- i. The FS was submitted to NYSDEC on July 26, 2019, slightly behind its target submittal date by the end of March 2019. The NYSDEC has indicated that a Record of Decision (ROD) should be issued during their current fiscal year.
- ii. The schedule for remedial action may be delayed a few months. The estimated start of the remedial action could be in late 2022 or early 2023; however, as the project advances the schedule will become more defined as the remedial action is better understood.
- iii. RG&E will renew access rights to the off-site Bausch & Lomb property for the purposes of conducting pre-design investigations and for remedial action. Bausch & Lomb has verbally agreed to an access agreement, a formal agreement still needs to be signed. Once the FS is approved and the ROD is issued by NYSDEC and the remedial action identified, RG&E will complete negotiations of the access agreement.
- iv. As previously noted, the Feasibility Study was recently submitted to NYSDEC on July 26, 2019 and has therefore not been approved yet.
- v. The remedial design will not be initiated until a ROD is issued therefore there is currently no bidding or contract activity.
- vi. There will likely be permits required when the remedial action work commences. As we are still in the Feasibility Study phase, the permits are not specified or known.
- vii. The Feasibility Study provides estimates for remedial action duration ranging for 1 year to 4 years, depending on the Alternative selected. RG&E's recommended Alternative in the FS indicates potential duration of 30 to 50 months; with certain phases of work that could extend into 2025 or 2026.

b. West Station site:

- i. The Remedial design consultant has been retained and design work is scheduled to begin in August 2019. At this time we are on schedule with the conceptual project schedule.
- ii. We do not anticipate the need for off-site property access. Since RG&E owns the former MGP site itself, no access rights will be required.
- iii. Remedial design services are anticipated to be provided through master service agreements with 4 qualified engineering consulting firms. One firm that had similar project experience is being utilized to initiate the 50% design work.
- iv. There will likely be permits required when the remedial action work commences. As we are still in the engineering design phase, the permits are not specified or known.

Requesting Party: DPS Staff

Request No.: NYRC-0417 (DPS-131)

Date of Request: June 21, 2019

Response Due Date: July 1, 2019

Date of Reply: July 1, 2019

Witness: Steve Mullin

Subject: Environmental Remediation – NYSEG and RG&E Sites

Question:

- a. With reference to NC-RRP-2-WP-17 Schedule A, provide supporting documentation and calculations for the forecasted increase in costs from the Normalized Historic Test Year to Rate Year 1 4/1/20 to TME 3/31/21 for the Plattsburgh Saranac St., Newark, and Granville sites.
- b. With reference to NC-RRP-2-WP-17 Schedule A, provide supporting documentation and calculations for the for the forecasted increase in costs from the Normalized Historic Test Year to Rate Year 1 4/1/20 to TME 3/31/21 for Legal for MGP.
- c. With reference to RC-RRP-2-WP-17 Schedule A, provide supporting documentation and calculations for the forecasted increase in costs from the Normalized Historic Test Year to Rate Year 1 4/1/20 to TME 3/31/21 for the East Station MGP/Bedrock NAPL, Station 5 Tunnel Water Management, and NYSDEC MGP Oversight Cost.

Response:

a. & c.

Consistent with Companies' Order on Consent with New York State Department of Environmental Conservation (NYSDEC) for the MGP sites, the Companies' SIR program follows a prescriptive process to investigate and where necessary remediate them.

The process begins with site characterization, followed by remedial investigation, feasibility study/alternatives analysis, remedial design, and concludes with remedial action. The costs associated with each phase of work often vary greatly, and the costs for any given phase are incurred as conceptualized in the conceptual target schedules the Companies' negotiate with NYSDEC annually.

The historic test year (2018) costs reflect the costs associated with whatever phase of the program a particular site was in at that time. As the sites progress through their program cycles, the costs associated with years subsequent to the historic test year are likely to be different because the site is likely to be in a different phase of the project.

If the historic test year was a year in which a less expensive phase of work was being performed, costs for subsequent years will likely be greater than the historic test year costs. If the historic test year was a year in which a more expensive phase of work was being performed, costs for subsequent years will likely be less than the historic test year.

A schedule showing NYSEG's Plattsburgh Saranac St., Newark, and Granville sites, and RG&E's East Station MGP Site provided in Attachment 1 provides a depiction of the type of work performed in the Historic Test Year (2018) and work conceptualized for the Rate Year 4/1/20 to 3/31/21 as well as for the rate case years through 3/31/2023. The schedule also shows the estimated cost for those periods. Following the schedule within Attachment 1 are cost estimates used to derive the estimates for the RY.

For the RG&E Station 5 Tunnel Water Management project, the difference between the historic test year and the rate 4/1/20-3/31/21 is associated with the timing and intensity of work. Support for this project occurs when tunnel inspections are performed, which are targeted for every 5-10 years based on operating conditions, with the next inspection possibly to occur during the first rate year.

The difference in the NYSDEC MGP Oversight Cost between the historic test year and the RY is tied to the level of work to be performed, with field work anticipated to increase compared to the historic test year.

- b. Similar to the variability of the technical work performed at any given site as described above, the legal needs for any given site vary from year to year, depending on the phase of work being performed; thus, the legal costs for any given site are likely to vary from historic test year (2018) costs. Specifically, at the time of the initial submittal on May 20, 2019, NYSEG had estimated \$1,650,000 for legal services. As more information becomes available NYSEG may need to update this number.

Approximately \$1,250,000 was allocated to pursue insurance recovery. Recently, NYSEG learned the case was overturned on appeal and NYSEG is not going to pursue additional legal action. Removing \$1,250,000 to pursue insurance recovery, the current estimate for legal services during this RY is approximately \$400,000 which is similar in amount with other years. NYSEG will make a formal update and revision of the work paper to reflect the change.

NYSEG & RG&E Schedule

NYRC-0417 (DPS-131)

Schedule of Activities based on Conceptual Target MGP Project Schedule Submitted by Companies to NYSDEC 12/28/2018																								
Sites	2018 (Actual Work Completed)				2019				2020				2021				2022				2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Plattsburgh OU-1 River/Site (NYSEG)	RA							Restoration Plantings			Restoration Plantings	OM				OM				OM				
Rate Case Est (4/1/20-3/31/23)											1,500,000			0					0					
Plattsburgh OU-2 River (NYSEG)		RD				RD	Contractor procurement				RA			RA				RA - continuation, if needed						
Rate Case Est (4/1/20-3/31/23)											7,000,000			7,000,000					7,000,000					
Plattsburgh OU-3 Bay (NYSEG)		Supplemental RI				draft FS		FS			@			dRD		RD		Contractor procurement			RA			
Rate Case Est (4/1/20-3/31/23)											20,000			250,000					20,000					
Granville (NYSEG)		RD					RA				FER					OM				OM				
Rate Case Est (4/1/20-3/31/23)											3,756,000			100,000					100,000					
Newark (NYSEG)		RD					Contractor procurement				RA		FER			OM				OM				OM
Rate Case Est (4/1/20-3/31/23)											3,550,000			83,750					35,000					
East Station (RG&E)			FS			@		RD Bid			RD			RA Bid						RA				
Rate Case Est (4/1/20-3/31/23)											500,000			100,000					15,000,000					
RI-Remedial Investigation FS - Feasibility Study @ - ROD PDI - Pre Design Investigation RD - Remedial Design RA - Remedial Action OM - Operation, Monitoring, & Maintenance IRM-Interim Remedial Measure EC - Electric Construction IECC - Institutional & Engineering Control Certification ISM - Interim Site Management FER - Final Engineering Report																								

*This target schedule has been prepared based on current assumptions that may or may not be accurate, and by no means shall be considered a schedule for completion of the activities identified. The actual schedule to complete the investigation, remediation or construction activities at each Site will be continually developed based on information generated throughout the course of each project. It is RG&E's intent to complete the projects as expeditiously as possible using available resources, sound engineering practices, safe construction and remediation techniques, and technically reliable methods to achieve solutions that satisfy the goals and objectives appropriate for each Site.

NYSEG - Plattsburgh MGP Site Estimate

Table 1
Cost Estimate for Remaining OU-1 Activities
NYSEG
Plattsburgh (Saranac Street) Former MGP Site
Plattsburgh, New York



Item #	Description	Estimated Quantity	Unit	Unit Price	Estimated Cost
Capital Costs					
1.	Restoration Plan Preparation	1	LS	\$30,000	\$30,000
2.	Restoration Permitting and Coordination	1	LS	\$25,000	\$25,000
3.	Bank Restoration Installation	1	LS	\$510,000	\$510,000
4.	Bank Restoration Engineering Oversight	3	Month	\$25,000	\$75,000
5.	Bank Restoration Report	1	LS	\$25,000	\$25,000
6.	Environmental Easement Support	1	LS	\$15,000	\$15,000
7.	Site Management Plan	1	LS	\$30,000	\$30,000
8.	Bedrock Monitoring Well Installation	4	Each	\$15,000	\$60,000
Subtotal Capital Cost:					\$770,000
Contingency (20%):					\$154,000
Total Capital Costs:					\$1,014,000
Operation and Maintenance (O&M) Costs - 5 Years					
9.	Bank Restoration Monitoring and Reporting	1	LS	\$41,000	\$41,000
10.	Miscellaneous Bank Restoration Maintenance	1	LS	\$51,000	\$51,000
Subtotal Capital Cost:					\$92,000
Contingency (20%):					\$18,400
Total Present Worth O&M Cost (5 years @ 5%):					\$478,000
Operation and Maintenance (O&M) Costs - 30 Years					
11.	Annual NAPL Monitoring	1	LS	\$6,000	\$6,000
12.	Annual Reporting	1	LS	\$15,000	\$15,000
13.	Annual Verification of Institutional Controls	1	LS	\$10,000	\$10,000
Subtotal Capital Cost:					\$31,000
Contingency (20%):					\$6,200
Total Present Worth O&M Cost (30 years @ 5%):					\$571,900
Total Estimated Cost (Rounded):					\$2,100,000

NYSEG - Plattsburgh MGP Site Estimate

Table 5
Remediation Construction Forecast
Order-of-Magnitude Cost Estimate
OU-2 : River

New York State Electric and Gas
Saranac Street Former MGP Site, Plattsburgh, New York

Item #	Description	Estimated Quantity	Unit	Unit Price	Estimated Cost
1	Permits and Approvals	3	EA	\$30,000	\$90,000
2	Mobilization and Site Preparation				
	Support Facilities Installation	3	EA	\$300,000	\$900,000
	Support Facilities Operation	24	Month	\$30,000	\$720,000
3	River Bypass System	3,000	LF	\$200	\$600,000
4	Sediment Removal and Handling				
	Site Survey	3	YR	\$50,000	\$150,000
	Excavation & Hauling- Sediment Column	13,027	CY	\$30	\$390,900
	Excavation & Hauling- Till	0	CY	\$35	\$0
	Blending Operations	13,027	CY	\$10	\$130,300
	Stabilization Admixture	977	TON	\$200	\$195,500
5	Temporary Water Treatment System				
	Installation	3	EA	\$300,000	\$900,000
	Operation	15	Month	\$150,000	\$2,250,000
	POTW Discharge Fee	3	EA	\$45,000	\$135,000
6	Backfill				
	Fill Material Sampling and Analysis	3	YR	\$10,000	\$30,000
	Clean Stone Backfill	21,495	TON	\$25	\$537,400
7	Transportation and Disposal				
	Waste Material Sampling and Analysis	3	YR	\$40,000	\$120,000
	On-site Re-use or Landside Disposal	3,920	TON	\$10	\$39,200
	Off-site Disposal - ESMI	15,600	TON	\$100	\$1,560,000
8	Restoration	1	LS	\$20,000	\$20,000
Subtotal Capital Cost					\$8,768,300
Construction Observation and Environmental Monitoring					\$1,050,000
Administration & Engineering (7%)					\$614,000
Contingency (25%)					\$2,192,100
Total Capital Cost					\$12,624,400
Rounded To:					\$12,620,000

AC = acres; CY = cubic yard; LF = linear feet; LS = lump sum, YR= year

General Notes:

1. Cost estimate is based on ARCADIS of New York's (ARCADIS') past experience and vendor estimates using 2013 dollars.
2. This estimate has been prepared for the purposes of evaluating (or forecasting) costs associated with remediation construction activities. The information in this cost estimate is based on the available information regarding the site investigation and the anticipated scope of the remediation action. Changes in cost elements are likely to occur as a result of new information and data collected during the engineering design of the remedial alternative. Actual costs may vary from these estimates, and such variations may be material. Utilization of this cost estimate information beyond the stated purpose is not recommended. ARCADIS is not licensed to provide financial or legal consulting services; as such, this cost estimate information is not intended to be utilized for complying with financial reporting requirements associated with liability services.

NYSEG - Plattsburgh MGP Site Estimate

Table 6
Remediation Construction Forecast
Order-of-Magnitude Cost Estimate
OU-2 : Lake - Limited Removal

New York State Electric and Gas
Saranac Street Former MGP Site, Plattsburgh, New York

Item #	Description	Estimated Quantity	Unit	Unit Price	Estimated Cost
1	Permits and Approvals	1	EA	\$30,000	\$30,000
2	Mobilization and Site Preparation				
	Support Facilities Installation	1	EA	\$300,000	\$300,000
	Support Facilities Operation	8	Month	\$40,000	\$320,000
3	Sediment Removal and Handling				
	Site Survey	1	YR	\$50,000	\$50,000
	Hydraulic Dredging - Targeted Sediment	33,500	CY	\$50	\$1,675,000
	Hydraulic Dredge Slurry Line	3,000	LF	\$50	\$150,000
	Dewatering and Stabilization Operations	33,500	CY	\$25	\$837,500
	Stabilization Admixture	5,100	TON	\$200	\$1,020,000
4	Temporary Water Treatment System				
	Installation	1	EA	\$400,000	\$400,000
	Operation	5	Month	\$250,000	\$1,250,000
	POTW Discharge Fee	1	EA	\$75,000	\$75,000
5	Backfill				
	Fill Material Sampling and Analysis	1	YR	\$10,000	\$10,000
	Clean Sand Backfill	55,300	TON	\$20	\$1,106,000
6	Transportation and Disposal				
	Waste Material Sampling and Analysis	1	YR	\$40,000	\$40,000
	Off-site Disposal - ESMI	50,300	TON	\$100	\$5,030,000
7	Restoration	1	LS	\$50,000	\$50,000
Subtotal Capital Cost					\$12,343,500
Construction Observation and Environmental Monitoring					\$350,000
Administration & Engineering (2%)					\$247,000
Contingency (25%)					\$3,085,900
Total Capital Cost					\$16,026,400
Rounded To:					\$16,030,000

AC = acres; CY = cubic yard; LF = linear feet; LS = lump sum, YR= year

General Notes:

1. Cost estimate is based on ARCADIS of New York's (ARCADIS') past experience and vendor estimates using 2013 dollars.
2. This estimate has been prepared for the purposes of evaluating (or forecasting) costs associated with remediation construction activities. The information in this cost estimate is based on the available information regarding the site investigation and the anticipated scope of the remediation action. Changes in cost elements are likely to occur as a result of new information and data collected during the engineering design of the remedial alternative. Actual costs may vary from these estimates, and such variations may be material. Utilization of this cost estimate information beyond the stated purpose is not recommended. ARCADIS is not licensed to provide financial or legal consulting services; as such, this cost estimate information is not intended to be utilized for complying with financial reporting requirements associated with liability services.

NYSEG - Plattsburgh MGP Site Estimate

Table 6
Remediation Construction Forecast
Order-of-Magnitude Cost Estimate
OU-2 : Lake - Complete Removal

New York State Electric and Gas
Saranac Street Former MGP Site, Plattsburgh, New York

Item #	Description	Estimated Quantity	Unit	Unit Price	Estimated Cost
1	Permits and Approvals	3	EA	\$30,000	\$90,000
2	Mobilization and Site Preparation				
	Support Facilities Installation	3	EA	\$300,000	\$900,000
	Support Facilities Operation	24	Month	\$40,000	\$960,000
3	Sediment Removal and Handling				
	Site Survey	3	YR	\$50,000	\$150,000
	Hydraulic Dredging - Targeted Sediment	154,000	CY	\$50	\$7,700,000
	Hydraulic Dredge Slurry Line	3,000	LF	\$50	\$150,000
	Dewatering and Stabilization Operations	154,000	CY	\$25	\$3,850,000
	Stabilization Admixture	23,100	TON	\$200	\$4,620,000
4	Temporary Water Treatment System				
	Installation	3	EA	\$400,000	\$1,200,000
	Operation	15	Month	\$250,000	\$3,750,000
	POTW Discharge Fee	3	EA	\$75,000	\$225,000
5	Backfill				
	Fill Material Sampling and Analysis	3	YR	\$10,000	\$30,000
	Clean Sand Backfill	254,100	TON	\$20	\$5,082,000
6	Transportation and Disposal				
	Waste Material Sampling and Analysis	3	YR	\$40,000	\$120,000
	Off-site Disposal - ESMI	231,000	TON	\$100	\$23,100,000
7	Restoration	1	LS	\$50,000	\$50,000
Subtotal Capital Cost					\$51,977,000
	Construction Observation and Environmental Monitoring				\$1,050,000
	Administration & Engineering (1%)				\$520,000
	Contingency (25%)				\$12,994,300
	Total Capital Cost				\$66,541,300
	Rounded To:				\$66,540,000

AC = acres; CY = cubic yard; LF = linear feet; LS = lump sum, YR= year

General Notes:

1. Cost estimate is based on ARCADIS of New York's (ARCADIS') past experience and vendor estimates using 2013 dollars.
2. This estimate has been prepared for the purposes of evaluating (or forecasting) costs associated with remediation construction activities. The information in this cost estimate is based on the available information regarding the site investigation and the anticipated scope of the remediation action. Changes in cost elements are likely to occur as a result of new information and data collected during the engineering design of the remedial alternative. Actual costs may vary from these estimates, and such variations may be material. Utilization of this cost estimate information beyond the stated purpose is not recommended. ARCADIS is not licensed to provide financial or legal consulting services; as such, this cost estimate information is not intended to be utilized for complying with financial reporting requirements associated with liability services.

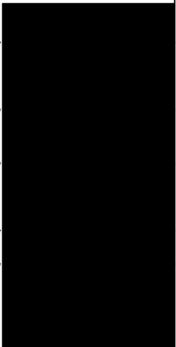
NYSEG - Newark MGP Site Estimate

Table 8
Cost Estimate for Alternative 4 - Deep Soil Removal

Feasibility Study Report
NYSEG - Newark Former Manufactured Gas Plant Site - Newark, New York

Item #	Description	Estimated Quantity	Unit	Unit Price	Estimated Cost
Capital Costs					
1	Pre-Design Investigation	1	LS	\$75,000	\$75,000
2	Mobilization/Demobilization	1	LS	\$75,000	\$75,000
3	Utility Markout, Protection, Bypass and Relocation	1	LS	\$100,000	\$100,000
4	Decontamination Pad	1	LS	\$6,000	\$6,000
5	Shallow Soil Removal	120	CY	\$25	\$3,000
6	Soil Excavation and Handling	1,400	CY	\$125	\$175,000
7	On-Site Water Handling/Management	15	WEEK	\$2,500	\$37,500
8	Community Air Monitoring and Vapor/Odor Control	17	WEEK	\$5,000	\$85,000
9	Traffic Control	17	WEEK	\$5,000	\$85,000
10	Demarcation Layer	480	SY	\$5	\$2,300
11	Controlled Low-Strength Material	1,300	CY	\$100	\$130,000
12	Backfill	80	CY	\$25	\$2,000
13	Surface Restoration	7,400	SF	\$8	\$59,200
14	Liquid Waste Characterization	1	EACH	\$1,200	\$1,200
15	Liquid Waste Transportation and Disposal	28,000	GAL	\$1.00	\$28,000
16	Solid Waste Characterization	5	EACH	\$1,200	\$6,000
17	Solid Waste Transportation and Disposal - C&D Debris	170	TON	\$100	\$17,000
18	Solid Waste Transportation and Disposal - LTDD	2,200	TON	\$85	\$187,000
19	Site Management Plan	1	LS	\$30,000	\$30,000
20	Institutional Controls	1	LS	\$50,000	\$50,000
Subtotal Capital Cost					\$1,154,200
21	Administration & Engineering (15%)				\$119,280
	Construction Management (15%)				\$119,280
	Contingency (20%)				\$230,840
22	Gas Holder Removal Contingency	1	LS	\$2,740,000	\$2,740,000
Total Capital Cost					\$4,363,600
Operation and Maintenance Costs					
23	Annual Verification of Institutional Controls	1	LS	\$5,000	\$5,000
24	Annual Groundwater Sampling	1	EVENT	\$5,000	\$5,000
25	Laboratory Analysis of Groundwater Samples	10	EACH	\$250	\$2,500
26	Waste Disposal	2	DRUM	\$700	\$1,400
27	Annual Summary Report	1	LS	\$15,000	\$15,000
Subtotal O&M Cost					\$28,900
Contingency (20%)					\$5,780
Total Annual O&M Cost					\$34,680
28	30-Year Total Present Worth Cost of O&M				\$599,688
Total Estimated Cost:					\$4,963,288
Rounded To:					\$5,000,000

NYSEG – Granville MGP Site Estimate

Granville MGP Cost Detail	
Remediation Contractor Bid	
Construction Manager Bid	
Disposal ESMI PO	
O&M Estimate (from FS)	
Total	

REMEDATION CONTRACTOR BID					
NYSEG					
Granville Former Manufactured Gas Plant					
69 North Street, Granville, New York					
Schedule of Values (D.A. Collins Environmental)					
REMEDATION CONTRACTOR BID					6/20/2018
Item No.	Payment Item	Unit	Estimated Quantity	Unit Price	Extended Price
1.0 Mobilization and Project Support					
1.01	Permitting/Agreements	Lump Sum	1		
1.02	Submittals	Lump Sum	1		
1.03	General Mobilization	Lump Sum	1		
1.04	Temporary Services	Month	16		
1.05	Utility Clearance	Lump Sum	1		
1.06	Survey Control and Documentation	Lump Sum	1		
1.07	PPE and Health and Safety Monitoring	Week	64		

NYSEG – Granville MGP Site Estimate

1.08	Upgrade PPE to Level C	Person/Day	80
1.09	Project Management/Construction Administration	Month	16
1.10	Biosolve® Solution	Applied Gallon	500
1.11	Vapor/Odor Suppression Foam	Applied Gallon	2400
1.12	Flood Standby	Days	10
1.13	Turbidity Monitoring	Days	45
Subtotal			
2.0 Site Preparation			
2.01	Site Controls and Safety Measures	Linear Feet	7000
2.02	Silt Fence with Hay Bales	Linear Feet	7000
2.03	Temporary Erosion and Sediment Controls	Lump Sum	1
2.04	Clearing and Grubbing	Acre	14
2.05	Site Preparation	Lump Sum	1
2.06	Site Access Road Improvements	Lump Sum	1
2.07	Decontamination Areas	Lump Sum	1
2.08	Temporary Fabric Structure Mob/Demob	Lump Sum	1
2.09	Temporary Fabric Structure Monthly Rental	Month	12
2.10	Water Treatment System Area Construction	Square Feet	7500
2.11	Substation Protection	Month	16
2.12	Air Handling Filter Carbon Changeout	Event	2
Subtotal			

NYSEG – Granville MGP Site Estimate

3.0 Temporary River Bypass				
3.01	Bypass Soil Stockpile	Square Feet	21,000	
3.02	Bypass Excavation and Stockpiling of Soil	Cubic Yards	10000	
3.03	Bypass Armor Material	Square Feet	50000	
3.04	Bypass Backfill Placement and Compaction	Cubic Yards	10000	
Subtotal				
4.0 ISS and Sheet Pile				
4.01	ISS Mobilization and Grout Batch Plant Installation	Lump Sum	1	
4.02	In-Situ Solidification (Auger Mixing Only)			
4.02A	Primary ISS Mass	Cubic Yards	38,500	
4.02B	Structural ISS Mass	Cubic Yards	9,500	
4.02C	ISS Obstruction Removal	Hour	60	
4.03	Soil Mix Groundwater Cutoff Wall	Cubic Yards	1,600	
4.04	Sheet Pile			
4.04A	Operations Area Excavation Shoring	Linear Feet	300	
4.04B	Cofferdams	Linear Feet	1,050	
4.04C	Groundwater Cutoff	Linear Feet	1,070	
Subtotal				
5.0 Excavation, Dewatering, and Material Handling				
5.01	Overburden Excavation and Stockpiling	Cubic Yards	41,400	
5.02	Impacted Material Excavation	Cubic Yards	31,600	
5.03	Segregation and Washing of Riverbed Material for Reuse	Cubic Yards	3,600	

NYSEG – Granville MGP Site Estimate

5.04	Soil Amendment	Ton	800	
5.05	Structure Demolition	Lump Sum	1	
5.06	Construction Water Management	Week	60	
5.07	250 GPM Water Treatment System Mobilization/Demobilization	Lump Sum	1	
5.07a	Second 250 GPM Water Treatment System Mobilization/Demobilization	Lump Sum	1	
5.08	250 GPM Water Treatment System Operation	Week	48	
5.08a	Second 250 GPM Water Treatment System Operation	Week	1	
5.09	Installation of Wellpoint Dewatering System	Lump Sum	1	
5.10	Operations and Maintenance for Wellpoint Dewatering System	Week	60	
Subtotal				
6.0 Backfilling				
6.01	Imported Common Fill	Ton	20,600	
6.02	Imported Topsoil	Ton	7,100	
6.03	Imported Small River Stone	Ton	8,800	
6.04	Imported Large River Stone	Ton	660	
6.05	River Stone Placement	Cubic Yards	5,500	
6.06	Common Fill Placement and Compaction	Cubic Yards	61,401	
6.07	Toposil Placement	Cubic Yards	7,500	
Subtotal				
7.0 Material and Waste Handling				

NYSEG – Granville MGP Site Estimate

7.01	Transportation and Disposal: Non-Hazardous Solid Waste	Ton	1,000	
7.02	Transportation and Disposal: C&D Debris	Ton	4,000	
7.03	Transportation and Disposal: Clearing and Grubbing Debris	Ton	300	
Subtotal				
8.0 Restoration and Demobilization				
8.01	BioD-Block Bank Restoration	Linear Feet	5,100	
8.02	Seeding	Square Feet	514,400	
8.03	Turf	Square Feet	34,000	
8.04	Pavilion Construction	Lump Sum	1	
8.05	Live Plantings	Lump Sum	1	
8.06	In-River Structures	Lump Sum	1	
8.07	Erosion Control Blanket	Square Feet	90,000	
8.08	Little League Feature Restoration	Lump Sum	1	
8.09	Sheet-Pile Wall for Flood Control Berm	Linear Feet	200	
8.10	Demobilization	Lump Sum	1	
Subtotal				
9.01	Contingency			

CONSTRUCTION MANAGER BID

NYSEG – Granville MGP Site Estimate

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G&E Consultants, Inc., P.C. Granville Remediation Construction Management															
Task/Contract Payment Number	Labor Classification	Straight Time Per Hour	Straight Time Estimated Hours	Overtime Per Hour	Overtime Estimated Hours	Personal Mileage ² Round trip distance per mile rate	Rental Vehicle ^{3,4} Per Day	Per Month ⁵ Est. # of months	Per Day ⁶ Per Day (Est. Days)	Total Straight Time Cost	Total Overtime Cost	Total Personal Mileage Cost	Total Rental Vehicle Cost	Total Per Diem Cost	Total
1	PROJECT MANAGEMENT ¹														
	Principal	\$140.00	250							\$35,000.00					\$35,000.00
	Project Manager B	\$73.00	650							\$47,450.00					\$47,450.00
	Env. Construction PM/Oversight C	\$75.00	275							\$20,625.00					\$20,625.00
	Engineer/Scientist 2	\$80.00	400							\$32,000.00					\$32,000.00
	Project Assistant	\$0.00	250							\$0.00					\$0.00
2	Clerical/Admin	\$45.00	250							\$11,250.00					\$11,250.00
	FIELD OVERSIGHT ¹														
	Principal	\$140.00	200			0.0000	0.00			\$28,000.00		\$0.00	\$0.00		\$28,000.00
	Project Manager B	\$73.00	1000			0.0000	0.00		125	\$73,000.00		\$0.00	\$0.00	\$0.00	\$73,000.00
	Env. Construction PM/Oversight C	\$75.00	3500	75.00	600	\$70.0000	16		16	\$262,500.00		#####	\$0.00	\$36,000.00	\$36,000.00
	Env. Construction PM/Oversight B/A	\$72.4	3400	74.41	250	0.0000	0		14	\$194,616.00		#####	\$0.00	\$0.00	\$213,213.00
3	Engineer-4	\$85.00	300			0.0000	0.00			\$25,500.00			\$0.00		\$25,500.00
	Engineer-3	\$70.00	800			0.0000	0.00			\$56,000.00			\$0.00		\$56,000.00
	Engineer-2	\$60.00	200			0.0000	0.00			\$12,000.00			\$0.00		\$12,000.00
	COMMUNITY AIR MONITORING														
	Rental of air monitoring equipment (6)	per month rental price 6				\$6,665.00									\$73,325.00
	Rental of air monitoring equipment (3)	per month rental price 3				\$3,333.00									\$16,665.00
4	Air Monitoring Technician	\$438	3500	45.47	600				16	\$122,450.00		#####	\$0.00	\$0.00	\$149,714.40
	NOISE MONITORING														
	Rental of noise monitoring equipment	per month rental price 5				303									\$3,333.00
	Rental of noise monitoring equipment	per month rental price 2				\$505.00									\$5,050.00
	ANALYTICAL SAMPLING ¹														
	ESMI Soil Samples (5-day TAT)	persample price				\$478.00									\$23,900.00
5	ESMI Soil Samples (48-hr TAT)	persample price				\$764.80									\$7,648.00
	SMI Soil Samples (5-day TAT)	persample price				\$358.00									\$17,900.00
	SMI Soil Samples (72-hr TAT)	persample price				\$501.20									\$5,012.00
	Reuse Soil Samples (5-day TAT)	persample price				\$58.00									\$1,760.00
	Water Samples (5-day TAT)	persample price				\$244.00									\$12,200.00
	Imported Backfill Soil Samples (5-day TAT)	persample price				\$477.00									\$23,850.00
	Endpoint of Excavation Samples (5-day TAT)	persample price				\$28.00									\$11,000.00
	Endpoint of Excavation Samples (48-hr TAT)	persample price				\$140.80									\$17,600.00
	ISS QC - Permeability	persample price				\$235.00									\$25,675.00
	ISS QC - Compressive Strength	persample price				\$45.00									\$5,625.00
	ISS QC - Wire Line Coring - Rig Mobilization	per mobil/demob price				\$650.00		25							\$16,250.00
	ISS QC - Wire Line Coring	per foot completed coring price				\$74.00		600							\$44,400.00
6	TFS AIR MONITORING														
	Rental of equipment for TFS exhaust	per month rental price				\$2,222.00									\$26,664.00
	PERIODIC VIBRATION MONITORING (Continuous)														
7	Vibration Monitoring and Reporting	per month price				\$308.00									\$12,328.00
	Settlement Monitoring and inclinometers (4). Mobilization and														\$11,419.00
	Settlement Monitoring and Reporting	per month price				\$2,798.11									\$43,809.76
8	CONSTRUCTION COMPLETION REPORT														\$23,360.00
9	FINAL ENGINEERING REPORT (FER)														\$19,488.00
10	SITE MANAGEMENT PLAN														\$19,488.00
11	REVIEW REMEDIAL DESIGN DOCUMENTS														\$0.00
12	WELL ABANDONMENT														\$11,479.00
13	STRUCTURAL BUILDING CONDITION INSPECTIONS AND														
	Task 13A - Pre-Construction Inspection														\$16,014.00
	Task 13B - Post-Construction Inspection														\$16,014.00
	Task 13C - Pre-Construction Survey of														\$11,390.00
14	CONTINGENCY														\$250,000.00
GRAND TOTAL PROPOSAL COST															
Alt	ALTERNATES/SUPPLEMENTAL ITEMS														
	A1 - On-Call Inspections and Reports	per inspection price				\$9,105.00		10							\$91,050.00
		per day price				\$2,805.00		5							\$14,025.00
	ISS IN - HSA Drilling - 100' Mobilization	per mobil/demob price				\$575.00		25							\$14,375.00
	ISS IN - HSA Drilling	per foot completed boring				\$473.00		600							\$283,800.00

Disposal ESMI PO



304 TOWPATH ROAD, FORT EDWARD, NY 12828
PHONE: 1 (800) 511-3764 - FAX: (518) 747-1181 - WWW.ESMIOFNY.COM

August 22, 2018

The work below will be completed under the Terms and conditions and price structure of the AVANGRID/ESMI Framework Agreement dated 3/15/2018.

Services: The following Services shall be provided at the following rates:

2018 - \$43.40 per ton.

2019 - \$45.73 per ton

2020 - \$48.20 per ton.

Transportation: \$12.75 per ton - non-union. (33 Ton minimum per truck, \$95.00 per hour for time on site in excess of dock time allowance of 60 minutes. ESMI is not responsible for transporter delays or demurrage charges at project site. **Concrete and Brick need to be sized to less than eight inch minus. 3/4" Minus requirement for stone/rock.** \$420.75 charge for no load fee. Liners: \$30.00 per liner.

Fuel Surcharge: A 2% Increase in the quoted per ton transportation rate for every \$0.05 increase in diesel fuel price above the base of \$2.56 per gallon.

Soils with moisture content in excess of 20% per ASTM Standard Test Method D 2216-10, will be subject to a surcharge of one dollar (\$.80) per ton per percent moisture content above 20%. No pure coal tar product, coal tar slag, and/or coal tar chunks. MGP material should be blended accordingly. Price is quoted with BTU's less than 170 per pound. Material to be representative of the analytical provided.

Disposition of treated Materials. ESMI shall manage the treated materials as ***Materials will become the property of ESMI of NY***

PAYMENT TERMS: Customer shall pay ESMI of NY for services provided: Within Net 15 days following delivery of waste materials to ESMI of NY. A 7.00% NY State Sales Tax is not included in the above pricing and will be added to the customer's Invoice, unless a properly executed Tax Exempt form is issued to ESMI of NY.

Project acceptance is subject to the completion and review of our profile sheet, analytical testing results, and acceptance of the contract terms and conditions, and all documents incorporated by reference therein.

ESMI of New York
Todd J. Calder, Vice President of Sales & Marketing

8/22/2018

Year	Tons	Disposal	Transport	ext disp	ext trans	Liners @30/truck
2018	5000	\$43.40	\$12.75	\$217,000.00	\$63,750.00	\$4,300.00
2019	40,000	\$45.73	\$12.75	\$1,829,200.00	\$510,000.00	\$34,290.00
2020	10000	\$48.20	\$12.75	\$482,000.00	\$127,500.00	\$8,570.00
	Total 2018					\$285,050.00
	Total 2019					\$2,373,490.00
	Total 2020					\$618,070.00
	Grand Tot					\$3,276,610.00

NYSEG – Granville MGP Site Estimate

O&M ESTIMATE FROM FS

Table 5-9
Operations, Maintenance, and Monitoring Costs
Alternative 5 - Partial Excavation and In Situ Solidification

Alternative 5 - Partial Excavation and In Situ Solidification						
Task/Sub Task	Description	Unit	Qty	Rate	Total Cost (PV)	Undiscounted Costs
	Annual Inspection (Year 1 to 30)	yr	30	\$1,425.00	\$17,682.88	\$42,750.00
	NAPL Collection System (Year 1 to 3)	yr	3	\$40,733.33	\$106,897.14	\$122,200.00
	Bi-Annual Monitoring (Yr. 1 to 3)	yr	3	\$31,220.00	\$81,931.15	\$93,660.00
	Yearly Monitoring (Yr. 4 to 30)	yr	27	\$9,885.00	\$96,722.01	\$266,895.00
	Annual Reports (Year 1 to 30)	yr	30	\$3,210.00	\$39,833.02	\$96,300.00
SUB-TOTAL OM&M					\$343,066.20	\$621,805.00
	Contingency	20%			\$68,613.24	Not Included
Total OM&M					\$411,679.44	\$621,805.00

RG&E East Station Cost Estimate

In 2007, GEI prepared a probabilistic cost estimate to evaluate the full range of on-site remedial scenarios. Remedial investigations began in 2010 and are on-going. Assumed long term active O&M will be required. Remedial evaluation and design activities will follow the investigation and are conceptualized for 2016-2019 with remediation conceptualized for 2020-2023. Since site is similar to West Station, used the Engineers Design estimated from Alternative 3 from the March 2013 GEI Alternatives Analysis Report as the basis for the remedial design costs. An ISS coal tar barrier wall and tar collection system is in place along the bank of the Genesee River and requires annual monitoring. Additionally, assumed passive collection of coal tar from monitoring wells will occur until remediation. For Best Est. used the mean. Estimated costs have been adjusted for inflation at 2% for 7 years (2007-2013).

In Fall 2013, off-site investigation was conducted on property. Preliminary data analysis indicates approximately 3 acres are impacted. The cost to remediate the 3 acres could range for \$10-\$20 million.

The Best Est. is the probalistic Mean (\$61,903,000) with Inflation (2%/yr) over 7 years to account for June 2007 estimate date.

$$\$61,903,000 \times 1.02^7 = 71,107,089$$

Off Site added \$15 million

Total Estimate = \$86,100,000

Cost Model Results
East Station Former MGP Site
Rochester, New York

PRIVILEGED AND CONFIDENTIAL

	Mean Remedial Cost	Minimum Remedial Cost	Maximum Remedial Cost	Standard Deviation of Remedial Cost
Overall Capital Cost	\$60,623,000	\$902,000	\$169,545,000	\$31,455,000
Overall O & M Cost	\$1,280,000	\$510,000	\$4,561,000	\$805,000
Overall Total Cost	\$61,903,000	\$1,412,000	\$170,720,000	\$31,244,000



RG&E East Station Cost Estimate

Cost Model Results
East Station Former MGP Site
Rochester, New York

PRIVILEGED AND CONFIDENTIAL

	RS01	RS02	RS03	RS04	RS05	RS06	RS07	RS08	RS09	RS10	RS11	RS12
Institutional Controls	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000
Engineering Controls (Fencing)	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000	\$123,000
Clean Cover (Soil and Vegetation)		\$902,000	\$902,000	\$902,000	\$902,000	\$902,000						
Targeted Removal of MGP Structures - 1		\$4,834,000	\$4,834,000			\$4,834,000						
Excavation of Source Material				\$26,662,000	\$26,662,000							
Overburden Excavation <500ppm SVOC's and <10ppm VOC's							\$64,062,000	\$64,062,000				
Excavation to Industrial/Commercial Criteria									\$94,261,000	\$94,261,000		
ISS Containment Barrier		\$4,476,000	\$4,476,000									
In-Situ Stabilization (Site-wide)						\$46,777,000						
Groundwater Monitoring - 1	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000	\$396,000
Groundwater Pump-and-Treat (Overburden and Bedrock)			\$1,667,000		\$1,667,000			\$1,667,000				
Groundwater Pump-and-Treat (Bedrock Only)										\$1,089,000		\$1,089,000
NAPL Recovery - Overburden		\$588,000	\$588,000	\$588,000	\$588,000							
NAPL Recovery - Bedrock		\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000	\$158,000
Sediment Dredging		\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000	\$1,458,000
Excavation to Pre-Release Conditions										\$110,913,000	\$110,913,000	\$110,913,000
Subtotal, Remedial Scenario Cost	\$694,000	\$13,011,000	\$14,698,000	\$30,363,000	\$32,050,000	\$53,822,000	\$66,273,000	\$67,960,000	\$96,472,000	\$97,561,000	\$113,124,000	\$114,213,000
Licensing, Permitting, and Construction Mgt.	\$12,000	\$669,000	\$691,000	\$2,149,000	\$2,180,000	\$3,870,000	\$4,774,000	\$4,816,000	\$6,361,000	\$6,998,000	\$6,170,000	\$6,205,000
Contingency	\$121,000	\$2,780,000	\$3,156,000	\$6,502,000	\$6,948,000	\$11,339,000	\$14,210,000	\$14,228,000	\$20,897,000	\$20,912,000	\$24,253,000	\$24,484,000
Total Cost	\$729,000	\$16,660,000	\$18,706,000	\$39,016,000	\$41,088,000	\$68,232,000	\$85,256,000	\$87,332,000	\$124,121,000	\$125,470,000	\$145,555,000	\$146,904,000
Capital Cost	\$218,000	\$15,780,000	\$18,527,000	\$36,123,000	\$38,880,000	\$66,877,000	\$84,704,000	\$85,441,000	\$123,566,000	\$124,189,000	\$145,000,000	\$145,822,000
O&M Cost	\$511,000	\$980,000	\$2,226,000	\$683,000	\$2,228,000	\$555,000	\$555,000	\$1,891,000	\$555,000	\$1,281,000	\$555,000	\$1,281,000

RG&E Station Tunnel Cost Estimate
&
RG&E NYSDEC Oversight Cost Estimate

Station 5 Tunnel

Coal-tar like impacts have been observed infiltrating the tunnel prior to reconstruction completed in 2012. Tunnel inspections may occur every 5-10 years based on operating permit and tunnel condition. When the tunnel inspection is planned, it will require water treatment. A portion of the tunnel inspection cost will be charged to SIR due to lost contractor productivity and cost directly associated with the coal tar. The total SIR cost during a tunnel inspection is estimated to be \$280K. A.

RG&E NYSDEC Oversight Cost Estimate

DEC Oversight cost/staff
Based on average of actual invoices received since 2015 and anticipated work, annual NYSDEC costs are expected at a cost of \$125k/yr through 2025 and \$50k per year thereafter as our remedial portfolio continues to wrap up as all sites transition to OM&M.

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0950 (DPS-444)

Date of Request: August 5, 2019

Response Due Date: August 12, 2019

Date of Reply: August 9, 2019

Witness: Steve Mullin

Subject: Sites with Large Contingencies

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

- a. With reference to Attachment 1 from the Companies' response to NYRC-0417 (DPS-131), Schedule C of Work Papers NC-RRP-2-WP-17 and RC-RRP-2-WP-17, some sites with substantial budgets such as Plattsburgh Saranac Street, Cortland/Homer and Granville have contingencies of 20% or higher.
 - i. Identify all sites that have contingencies of 20% or larger, the scope(s) of work which it applies to and provide a numerically quantified justification for the need to utilize a contingency greater than 20%. What items, scope growth or other conditions of uncertainty exist that necessitated a larger contingency in the budget?
 - ii. Indicate the anticipated date(s) that apply to the contingencies described above.
- b. Describe all low confidence estimates made within the past five years. Indicate which site(s) they apply to.
- c. Describe all bids with low confidence projected in the bridging period and subsequent rate years. Indicate which site(s) they apply to.
- d. Identify all contingencies that cover work that will occur more than five years from the present.

Response:

Response

a. i & ii.

The sites with contingencies of 20% or greater are summarized in the table below. NYSEG and RG&E procure 3rd party engineering firms to help prepare budgetary estimates (i.e., Engineers Estimate) for the sites. The Engineers Estimates are prepared using industry standards, best management practices (BMPs) as well as guidance from the United States Environmental Protection Agency (USEPA), specifically the *USEPA Guide to Developing and Documenting Cost Estimates During the Feasibility Study USEPA July 2000*. In accordance with the USEPA guidance, the expected cost estimate accuracy (i.e., contingencies) of 20% or greater are recommended for project estimates for sites at the project phase prior to the 100% Final Design. This is consistent with the range for NYSEG and RGE projects summarized in the table.

Site Name	Contingency (%)	Scope of Work	July 2019-3/31/20	4/1/20 - 3/31/21	4/1/21 - 3/31/22	4/1/22 - 3/31/23
NYSEG Binghamton Ct	25%	Remedial Action	X			
NYSEG Granville	20%	Remedial Action	X	X		
NYSEG Ithaca First Street	20%	Remedial Design and Remedial Action	X	X	X	
NYSEG Lockport Transit	25%	Remedial Action	X			
NYSEG Seneca Falls	25%	Remedial Action	X			
NYSEG Plattsburgh	25%	Remedial Action OU-2 / Remedial Design OU-3	X	X	X	X
NYSEG Auburn Green	30%	Remedial Design and Remedial Action	X	X	X	X
NYSEG Clyde	20%	Remedial Design and Remedial Action	X	X	X	
NYSEG Cortland / Homer	30%	Remedial Design and Remedial Action	X	X	X	
NYSEG Elmira Water	20%	Remedial Design and Remedial Action	X	X	X	X
NYSEG Geneva Border City	20%	Remedial Design and Remedial Action	X	X	X	
NYSEG Lyons	20%	Remedial Design and Remedial Action	X	X		
NYSEG Newark	20%	Remedial Design and Remedial Action	X	X		

Site Name	Contingency (%)	Scope of Work	July 2019-3/31/20	4/1/20 - 3/31/21	4/1/21 - 3/31/22	4/1/22 - 3/31/23
NYSEG Palmyra	20%	Remedial Design and Remedial Action	X	X	X	X
RG&E Canal Street	25%	Remedial Action	X			
RG&E East Station	20%	Remedial Design and Remedial Action	X	X	X	X
RG&E West Station	20%	Remedy Selection, Remedial Design and Remedial Action	X	X	X	X

Response b. – d.

The Companies use typical industry approaches and practices (e.g. EPA’s *Guide to Developing and Documenting Cost Estimates During the Feasibility Study, July 2000*) when preparing or obtaining estimates from environmental engineering firms and contractors. Contingencies utilized to help estimate tasks and costs are based on many factors including but not limited to consideration of project phase, complexity of the site, amount of historical information and data available, remedial technology considered, experience, etc. As the phases of the project progress, the confidence of anticipated site conditions increase resulting in lower contingencies and better estimate confidence. Project estimates (historically and looking forward) for sites in the investigation phase have greater variability compared to estimates budgeted for projects in which bids have been received for remedial action following remedial design phases. As the Companies’ site in the SIR program continue to advance beyond investigations, the confidence in the estimates will increase.

As noted in the table provided for question “a.i.” above, the contingencies for the sites identified averages around 23%.

Requesting Party: DPS Staff

Request No.: NYRC-0363 (DPS-108)

Date of Request: June 18, 2019

Response Due Date: June 28, 2019

Date of Reply: June 26, 2019

Witness: Steve Mullin

Subject: Sites with Cost Variance

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

1. Provide further explanation and a more detailed breakdown of the cost variances listed in Table 7 of the 2019 SIR Annual Report for both Companies.
 - a. Provide the response in a tabular format;
 - b. Indicate the date or range of dates during which the cost variances occurred;
 - c. Explain why the cost variances were unpreventable; and
 - d. If applicable, provide the name(s) of all other third parties from which the Companies can seek reimbursement for these costs.
2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site. Provide the response in a tabular format and include the following for each identified change order:
 - a. Amount of the change order;
 - b. Indicate the date or range of dates that the change orders occurred;
 - c. Explain why the change orders were unpreventable; and
 - d. If applicable, provide the name(s) of all other third parties from which the Companies can seek reimbursement for these costs.
3. What markup percentage has been used between the Companies and its consultants, contractors and subcontractors? Is the markup uniform or does it vary from contract to contract?

Response:

1. Please see Attachment 1.
2. Responses are provided in the table included as Attachment 1.
3. The Companies secure environmental consulting and engineering firms and contractors through a procurement process. Terms and conditions are negotiated during the procurement. The markups vary and range between 5-10%.

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance ¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Auburn Clark Street	The cost was higher than anticipated due to greater quantities of material requiring remediation than anticipated.	June-Sept 2018	Greater quantities of material requiring remediation were unknown prior to beginning the remedial work. This is because impacted material was discovered in the weathered bedrock zone that was not observed during the remedial investigation.	N	Y	\$1.36M	June-Sept 2018	Greater quantities of material requiring remediation were unknown prior to beginning the remedial work. This is because impacted material was discovered in the weathered bedrock zone that was not observed during the remedial investigation.	N
Auburn Green Street	The cost was lower than anticipated due to delays in obtaining regulatory approval for the FS.	July-Sept 2018	Regulator discretion - NYSDEC did not issue comments on the FS or issue a Record of Decision as anticipated in the projected schedule. As such, the Remedial Design could not begin.	N	N	NA	July-Sept 2018	NA	NA

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance ¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Auburn McMaster Street	The cost was higher than expected because it was anticipated that river remedial work for this site would be completed in 2017 but that was not possible due to high river levels and flooding conditions which caused the work to be delayed into 2018.	Sept 2017-Sept 2018	Greater quantities of material requiring remediation were unknown prior to beginning the remedial work. This is because impacted material was discovered in the weathered bedrock zone that was not observed during the remedial investigation. Also, flooding conditions in Oct 2017 caused the project to be delayed into 2018 which resulted in additional contractor demob and remob costs.	N	Y	\$2.51M	Sept 2017-Sept 2018	Greater quantities of material requiring remediation were unknown prior to beginning the remedial work. This is because impacted material was discovered in the weathered bedrock zone that was not observed during the remedial investigation. Also, flooding conditions in Oct 2017 caused the project to be delayed into 2018 which resulted in additional contractor demob and remob costs.	N

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Binghamton Court Street	The cost was lower than expected because it was anticipated that river remedial work for this site would be completed in 2018 but that was not possible due to high river levels which caused the work to be delayed into 2019.	Oct 2018-Aug 2019	Weather conditions and heavy rains caused the river to rise to levels unsafe in which to perform the work. As such, the remedial work had to be postponed to 2019.	N	N	NA	NA	NA	NA
Corning	The cost was lower than anticipated because Corning Inc. failed to begin negotiations for access.	April-Dec 2018	The site is located on the Property of Corning Inc. Negotiations with Corning for site access have taken longer than anticipated. As such, Remedial Investigation work anticipated to be performed in 2018 had to be delayed.	Y – First Energy	N	NA	April-Dec 2018	NA	NA

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Cortland/Homer	The cost was higher than anticipated due to DEC requiring more investigation work to be performed than was anticipated.	May-Sept 2018	Based on results from pre-remedial design investigation work, DEC required additional sediment sampling and other studies to be performed that were not previously known.	Y – First Energy	N	NA	May-Sept 2018	DEC required additional sediment sampling and other studies to be performed that were not previously known.	Y – First Energy
Dansville	The cost was lower than anticipated due to the scope of the PDI being less than anticipated	Q3 - Q4 2018	NYSEG was unable to secure several of the 3 rd party off site agreements for well installations and groundwater sampling for the Pre-design Investigation and less was spent than budgeted.	N	N	NA	NA	NA	NA
Elmira Water	The cost was higher than anticipated due to acceleration of the 50% remedial design	Q4	A greater portion of the 50% remedial design was able to be completed than was anticipated at the time of budget preparation.	N	N	NA	NA	A greater portion of the 50% remedial design was able to be completed than was anticipated at the time of budget preparation.	N

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance ¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Geneva Border City	The cost was lower than anticipated due to delay in regulatory approval of 50% remedial design	Q2 – Q4 2018	Regulatory Discretion – NYSDEC did not comment on design submitted in March 2018. Yet to receive comments.	N	N	NA	NA	NA	NA
Geneva Wadsworth Street	The cost was lower than anticipated due to actual remedial costs to implement remedy costing less than engineers estimate	Q1 – Q2 2018	The annual estimate was based on the design engineers budgetary estimate. The actual construction costs incurred were less than the design engineers estimate.	N	N	NA	NA	NA	NA

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Granville	The cost was lower than estimated due to delay in contractor procurement.	Q4 2018	During the process of obtaining an ACOE permit for work to begin, ACOE required an archeological survey and report revisions to be completed. The Engineer of Record (EOR) working on this permit required a change order to comply with this regulatory requirement; however, the company was at the same time in the process of renegotiating a new MSA with the EOR. A delay in the MSA procurement forced us to postpone start of work until 2019. Accordingly, no remediation field work was conducted in Q4 2018, and therefore less was spent than anticipated for the project.	Y – First Energy	Y – permit only	\$116K	Q4 2018	Regulatory Discretion – ACOE required archeological survey and report revisions.	Y – First Energy

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Ithaca First Street	The cost was lower than estimated due to receiving reimbursement of partial costs from an additionally responsible party and delay in regulatory approval.	Q2 - Q4 2018	Regulatory discretion - DEC did not provide comment or approval of the 95% RD as anticipated; as such, the bid process for RA could not begin. Also, 3 rd party payments were received which had a net effect of a credit on the accounting sheet.	Y – First Energy	N	NA	Q2 – Q4 2018	NA	Y – First Energy
Lockport State Road	The cost was higher than anticipated due to unexpected soil disposal fees and project monitoring associated with construction of a new gas regulator station in the soil management area governed by the site's SMP.	Q1 - Q2 2018	Under Site Management Plan contaminated soils that were left in place under a cap installed as part of the site remedy needed to be managed appropriately if disturbed. These materials were disturbed and required proper disposal during installation of the gas regulator station.	N	N	NA	Q1 - Q2 2018	NA	N

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance ¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Norwich	The cost was higher than estimated due to regulatory delays and some work anticipated to occur in 2017 did not occur until 2018.	Sept 2017-May 2018	The variance was timing only due to remedial work not starting when anticipated in 2017 as a result delays in DEC approving the remedial design. There was no cost increase associated with the delay.	N	N	NA	Sept 2017-May 2018	NA	N
Palmyra	The cost was lower than estimated due to discussions regarding the scope and regulatory approval of the scope of work	Q1-Q4 2018	Regulatory discretion – The scope of work for the next phase of work has not yet been agreed upon with the NYSDEC.	N	NA	NA	Q1-Q4 2018	NA	N

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
Penn Yan Water Street	The cost was less than anticipated due to project shutdown required to accommodate project modifications to address variances in actual site conditions.	Q2 2018	A Change order to respond to DEC requirements to address impacts discovered under a historic structure during remediation activities didn't get approved to begin work in the second quarter as anticipated (approved in Q3); as such, less was spent than was budgeted.	N	N	NA	Q2 2018	A Change order to respond to DEC requirements to address impacts discovered under a historic structure during remediation activities didn't get approved to begin work in the second quarter as anticipated (approved in Q3); as such, less was spent than was budgeted.	
Plattsburgh Saranac Street	The cost was lower than anticipated because stream bank restoration planting that was anticipated to occur in 2018 did not because NYSEG is still negotiating that scope of work with NYSDEC.	Jan-Dec 2018	The variance is timing only. The cost estimate has not changed, only the timing of the expenditure has changed.	Y – First Energy	N	NA	Jan-Dec 2018	NA	Y – First Energy

Table 7 – NYSEG SIR Section 5.5.2 Sites with Cost Variance ¹									
		1. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.				2. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.			
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date or Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
General MGP	The cost was lower than projected because DEC does not necessarily bill on a calendar year basis nor on a regular billing cycle therefore actual costs are different than projected costs.	May – Dec 2018	Regulatory discretion - The DEC oversight costs for May through Dec 2018 are yet unbilled and actual cost is unknown. Accordingly, less was actually spent than was anticipated when budget was estimated.	Y – First Energy (as applicable to certain Sites)	NA	NA	NA	NA	Y – First Energy (as applicable to certain Sites)

Table 7 – RG&E Section 5.5.2 Sites with Cost Variance ²		NYRC-0363 (Questions 1 & 2)							
		3. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.			4. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.				
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date/Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3 rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
East Station	The cost was lower than anticipated due to a lag in anticipated approval from NYSDEC of the RIR, resulting in the FS being started later in 2018 than planned.	Q1-Q4 2018	Approval of the RIR was received later in the year than anticipated and therefore the amount of work completed in 2018 was less than anticipated.	Y – First Energy	NA	NA	Q1-Q4 2018	NA	Y – First Energy
Front Street	The cost was lower than anticipated due to the actual remedial construction costs coming in less than the engineers estimate.	Q1 2018	The annual budget was based on the design engineers budgetary estimate. The actual construction costs incurred were less than the design engineers estimate.	NA	NA	NA	NA	NA	NA
220 Saltonstall St. Canandaigua (Potential PRP)	The cost was lower than anticipated. Settlement under negotiations resulting in no action during this past year at the site.	Q1-Q4 2018	Settlement negotiations ongoing so no expenditure was incurred in 2018.	NA	NA	NA	NA	NA	NA
General MGP	The NYSDEC did not	Q1-Q4	The Consent Order with	Y – First Energy	NA	NA	NA	NA	NA

Table 7 – RG&E Section 5.5.2 Sites with Cost Variance²		NYRC-0363 (Questions 1 & 2)							
		3. Supplemental Information of Cost Variance for Projects Listed in Table 7 of the 2019 SIR Annual Report.			4. Identify and provide justification for any change orders causing the projected costs for any individual SIR site to increase more than \$100,000, or 10% of the projected cost for the site.				
Site	Explanation for Cost Variance	Date/Date Range Variance Occurred (1.b.)	Explanation of Why Cost Variance was Unpreventable (1.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (1.d.)	Change Order(s) >\$100K or >10% of Projected Cost Y/N	Amount of Change Order If >\$100K or 10% (2.a)	Date/Date Range Variance Occurred (2.b.)	Explanation of Why Change Order was Unpreventable (2.c.)	3rd Party Reimbursement Opportunity Y/N If Y – Name(s) (2.d.)
(regulatory and misc. program costs)	invoice RG&E in 2018.	2018	NYSDEC allows the NYSEDC to Bill RG&E for expenses incurred. RGE did not receive a bill from the NYSDEC in 2018.	(as applicable to East & West Station Sites)					
Genesee River Sediment (non source)	Work conceptually planned was not required by NYSDEC.	2018	RG&E conservatively budgeted funding in case DEC required additional data collection. However, DEC did not require additional work.	NA	NA	NA	NA	NA	NA
West Station	The cost was higher due to issuance of the Record of Decision and completion of the PDI in 2018.	Q2-Q4 2018	RG&E was able to perform the PDI work earlier than planned since the ROD was issued in early 2018.	Y - First Energy	N	NA	Q2-Q4 2018	NA	Y - First Energy

Notes:

NA: Not Applicable

1 - NYSEG 2018 Annual Report Concerning The Status of Site Investigation and Remediation Costs, Schedules and Regulatory Compliance April 30, 2019. Case 11-M-0034 – Proceeding on Motion of the Commission to Commence a Review and Evaluation of the Treatment of the State’s Regulated Utilities’ Site Investigation and Remediation (SIR) Costs

2 - RG&E 2018 Annual Report Concerning The Status of Site Investigation and Remediation Costs, Schedules and Regulatory Compliance April 30, 2019. Case 11-M-0034 – Proceeding on Motion of the Commission to Commence a Review and Evaluation of the Treatment of the State’s Regulated Utilities’ Site Investigation and Remediation (SIR) Costs

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0886 (DPS-402)

Date of Request: July 30, 2019

Response Due Date: August 9, 2019

Date of Reply: August 8, 2019

Witness: Steve Mullin

Subject: Follow Up to DPS-108 (Sites with Cost Variance)

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

Provide an itemized summary of costs or append the actual invoices for the cost variances as requested below. In addition, provide further explanation where requested.

- a. Auburn Clark Street and Auburn McMaster Street Sites:
 - i. What drilling equipment was used during the remedial investigation at each site?
 - ii. Was the impact to the weathered bedrock localized or present throughout each site?
 - iii. Explain how the impacted zone of weathered bedrock was remediated at each site.
 - iv. Was the same consultant and/or contractor utilized on both sites?
 - v. Provide further explanation of what the demobilization and remobilization charges entailed at the McMaster Street site, including dates and costs where necessary.
- b. Cortland/Homer Site:
 - i. According to Table 1 of NYSEG's 2019 Annual Report, a total projected cost of \$280,000 was estimated for 2018. In the same table, the actual cost for the site in 2018 was listed at \$142,780 and it appears the cost incurred was less than projected. However, in Table 7 of NYSEG's 2019 Annual Report it is indicated that the cost was higher due to "DEC requiring additional sediment sampling and other studies to be performed". Explain whether the cost was under its projection, or if there was an exceedance.
 - ii. Provide further explanation of why DEC required more investigation and work.
- c. Geneva Wadsworth Street Site:

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- i. Explain and quantify which construction costs were less than the engineers estimate and the reason for the difference.
 - ii. Provide dates or the range of dates that this applies to.
- d. Granville Site:
- i. Were any additional costs incurred as a result of the delayed master service agreement negotiation?
 - ii. How long was the Engineer of Record utilized on the site prior to this negation?
 - iii. Was it possible to utilize another bidder or Engineer to avoid such a significant delay?
 - iv. Explain why the Company is projecting \$18,150,000 for 2019, and whether the funds from 2018 were never fully exhausted.
- e. Penn Yan Water Street Site:
- i. Provide further explanation of why the project was shut down and what the modifications and variances consisted of.
 - ii. Describe the historic structure and where it was located.
 - iii. Provide a timeline or applicable dates.

Response:

- a. Auburn Clark Street and Auburn McMaster Street Sites:
- i. For overburden soils and bedrock at both sites drilling was accomplished with a conventional rotary drill rig. Overburden soils were drilled with hollow stem augers followed by split spoon samplers. Bedrock was cored using rock core barrels. Additionally, at the Clark Street site some soil probing was conducted using direct push (i.e. Geoprobe) methods.
- For sediments at both sites sampling was conducted with a variety of methods including rotary drill rig on an ATV chassis, tripod drill rig on a floating platform, and hand tools.
- ii. The impacts to the weathered bedrock were not present throughout the entirety of either site.
 - iii. At both sites, where weathered bedrock was remediated, it was done so via removal by excavation.
 - iv. Different consultants (for the investigation work) were used at each site. The same contractor (for remedial construction) was used at both sites.

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- v. The demobilization and remobilization charges at the McMaster Street were related to a flooding event that occurred on October 28, 2017. Due to heavy rainfall the preceding several days, flows in the Owasco Outlet reached a point where they exceeded the 100-year flood elevation, which caused a business upstream of NYSEG's project site to receive water into its basement. Representatives from the City of Auburn (who owns the Owasco Outlet) claimed the Outlet elevation exceeded the 100-year flood elevation due to the presence of the temporary dam NYSEG's contractor had installed to perform the remedial work. City of Auburn officials ordered NYSEG to immediately remove the dam or they would do the work themselves and back-charge NYSEG for the work. NYSEG complied with the request and removed the dam.

Because of the heavy rains, the levels of Owasco Lake also rose which required the City of Auburn to release water into the Owasco Outlet for a period of time until the lake level dropped to within required limits. Once the water level and flow velocity in the Owasco Outlet dropped to levels which were safe enough to allow work to resume it was determined that there was not enough time left in the construction season to complete the remaining work before freezing conditions set in, so the project was demobilized and remobilized in June of 2018.

b. Cortland/Homer Site:

- i. & ii. The statement in Table 7 of the 2019 Annual Report was a copy/paste error and the statement should have indicated the cost was less than the projected cost.

c. Geneva Wadsworth Street Site:

- i. Please reference confidential Attachment 1 for a summary of variances.
ii. June 4, 2018 - July 19, 2018.

d. Granville Site:

- i. Additional costs we not incurred as a result of the delayed master service agreement negotiation. Through the negotiations the labor rates were slightly less for the first year of the new contract.
ii. The Engineer of Record was utilized on this site since the investigation began in October 2008.
iii. Using another bidder or Engineer would have likely made little if any practical difference in avoiding a delay. At the time the new contract was being negotiated, the Engineer of Record (EOR) had already submitted a permit to the Army Corps of Engineers and was in the middle of negotiating requirements for this permit. Bringing in a new Engineer would have required time for the procurement process and time for the new Engineer to understand the nature of the project. The existing

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EOR had the benefit of nearly a decade's worth of site knowledge which intrinsic value would have been lost.

- iv. The Company projected \$18,150,000 for 2019 in August of 2018, when budgets were assembled. In August 2018, the procurement process was still in progress, but the expectation was that a successful bidder would be identified at some point in the fall of 2018. Since bid prices for the project were not available at the time 2019 budgets were required, the Company assumed that the bulk of the project would be conducted in 2019. The EOR estimate of \$24,700,000 was used as the basis for the budget preparation.
- e. Penn Yan Water Street Site:
 - i. Site subsurface conditions (soil and fill) encountered during the remediation were different and variable in some areas compared to some of the information obtained during the investigation. This led to the Keuka Lake Outlet bank excavation, between the historic former gas house and the canal (water), to be redesigned. During installation of secant pile excavation support structures proximate to the historic gas house, building settlement occurred. Based on this observation, the secant pile approach was reevaluated and a different approach for excavation support near the building was determined to be needed based on the variability of the fill. At the same time, new engineering design work was required for remediation of impacts discovered inside the historic former gas house. In order to safely access and remove contamination within the former gas house it was necessary to underpin the structure, create a deeper foundation support which allowed for excavations to remediate the contamination throughout the former gas house.
 - ii. The historic structure was the actual gas production house used during gas manufacturing. It is located on the premises of the former gas manufacturing facility. It is also within the Historic Penn Yan District and is protected by state and local agencies. The building construction consists of laid up stone and mortar and previously lacked a deep foundation. It was built directly atop soil with poor load bearing capacity very near the Keuka Outlet canal. In order to safely remove impacted soil within and proximate to the building, extensive structural reinforcement was required.
 - iii. Project Remediation Phase Timeline:
 - A. Mobilization for remediation field work July 2015.
 - B. Preliminary historic former gas house structural repair work July 2015 to January 2016.
 - C. Remedial construction (upland excavations) started February, 2016
 - D. Keuka Lake Outlet remedial construction May 2016 to February 2017
 - E. Supplemental Investigation of bank area and inside the former gas house May 2017.
 - F. Project shut down/demobilization July 2017.

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**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

- G. Engineering work for changed conditions, internal review and approval July 2017 to December 2017.
- H. Supplemental remedial design for changed conditions approved by NYSDEC January 2018.
- I. Change order procurements January 2018 to August 2018.
- J. Remobilization to the site August 2018.
- K. Additional former gas house structural repairs and underpinning September to April 2019.
- L. Remedial excavations inside former gas house April to July 2019.
- M. Bank Area excavation work began April 2019.

NYSEG - Wadsworth Street Former MGP Site - Geneva, New York
Construction Cost Variance
June 4, 2018 - July 19, 2018

Item No.	RFP Payment Item	Unit	Qty	Engineers Estimate	Contractor Bid - Unit Price	Contractor Bid - Total Price	Contractor - Actual Quantity Billed	Contractor - Actual Amount Billed	Variance - Eng. Estimate vs. Actual
1.0 Mobilization and Project Support									
1.1	Mobilization	Lump Sum	1	\$ 70,000 00			100%		
1.2	Pre-Construction Survey	Lump Sum	1	\$ 2,500 00			100%		
1.3	Survey Control	Week	5	\$ 25,000 00			5		
1.3a	Survey Control (Contingency)	Week	2	\$ 15,000 00			0		
1.4	Temporary Facilities/Health and Safety	Week	5	\$ 75,000 00			5		
1.4a	Temporary Facilities/Health and Safety (Contingency)	Week	2	\$ 45,000 00			0		
1.5	Permitting	Lump Sum	1	\$ 1,500 00			100%		
1.6	Submittals	Lump Sum	1	\$ 12,000 00			100%		
1.7	Dust, Vapor, and Odor Suppression/Control	Week	5	\$ 25,000 00			5		
1.7a	Dust Vapor and Odor Suppression/Control (Contingency)	Week	2	\$ 15,000 00			0		
1.8	Provide Biosolve® Solution	Gallon	100	\$ 4,500 00			15		
1.9	Provide Vapor/Odor Suppression Foam	Gallon	100	\$ 2,500 00			0		
1.10	Removal of Existing Security Fence - Northern Portion of Gas Holder 3	Linear Feet	220	\$ 2,200 00			0		
1.10a	Removal of Existing Security Fence - Southern Portion of Gas Holder 3		150	\$ 1,500 00			0		
1.11	On-Site Water Handling/Management	Week	5	\$ 10,000 00			5		
1.11a	On-Site Water Handling/Management (Contingency)	Week	2	\$ 6,000 00			0		
2.0 Site Preparation									
2.1	Temporary Erosion and Sediment Control Measures	Week	5	\$ 15,000 00			5		
2.1a	Temporary Erosion and Sediment Control Measures (Contingency)	Week	2	\$ 6,000 00			0		
2.2	Personnel/Equipment Decontamination Areas	Lump Sum	1	\$ 9,000 00			100%		
2.3	Temporary Site Control and Safety Measures	Lump Sum	1	\$ 12,000 00			100%		
3.0 Excavation and Material Handling									
3.1	Surface Material Removal	In-situ Cubic Yard	670	\$ 8,040 00			493		
3.2	Air Knifing	Lump Sum	1	\$ 6,000 00			100%		
3.3	Excavation Support	Lump Sum	1	\$ 25,000 00			100%		
3.4	Subsurface Soil and Structure Removal	In-situ Cubic Yard	100	\$ 4,000 00			59		
3.5	Gas Holder 3 Foundation Power Wash - Northern Portion	Lump Sum	1	\$ 2,500 00			0		
3.6	Gas Holder 3 Asphalt Removal - Southern Portion	Square Feet	3,300	\$ 4,125 00			0		
3.7	Gas Holder 3 Material Removal - Southern Portion	In-situ Cubic Yard	150	\$ 1,800 00			0		
3.8	Gas Holder 3 Foundation Power Wash - Southern Portion	Lump Sum	1	\$ 2,500 00			0		
3.9	Parking Lot Asphalt Removal	Square Feet	8,700	\$ 10,875 00			0		
3.10	Provide Cement Kiln Dust	Ton	10	\$ 2,500 00			0		
4.0 Material and Waste Handling									
4.1	Transportation and Disposal (Non-Hazardous Solid Waste)		1,200	\$ 49,500 00			787.6		
4.1a	Transportation and Disposal (Non-Hazardous Solid Waste) - Southern Portion of Gas Holder 3	Ton	300	\$ 27,500 00			0		
4.2	Transportation and Disposal (C&D Debris) - Southern Portion of Gas Holder 3	Ton	130	\$ 9,750 00			0		
4.2a	Transportation and Disposal (C&D Debris) - Parking Lot Asphalt		330	\$ 24,750 00			0		
4.3	Transportation and Disposal (Non-Hazardous Liquid Waste)	Gallon	10,000	\$ 9,000 00			250		
4.4	Transportation and Disposal (water/NAPL mixture)	Gallon	100	\$ 250 00			0		
5.0 Backfilling									
5.1	Controlled Low-Strength Material	In-situ Cubic Yard	100	\$ 9,500 00			60		
5.2	Imported General Fill	Tons	600	\$ 18,000 00			395.02		
5.3	Type F (Run-of-Crusher) Stone	Tons	370	\$ 13,690 00			113.83		
5.4	Topsoil	Tons	600	\$ 1,500 00			397.6		
5.5	Non-Woven Geotextile Demarcation Layer	Tons	20,000	\$ 8,000 00			11500		
6.0 Project Close-Out and Demobilization									
6.1	Installation of Permanent Chain Link Fence - Northern Portion of Gas Holder 3		220	\$ 9,900 00			220		
6.1a	Installation of Permanent Chain Link Fence - Southern Portion of Gas Holder 3	Linear Feet	150	\$ 6,750 00			0		
6.2	Sidewalk Repair	Square Feet	800	\$ 9,600 00			0		
6.3	Asphalt Pavement Restoration - Southern Portion of Gas Holder 3		3,300	\$ 14,850 00			0		
6.3a	Asphalt Pavement Restoration - Parking Lot		8,700	\$ 39,150 00			0		
6.4	Post-Construction Survey	Lump Sum	1	\$ 2,500 00			100%		
6.5	Demobilization	Lump Sum	1	\$ 35,000 00			100%		
Change Order									
1	Quote A18-8793: Light foundation removal	Lump Sum	1	0			100%		
2	Asphalt Repair, Sealing and Striping	Lump Sum	1	0			100%		
SUM				\$ 711,230.00		\$ 444,533.33		\$ 241,834.67	\$ (469,395.33)

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0948 (DPS-442)

Date of Request: August 5, 2019

Response Due Date: August 12, 2019

Date of Reply: August 9, 2019

Witness: Steve Mullin

Subject: SIR Audits

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

- a. Identify all internal and external audits of the Companies' SIR program, expenditures, or specific sites that have been conducted by the Companies' auditing department or a third party over the past five years. For each audit:
 - i. Explain why the audit was initiated;
 - ii. Provide a copy of the audit report (or if an audit report is not yet available, describe the status of the audit and indicate the anticipated date on which the audit will be completed); and
 - iii. Summarize the findings of the audit and the Companies' response to those findings
- b. Describe all changes within the past five years (if any) to the Companies' standards and protocols for initiating and implementing internal and external audits of its SIR program, expenditures, or specific sites.

Response:

a. i. – iii.

External Audits

As noted in NYRC-0416 Avangrid is a publicly traded company and as such is required to undergo an annual financial statement audit that includes the evaluation of our financial information and related control environment in accordance with Sarbanes-Oxley (SOX) law. As Avangrid is subject to the audit, so are its material operating companies, including NYSEG and RG&E. As part of the financial review and controls documentation external audit reviews the environmental process and balances on an annual basis as part of their opinion. The opinion of the external auditors and the report is then filed with the Securities & Exchange Commission (SEC) annually. Copies of the RG&E and NYSEG Financial Statements for years 2017 and 2018 are attached herein as Attachment 1 & 2 respectively.

Internal Audits

Also as noted in NYRC-0416, internally the audits of the same information as noted above in external audits are performed to be able to evaluate our position on the soundness of our controls and financial information. The risks around the environmental liabilities and environmental reserve are included in these internal audits. In the past five years the environmental liability was audited in 2015 (see Confidential Attachment 3).

Additionally, the environmental and accounting teams have a standard quarterly review of the SIR balances where updates are made for new information, changes in estimate and cash flow assumptions.

b.

As a result of the internal audit referenced above (July 27, 2015 report) an Environmental Liability Review Committee was created. The main purpose of the Committee is to evaluate information received from the Environmental Remediation department and determine whether a revision to the environmental liability is warranted. Revision to environmental liabilities would only be made after a decision has been taken by the Committee. Also taken into consideration are regulatory accounting and external audit matters. This group meets at a minimum two times per year.

Rochester Gas and Electric Corporation
Financial Statements
As of and For the Years Ended December 31, 2018 and 2017

Rochester Gas and Electric Corporation**Index**

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

Shareholders and The Board of Directors
Rochester Gas and Electric Corporation:

We have audited the accompanying financial statements of Rochester Gas and Electric Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, changes in common stock equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Gas and Electric Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

New York, New York
March 29, 2019

Rochester Gas and Electric Corporation Statements of Income

Years Ended December 31, (Thousands)	2018	2017
Operating Revenues	\$923,768	\$850,679
Operating Expenses		
Electricity purchased and fuel used in generation	128,817	102,169
Natural gas purchased	116,169	85,124
Operations and maintenance	271,177	261,087
Depreciation and amortization	84,744	71,470
Taxes other than income taxes, net	122,920	121,243
Total Operating Expenses	723,827	641,093
Operating Income	199,941	209,586
Other income	20,638	15,498
Other deductions	(24,406)	(19,708)
Interest expense, net of capitalization	(71,322)	(62,642)
Income Before Tax	124,851	142,734
Income tax expense	30,722	59,505
Net Income	\$94,129	\$83,229

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

Rochester Gas and Electric Corporation Statements of Comprehensive Income

Years ended December 31, (Thousands)	2018	2017
Net Income	\$94,129	\$83,229
Other Comprehensive Income, Net of Tax		
Amortization of pension for nonqualified plans, net of income taxes	323	(61)
Unrealized (loss) during the year on derivatives qualifying as cash flow hedges, net of income taxes:		
Unrealized (loss) during period on derivatives qualifying as hedges	(212)	(94)
Reclassification adjustment for loss included in net income	1	98
Reclassification adjustment for loss on settled cash flow treasury hedges	4,260	3,505
Total Other Comprehensive Income, Net of Tax	4,372	3,448
Comprehensive Income	\$98,501	\$86,677

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

Rochester Gas and Electric Corporation **Balance Sheets**

As of December 31,	2018	2017
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	\$170	\$631
Accounts receivable and unbilled revenues, net	175,409	160,303
Accounts receivable from affiliates	2,674	4,318
Notes receivable from affiliates	106,350	39,727
Fuel and gas in storage	10,927	9,302
Materials and supplies	11,824	11,005
Derivative assets	1,717	-
Broker margin accounts	2,661	6,848
Income tax receivable	1,591	16,589
Prepaid property taxes	36,708	35,120
Other current assets	2,622	3,555
Regulatory assets	51,876	63,627
Total Current Assets	404,529	351,025
Utility plant, at original cost	3,711,126	3,423,287
Less accumulated depreciation	(1,008,290)	(948,638)
Net Utility Plant in Service	2,702,836	2,474,649
Construction work in progress	312,111	332,457
Total Utility Plant in Service	3,014,947	2,807,106
Other Property and Investments	2,662	3,781
Regulatory and Other Assets		
Regulatory assets	446,997	486,398
Other	2,032	1,021
Total Regulatory and Other Assets	449,029	487,419
Total Assets	\$3,871,167	\$3,649,331

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

Rochester Gas and Electric Corporation

Balance Sheets

As of December 31,	2018	2017
(Thousands, except share information)		
Liabilities		
Current Liabilities		
Current portion of debt	\$150,532	\$1,434
Accounts payable and accrued liabilities	203,480	166,062
Accounts payable to affiliates	42,739	41,685
Interest accrued	13,379	12,329
Taxes accrued	1,449	1,692
Environmental remediation costs	3,633	2,435
Other	43,885	37,579
Regulatory liabilities	55,531	33,463
Total Current Liabilities	514,628	296,679
Regulatory and Other Liabilities		
Regulatory liabilities	712,258	694,751
Other Non-current Liabilities		
Deferred income taxes	244,260	295,264
Nuclear plant obligations	125,930	123,622
Pension and other postretirement	169,888	175,394
Asset retirement obligations	2,846	3,214
Environmental remediation costs	127,943	131,367
Other	68,610	22,501
Total Regulatory and Other Liabilities	1,451,735	1,446,113
Non-current debt	898,652	958,911
Total Liabilities	2,865,015	2,701,703
Commitments and Contingencies		
Common Stock Equity		
Common stock (\$5 par value, 50,000,000 shares authorized, 38,885,813 shares outstanding at December 31, 2018 and 2017)	194,429	194,429
Additional paid-in capital	604,998	604,975
Retained earnings	359,003	304,820
Accumulated other comprehensive loss	(35,040)	(39,358)
Treasury stock, at cost (4,379,300 shares at December 31, 2018 and 2017)	(117,238)	(117,238)
Total Common Stock Equity	1,006,152	947,628
Total Liabilities and Equity	\$3,871,167	\$3,649,331

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

Rochester Gas and Electric Corporation **Statements of Cash Flows**

Years Ended December 31,	2018	2017
(Thousands)		
Cash Flow from Operating Activities:		
Net income	\$94,129	\$83,229
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	84,744	71,470
Regulatory assets/liabilities amortization	11,165	5,515
Regulatory assets/liabilities carrying cost	5,932	12,468
Amortization of debt issuance costs	1,572	1,251
Deferred taxes	(12,944)	93,981
Pension cost	25,794	22,756
Stock-based compensation	(154)	(70)
Accretion expenses	155	159
Gain on disposal of assets	(60)	(20)
Other non-cash items	(7,822)	(8,054)
Changes in operating assets and liabilities		
Accounts receivable, from affiliates, and unbilled revenues	(13,462)	(12,540)
Inventories	(2,444)	(3,964)
Accounts payable, to affiliates, and accrued liabilities	34,756	(36,267)
Taxes accrued	14,754	(228)
Other assets/liabilities	35,167	(1,310)
Regulatory assets/liabilities	17,446	(10,034)
Net Cash Provided by Operating Activities	288,728	218,342
Cash Flow from Investing Activities:		
Capital expenditures	(278,650)	(301,811)
Contributions in aid of construction	8,265	4,783
Proceeds from sale of utility plant	826	561
Notes receivable from affiliates	(66,623)	(39,727)
Investments, net	-	(17)
Net Cash Used in Investing Activities	(336,182)	(336,211)
Cash Flow from Financing Activities:		
Non-current note issuance	151,031	294,012
Repayments of non-current debt	(62,150)	-
Repayments of other short-term debt, net	(454)	-
Repayments of capital leases	(1,434)	(1,354)
Notes payable to affiliates	-	(249,167)
Capital contributions from parent	-	75,000
Dividends paid	(40,000)	-
Net Cash Provided by Financing Activities	46,993	118,491
Net (Decrease) Increase in Cash and Cash Equivalents	(461)	622
Cash and Cash Equivalents, Beginning of Year	631	9
Cash and Cash Equivalents, End of Year	\$170	\$631

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

Rochester Gas and Electric Corporation
Statements of Changes in Common Stock Equity

(Thousands, except per share amounts)	Number of shares (*)	Common stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Common Stock Equity
Balance, January 1, 2017	38,885,813	\$194,429	\$530,018	\$221,591	\$(42,806)	\$(117,238)	\$785,994
Net income	-	-	-	83,229	-	-	83,229
Other comprehensive income, net of tax	-	-	-	-	3,448	-	3,448
Capital contribution	-	-	75,000	-	-	-	75,000
Stock-based compensation	-	-	(43)	-	-	-	(43)
Balance, December 31, 2017	38,885,813	194,429	604,975	304,820	(39,358)	(117,238)	947,628
Net income	-	-	-	94,129	-	-	94,129
Other comprehensive income, net of tax	-	-	-	-	4,372	-	4,372
Stock-based compensation	-	-	23	-	-	-	23
Common stock dividends	-	-	-	(40,000)	-	-	(40,000)
Adoption of accounting standards	-	-	-	54	(54)	-	-
Balance, December 31, 2018	38,885,813	\$194,429	\$604,998	\$359,003	\$(35,040)	\$(117,238)	\$1,006,152

(*) Par value of share amounts is \$5

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

Notes to Financial Statements**Note 1. Significant Accounting Policies**

Background and nature of operations: Rochester Gas and Electric Corporation's (RG&E, the company, we, our, us), principal business consists of its regulated electricity transmission, distribution and generation operations and regulated natural gas transportation and distribution operations in western New York. RG&E generates electricity from hydroelectric stations. RG&E serves approximately 381,000 electricity and 316,000 natural gas customers as of December 31, 2018 in its service territory of approximately 2,700 square miles. The service territory contains a substantial suburban area and a large agricultural area in parts of nine counties including and surrounding the city of Rochester, New York with a population of approximately one million people. We operate under the authority of the New York State Public Service Commission (NYPSC) and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

RG&E is a subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR) which is an 81.5% owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain.

Basis of presentation: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our financial statements:

Revenue recognition: We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services. Refer to Note 4 for further details.

Regulatory accounting: We account for our regulated operations in accordance with the authoritative guidance applicable to entities with regulated operations that meet the following criteria: (i) rates are established or approved by a third-party regulator; (ii) rates are designed to recover the entity's cost of providing regulated services or products and; (iii) there is a reasonable expectation that rates are set at levels that will recover the entity's costs and be collected from customers. Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent: (i) the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (ii) billings in advance of expenditures for approved regulatory programs.

We amortize regulatory assets and liabilities and recognize the related expense or revenue in the statements of income consistent with the recovery or refund included in customer rates. We believe it is probable that our currently recorded regulatory assets and liabilities will be recovered or settled in future rates.

Utility plant: Utility plant is accounted for at historical cost. In cases where we are required to dismantle installations or to recondition the site on which they are located, the estimated cost of removal or reconditioning is recorded as an asset retirement obligation (ARO) and an equal amount is added to the carrying amount of the asset.

Assets are transferred from "Construction work in progress" to "Utility plant" when they are available for service.

We determine depreciation expense for utility plant in service using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated

Notes to Financial Statements

cost of removal. Our depreciation accruals were equivalent to 2.4% of average depreciable property for 2018 and 2.1% for 2017. We amortize our capitalized software cost which is included in common plant, using the straight line method, based on useful lives of 7 to 25 years. Capitalized software costs were approximately \$123.9 million as of December 31, 2018 and \$116.0 million as of December 31, 2017. Depreciation expense was \$81.8 million in 2018 and \$69.0 million in 2017. Amortization of capitalized software was \$3.0 million in 2018 and \$2.0 million in 2017.

Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed to accumulated depreciation.

We charge repairs and minor replacements to operations and maintenance expense, and capitalize renewals and betterments, including certain indirect costs.

Allowance for funds used during construction (AFUDC) represents the allowed cost of capital, including a noncash return on equity (ROE), used to finance construction projects. We record the portion of AFUDC attributable to borrowed funds as a reduction of interest expense and record the remainder as other income.

Our balances of major classes of utility plant and associated useful lives are shown below as of December 31.

Utility Plant	Estimated useful life range (years)	2018	2017
(Thousands)			
Electric	29-75	\$2,441,300	\$2,219,220
Natural Gas	30-80	911,350	874,581
Common	7-55	358,476	329,486
Utility plant at original cost		3,711,126	3,423,287
Less accumulated depreciation		(1,008,290)	(948,638)
Net Utility Plant in Service		2,702,836	2,474,649
Construction work in progress		312,111	332,457
Total Utility Plant		\$3,014,947	\$2,807,106

Electric plant includes capital leases of \$13.7 million in 2018 and 2017. Accumulated depreciation related to these leases was \$3.3 million in 2018 and \$2.9 million in 2017.

Impairment of long-lived assets: We evaluate utility plant and other long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying amount of the asset exceeds the undiscounted future net cash flows associated with that asset.

The impairment loss to be recognized is the amount by which the carrying amount of the long lived asset exceeds the asset's fair value. Depending on the asset, fair value may be determined by use of a discounted cash flow model.

Fair value measurement: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act

Notes to Financial Statements

in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset according to its highest and best use, or by selling it to another market participant that would use the asset according to its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the transparency of input to the valuation of an asset or liability as of the measurement date.

The three input levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly, for substantially the full term of the contract.
- Level 3 - one or more inputs to the valuation methodology are unobservable or cannot be corroborated with market data.

Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

Equity investments with readily determinable fair values: We measure equity investments with readily determinable fair values at fair value, with changes in fair value reported in net income.

Derivatives and hedge accounting: Derivatives are recognized on the balance sheets at their fair value, except for certain electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that qualify for, and are elected under, the normal purchases and normal sales exception. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. Changes in the fair value of a derivative contract are recognized in earnings unless specific hedge accounting criteria are met.

Derivatives that qualify and are designated for hedge accounting are classified as cash flow hedges. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the hedged cash flows of the underlying exposure is deferred in Accumulated Other Comprehensive Income (AOCI) and later reclassified into earnings when the underlying transaction occurs. For all designated and qualifying hedges, we maintain formal documentation of the hedge and effectiveness testing in accordance with the accounting standards for derivatives and hedging. If we determine that the derivative is no longer highly effective as a hedge, we will discontinue hedge accounting prospectively. For cash flow hedges of forecasted transactions, we estimate the future cash flows of the forecasted transactions and evaluate the probability of the occurrence and timing of such transactions. If we determine it is probable that the forecasted transaction will not occur, we immediately recognize in earnings hedge gains and losses previously recorded in AOCI.

Changes in conditions or the occurrence of unforeseen events could require discontinuance of the hedge accounting or could affect the timing of the reclassification of gains or losses on cash

Notes to Financial Statements

flow hedges from AOCI into earnings. We record changes in the fair value of electric and natural gas hedge contracts to derivative assets or liabilities with an offset to regulatory assets or regulatory liabilities.

We offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Cash and cash equivalents: Cash and cash equivalents are comprised of cash, bank accounts, and other highly liquid short-term investments. We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in "Cash and cash equivalents." We classify book overdrafts representing outstanding checks in excess of funds on deposit as "Accounts payable and accrued liabilities" on the balance sheets. Changes in book overdrafts are reported in the operating activities section of the statements of cash flows.

Statements of cash flows: Supplemental disclosure of cash flow information is as follows:

	2018	2017
(Thousands)		
Cash paid during the year ended December 31:		
Interest, net of amounts capitalized	\$35,763	\$29,491
Income taxes paid (refunded), net	\$28,669	\$(58,091)

Of the income taxes paid (refunded), substantially all was received from AGR under the tax sharing agreement. Interest capitalized was \$20.1 million in 2018 and \$20.5 million in 2017. Accrued liabilities for utility plant additions were \$27.0 million in 2018 and \$17.9 million in 2017.

Broker margin accounts: We maintain accounts with clearing firms that require initial margin deposits upon the establishment of new positions, primarily related to natural gas and electricity derivatives, as well as maintenance margin deposits in the event of unfavorable movements in market valuation for those positions. We show the amount reflecting those activities as broker margin accounts on our balance sheets.

Accounts receivable and unbilled revenues, net: We record accounts receivable at amounts billed to customers. Accounts receivable at December 31 include unbilled revenues of \$62.3 million for 2018 and \$64.2 million for 2017, and are shown net of an allowance for doubtful accounts at December 31 of \$24.0 million for 2018 and \$23.1 million for 2017. Accounts receivable do not bear interest, although late fees may be assessed. Bad debt expense was \$14.7 million in 2018 and \$15.4 million in 2017.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience for each service region. Each month we review our allowance for doubtful accounts and past due accounts by age. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

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Our accounts receivable include amounts due under deferred payment arrangements (DPAs). When a residential customer becomes delinquent in making payments, the NYPSC requires us to allow the customer to enter into a DPA to settle the account balance. A DPA allows the account balance to be paid in installments over an extended period of time by negotiating mutually acceptable payment terms. Generally, we must continue to serve a customer who cannot pay an account balance in full if the customer: (i) pays a reasonable portion of the balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within 30 days until the DPA is paid in full or is otherwise considered to be delinquent. We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collection efforts have been exhausted. The allowance for doubtful accounts for DPAs at December 31 was \$14.4 million in 2018 and 2017. DPA receivable balances at December 31 were \$23.3 million in 2018 and \$21.8 million in 2017.

Debentures, bonds and bank borrowings: Bonds, debentures and bank borrowings are recorded as a liability equal to the proceeds of the borrowings. The difference between the proceeds and the face amount of the issued liability is treated as discount or premium and is accreted as interest expense or income over the life of the instrument. Incremental costs associated with issuance of the debt instruments are deferred and amortized over the same period as debt discount or premium. Bonds, debentures and bank borrowings are presented net of unamortized discount, premium and debt issuance costs on the balance sheets.

Inventory: Inventory comprises natural gas in storage and materials and supplies. We own natural gas that is stored in third-party owned underground storage facilities. This gas is recorded as inventory. Injections of inventory into storage are priced at the market purchase cost at the time of injection, and withdrawals of working gas from storage are priced at the weighted-average cost in storage. We continuously monitor the weighted-average cost of gas value to ensure it remains at, or below net realizable value. Inventories to support gas operations are reported on the balance sheet within "Natural gas in storage."

We also have materials and supplies inventories that are used for construction of new facilities and repairs of existing facilities. These inventories are carried and withdrawn at the lower of cost and net realizable value and reported on the balance sheets within "Materials and supplies." Inventory items are combined for the statement of cash flows presentation purposes.

Government grants: We record government grants as a reduction to utility plant to be recovered through rate base, in accordance with the prescribed FERC accounting.

In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as an offset to expenses in the statements of income in the period in which the expenses are incurred.

Deferred income: Apart from government grants, we occasionally receive revenues from transactions in advance of the resulting performance obligations arising from the transaction. It is our policy to defer such revenues on the balance sheets and amortize them to earnings when revenue recognition criteria are met.

Asset retirement obligations: We record the fair value of the liability for an asset retirement obligation (ARO) and a conditional ARO in the period in which it is incurred, and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability periodically to reflect revisions to either the timing or the amount of the original estimated undiscounted cash flows over time. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing

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differences between rate recovery and depreciation expense and accretion as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

Our ARO at December 31, including our conditional ARO, was \$2.8 million for 2018 and \$3.2 million for 2017. The ARO is associated with our long-lived assets and primarily consists of obligations related to removal or retirement of: asbestos, polychlorinated biphenyl contaminated equipment, gas pipeline and cast iron gas mains.

The following table reconciles the beginning and ending aggregate carrying amount of the ARO for the years ended December 31, 2018 and 2017.

Year ended December 31,	2018	2017
(Thousands)		
ARO, beginning of year	\$3,214	\$3,004
Liabilities settled during the year	(244)	(228)
(Decrease) increase to provision	(279)	279
Accretion expense	155	159
ARO, end of year	\$2,846	\$3,214

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydroelectric dams due to structural inadequacy or for decommissioning; the removal of property upon termination of an easement, right-of-way or franchise; and costs for abandonment of certain types of gas mains.

Accrued removal obligations: We meet the requirements concerning accounting for regulated operations and recognize a regulatory liability for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

Environmental remediation liability: In recording our liabilities for environmental remediation costs the amount of liability for a site is the best estimate, when determinable; otherwise it is based on the minimum liability or the lower end of the range when there is a range of estimated losses. We record our environmental liabilities on an undiscounted basis. Our environmental liability accruals are expected to be paid through the year 2046.

Post-employment and other employee benefits: We sponsor defined benefit pension plans that cover the majority of our employees. We also provide health care and life insurance benefits through various postretirement plans for eligible retirees.

We evaluate our actuarial assumptions on an annual basis and consider changes based on market conditions and other factors. All of our qualified defined benefit plans are funded in amounts calculated by independent actuaries, based on actuarial assumptions proposed by management.

We account for defined benefit pension or other postretirement plans, recognizing an asset or liability for the overfunded or underfunded plan status. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair

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value of the plan's assets and the accumulated postretirement benefit obligation. We reflect all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets rather than in other comprehensive income, as management believes it is probable that such items will be recoverable through the ratemaking process. We use a December 31st measurement date for our benefits plans.

We amortize prior service costs for both the pension and other postretirement benefits plans on a straight-line basis over the average remaining service period of participants expected to receive benefits. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred as required by the NYPSC. Our policy for the pension plans is to calculate the expected return on plan assets using the market-related value of assets. Our policy for the postretirement health care benefit plans is to calculate the expected return on plan assets using the market value of assets. We determine that value by recognizing the difference between actual returns and expected returns over a five year period.

Income tax: AGR, the parent company of Networks, files consolidated federal and state income tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return with benefits for loss method. As a member, RG&E settles its current tax liability or benefit each year directly with AGR pursuant to a tax allocation agreement between AGR and its members.

The aggregate amount of the related party income tax receivable balance due (to)/from AGR at December 31 is \$1.6 million for 2018 and \$16.6 million for 2017.

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities reflect the expected future tax consequences, based on enacted tax laws, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. In accordance with generally accepted accounting principles for regulated industries, we have established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary differences. We defer the investment tax credits when earned and amortize them over the estimated lives of the related assets. We also recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs.

Deferred tax assets and liabilities are measured at the expected tax rate for the period in which the asset or liability will be realized or settled, based on legislation enacted as of the balance sheet date. We charge or credit changes in deferred income tax assets and liabilities that are associated with components of OCI directly to OCI. Significant judgment is required in determining income tax provisions and evaluating tax positions. Our tax positions are evaluated under a more-likely-than-not recognition threshold before they are recognized for financial reporting purposes. Valuation allowances are recorded to reduce deferred tax assets when it is not more likely than not that we will realize all or a portion of a tax benefit. Deferred tax assets and liabilities are classified as non-current in the balance sheets.

State franchise tax, computed as the higher of a tax based on income or a tax based on capital, is recorded in "Taxes other than income taxes" and "Taxes accrued" in the accompanying financial statements.

Positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, are recognized in the financial statements when it is more likely than not the tax position can be sustained based solely on the technical merits of the position. The amount of a tax return position that is not recognized in the financial statements is disclosed as an unrecognized tax benefit. Changes in assumptions on tax benefits may also

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impact interest expense or interest income and may result in the recognition of tax penalties. Interest and penalties related to unrecognized tax benefits are recorded within "Interest expense, net of capitalization" and "Other Income" and "Other Deductions" in the statements of income.

Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the consolidated income tax components of the financial statements.

Upon enactment of the "Tax Cuts and Jobs Act" (the Tax Act) on December 22, 2017, we remeasured our existing deferred income tax balances as of December 31, 2017, to reflect the decrease in the corporate income tax rate from 35% to 21%, which resulted in a material decrease to our net deferred income tax liability balances. In connection with the Tax Act, the U.S. Securities and Exchange Commission (SEC) issued guidance in Staff Accounting Bulletin 118, or SAB 118, which clarified accounting for income taxes under Topic 740, Income Taxes, if information was not yet available or complete and provided up to a one year measurement period in which to complete the required analyses and accounting. Following SAB 118 guidance, we recorded provisional income tax amounts as of December 31, 2017, related to the Tax Act based on reasonable estimates that could be determined at that time. As of December 31, 2018, we have completed the measurement and accounting of certain effects of the Tax Act which we have reflected in the December 31, 2018 financial statements.

Limited voting junior preferred stock: We have a class of preferred stock having one share and a par value of \$1, which is issued and outstanding and has voting authority only with respect to whether RG&E may file a voluntary bankruptcy petition.

Stock-based compensation: Stock-based compensation represents costs related to AGR stock-based awards granted to RG&E employees. We account for stock-based payment transactions based on the estimated fair value of awards reflecting forfeitures when they occur. The recognition period for these costs begin at either the applicable service inception date or grant date and continues throughout the requisite service period, or until the employee becomes retirement eligible, if earlier.

Reclassifications: Certain amounts reported in the financial statements in previous periods have been reclassified to conform to the current year presentation.

New Accounting Standards and Interpretations: New accounting standards issued by the Financial Accounting Standards Board (FASB) that we either adopted or have not yet adopted are explained below. Although we are not a public business entity, our parent company is a public business entity; therefore, we adopt new accounting standards based on the effective date for public entities.

(a) Revenue from contracts with customers

In May 2014 the FASB issued Accounting Standards Codification (ASC), Topic 606, Revenue from Contracts with Customers (Topic 606) replacing the existing accounting standard and industry-specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The FASB further amended Topic 606 through various updates issued thereafter. The core principle is for an entity to recognize

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revenue to represent the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted Topic 606 effective January 1, 2018, and applied the modified retrospective method, for which we did not have a cumulative effect adjustment to retained earnings for initial application of the guidance. Refer to Note 4 for further details.

We also adopted the following standards as of their effective date of January 1, 2018, none of which had a material effect on our results of operations, financial position, cash flows, and disclosures.

(b) Classifying and measuring financial instruments

In January 2016 the FASB issued final guidance on the classification and measurement of financial instruments. As a result of our adoption we reclassified immaterial amounts from accumulated other comprehensive income (AOCI) to retained earnings.

(c) Certain classifications in the statement of cash flows

In August 2016 the FASB issued amendments to address existing diversity in practice concerning the classification of certain cash receipts and payments in the statement of cash flows, which must be applied on a full retrospective basis. Upon adoption, we had no changes to our cash flow classifications and disclosures in our financial statements.

(d) Improving the presentation of net periodic benefit costs

In March 2017 the FASB issued amendments to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. We retrospectively adopted the amendments that require us to present the service cost component separately from the other (non-service) components of net benefit cost, to report the service cost component in the income statement line item where we report the corresponding compensation cost, and to present all non-service components outside of operating cost. As a result, we have reclassified the non-service components – interest cost, expected return on plan assets, amortization of prior service cost (benefit), amortization of net loss, and settlement charge – from Operations and maintenance to Other income/(expense) within the statement of income. Prospectively, upon adoption, we will capitalize only the service cost component when applicable (for example, as a cost of a self-constructed asset). We elected to apply the practical expedient that allows us to retrospectively apply the amendments on adoption to net benefit costs for comparative periods by using the amounts disclosed in our notes to financial statements for Post-retirement and Similar Obligations as the basis for those periods. In connection with applying the practical expedient, in periods after adoption we will continue to include in operating income all legacy net benefit costs previously capitalized as a cost of self-constructed assets and other deferred regulatory costs. Our adoption of the amendments did not affect prior period net income. Beginning in 2018, non-service cost components we incur are no longer eligible for construction capitalization, but such costs can be deferred and included as a component of customer rates if permitted by our regulator. For the year ended December 31, 2018, we incurred additional immaterial expense as a result of the adoption of this standard.

The effect of the change in retrospective presentation related to the net periodic cost of our defined benefit pension and other postretirement employee benefits plans on our statement of income was as follows:

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Statement of Income (Thousands)	Year Ended December 31, 2017		
	As Revised	As Previously Reported	Effect of Change Higher/(Lower)
Operations and maintenance	\$ 261,087	\$ 280,310	\$ (19,223)
Other deductions	\$ (19,708)	\$ (485)	\$ (19,223)

(e) Customer accounting for implementation costs incurred in a cloud computing arrangement

The FASB issued amendments in August 2018 to clarify the accounting for implementation costs of a cloud computing arrangement (also referred to as a hosting arrangement) that is a service contract. Implementation costs, which include implementation, setup and other upfront costs, are either to be deferred or expensed as incurred, in accordance with existing internal-use software guidance for similar costs. The amendments require a customer to expense capitalized implementation costs over the contractual term of the arrangement, including any optional renewal periods the customer is reasonably certain it will exercise. An entity is to present deferred implementation costs on the balance sheet, income statement and cash flows consistent with the subscription fees associated with the arrangement. The amendments enhance disclosures to include certain qualitative and quantitative information about implementation costs for internal-use software and all hosting arrangements, not just hosting arrangements that are service contracts. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. An entity may apply the amendments either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We early adopted the amendments as of October 1, 2018, and are applying the amendments prospectively to all implementation costs after the date of adoption. Upon adoption, there were no material effects to our results of operations, financial position, cash flows and disclosures.

Accounting Pronouncements Issued But Not Yet Adopted

The following are new accounting pronouncements issued as indicated, that we have evaluated or are evaluating to determine their effect on our financial statements.

(a) Leases

In February 2016 the FASB issued new guidance, and issued subsequent amendments during 2018, that affects all companies and organizations that lease assets, and requires them to record on their balance sheet right-of-use assets and lease liabilities for the rights and obligations created by those leases. Under the new guidance, a lease is an arrangement that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The amendments retain a distinction between finance leases and operating leases, while requiring both types of leases to be recognized on the balance sheet. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the criteria for distinguishing between capital leases and operating leases in legacy U.S. GAAP. Lessor accounting will remain substantially the same as legacy U.S. GAAP, but with some targeted improvements to align lessor accounting with the lessee accounting model and with the revised revenue recognition guidance under Topic 606. The standard and amendments require new qualitative and quantitative disclosures for both lessees and lessors. The new leases guidance, including the subsequent amendments issued during 2018, is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early application is permitted.

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We adopted the new leases guidance effective January 1, 2019, and have elected the optional transition method under which we will initially apply the standard on that date without adjusting amounts presented for prior periods, and record the cumulative effect of applying the new guidance as an adjustment to beginning retained earnings. We expect the adjustment to retained earnings will be immaterial. Concerning certain transition and other practical expedients:

- we did not elect the package of three practical expedients available under the transition provisions, including (i) not reassessing whether expired or existing contracts contain leases, (ii) lease classification, and (iii) not revaluing initial direct costs for existing leases;
- we elected a land easement expedient and did not reassess land easements that we did not account for as leases prior to our adoption of the new leases guidance;
- we used hindsight for specified determinations and assessments in applying the new leases guidance;
- we will not recognize lease assets and liabilities for short-term leases (less than one year), for all classes of underlying assets; and
- we did not separate lease and associated nonlease components for transitioned leases, but will instead account for them together as a single lease component.

(b) Measurement of credit losses on financial instruments

The FASB issued an accounting standards update in June 2016 that requires more timely recording of credit losses on loans and other financial instruments. The amendments affect entities that hold financial assets and net investments in leases that are not accounted for at fair value through net income (loans, debt securities, trade receivables, off-balance-sheet credit exposures, etc.). They require an entity to present a financial asset (or group of financial assets) that is measured at amortized cost basis at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods appropriate in its circumstances. In November 2018 the FASB issued an update to this new guidance to clarify that receivables arising from operating leases are not within the scope of the credit losses standard. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with the leases standard. The amendments are effective for public entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. Entities are to apply the amendments on a modified retrospective basis for most instruments. We expect our adoption will not materially affect our results of operations, financial position, and cash flows.

(c) Targeted improvements to accounting for hedging activities

In August 2017 the FASB issued targeted amendments with the objective to better align hedge accounting with an entity's risk management activities in the financial statements, and to simplify the application of hedge accounting. The amendments address concerns of financial statement preparers over difficulties with applying hedge accounting and limitations for hedging both nonfinancial and financial risks, and concerns of financial statement users over how hedging activities are reported in financial statements. Changes to the hedge accounting guidance to address those concerns will: 1) expand hedge accounting for nonfinancial and

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financial risk components and amend measurement methodologies to more closely align hedge accounting with an entity's risk management activities; 2) eliminate the separate measurement and reporting of hedge ineffectiveness, to reduce the complexity of preparing and understanding hedge results; 3) enhance disclosures and change the presentation of hedge results to align the effects of the hedging instrument and the hedged item in order to enhance transparency, comparability, and understandability of hedge results; and 4) simplify the way assessments of hedge effectiveness may be performed to reduce the cost and complexity of applying hedge accounting. The amendments are effective for public entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For cash flow and net investment hedges existing at the date of adoption, a company must apply a cumulative-effect adjustment related to the separate measurement of ineffectiveness to AOCI with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year of adoption. The amended presentation and disclosure guidance is required only prospectively. In October 2018 the FASB issued amendments that are effective concurrently with the above targeted improvements. These additional amendments permit use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting purposes. Use of that rate is in addition to the already eligible benchmark interest rates, which are: interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate swap rate, the OIS Rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association Municipal Swap Rate. Our adoption of the amendments on January 1, 2019, will not materially affect our results of operations, financial position, or cash flows, but the amendments will ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness going forward.

(d) Reclassification of certain tax effects from accumulated other comprehensive income

In February 2018 the FASB issued amendments to address a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act of 2017 (the Tax Act) enacted on December 22, 2017, by the U.S. federal government. Under current guidance, the adjustment of deferred taxes for the effect of a change in tax laws or rates is required to be included in income from continuing operations, thus the associated tax effects of items within AOCI (referred to as stranded tax effects) do not reflect the appropriate tax rate. The amendments allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Act. As a result, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the Tax Act, and do not affect the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted including, for public entities, adoption in any interim period for which financial statements have not been issued. An entity has the option to apply the amendments either in the period of adoption or retrospectively to each period (or periods) in which it recognizes the effect of the change in the U.S. federal corporate income tax rate in the Tax Act. An entity is required to disclose its accounting policy election, including its policy for reclassifying material stranded tax effects in AOCI to earnings (specific identification or portfolio method). Our adoption of the amendments on January 1, 2019, will not materially affect our results of operations, financial position, cash flows, and disclosures.

(e) Changes to the disclosure requirements for fair value measurement and defined benefit plans

In August 2018 the FASB issued amendments related to disclosure requirements for both fair value measurement and defined benefit plans. The amendments concerning fair value

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measurement remove, modify and add certain disclosure requirements, in order to improve the overall usefulness of the disclosures and reduce unnecessary costs to companies to prepare the disclosures. The amendments to fair value measurement disclosures are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted as specified. Certain amendments are to be applied prospectively, and all others are to be applied retrospectively. We do not expect our adoption of the amendments to materially affect our disclosures.

The amendments concerning disclosure requirements for defined benefit plans are narrow in scope and apply to all employers that sponsor defined benefit pension or other postretirement plans. They remove disclosures that are no longer considered cost beneficial, add certain new relevant disclosures and clarify specific requirements of disclosures concerning information for defined benefit pension plans. The amendments to defined benefit plan disclosures are effective for fiscal years ending after December 15, 2020. Early adoption is permitted and application is to be on a retrospective basis. We do not expect our adoption of the amendments to materially affect our disclosures.

Use of estimates and assumptions: The preparation of our financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for doubtful accounts and unbilled revenues; (2) asset impairments; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; (8) earnings sharing mechanism (ESM); (9) environmental remediation liabilities; (10) pension and other postretirement employee benefits (OPEB); (11) fair value measurements and (12) AROs. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside specialists to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

Union collective bargaining agreements: Approximately 45% of our employees are covered by a collective bargaining agreement. We have no agreements that will expire within the coming year.

Note 2. Industry Regulation**Electricity and Natural Gas Distribution**

Our revenues are regulated, being based on tariffs established in accordance with administrative procedures set by the New York State Public Service commission (NYPSC). The tariffs are applied to regulated activities and are approved by the NYPSC and are based on the cost of providing service. Our revenues are set to be sufficient to cover all operating costs, including energy costs, finance costs, and the costs of equity, the last of which reflects our capital ratio and a reasonable return on equity (ROE).

Energy costs that are set on the New York wholesale markets are passed on to consumers. The difference between energy costs that are budgeted and those that are actually incurred by the utilities is offset by applying reconciliation procedures that result in either immediate or deferred tariff adjustments. Reconciliation procedures apply to other costs, which are in many

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cases exceptional, such as the effects of extreme weather conditions, environmental factors, regulatory and accounting changes, and treatment of vulnerable customers. Revenues that allow us to exceed target returns, usually the result of better than expected cost efficiency, are generally shared with our customers, resulting in future tariff reductions.

RG&E Rate Plan

On May 20, 2015, RG&E filed electric and gas rate cases with the NYPSC. We requested a rate increase for RG&E gas. RG&E electric proposed a rate decrease.

On February 19, 2016, RG&E and New York State Electric & Gas Corporation (NYSEG) (together, “the companies”) and other signatory parties filed a Joint Proposal (Proposal) with the NYPSC for a three-year rate plan for electric and gas service at RG&E commencing May 1, 2016. The Proposal, which was approved by the NYPSC on June 15, 2016, balanced the varied interests of the signatory parties including but not limited to maintaining the companies’ credit quality and mitigating the rate impacts to customers. The Proposal reflects many customer benefits including: acceleration of the companies’ natural gas leak prone main replacement programs and increased funding for electric vegetation management to provide continued safe and reliable service. The delivery rate increase in the Proposal can be summarized as follows:

	May 1, 2016		May 1, 2017		May 1, 2018	
	Rate Increase (Millions)	Delivery Rate Increase %	Rate Increase (Millions)	Delivery Rate Increase %	Rate Increase (Millions)	Delivery Rate Increase %
Electric	\$3.0	0.7%	\$21.6	5.0%	\$25.9	5.7%
Gas	\$8.8	5.2%	\$7.7	4.4%	\$9.5	5.2%

The allowed rate of return on common equity for RG&E Electric and RG&E Gas is 9.00%. The equity ratio for each company is 48%; however, the equity ratio is set at the actual up to 50% for earnings sharing calculation purposes. The customer share of any earnings above allowed levels increases as the ROE increases, with customers receiving 50%, 75% and 90% of earnings over 9.5%, 10.0% and 10.5% of ROE, respectively, in the first rate year covering the period May 1, 2016 – April 30, 2017. The earnings sharing levels increase in rate year two (May 1, 2017 – April 30, 2018) to 9.65%, 10.15% and 10.65% ROE, respectively. The earnings sharing levels further increase in rate year three (May 1, 2018 – April 30, 2019) to 9.75%, 10.25% and 10.75% ROE, respectively. The rate plans also include the implementation of a rate adjustment mechanism (“RAM”) designed to return or collect certain defined reconciled revenues and costs, implementation of new depreciation rates, and continuation of the existing Revenue Decoupling Mechanism (“RDM”) for each business.

The Proposal continues reserve accounting for qualifying Major Storms (\$2.5 million annually for RG&E Electric). Incremental maintenance costs incurred to restore service in qualifying divisions will be chargeable to the Major Storm Reserve provided they meet certain thresholds for each storm event.

The Proposal maintains current electric reliability performance measures (and associated potential negative revenue adjustments for failing to meet established performance levels) which include the system average interruption frequency index (SAIFI) and the customer average interruption duration index (CAIDI). The Proposal also modifies certain gas safety performance measures at the companies, including those relating to the replacement of leak prone main, leak backlog management, emergency response, and damage prevention. The Proposal establishes threshold performance levels for designated aspects of customer service quality and continues and expands RG&E’s bill reduction and arrears forgiveness Low Income

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Programs with increased funding levels included in the Proposal. Reforming the Energy Vision (REV) related incremental costs and fees will be included in the RAM to the extent cost recovery is not provided for elsewhere. Under the Proposal, the Company will implement the RAM, which will be applicable to all customers, to return or collect RAM Eligible Deferrals and Costs, including: (1) property taxes; (2) Major Storm deferral balances; (3) gas leak prone pipe replacement; and (4) REV costs and fees which are not covered by other recovery mechanisms.

The Proposal provides for partial or full reconciliation of certain expenses including, but not limited to: pensions, pension and other postretirement benefits; property taxes; variable rate debt and new fixed rate debt; gas research and development; environmental remediation costs; Major Storms; nuclear electric insurance limited credits; economic development; and Low Income Programs. The Proposal also includes a downward-only Net Plant reconciliation. In addition, the Proposal includes downward-only reconciliations for the costs of: electric distribution and gas vegetation management; pipeline integrity; and other incremental maintenance programs. The Proposal provides that we continue the electric RDMs on a total revenue per class basis and the gas RDMs on a revenue per customer basis.

Reforming the Energy Vision (REV)

In April 2014, the NYPSC commenced a proceeding entitled REV, which is a wide ranging initiative to reform New York State's energy industry and regulatory practices. REV has been divided into two tracks, Track 1 for Market Design and Technology, and Track 2 for Regulatory Reform. REV and its related proceedings have and will continue to propose regulatory changes that are intended to promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar and wider deployment of distributed energy resources, such as micro grids, on-site power supplies and storage.

REV is also intended to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. Track 1 of this initiative involves a collaborative process to examine the role of distribution utilities in enabling market based deployment of distributed energy resources to promote load management and greater system efficiency, including peak load reductions. RG&E is participating in the initiative with other New York utilities and are providing their unique perspective. The NYPSC issued a 2015 order in Track 1, which acknowledges the utilities' role as a Distribution System Platform (DSP) provider, and required the utilities to file an initial Distribution System Implementation Plan (DSIP) by June 30, 2016, followed by bi-annual updates. The companies filed the initial DSIP, which also included information regarding the potential deployment of Automated Metering Infrastructure (AMI) across its entire service territory. The companies, in December 2016, filed a petition to the NYPSC requesting approval for cost recovery associated with the full deployment of AMI, and a collaborative associated with this petition began in the first quarter of 2017, was suspended in the second quarter of 2017 and was resumed in the first quarter of 2018. The companies also filed their first bi-annual update of the DSIP on July 31, 2018.

Other various proceedings have also been initiated by the NYPSC which are REV related, and each proceeding has its own schedule. These proceedings include the Clean Energy Standard, Value of Distributed Energy Resources (VDER) and Net Energy Metering, Demand Response Tariffs, and Community Choice Aggregation. As part of the Clean Energy Standard proceeding, all electric utilities were ordered to begin payments to New York State Energy Research and Development Authority (NYSERDA) for Renewable Energy Credits ("RECs") and Zero Emissions Credits beginning in 2017. A separate Offshore Wind was ordered by the NYPSC in July 2018.

Track 2 of the REV initiative is also underway, and through a NYPSC Staff Whitepaper review

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process, is examining potential changes in current regulatory, tariff, market design and incentive structures which could better align utility interests with achieving New York state and NYPSC's policy objectives. New York utilities will also be addressing related regulatory issues in their individual rate cases. A Track 2 order was issued in May, 2016, and includes guidance related to the potential for Earnings Adjustment Mechanisms (EAMs), Platform Service Revenues, innovative rate designs, and data utilization and security. The companies, in December 2016, filed a proposal for the implementation of EAMs in the areas of System Efficiency, Energy Efficiency, Interconnections, and Clean Air. A collaborative process to review the companies' petition began in the first quarter of 2017 and was suspended in the third quarter of 2017.

In March, 2017, the NYPSC issued three separate REV-related orders. These orders created a series of filing requirements for NYSEG beginning in March 2017 and extending through the end of 2018. The three orders involve: 1) modifications to the electric utilities' proposed interconnection earnings adjustment mechanism framework; 2) further DSIP requirements, including confirmation of the filing of an updated DSIP plan by mid-2018 and implementing two energy storage projects at RG&E by the end of 2018; and 3) Net Energy Metering Transition including implementation of Phase One of the VDER. In September 2017, the NYPSC issued another order related to the VDER, requiring tariff filings, changes to Standard Interconnection Requirements, and planning for the implementation of automated consolidated billing. RG&E has participated with the other NY state electric utilities in jointly filing updates to the interconnection earnings adjustment mechanism, has implemented two energy storage projects, and has participated with the other NY state electric utilities in the VDER transition effort, including tariff updates and application of VDER principles.

The March 2017 Order in the VDER proceeding approved a transition from traditional Net Energy Metering (NEM) towards a more values-based approach (Value Stack) for compensating Distributed Energy Resources (DER). The March 2017 Order approved an interim methodology for more precise DER valuation and compensation for NEM-eligible technologies. The interim methodology approved by the NYPSC provides for a market transition consistent with the principles of gradualism and predictability, and established a tranche system to manage impacts on non-participants.

The March 2017 Order also directed a Phase Two of the VDER proceeding. Phase Two would encompass improvements to the interim methodology established in Phase One, seek to expand Value Stack eligibility to technologies not included in Phase One, and review rate designs for mass market (i.e., residential and small non-residential) on-site DERs whose project would be interconnected after January 1, 2020. Working groups were established for further discussions regarding Value Stack, Rate Design and Low Income. The working groups met toward the latter half of 2017 and all of 2018 to discuss, review and analyze several issues regarding each subject. The working groups culminated with a series of whitepapers developed by NYPSC Staff a) Standby and Buyback Service Rate Design, b) Future Value Stack Compensation, and c) Capacity Value Compensation. The whitepapers were submitted between December 12 and December 14, 2018 in the VDER proceeding. Public comments on the whitepapers were submitted by February 25, 2019. A Staff whitepaper on rate design for mass market on-site DER projects interconnected after January 1, 2020 is scheduled to be submitted in 2019.

New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm

On March 11, 2017, the New York State Department of Public Service (the Department) commenced an investigation of RG&E's preparation for and response to the March 2017 windstorm, which affected more than 219,000 customers at NYSEG and RG&E. The

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Department investigation included a comprehensive review of RG&E's preparation for and response to the windstorm, including all aspects of the companies' filed and approved emergency plan. The Department held public hearings on April 12 and 13, 2017.

On November 16, 2017, the NYPSC announced that the Department Staff had completed their investigation into the March 2017 Windstorm and the NYPSC issued an Order Instituting Proceeding and to Show Cause. The Staff's investigation found that RG&E had allegedly violated certain parts of its emergency response plan, which makes the Company subject to possible financial penalties. RG&E responded to the order in a timely manner and has conducted settlement discussions with the Department of Public Service Staff and other parties. These settlement discussions culminated with the filing of two Joint Proposals for settling the issues raised by the Department in May 2018, with several parties signing on to the Joint Proposals. These Joint Proposals have NYSEG and RG&E implementing a combined \$3.9 million of storm resiliency and restoration projects which will not be paid for by ratepayers. The Joint Proposals are currently before the Commission, and a ruling is expected in 2019.

New York State Department of Public Service Investigation of the Preparation for and Response to the March 2018 Winter Storms

On March 13, 2018, the New York State Department of Public Service (the Department) commenced an investigation of RG&E's preparation for and response to the March 1 and March 8, 2018 winter storms, which affected more than 300,000 customers at NYSEG and RG&E. The Department investigation will include a comprehensive review of RG&E's preparation for and response to the winter storms, including all aspects of the company's filed and approved emergency plan. The Department held 21 public hearings between April 16 and April 26, 2018. The companies received and responded to numerous data requests and have participated in dozens of interviews related to the investigation over the last several months. We cannot predict the outcome of this regulatory action.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The Tax Act contains significant changes to the federal tax structure, including among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. The NYPSC has instituted proceedings in New York to review and address the implications associated with the Tax Act on the utilities providing service in state of New York. The Department of Public Service (DPS) Staff, on March 29, 2018, submitted a proposal to the NYPSC indicating that any companies which have not included the impacts from the Tax Act in a recent rate proceeding should submit a filing to initiate a surcredit beginning October 1, 2018 to pass back benefits to customers. The proposal invited all companies to comment on the proposal prior to June 29, 2018, and to include comments about alternative mechanisms to return the benefits to customers. RG&E has submitted comments in response to the DPS Staff proposal, identifying that it would be premature to begin a surcredit which could cause rate volatility when major expenditures may be forthcoming.

On August 9, 2018, the NYPSC issued an order in case 17-M-0815 and as part of that order instituted surcredits for RG&E customers beginning October 1, 2018. The surcredits include the annual 2018 tax expense savings for both electric and gas businesses, and include an amortization of previously deferred tax savings through September 30, 2018 for both businesses. The annual amount of the surcredits beginning October 1, 2018 for RG&E is approximately \$29 million.

Notes to Financial Statements**Ginna Reliability Support Service Agreement**

Ginna Nuclear Power Plant, LLC (GNPP), which is a subsidiary of Constellation Energy Nuclear Group, LLC (CENG), owns and operates the R.E. Ginna Nuclear Power Plant (Ginna Facility and together with GNPP, Ginna), a 581 MW single-unit pressurized water reactor located in Ontario, New York. In May 2014, the New York Independent System Operator (NYISO) produced a Reliability Study, confirming that the Ginna Facility needs to remain in operation to avoid bulk transmission and non-bulk local distribution system reliability violations in 2015 and 2018. In July, 2014, GNPP filed a petition requesting that the NYPSC initiate a proceeding to examine a proposal for the continued operation of the Ginna Facility.

In November 2014, the NYPSC ruled that GNPP had demonstrated that the Ginna Facility is required to maintain system reliability and that its actions with respect to meeting the relevant retirement notice requirements were satisfactory. The NYPSC also accepted the findings of the 2014 Reliability Study and stated that it established “the reliability need for continued operation of the Ginna Facility that is the essential prerequisite to negotiating a Reliability Support Services Agreement (RSSA).” As such, the NYPSC ordered RG&E and GNPP to negotiate an RSSA.

On February 13, 2015, RG&E submitted to the NYPSC an executed RSSA between RG&E and GNPP. RG&E requested that the NYPSC accept the RSSA and approve cost recovery by RG&E from its customers of all amounts payable to GNPP under the RSSA utilizing the cost recovery surcharge mechanism.

On October 21, 2015, RG&E, GNPP, New York Department of Public Service, Utility Intervention Unit and Multiple Intervenors filed a Joint Proposal with the NYPSC for approval of the RSSA, as modified. On February 23, 2016, the NYPSC unanimously adopted the joint proposal, which provides for a term of the RSSA from April 1, 2015 through March 31, 2017 and RG&E monthly payments to Ginna in the amount of \$15.4 million. In addition, RG&E is entitled to 70% of revenues from Ginna’s sales into the NYISO energy and capacity markets, while Ginna is entitled to 30% of such revenues. The NYPSC also authorized RG&E to implement a rate surcharge effective January 1, 2016, to recover amounts paid to Ginna pursuant to the RSSA. The FERC issued an order authorizing the FERC Settlement agreement in the Settlement Docket on March 1, 2016, at which point the rate surcharge went into effect. RG&E used deferred rate credit amounts (regulatory liabilities) to offset the full amount of the Deferred Collection Amount (including carrying costs), plus credit amounts to offset all RSSA costs that exceed \$2.3 million per month, not to exceed a total use of credits in the amount of \$110 million, applicable through June 30, 2017. The available credits were insufficient to satisfy the final payment amount from RG&E to Ginna, and consistent with the agreement with the NYPSC, the RSSA surcharge continues past March 31, 2017, to recover up to \$2.3 million per month until the final payment has been recovered by RG&E from customers.

Minimum Equity Requirements for Regulated Subsidiaries

RG&E is subject to a minimum equity ratio requirement that is tied to the capital structure assumed in establishing revenue requirements. Pursuant to these requirements, RG&E must maintain a minimum equity ratio equal to the ratio in its currently effective rate plan or decision measured using a trailing 13-month average. On a monthly basis, RG&E must maintain a minimum equity ratio of no less than 300 basis points below the equity ratio used to set rates. The minimum equity ratio requirement has the effect of limiting the amount of dividends that may be paid and may, under certain circumstances, require that the parent contribute equity capital. RG&E is prohibited by regulation from lending to unregulated affiliates. RG&E has also agreed to minimum equity ratio requirements in certain short-term borrowing agreements. These requirements are lower than the regulatory requirements.

Notes to Financial Statements**Note 3. Regulatory Assets and Liabilities**

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric and natural gas rates. We base our assessment of whether recovery is probable on the existence of regulatory orders that allow for recovery of certain costs over a specific period, or allow for reconciliation or deferral of certain costs. When costs are not treated in a specific order we use regulatory precedent to determine if recovery is probable. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately \$185.4 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

Details of regulatory assets and regulatory liabilities are shown in the tables below. They result from various regulatory orders that allow for the deferral and/or reconciliation of specific costs. Regulatory assets and regulatory liabilities are classified as current when recovery or refund in the coming year is allowed or required through a specific order or when the rates related a specific regulatory asset or regulatory liability are subject to automatic annual adjustment.

On June 15, 2016, the NYPSC approved the proposal in connection with a three-year rate plan for electric and gas service at RG&E effective May 1, 2016. Following the approval of the Proposal RG&E's plant related tax items are amortized over the life of associated plant, and unfunded deferred taxes being amortized over a period of fifty years. A majority of the other items related to RG&E, which net to a regulatory liability, remains deferred and will not be amortized until future proceedings or will be used to recover costs of the Ginna RSSA. Following the approval of the proposal by the NYPSC, unfunded future income taxes were adjusted for the amount of \$123 million to reflect the change from a flow through to normalization method, which has been recorded as an increase to income tax expense and an offsetting increase to revenue, during the year ended December 31, 2016. The amounts will be collected over a period of fifty years.

Current and non-current regulatory assets at December 31, 2018 and 2017 consisted of:

December 31, (Thousands)	2018	2017
Current		
Revenue decoupling mechanism	\$1,320	\$8,249
Decommissioning	6,471	6,471
Storm costs	-	6,086
Reliability support services	12,775	27,000
Hedge losses	-	1,658
Environmental remediation costs	6,363	6,363
Rate Adjustment Mechanism (RAM)	18,436	-
Other	6,511	7,800
Total current regulatory assets	\$51,876	\$63,627
Non-current		
Asset retirement obligation	3,181	3,153
Unamortized losses on re-acquired debt	5,605	4,814
Decommissioning	4,827	8,655
Pension and other postretirement benefits cost deferrals	46,018	37,615
Federal tax depreciation normalization adjustment	48,076	50,211

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Environmental remediation costs	77,794	86,288
Pension and other postretirement benefits	78,955	95,940
Unfunded future income taxes	119,588	130,336
Reliability support services	-	10,234
Storm costs	47,136	49,544
Other	15,817	9,608
Total non-current regulatory assets	\$446,997	\$486,398

Revenue Decoupling Mechanism represents the mechanism established to disassociate the utility's profits from its delivery/commodity sales.

Environmental remediation costs include spending that has occurred and is eligible for future recovery in customer rates. Environmental costs are currently recovered through a reserve mechanism whereby projected spending is included in rates with any variance recorded as a regulatory asset or a regulatory liability. The amortization period will be established in future proceedings and will depend upon the timing of spending for the remediation costs. It also includes the anticipated future rate recovery of costs that are recorded as environmental liabilities since these will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future spending, it does not accrue carrying costs and is not included within rate base.

Rate Adjustment Mechanism ("RAM") represents a mechanism each business implements to return or collect the net balance of RAM eligible deferrals and costs. The primary driver of RAM collections is storm costs but this also includes property taxes and REV costs and fees not covered in other recovery mechanisms.

Pension and other postretirement benefits represent the actuarial losses on the pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future pension expenses. Because no funds have yet been expended for this regulatory asset, it does not accrue carrying costs and is not included within the rate base. Pension and other postretirement benefits cost deferrals include the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. The recovery of these amounts will be determined in future proceedings.

Unamortized losses on reacquired debt represent deferred losses on debt reacquisitions that will be recovered over the remaining original amortization period of the reacquired debt.

Decommissioning represents amounts to be collected in rates for the decommissioning of shut down plants.

Federal tax depreciation normalization adjustment represents the deferral of the normalization of change impacts in book lives and the pass back of theoretical reserves associated with Powertax deferred income tax.

Unfunded future income taxes represent unrecovered federal and state income taxes primarily resulting from regulatory flow through accounting treatment. The income tax benefits or charges for certain plant related timing differences, such as removal costs, are immediately flowed through to, or collected from, customers. This amount is being amortized as the amounts related to temporary differences that give rise to the deferrals are recovered in rates.

Asset retirement obligations represent the differences in timing of the recognition of costs associated with our AROs and the collection of such amounts through rates. This amount is being amortized at the related depreciation and accretion amounts of the underlying liability.

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Reliability support services represent the deferral of costs associated with keeping units available and capable of being committed for reliability purposes as requested by the utility or the NYISO.

Storm costs are allowed in rates based on an estimate of the routine costs of service restoration. RG&E is also allowed to defer unusually high levels of service restoration costs resulting from major storms when they meet certain criteria for severity and duration.

Other includes items such as deferred purchased gas.

Deferred income taxes regulatory: see Note 1.

Current and non-current regulatory liabilities at December 31, 2018 and 2017 consisted of:

December 31, (Thousands)	2018	2017
Current		
Energy efficiency programs	\$28,466	\$21,300
Carrying costs on deferred income tax bonus depreciation	10,000	8,333
Tax Act – remeasurement	6,439	-
Rate Adjustment Mechanism (RAM)	5,976	-
Other	4,650	3,830
Total current regulatory liabilities	\$55,531	\$33,463
Non-current		
Asset gain sale account	10,851	10,851
Earnings sharing	10,294	12,483
Economic development	19,330	18,846
Merger capital expense	5,953	5,953
Deferred transmission congestion contracts	21,339	19,117
Net plant reconciliation	18,657	9,690
Accrued removal obligations	180,224	175,175
Positive benefit adjustment	32,639	32,639
Deferred property taxes	24,800	19,406
Carrying costs on deferred income tax bonus depreciation	35,769	45,769
Tax Act – remeasurement	290,051	288,190
Debt rate reconciliations	20,356	16,016
Low income programs	-	4,466
NEIL (Nuclear Electric Insurance Limited) credits	4,420	-
Theoretical reserve flow through impact	6,279	6,279
Other	31,296	29,871
Total non-current regulatory liabilities	\$712,258	\$694,751

Energy efficiency portfolio standard represents the difference between revenue billed to customers through an energy efficiency charge and the costs of our energy efficiency programs as approved by the state authorities.

Accrued removal obligations represent the differences between asset removal costs recorded and amounts collected in rates for those costs. The amortization period is dependent upon the asset removal costs of underlying assets and the life of the utility plant.

Carrying costs on deferred income tax bonus depreciation represent the carrying costs benefit of increased accumulated deferred income taxes created by the change in tax law allowing bonus depreciation. The amortization period is five years following the approval of the proposal by the NYPSC.

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Economic development represents the economic development program which enables RG&E to foster economic development through attraction, expansion, and retention of businesses within its service territory. If the level of actual expenditures for economic development allocated to RG&E varies in any rate year from the level provided for in rates, the difference is refunded to ratepayers. The amortization period is five years following the approval of the proposal by the NYPSC.

Merger capital expense target customer credit account was created as a result of RG&E not meeting certain capital expenditure requirements established in the order approving the purchase of Energy East by Iberdrola. The amortization period is five years following the approval of the proposal by the NYPSC.

Deferred transmission congestion contracts represent the deferral of the right to collect day-ahead market congestions rents going forward in time.

Deferred property taxes represent the customer portion of the difference between actual expense for property taxes and the amount provided for in rates. The amount is being amortized over a five year period following the approval of the proposal by the NYPSC.

Tax Act - remeasurement represents the impact from remeasurement of deferred income tax balances as a result of the Tax Act enacted by the U.S. federal government on December 22, 2017. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates from 35% to 21% under the provisions of the Tax Act will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The NYPSC has instituted separate proceedings to review and address the implications associated with the Tax Act on the utilities providing service in state of New York. The NYPSC has required RG&E to institute surcredits to customers as of October 1, 2018. The surcredits include the annual tax expense savings as well as an amortization of previously deferred tax savings through September 30, 2018.

Debt rate reconciliations represent the over/under collection of costs related to fixed and variable rate debt instruments identified in the rate case. Costs would include interest, commissions and fees versus amounts included in rates.

Other includes items such as asset retirement obligations and New York State tax rate change.

Note 4. Revenue

On January 1, 2018, we adopted ASC 606 and all related amendments using the modified retrospective method, which we applied only to contracts that were not completed as of January 1, 2018. For reporting periods beginning on January 1, 2018, we present revenue in accordance with ASC 606, and have not adjusted comparative prior period information, which we continue to report under the legacy accounting standards in effect for those prior periods. For the year ended December 31, 2018, the effect of applying ASC 606 to recognize revenue as compared to applying the legacy accounting standards was not material.

We recognize revenue when we have satisfied our obligations under the terms of a contract with a customer, which generally occurs when the control of promised goods or services transfers to the customer. We measure revenue as the amount of consideration we expect to receive in exchange for providing those goods or services. Contracts with customers may include multiple performance obligations. For such contracts, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine

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standalone selling prices based on the prices charged to customers. Certain revenues are not within the scope of ASC 606, such as revenues from leasing, derivatives, other revenues that are not from contracts with customers and other contractual rights or obligations, and we account for such revenues in accordance with the applicable accounting standards. We exclude from revenue amounts collected on behalf of third parties, including any such taxes collected from customers and remitted to governmental authorities. We do not have any material significant payment terms because we receive payment at or shortly after the point of sale.

The following describes the principal activities from which we generate revenue.

RG&E derives its revenue primarily from tariff-based sales of electricity and natural gas service to customers in New York with no defined contractual term. For such revenues, we recognize revenues in an amount derived from the commodities delivered to customers. Other major sources of revenue are electricity transmission and wholesale sales of electricity and natural gas.

Tariff-based sales are subject to the corresponding state regulatory authorities, which determine prices and other terms of service through the ratemaking process. In New York customers have the option to obtain the electricity or natural gas commodity directly from the utility or from another supplier. For customers that receive their commodity from another supplier, the utility acts as an agent and delivers the electricity or natural gas provided by that supplier. Revenue in those cases is only for providing the service of delivery of the commodity. RG&E calculates revenue earned but not yet billed based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month. Differences between actual and estimated unbilled revenue are immaterial.

Transmission revenue results from others' use of the utility's transmission system to transmit electricity and is subject to FERC regulation, which establishes the prices and other terms of service. Long-term wholesale sales of electricity are based on individual bilateral contracts. Short-term wholesale sales of electricity are generally on a daily basis based on market prices and are administered by the NYISO or PJM Interconnection, LLC (PJM) as applicable. Wholesale sales of natural gas are generally short-term based on market prices through contracts with the specific customer.

The performance obligation in all arrangements is satisfied over time because the customer simultaneously receives and consumes the benefits as RG&E delivers or sells the electricity or natural gas or provides the transmission service. We record revenue for all of those sales based upon the regulatory-approved tariff and the volume delivered or transmitted, which corresponds to the amount that we have a right to invoice. There are no material initial incremental costs of obtaining a contract in any of the arrangements. RG&E does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. RG&E does not have any material significant payment terms because it receives payment at or shortly after the point of sale. RG&E assesses its deferred payment arrangements at each balance sheet date for the existence of significant financing components, but has had no material adjustments as a result.

RG&E records revenue from Alternative Revenue Programs (ARPs), which is not ASC 606 revenue. Such programs represent contracts between the utilities and their regulators. The RG&E ARPs include revenue decoupling mechanisms, other ratemaking mechanisms, annual revenue requirement reconciliations, and other demand side management programs. RG&E recognizes and records only the initial recognition of "originating" ARP revenues (when the regulatory-specified conditions for recognition have been met). When we subsequently include

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those amounts in the price of utility service billed to customers, we record such amounts as a recovery of the associated regulatory asset or liability. When we owe amounts to customers in connection with ARPs, we evaluate those amounts on a quarterly basis and include them in the price of utility service billed to customers and do not reduce ARP revenues.

RG&E also has various other sources of revenue including billing, collection, other administrative charges, sundry billings, rent of utility property, and miscellaneous revenue. We classify such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing, ARPs, or other activities.

We have contract liabilities for revenue from transmission congestion contract (TCC) auctions, which we receive payment for at the beginning of an auction period, and amortize ratably each month into revenue over the applicable auction period. The auction periods range from six months to two years. TCC contract liabilities totaled \$0.5 million at December 31, 2018, and \$0.3 million at January 1, 2018, and are presented in "Other current liabilities." We recognized \$0.6 million as revenue during 2018, of which \$0.3 million was included in contract liabilities at January 1, 2018.

We apply a practical expedient to expense as incurred costs to obtain a contract when the amortization period is one year or less. We record costs incurred to obtain a contract within operating expenses, including amortization of capitalized costs.

Revenues disaggregated by major source for the year ended December 31, 2018 are as follows:

Year Ended December 31, 2018:**(Thousands)**

Regulated operations – electricity	\$	603,219
Regulated operations – natural gas		296,873
Other ^(a)		13,131
Revenue from contracts with customers		913,223
Leasing revenue		1,452
Alternative revenue programs		6,950
Other revenue		2,143
Total operating revenues	\$	923,768

(a) Primarily includes certain intra-month trading activities, billing, collection, and administrative charges, sundry billings, and other miscellaneous revenue.

As of December 31, 2018, nearly all of the accounts receivable balances included in "Accounts receivable and unbilled revenues, net" on our condensed balance sheet are related to contracts with customers.

Note 5. Income Taxes

The Tax Act changes significantly the federal taxation of business entities, including among other things, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017. In connection with the Tax Act, the U.S. Securities and Exchange Commission issued guidance in Staff Accounting Bulletin 118, or SAB 118, which clarified accounting for income taxes under ASC 740, Income Taxes, if information was not yet available or complete and provided up to a one year measurement period in which to complete the required analyses and accounting. Following SAB 118 guidance, the Company recorded provisional income tax amounts as of December 31, 2017 related to the Tax Act based on

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reasonable estimates that could be determined at that time. As of December 31, 2018, the Company has completed the measurement and accounting of certain effects of the Tax Act which have been reflected in the December 31, 2018 financial statements.

Current and deferred taxes charged to expense for the years ended December 31, 2018 and 2017 consisted of:

Years Ended December 31, (Thousands)	2018	2017
Current		
Federal	\$42,017	\$(37,205)
State	1,649	2,729
Current taxes charged to expense/(benefit)	43,666	(34,476)
Deferred		
Federal	(17,467)	86,186
State	4,523	7,795
Deferred taxes charged to (benefit)/expense	(12,944)	93,981
Total Income Tax Expense	\$30,722	\$59,505

The differences between tax expense per the statements of income and tax expense at the 21% and 35% statutory federal tax rate for the years ended December 31, 2018 and 2017, respectively, consisted of:

Years Ended December 31, (Thousands)	2018	2017
Tax expense at federal statutory rate	\$26,219	\$49,957
Statutory state taxes, net of federal benefit	6,411	6,845
Other, net	(1,908)	2,703
Total Income Tax Expense	\$30,722	\$59,505

Income tax expense for the year ended December 31, 2018 was \$4.5 million higher than it would have been at the statutory federal income tax rate of 21% due predominately to state taxes, net of federal benefit. This resulted in an effective tax rate of 24.6%. Income tax expense for the year ended December 31, 2017 was \$9.5 million higher than it would have been at the statutory federal income tax rate of 35% due predominately to state taxes, net of federal benefit. This resulted in an effective tax rate of 41.7%.

Deferred tax assets and liabilities as of December 31, 2018 and 2017 consisted of:

December 31, (Thousands)	2018	2017
Non-current Deferred Income Tax Liabilities (Assets)		
Property related	\$426,645	\$397,810
Unfunded FIT normalization amortization	31,970	37,794
Derivative assets	(15,824)	(17,257)
Non-cash return – bonus depreciation	(11,962)	(11,091)
Pension and other postretirement benefits	(12,441)	(10,288)
Positive benefits adjustment merger order	(8,530)	(8,530)
Environmental	(12,393)	(10,755)
Regulatory liability due to “Tax Cuts and Jobs Act”	(77,488)	(75,318)
Federal and state tax credits	(48,622)	(1,386)
Federal and state NOLs	(17,610)	(2,509)
Other	(9,485)	(3,206)
Total Non-current Deferred Income Tax Liabilities	\$244,260	\$295,264
Deferred tax assets	\$214,355	\$140,340
Deferred tax liabilities	458,615	435,604
Net Accumulated Deferred Income Tax Liabilities	\$244,260	\$295,264

Notes to Financial Statements

RG&E has gross federal net operating losses of \$76.4 million, federal research and development credits of \$1.4 million, gross NY state net operating losses of \$30.5 million and claims for NY state tax credits of \$47.2 million.

The reconciliation of unrecognized income tax benefits for the years ended December 31, 2018 and 2017 consisted of:

Years Ended December 31, (Thousands)	2018	2017
Balance as of January 1	\$2,526	\$2,905
Increases for tax positions related to prior years	47,737	271
Reduction for tax positions related to prior years	(302)	(650)
Balance as of December 31	\$49,961	\$2,526

Unrecognized income tax benefits represent income tax positions taken on income tax returns but not yet recognized in the financial statements. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not based on the technical merits that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

There were no additional accruals for interest and penalties on tax reserves as of December 31, 2018 and December 31, 2017. Gross unrecognized tax benefits increased \$47.7 million in 2018 primarily due to NY state tax credits claimed for open tax years.

Note 6. Long-term Debt

At December 31, 2018 and 2017, our long-term debt was:

As of December 31, (Thousands)	2018			2017	
	Maturity Dates	Balances	Interest Rates	Balances	Interest Rates
First mortgage bonds ^(a)	2019-2033	\$ 900,000	3.10%-8.00%	\$ 900,000	3.10%-8.00%
Unsecured pollution control notes – fixed	2025	152,400	2.875%-3.00%	-	-
Unsecured pollution control notes - variable	2032	-	-	62,150	1.94%
Obligations under capital leases	2019-2023	8,778		9,818	
Unamortized debt issuance costs and discount		(11,994)		(11,623)	
Total Debt		\$ 1,049,184		\$ 960,345	
Less: debt due within one year, included in current liabilities		150,532		1,434	
Total Non-current Debt		\$ 898,652		\$ 958,911	

(a) The first mortgage bonds are secured by a first mortgage lien on substantially all of Net Utility Plant In Service. We have no other secured indebtedness. None of our other debt obligations are guaranteed or secured by any of our affiliates.

On May 24, 2017, RG&E issued \$300 million in aggregate principal amount of 3.10% First Mortgage Bonds maturing in 2027. Proceeds of the offering were used to reduce short-term debt, to fund capital expenditures and for general corporate purposes. Net proceeds of the offering after the price discount and issuance-related expenses were \$294 million.

On June 29, 2018, RG&E remarketed \$152 million in aggregate principal amount of Pollution

Notes to Financial Statements

Control Revenue Bonds, issued through the New York State Energy Research and Development Authority, with mandatory tender and maturity date of 2025 and interest rates ranging 2.875% - 3.00%.

At December 31, 2018, long-term debt, including lease obligations (in thousands), that will become due during the next five years are:

2019	2020	2021	2022	2023
\$150,532	\$1,961	\$126,961	\$1,961	\$1,798

We have no financial debt covenant requirements related to our long-term debt at December 31, 2018 and 2017.

Note 7. Bank Loans and Other Borrowings

RG&E had no short-term debt outstanding at December 31, 2018 and December 31, 2017. RG&E funds short-term liquidity needs through an agreement among Avangrid's regulated utility subsidiaries (the Virtual Money Pool Agreement), a bi-lateral intercompany credit agreement with Avangrid (the Bi-Lateral Intercompany Facility) and a bank provided credit facility to which RG&E is a party (the AGR Credit Facility), each of which are described below.

The Virtual Money Pool Agreement is an agreement among the investment grade-rated, regulated utility subsidiaries of Avangrid under which the parties to this agreement may lend to or borrow from each other. This Agreement allows Avangrid to optimize cash resources within the regulated utility companies which are prohibited by regulation from lending to unregulated affiliates. The interest rate on transactions under this agreement is the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. RG&E has a lending/borrowing limit of \$100 million under this agreement. On June 29, 2018, the RG&E Board approved the amendment to RG&E's borrowing and lending limit, increasing it temporarily from \$100 million to \$200 million. The amendment shall terminate on December 31, 2018, and all terms and conditions of the amendment shall revert back to the original terms and conditions provided for in the Agreement. There was no debt outstanding as of December 31, 2018 and December 31, 2017 under this agreement.

The Bi-Lateral Intercompany Facility provides for borrowing of up to \$500 million from Avangrid at the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. There was no balance outstanding under this agreement as of December 31, 2018 and December 31, 2017.

On June 29, 2018, AGR and its investment-grade rate utility subsidiaries (New York State Electric & Gas Corporation (NYSEG), RG&E, Central Maine Power Company (CMP), The United Illuminating Company (UI), Connecticut Natural Gas Corporation (CNG), The Southern Connecticut Gas Company (SCG) and The Berkshire Gas Company (BGC)) increased the maximum borrowing terms of the facility from \$1.5 billion to \$2.5 billion (in aggregate) and extended the maturity date from April 5, 2021 to June 29, 2023. The revolving credit facility is comprised of a syndicate of banks. Under the terms of the AGR Credit Facility, each joint borrower has a maximum borrowing entitlement, or sublimit, which can be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit established by the banks. AGR's maximum sublimit is \$2 billion, NYSEG, RG&E, CMP and UI have maximum sublimits of \$400 million, CNG and SCG have maximum sublimits of \$150 million and BGC has a maximum sublimit of \$40 million. Under the AGR Credit Facility, each of the borrowers will pay an annual facility fee that is dependent on their credit rating. The facility fees will range from 10.0 to 17.5 basis points. The maturity date for the AGR Credit Facility is June 29, 2023. RG&E had not borrowed under this agreement as of both December 31, 2018 and

Notes to Financial Statements

December 31, 2017.

In the AGR Credit Facility we covenant not to permit, without the consent of the lender, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of indebtedness to total capitalization, the facility excludes from net worth the balance of accumulated other comprehensive loss as it appears on the balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants for five business days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.51 to 1.00 at December 31, 2018. We are not in default as of December 31, 2018.

Note 8. Commitments and Contingencies**New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm**

On March 11, 2017, the New York State Department of Public Service (the Department) commenced an investigation of RG&E's preparation for and response to the March 2017 windstorm, which affected more than 219,000 customers at NYSEG and RG&E. The Department investigation included a comprehensive review of RG&E's preparation for and response to the windstorm, including all aspects of the companies' filed and approved emergency plan. The Department held public hearings on April 12 and 13, 2017.

On November 16, 2017, the NYPSC announced that the Department Staff had completed their investigation into the March 2017 Windstorm and the NYPSC issued an Order Instituting Proceeding and to Show Cause. The Staff's investigation found that RG&E had allegedly violated certain parts of its emergency response plan, which makes the Company subject to possible financial penalties. RG&E responded to the order in a timely manner and has conducted settlement discussions with the Department of Public Service Staff and other parties. These settlement discussions culminated with the filing of two Joint Proposals for settling the issues raised by the Department in May 2018, with several parties signing on to the Joint Proposals. These Joint Proposals have NYSEG and RG&E implementing a combined \$3.9 million of storm resiliency and restoration projects which will not be paid for by ratepayers. The Joint Proposals are currently before the Commission, and a ruling is expected in 2019.

Leases

On October 21, 2015, RG&E, GNPP and multiple intervenors filed a joint proposal with the regulator for approval of the modified RSS Agreement for the continued operation of the Ginna Facility. On February 23, 2016, the NYPSC unanimously adopted the joint proposal, which provided for a term of the RSSA from April 1, 2015, through March 31, 2017 and RG&E monthly payments to GNPP in the amount of \$15.4 million. RG&E was entitled to 70% of revenues from GNPP's sales into the energy and capacity markets, while GNPP was entitled to 30% of such revenues. We accounted for this arrangement as an operating lease. The net expense incurred under this operating lease was \$5.6 million for the year ended December 31, 2017.

Total future minimum lease payments as of December 31, 2018 consisted of:

Year	Operating Leases	Capital Leases	Total
(Thousands)			
2019	\$1,524	\$2,397	\$3,921

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2020	1,638	1,961	3,599
2021	1,417	1,961	3,378
2022	1,402	1,961	3,363
2023	3,510	1,798	5,308
Thereafter	2,915	-	2,915
Total	\$12,406	\$10,078	\$22,484

Purchase power and natural gas contracts, including nonutility generators

RG&E is the provider of last resort for customers. As a result, the company buys physical energy and capacity from the NYISO. In accordance with the NYPSC's February 26, 2008 Order, RG&E is required to hedge on behalf of non-demand billed customers. The physical electric capacity purchases we make from parties other than the NYISO are to comply with the hedge requirement for electric capacity. The company enters into financial swaps to comply with the hedge requirement for physical electric energy purchases. RG&E also makes purchases from other independent power producers and New York Power Authority (NYPA) under existing contracts or long-term supply agreements in order to comply with the company's Public Utility Regulatory Policies Act (PURPA) purchase obligation.

RG&E satisfies its natural gas supply requirements through purchases from various producers and suppliers, withdrawals from natural gas storage, capacity contracts and winter peaking supplies and resources. The company operates diverse portfolios of gas supply, firm transportation capacity, gas storage and peaking resources. Actual gas costs incurred by each of the companies are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The company purchases the majority of its natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The company acquires firm transportation capacity on interstate pipelines under long-term contracts and utilizes that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. The company acquires firm underground natural gas storage capacity using long-term contracts and fills the storage facilities with gas in the summer months for subsequent withdrawal in the winter months.

We recognized expenses of approximately \$47.7 million for Normal Purchase Normal Sale (NPNS) purchase power and natural gas contracts including nonutility generators in 2018 and \$47.9 million in 2017.

Note 9. Environmental Liability

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric and natural gas service.

Waste sites

The Environmental Protection Agency (EPA) and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at nine waste sites. The nine sites do not include sites where gas was manufactured in the past, which are discussed below. With respect to the nine sites, six sites are included in the New York State Registry of Inactive Hazardous Waste Disposal Sites and three sites are also included on the National Priorities list.

Notes to Financial Statements

Any liability may be joint and several for certain of those sites. We have recorded an estimated liability of \$161 thousand at December 31, 2018, related to the nine sites. We have recorded an estimated liability of \$4.1 million related to another seven sites where we believe it is probable that we will incur remediation costs and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties. It is possible the ultimate cost to remediate the sites may be significantly more than the accrued amount. Our estimate for costs to remediate these sites ranges from \$3.9 million to \$6.4 million as of December 31, 2018. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us. Any cost will be flowed through to RG&E ratepayers.

Manufactured gas plants

We have a program to investigate and perform necessary remediation at our twelve sites where gas was manufactured in the past. In 1994 and 1996 we entered into orders on consent with the NYSDEC. Those orders require us to investigate and, where necessary, remediate all of our eleven sites. All eleven sites are included in the New York Voluntary Clean-up Program.

Our estimate for all costs related to investigation and remediation of the twelve sites ranges from \$77.9 million to \$194.2 million at December 31, 2018. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites was \$127.3 million at December 31, 2018, and \$129.5 million at December 31, 2017. We recorded a corresponding regulatory asset, net of insurance recoveries, because we expect to recover the net costs in rates.

Our environmental liabilities are recorded on an undiscounted basis and are expected to be paid through the year 2046.

Note 10. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations. The primary risk we manage by using derivative instruments is commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

The financial instruments we hold or issue are not for trading or speculative purposes.

Commodity price risk: Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. We manage this risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it. Owned electric generation and long-term supply contracts reduce our exposure to market fluctuations.

We have electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the normal purchases and normal sales exception in accordance with the accounting requirements concerning derivative instruments and hedging activities.

Notes to Financial Statements

We currently have a non by-passable wires charge adjustment that allows us to pass through rates any changes in the market price of electricity. We use electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. We include the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value of electric hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2018 and 2017, the amount recognized in regulatory assets/liabilities was a gain of \$1.4 million and \$0.1 million, respectively, for electricity derivatives. For the years ended December 31, 2018 and 2017, the amount reclassified from regulatory assets/liabilities into income, which is included in electricity purchased, was a gain of \$4.6 million and a loss of \$12.5 million, respectively.

We have a purchased gas adjustment clause that allows us to recover through rates any changes in the market price of purchased natural gas, substantially eliminating our exposure to natural gas price risk. We use natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. We include the cost or benefit of natural gas futures and forwards in the commodity cost that is passed on to customers when the related sales commitments are fulfilled. We record changes in the fair value of natural gas hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2018 and 2017, the amount recognized in regulatory assets/liabilities for natural gas hedges was a gain of \$0.2 million and a loss of \$1.8 million, respectively. For the years ended December 31, 2018 and 2017 the amount reclassified from regulatory assets/liabilities into income, which is included in natural gas purchased, was a gain of \$0.5 million and a loss of \$0.2 million, respectively.

Our derivative volumes by commodity type that are expected to settle each year are:

	Electricity Contracts	Natural Gas Contracts	Fleet Fuel Contracts
Year to settle	Mwhs	Dths	Gals
As of December 31, 2018			
2019	1,313,375	4,560,000	397,100
2020	219,600	730,000	-
As of December 31, 2017			
2018	1,286,375	3,490,000	412,100
2019	-	680,000	-

The offsetting of derivatives, location in the balance sheet and amounts of derivatives as of December 31, 2018 and 2017, respectively, consisted of:

	Derivative Assets - Current	Derivative Assets - Noncurrent	Derivative Liabilities - Current	Derivative Liabilities - Noncurrent
December 31, 2018				
(In thousands)				
Not designated as hedging instruments				
Derivative assets	\$5,347	\$625	\$3,630	\$591
Derivative liabilities	(3,630)	(591)	(3,630)	(714)
	1,717	34	-	(123)
Designated as hedging instruments				
Derivative assets	-	-	-	-

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Derivative liabilities	-	-	(327)	-
	-	-	(327)	-
Total derivatives before offset of cash collateral	1,717	34	(327)	(123)
Cash collateral receivable (payable)	-	-	-	123
Total derivatives as presented in the balance sheet	\$1,717	\$34	\$(327)	\$-
	Derivative Assets – Current	Derivative Assets – Noncurrent	Derivative Liabilities - Current	Derivative Liabilities – Noncurrent
December 31, 2017				
(In thousands)				
Not designated as hedging instruments				
Derivative assets	\$4,271	\$-	\$4,129	\$-
Derivative liabilities	(4,129)	-	(5,787)	(104)
	142	-	(1,658)	(104)
Designated as hedging instruments				
Derivative assets	8	-	8	-
Derivative liabilities	(8)	-	(49)	-
	-	-	(41)	-
Total derivatives before offset of cash collateral	142		(1,699)	(104)
Cash collateral receivable (payable)	-	-	1,658	104
Total derivatives as presented in the balance sheet	\$142	\$-	\$(41)	\$-

As of both December 31, 2018 and 2017, the derivative assets - noncurrent and derivative liabilities are presented within other current and non-current assets and liabilities of the balance sheet, respectively.

The effect of hedging instruments on other comprehensive income (OCI) and income was:

Year Ended December 31,	(Loss) Gain Recognized in OCI on Derivatives	Location of (Loss) Gain Reclassified from Accumulated OCI into Income	Loss Reclassified from Accumulated OCI into Income
Derivatives in Cash Flow Hedging Relationships	Effective Portion	Effective Portion	
(Thousands)			
2018			
Interest rate contracts	\$-	Interest expense	\$(5,768)
Commodity contracts:			
Other	(287)	Other operating expenses	(1)
Total	\$(287)		\$(5,769)

Notes to Financial Statements**2017**

Interest rate contracts	\$-	Interest expense	\$(5,768)
Commodity contracts:			
Other	(155)	Other operating expenses	(160)
Total	\$(155)		\$(5,928)

The amount in AOCI related to previously settled forward starting interest rate swaps and accumulated amortization, at December 31, 2018 is a net loss of \$56.7 million as compared to \$62.5 million at December 31, 2017. For the year ended December 31, 2018, we recorded \$5.8 million in net derivative losses related to discontinued cash flow hedges. We will amortize approximately \$4.7 million of discontinued cash flow hedges in 2019.

As of December 31, 2018, \$0.3 million in losses are reported in AOCI because the forecasted transaction is considered to be probable. We expect that those losses will be reclassified into earnings within the next 12 months, the maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted energy transactions. There was no ineffective portion of hedge recognized during the year ended December 31, 2018.

We face risks related to counterparty performance on hedging contracts due to counterparty credit default. We have developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or Standard & Poor's). When our exposure to risk for counterparty exceeds the unsecured credit threshold, the counterparty is required to post additional collateral or we will no longer transact with the counterparty until the exposure drops below the unsecured credit threshold.

We have various master netting arrangements in the form of multiple contracts with various single counterparties that are subject to contractual agreements that provide for the net settlement of all contracts through a single payment. Those arrangements reduce our exposure to a counterparty in the event of default on or termination of any one contract. For financial statement presentation, we offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2018, is \$2.7 million for which we have posted collateral.

Note 11. Fair Value of Financial Instruments and Fair Value Measurements

The estimated fair value of debt amounted to \$1,176 million as of December 31, 2018 and \$1,129 million as of December 31, 2017. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The fair value hierarchy for the fair value of debt is considered as Level 2, except for unsecured pollution control notes-variable with a fair value of \$61.0 million as of December 31, 2017, which were repaid in 2018 and were

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are considered Level 3. The fair value of these unsecured pollution control notes-variable are determined using unobservable interest rates as the market for these notes is inactive.

Assets and liabilities measured at fair value on a recurring basis

The financial instruments measured at fair value as of December 31, consist of:

Description (Thousands)	(Level 1)	(Level 2)	(Level 3)	Netting	Total
2018					
Assets					
Noncurrent investments primarily money market funds	\$2,662	\$-	\$-	\$-	\$2,662
Derivatives					
Commodity contracts:					
Electricity	5,082	-	-	(3,526)	1,556
Gas	890	-	-	(695)	195
Other	-	-	-	-	-
Total	\$8,634	\$-	\$-	\$(4,221)	\$4,413
Liabilities					
Derivatives					
Commodity contracts:					
Electricity	(3,650)	-	-	3,650	-
Natural gas	(694)	-	-	694	-
Other	-	-	(327)	-	(327)
Total	\$(4,344)	\$-	\$(327)	\$4,344	\$(327)
2017					
Assets					
Noncurrent investments primarily money market funds	\$3,781	\$-	\$-	\$-	\$3,781
Derivatives					
Commodity contracts:					
Electricity	4,236	-	-	(4,094)	142
Gas	35	-	-	(35)	-
Other	-	-	8	(8)	-
Total	\$8,052	\$-	\$8	\$(4,137)	\$3,923
Liabilities					
Derivatives					
Commodity contracts:					
Electricity	(4,094)	-	-	4,094	-
Natural gas	(1,798)	-	-	1,798	-
Other	-	-	(49)	8	(41)
Total	\$(5,892)	\$-	\$(49)	\$5,900	\$(41)

We had no transfers to or from Level 1 and 2 during the year ended December 31, 2018. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

Valuation techniques: We measure the fair value of our noncurrent investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments which are Rabbi Trusts for deferred compensation

Notes to Financial Statements

plans primarily consist of money market funds.

We determine the fair value of our various derivative assets and liabilities utilizing market approach valuation techniques:

- We enter into electric energy derivative contracts to hedge the forecasted purchases required to serve our electric load obligations. We hedge our electric load obligations using derivative contracts that are settled based upon Locational Based Marginal Pricing published by the NYISO. We hedge approximately 70% of their electric load obligations using contracts for a NYISO location where an active market exists. The forward market prices used to value the companies' open electric energy derivative contracts are based on quotes prices in active markets for identical assets or liabilities with no adjustment required and therefore we include the fair value in Level 1.
- We enter into natural gas derivative contracts to hedge the forecasted purchases required to serve our natural gas load obligations. The forward market prices used to value our open natural gas derivative contracts are exchange-based prices for the identical derivative contracts traded actively on the New York Mercantile Exchange. Because we use prices quoted in an active market, we include those fair value measurements in Level 1.
- We enter into fuel derivative contracts to hedge our unleaded and diesel fuel requirements for our fleet vehicles. Exchange based forward market prices are used but because a basis adjustment is added to the forward prices, we include the fair value measurement for these contracts in Level 3.

Instruments measured at fair value on a recurring basis using significant unobservable inputs

Year ended December 31, (Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Derivatives, Net 2018	2017
Beginning balance	\$41	\$46
Total (losses) gains (realized/unrealized)		
Included in earnings	(1)	(160)
Included in other comprehensive income	287	155
Ending balance	\$327	\$41

The gains and losses included in earnings for the periods above are reported in Operations and maintenance of the statements of income.

Note 12. Accumulated Other Comprehensive Loss

	Balance January 1, 2017	2017 Change	Balance December 31, 2017	Adoption of new accounting standard	2018 Change	Balance December 31, 2018
(Thousands)						
Net unrealized holding gain on investments, net of income tax expense of \$0 for 2017 and 2018	\$39	\$-	\$39	\$-	\$-	\$39
Amortization of pension cost for nonqualified plans, net of tax (benefit)/ expense of \$(40) for 2017 and \$114 for 2018	(1,641)	(61)	(1,702)	-	323	(1,379)
Loss for nonqualified pension plans				(54)		

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Unrealized (loss) on derivatives qualified as hedges:						
Unrealized (loss) during period on derivatives qualified as hedges, net of income tax expense (benefit) of \$(61) for 2017 and \$(75) for 2018	(94)			(212)		
Reclassification adjustment for loss included in net income, net of income tax expense of \$62 for 2017 and \$0 for 2018	98			1		
Reclassification adjustment for loss on settled cash flow treasury hedges, net of income tax expense of \$2,263 for 2017 and \$1,508 for 2018	3,505			4,260		
Net unrealized (loss) gain on derivatives qualified as hedges	(41,204)	3,509	(37,695)	-	4,049	(33,646)
Accumulated Other Comprehensive Loss	\$(42,806)	\$3,448	\$(39,358)	\$(54)	\$4,372	\$(35,040)

Note 13. Post-retirement and Similar Obligations

We have funded noncontributory defined benefit pension plans that cover the eligible employees. For most employees, generally those hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013 the company announced that we would freeze the benefits for all non-union employees covered under the cash balance plans effective December 31, 2013. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for these employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. There was no change to the defined benefit plans for employees covered under the plans that provide defined benefits based on years of service and final average salary.

The company maintains a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees as defined in the Plan agreement. Participants in the Plan may contribute a percentage of their compensation and the company may match a predetermined percentage of the participant contributions. Expenses under the Plan for the Company totaled approximately \$3.1 million in 2018 and 2017.

We also have pension and other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

Obligations and funded status:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	\$414,289	\$417,532	\$75,425	\$76,344
Service cost	5,457	5,728	278	326
Interest cost	14,084	16,313	2,644	3,038
Plan participants' contributions	-	-	664	684
Amendments	-	-	(3,442)	-
Actuarial loss/(gain)	(15,000)	20,478	(5,739)	102
Benefits paid	(41,610)	(45,762)	(5,184)	(5,069)

Notes to Financial Statements

Benefit obligation at December 31	\$377,220	\$414,289	\$64,646	\$75,425
Change in plan assets				
Fair value of plan assets at January 1	\$309,048	\$308,374	\$-	\$-
Actual return on plan assets	(13,681)	40,236	-	-
Employer and plan participants' contributions	12,977	6,200	5,184	5,069
Benefits paid	(41,610)	(45,762)	(5,184)	(5,069)
Fair value of plan assets at December 31	266,734	309,048	\$-	\$-
Funded status at December 31	\$(110,486)	\$(105,241)	\$(64,646)	\$(75,425)

Amounts recognized in the balance sheet	Pension Benefits		Postretirement Benefits	
December 31,	2018	2017	2018	2017
(Thousands)				
Other current liabilities	\$-	\$-	\$(5,244)	\$(5,272)
Pension and other postretirement benefits	(110,486)	(105,241)	(59,402)	(70,153)
Total	\$(110,486)	\$(105,241)	\$(64,646)	\$(75,425)

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans. Amounts recognized as regulatory assets or regulatory liabilities consist of:

December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2018	2017	2018	2017
Net loss	\$87,928	\$95,279	\$(3,825)	\$3,228
Prior service cost (credit)	\$-	\$223	\$(5,149)	\$(2,789)

Our accumulated benefit obligation for all defined benefit pension plans was \$349.5 million at December 31, 2018 and \$387.6 million at December 31, 2017.

The projected benefit obligation and the accumulated benefit obligation exceeded the fair value of pension plan assets as of both December 31, 2018 and 2017. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets as of December 31, 2018 and 2017.

December 31	2018	2017
(Thousands)		
Projected benefit obligation	\$377,220	\$414,289
Accumulated benefit obligation	\$349,547	\$387,627
Fair value of plan assets	\$266,734	\$309,049

**Components of net periodic benefit cost and other amounts
recognized in regulatory assets and regulatory liabilities:**

	Pension Benefits		Postretirement Benefits	
Years Ended December 31,	2018	2017	2018	2017
(Thousands)				
Net periodic benefit cost				
Service cost	\$5,457	\$5,728	\$278	\$326
Interest cost	14,084	16,313	2,644	3,038
Expected return on plan assets	(21,028)	(22,571)	-	-
Amortization of prior service cost (credit)	222	403	(1,082)	(1,409)
Amortization of net loss	27,059	22,883	1,314	566
Net periodic benefit cost	\$25,794	\$22,756	\$3,154	\$2,521

Notes to Financial Statements**Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities**

Net (gain) loss	\$19,708	\$2,813	(5,739)	\$102
Amortization of net (loss) gain	(27,059)	(22,883)	(1,314)	(566)
Prior service cost	-	-	(3,442)	-
Amortization of prior service (cost) credit	(223)	(403)	1,082	1,409
Total recognized in regulatory assets and regulatory liabilities	(7,574)	(20,473)	(9,413)	945
Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities	\$18,220	\$2,283	\$(6,259)	\$3,466

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ending December 31, 2019

	Pension Benefits	Postretirement Benefits
(Thousands)		
Estimated net loss	\$14,062	\$663
Estimated prior service cost (credit)	\$-	\$(1,390)

We expect that no pension benefit or postretirement benefit plan assets will be returned to us during the fiscal year ending December 31, 2019.

Weighted-average assumptions used to determine benefit obligations at December 31,

	Pension Benefits	Postretirement Benefits
	2018	2017
Discount rate	3.93%	3.63%
Rate of compensation increase	3.90%	4.00%

The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate by developing a yield curve derived from a portfolio of high grade non-callable bonds with above median yields that closely matches the duration of the expected cash flows of our benefit obligations.

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31,

	Pension Benefits	Postretirement Benefits
	2018	2017
Discount rate	3.63%	4.12%
Expected long-term return on plan assets	7.30%	7.30%
Rate of compensation increase	4.00%	4.00%

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred.

Assumed health care cost trend rates to determine benefit obligations at December 31,

	2018	2017
Health care cost trend rate (pre 65/post 65)	7.00%-7.75%	6.75%-8.50%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029/2027	2026/2028

Notes to Financial Statements

The assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. Due to the RG&E retirees having moved into a different program, it is no longer sensitive to medical trend changes. The company is limited to a specific dollar amount and will not change in the future.

Contributions: In accordance with our funding policy, we make annual contributions of not less than the minimum required by applicable regulations. We expect to contribute \$12.3 million to our pension benefit plans in 2019.

Estimated future benefit payments: Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2019	\$36,504	\$5,150	-
2020	\$36,268	\$5,063	-
2021	\$35,568	\$5,008	-
2022	\$35,562	\$4,940	-
2023	\$34,543	\$4,872	-
2024 – 2028	\$153,535	\$22,440	-

Plan assets: Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to ensure that current and future benefit obligations are adequately funded and with volatility commensurate with our tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Our primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

Networks' asset allocation policy is the most important consideration in achieving our objective of superior investment returns while minimizing risk. We have established a target asset allocation policy within allowable ranges for our pension benefits plan assets within broad categories of asset classes made up of Return-Seeking and Liability-Hedging investments. Within the Return-Seeking category, we have targets of 35%-53% in equity securities, 40%-45% for Liability-Hedging assets and 7%-20% for alternative investments. Return-Seeking investments generally consist of domestic, international, global, and emerging market equities invested in companies across all market capitalization ranges. Return-Seeking assets also include investments in real estate, absolute return, and strategic markets. Liability-Hedging investments generally consist of long-term corporate bonds, annuity contracts, long-term treasury STRIPS, and opportunistic fixed income investments. Systematic rebalancing within the target ranges increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair values of Network's pension benefits plan assets at December 31, 2018 and 2017, by asset category are shown in the following table. RG&E's share of the total consolidated assets is approximately 11% for 2018 and 2017.

		Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category	Total			
(Thousands)				
2018				
Cash and cash equivalents	\$51,661	\$-	\$51,661	\$-
U.S. government securities	15,137	15,137	-	-
Common stocks	90	90	-	-
Registered investment companies	216,508	216,508	-	-
Corporate bonds	412,703	-	412,703	-
Preferred stocks	3,512	270	3,242	-
Equity commingled funds	813,186	179,510	633,676	-
Other investments, principally annuity and fixed income	71,412	-	71,412	-
	\$1,584,209	\$411,515	\$1,172,694	\$-
Other investments measured at net asset value	925,888			
Total	\$2,510,097			
2017				
Cash and cash equivalents	\$17,531	\$-	\$17,531	\$-
U.S. government securities	13,338	13,338	-	-
Common stocks	129,312	129,312	-	-
Registered investment companies	105,037	105,037	-	-
Corporate bonds	447,124	-	447,124	-
Preferred stocks	4,381	299	4,082	-
Equity commingled funds	435,635	185,989	249,646	-
Other investments, principally annuity and fixed income	548,957	-	548,957	-
	\$1,701,315	\$433,975	\$1,267,340	\$-
Other investments measured at net asset value	1,126,017			
Total	\$2,827,332			

Valuation techniques: We value our pension benefits plan assets as follows:

- Cash and cash equivalents - Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, common stocks and registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds - based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks - at the closing price reported in the active market in which the individual investment is traded.
- Equity commingled funds – the fair value is primarily derived from the quoted prices in active markets of the underlying securities. Because the fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.

Notes to Financial Statements

- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.
- Other investments measured at net asset value (NAV) – alternative investments, such as private equity and real estate oriented investments, partnership/joint ventures and hedge funds are valued using the NAV as a practical expedient.

Pension plan equity securities did not include any AGR and Iberdrola common stock as of both December 31, 2018 and 2017.

Note 14. Other Income and Other Deductions

Years Ended December 31, (Thousands)	2018	2017
Interest and dividend income	\$1,781	\$528
Allowance for funds used during construction	11,533	11,199
Gain on sale of property	60	20
Carrying costs on regulatory assets	7,175	3,684
Miscellaneous	89	67
Total other income	\$20,638	\$15,498
Pension non-service components	\$(23,817)	\$(19,223)
Miscellaneous	(589)	(485)
Total other deductions	\$(24,406)	\$(19,708)

Note 15. Related Party Transactions

Certain Networks subsidiaries borrow from AGR, the parent of Networks, through intercompany revolving credit agreements, including RG&E. For RG&E the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 7 for further detail on the credit facility with AGR.

Avangrid Service Company provides some administrative and management services to Networks operating utilities, including RG&E, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The cost for services provided to RG&E by AGR and its affiliates were approximately \$52.8 million in 2018 and \$66.9 million for 2017 and the charge for services provided by RG&E to AGR and its subsidiaries were approximately \$14.6 million in 2018 and \$12.8 million for 2017. All charges for services are at cost. All of the charges associated with services provided are recorded as revenues to offset other operating expenses on the financial statements. The balance in accounts payable to affiliates of \$42.7 million at December 31, 2018 and \$41.6 million at December 31, 2017 is mostly payable to Avangrid Service Company.

Of the balance in notes receivable from affiliates of \$106.4 million at December 31, 2018, \$91.8 million is from the UIL companies and \$14.6 million is from NYSEG. The balance of \$39.7 million at December 31, 2017 is from the UIL companies. Notes receivable from affiliates relate to the Virtual Money Pool Agreement as discussed in Note 7 of these financial statements.

AGR, on behalf of RG&E, guarantees \$123 million to fund the clean-up of the GNPP.

Notes to Financial Statements**Note 16. Subsequent Events**

The company has performed a review of subsequent events through March 29, 2019, which is the date these financial statements were available to be issued, and no subsequent events have occurred from January 1, 2019 through such date.

New York State Electric & Gas Corporation
Financial Statements
For the Years Ended December 31, 2018 and 2017

New York State Electric & Gas Corporation**Index****Page(s)****Financial Statements As of and for the Years Ended December 31, 2018 and 2017**

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

Shareholders and The Board of Directors
New York State Electric and Gas Corporation:

We have audited the accompanying financial statements of New York State Electric and Gas Corporation, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, changes in common stock equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York State Electric and Gas Corporation as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

New York, New York
March 29, 2019

New York State Electric & Gas Corporation
Statements of Income

Years Ended December 31,	2018	2017
(Thousands)		
Operating Revenues	\$1,694,292	\$1,534,821
Operating Expenses		
Electricity purchased	434,752	313,978
Natural gas purchased	116,227	92,999
Operations and maintenance	614,744	576,293
Depreciation and amortization	133,531	129,023
Taxes other than income taxes, net	147,595	144,281
Total Operating Expenses	1,446,849	1,256,574
Operating Income	247,443	278,247
Other income	13,401	15,372
Other deductions	(53,215)	(46,834)
Interest expense, net of capitalization	(62,840)	(62,999)
Income Before Income Tax	144,789	183,786
Income tax expense	37,883	78,819
Net Income	\$106,906	\$104,967

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

New York State Electric & Gas Corporation
Statements of Comprehensive Income

Years Ended December 31,	2018	2017
(Thousands)		
Net Income	\$106,906	\$104,967
Other Comprehensive (Loss) Income, Net of Tax		
Amortization of pension cost for nonqualified plans, net of income taxes	131	(74)
Unrealized (loss) during the year on derivatives qualifying as cash flow hedges, net of income taxes:		
Unrealized (loss) during period on derivatives qualifying as hedges	(535)	(164)
Reclassification adjustment for loss included in net income	(34)	228
Reclassification adjustment for loss on settled cash flow treasury hedges	76	63
Total Other Comprehensive (Loss) Income, Net of Tax	(362)	53
Comprehensive Income	\$106,544	\$105,020

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

New York State Electric & Gas Corporation **Balance Sheets**

As of December 31,	2018	2017
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	\$4,943	\$3,396
Accounts receivable and unbilled revenues, net	289,751	268,977
Accounts receivable from affiliates	2,505	10,704
Fuel and gas in storage	16,820	15,231
Materials and supplies	16,759	15,813
Derivative assets	3,248	-
Broker margin accounts	5,301	13,334
Income tax receivable	20,896	41,844
Prepaid property taxes	36,400	35,779
Other current assets	5,872	6,060
Regulatory assets	113,210	113,403
Total Current Assets	515,705	524,541
Utility plant, at original cost	5,950,914	5,588,372
Less accumulated depreciation	(2,173,629)	(2,100,274)
Net Utility Plant in Service	3,777,285	3,488,098
Construction work in progress	353,440	240,657
Total Utility Plant	4,130,725	3,728,755
Other Property and Investments	8,081	10,411
Regulatory and Other Assets		
Regulatory assets	897,938	888,255
Other	6,469	1,634
Total Regulatory and Other Assets	904,407	889,889
Total Assets	\$5,558,918	\$5,153,596

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

New York State Electric & Gas Corporation
Balance Sheets

As of December 31,	2018	2017
(Thousands, except share information)		
Liabilities		
Current Liabilities		
Current portion of debt	\$20,305	\$322
Notes payable	-	150,000
Notes payable to affiliates	40,375	124,643
Accounts payable and accrued liabilities	374,591	287,925
Accounts payable to affiliates	82,366	78,532
Interest accrued	7,382	5,963
Taxes accrued	1,563	1,553
Derivative liabilities	824	39
Environmental remediation costs	38,910	51,758
Customer deposits	12,744	12,532
Regulatory liabilities	91,674	78,298
Other	70,322	77,684
Total Current Liabilities	741,056	869,249
Regulatory and Other Liabilities		
Regulatory liabilities	1,197,227	1,190,333
Other non-current liabilities		
Deferred income taxes	479,633	466,706
Pension and other postretirement	270,984	224,736
Asset retirement obligation	13,506	14,021
Environmental remediation costs	102,168	105,707
Other	82,484	44,009
Total Regulatory and Other Liabilities	2,146,002	2,045,512
Non-current debt	1,217,990	1,041,536
Total Liabilities	4,105,048	3,956,297
Commitments and Contingencies		
Common Stock Equity		
Common stock (\$6.66 2/3 par value, 90,000,000 shares authorized and 64,508,477 shares outstanding at December 31, 2018 and 2017)	430,057	430,057
Additional paid-in capital	418,430	268,403
Retained earnings	606,650	499,744
Accumulated other comprehensive loss	(1,267)	(905)
Total Common Stock Equity	1,453,870	1,197,299
Total Liabilities and Equity	\$5,558,918	\$5,153,596

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

New York State Electric & Gas Corporation **Statements of Cash Flows**

Years Ended December 31,	2018	2017
(Thousands)		
Cash Flow from Operating Activities:		
Net income	\$106,906	\$104,967
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	133,531	129,023
Regulatory assets/liabilities amortization	45,790	46,864
Regulatory assets/liabilities carrying cost	1,831	3,269
Amortization of debt issuance costs	1,352	1,745
Deferred taxes	39,125	59,189
Pension cost	70,190	60,825
Stock-based compensation	144	(11)
Accretion expenses	748	774
Gain on disposal of assets	(717)	(1,080)
Other non-cash items	(17,844)	(21,899)
Changes in assets and liabilities		
Accounts receivable, from affiliates, and unbilled revenues	(12,575)	(19,533)
Inventories	(2,535)	(2,803)
Accounts payable, to affiliates, and accrued liabilities	93,727	81,541
Taxes accrued	20,958	345
Taxes receivable	-	(21,326)
Other assets/liabilities	3,078	(75,777)
Regulatory assets/liabilities	(67,932)	57,102
Net Cash Provided by Operating Activities	415,777	403,215
Cash Flow from Investing Activities:		
Capital expenditures	(529,875)	(377,859)
Contributions in aid of construction	26,505	24,352
Proceeds from sale of utility plant	3,004	2,352
Investments, net	-	(26)
Net Cash Used in Investing activities	(500,366)	(351,181)
Cash Flow from Financing Activities:		
Non-current debt issuance	172,566	-
Repayments of non-current debt	-	(200,000)
Repayments of capital leases	(1,708)	(21,027)
Notes payable	(150,454)	150,000
Notes payable to affiliates	(84,268)	118,743
Capital contribution	150,000	-
Dividends paid	-	(100,000)
Net Cash Provided by (Used in) Financing Activities	86,136	(52,284)
Net Increase (Decrease) in Cash and Cash Equivalents	1,547	(250)
Cash and Cash Equivalents, Beginning of Year	3,396	3,646
Cash and Cash Equivalents, End of Year	\$4,943	\$3,396

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

New York State Electric & Gas Corporation
Statements of Changes in Common Stock Equity

(Thousands, except per share amounts)	Number of shares (*)	Common stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
Balance, January 1, 2017	64,508,477	\$430,057	\$268,405	\$494,777	\$(958)	\$1,192,281
Net income	-	-	-	104,967	-	104,967
Other comprehensive income, net of tax	-	-	-	-	53	53
Comprehensive income						105,020
Stock-based compensation	-	-	(2)	-	-	(2)
Common stock dividends	-	-	-	(100,000)	-	(100,000)
Balance, December 31, 2017	64,508,477	430,057	268,403	499,744	(905)	1,197,299
Net income	-	-	-	106,906	-	106,906
Other comprehensive income, net of tax	-	-	-	-	(362)	(362)
Comprehensive income						106,544
Stock-based compensation	-	-	27	-	-	27
Capital contribution	-	-	150,000	-	-	150,000
Balance, December 31, 2018	64,508,477	\$430,057	\$418,430	\$606,650	\$(1,267)	\$1,453,870

(*) Par value of share amounts is \$6.66 2/3

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

Notes to Financial Statements

Note 1. Significant Accounting Policies

Background and nature of operations: New York State Electric & Gas Corporation (NYSEG, the company, we, our, us) conducts regulated electricity transmission and distribution operations and regulated natural gas transportation, storage and distribution operations in upstate New York. It also generates electricity, primarily from its several hydroelectric stations. NYSEG serves approximately 899,000 electricity and 268,000 natural gas customers as of December 31, 2018 in its service territory of approximately 20,000 square miles, which is located in the central, eastern and western parts of the state of New York and has a population of approximately 2.5 million. The larger cities in which NYSEG serves electricity and natural gas customers are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport. We operate under the authority of the New York State Public Service Commission (NYPSC) and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

NYSEG is a subsidiary of Avangrid Networks, Inc. (Networks), which is a wholly-owned subsidiary of Avangrid, Inc. (AGR), which is an 81.5% owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain.

Basis of presentation: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP).

We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our financial statements:

Revenue recognition: We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Refer to Note 4 for further details.

Regulatory accounting: We account for our regulated operations in accordance with the authoritative guidance applicable to entities with regulated operations that meet the following criteria: (i) rates are established or approved by a third-party regulator; (ii) rates are designed to recover the entity's cost of providing regulated services or products and; (iii) there is a reasonable expectation that rates are set at levels that will recover the entity's costs and be collected from customers. Regulatory assets represent incurred costs that have been deferred because of their probable future recovery from customers through regulated rates. Regulatory liabilities represent: (i) the excess recovery of costs or accrued credits that have been deferred because it is probable such amounts will be returned to customers through future regulated rates; or (ii) billings in advance of expenditures for approved regulatory programs.

We amortize regulatory assets and liabilities and recognize the related expense or revenue in the statements of income consistent with the recovery or refund included in customer rates. We believe it is probable that our currently recorded regulatory assets and liabilities will be recovered or settled in future rates.

Utility plant: Utility plant is accounted for at historical cost. In cases where we are required to dismantle installations or to recondition the site on which they are located, the estimated cost of removal or reconditioning is recorded as an asset retirement obligation (ARO) and an equal amount is added to the carrying amount of the asset.

Assets are transferred from "Construction work in progress" to "Utility plant" when they are available for service.

We determine depreciation expense for utility plant in service using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated

Notes to Financial Statements

cost of removal. Our depreciation accruals were equivalent to 2.2% of average depreciable property for 2018 and 2.3% for 2017. We amortize our capitalized software cost which is included in common plant, using the straight line method, based on useful lives of 7 to 17 years. Capitalized software costs were approximately \$201.1 million as of December 31, 2018 and \$184.0 million as of December 31, 2017. Depreciation expense was \$126.5 million in 2018 and \$123.0 million in 2017. Amortization of capitalized software was \$7.1 million in 2018 and \$6.0 million in 2017.

Consistent with FERC accounting requirements, we charge the original cost of utility plant retired or otherwise disposed to accumulated depreciation.

We charge repairs and minor replacements to operations and maintenance expense, and capitalize renewals and betterments, including certain indirect costs.

Allowance for funds used during construction (AFUDC) represents the allowed cost of capital, including a noncash return on equity (ROE), used to finance construction projects. We record the portion of AFUDC attributable to borrowed funds as a reduction of interest expense and record the remainder as other income.

Our balances of major classes of utility plant and associated useful lives are shown below as of December 31.

Utility Plant	Estimated useful life range (years)	2018	2017
(Thousands)			
Electric	29-75	\$4,250,399	\$4,022,679
Natural Gas	25-75	1,041,984	1,002,251
Common	7-75	658,531	563,442
Total Utility Plant in Service		5,950,914	5,588,372
Total accumulated depreciation		(2,173,629)	(2,100,274)
Total Net Utility Plant in Service		3,777,285	3,488,098
Construction work in progress		353,440	240,657
Total Utility Plant		\$4,130,725	\$3,728,755

Electric plant includes capital leases of \$45.0 million for 2018 and \$31.9 million for 2017. Related accumulated depreciation at December 31 was \$7.8 million for 2018 and \$5.4 million for 2017.

Impairment of long-lived assets: We evaluate utility plant and other long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying amount of the asset exceeds the undiscounted future net cash flows associated with that asset.

The impairment loss to be recognized is the amount by which the carrying amount of the long lived asset exceeds the asset's fair value. Depending on the asset, fair value may be determined by use of a discounted cash flow model.

Fair value measurement: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in either the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a

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market participant's ability to generate economic benefits by using the asset according to its highest and best use, or by selling it to another market participant that would use the asset according to its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the transparency of input to the valuation of an asset or liability as of the measurement date.

The three input levels of the fair value hierarchy are as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability either directly or indirectly, for substantially the full term of the contract.
- Level 3 - one or more inputs to the valuation methodology are unobservable or cannot be corroborated with market data.

Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Certain investments are not categorized within the fair value hierarchy. These investments are measured based on the fair value of the underlying investments but may not be readily redeemable at that fair value.

Derivatives and hedge accounting: Derivatives are recognized on the balance sheets at their fair value, except for certain electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that qualify for, and are elected under, the normal purchases and normal sales exception. To be a derivative under the accounting standards for derivatives and hedging, an agreement would need to have a notional and an underlying, require little or no initial net investment and could be net settled. Changes in the fair value of a derivative contract are recognized in earnings unless specific hedge accounting criteria are met.

Derivatives that qualify and are designated for hedge accounting are classified as cash flow hedges. For cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the hedged cash flows of the underlying exposure is deferred in Accumulated Other Comprehensive Income (AOCI) and later reclassified into earnings when the underlying transaction occurs. For all designated and qualifying hedges, we maintain formal documentation of the hedge and effectiveness testing in accordance with the accounting standards for derivatives and hedging. If we determine that the derivative is no longer highly effective as a hedge, we will discontinue hedge accounting prospectively. For cash flow hedges of forecasted transactions, we estimate the future cash flows of the forecasted transactions and evaluate the probability of the occurrence and timing of such transactions. If we determine it is probable that the forecasted transaction will not occur, we immediately recognize in earnings hedge gains and losses previously recorded in AOCI.

Changes in conditions or the occurrence of unforeseen events could require discontinuance of the hedge accounting or could affect the timing of the reclassification of gains or losses on cash flow hedges from AOCI into earnings. We record changes in the fair value of electric and natural gas hedge contracts to derivative assets or liabilities with an offset to regulatory assets or regulatory liabilities.

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We offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Cash and cash equivalents: Cash and cash equivalents are comprised of cash, bank accounts, and other highly liquid short-term investments. We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in “Cash and cash equivalents.” We classify book overdrafts representing outstanding checks in excess of funds on deposit as “Accounts payable and accrued liabilities” on the balance sheets. Changes in book overdrafts are reported in the operating activities section of the statements of cash flows.

Statements of cash flows: Supplemental disclosure of cash flow information is as follows:

	2018	2017
(Thousands)		
Cash paid during the year ended December 31:		
Interest, net of amounts capitalized	\$32,986	\$40,861
Income taxes paid, net	\$21,662	\$28,261

Of the income taxes paid, substantially all was paid to AGR under the tax sharing agreement. Interest capitalized was \$7.6 million in 2018 and in \$11.4 million in 2017. Accrued liabilities for utility plant additions were \$35.4 million in 2018 and \$18.8 million in 2017.

Broker margin accounts: We maintain accounts with clearing firms that require initial margin deposits upon the establishment of new positions, primarily related to natural gas and electricity derivatives, as well as maintenance margin deposits in the event of unfavorable movements in market valuation for those positions. We show the amount reflecting those activities as broker margin accounts on our balance sheets.

Accounts receivable and unbilled revenues, net: We record accounts receivable at amounts billed to customers. Accounts receivable at December 31 include unbilled revenues of \$90.3 million for 2018 and \$99.6 million for 2017, and are shown net of an allowance for doubtful accounts at December 31 of \$24.0 million for 2018 and \$23.2 million for 2017. Accounts receivable do not bear interest, although late fees may be assessed. Bad debt expense was \$17.3 million in 2018 and \$12.1 million in 2017.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amounts of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience for each service region. Each month we review our allowance for doubtful accounts and past due accounts by age. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

Our accounts receivable include amounts due under deferred payment arrangements (DPAs). When a residential customer becomes delinquent in making payments, the NYPSC requires us to allow the customer to enter into a DPA to settle the account balance. A DPA allows the account

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balance to be paid in installments over an extended period of time by negotiating mutually acceptable payment terms. Generally, we must continue to serve a customer who cannot pay an account balance in full if the customer: (i) pays a reasonable portion of the balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within 30 days until the DPA is paid in full or is otherwise considered to be delinquent. We establish provisions for uncollectible accounts by using both historical average loss percentages to project future losses and by establishing specific provisions for known credit issues. Amounts are written off when reasonable collection efforts have been exhausted. The allowance for doubtful accounts for DPAs at December 31 was \$13.6 million for 2018 and \$14.5 million for 2017. DPA receivable balances at December 31 were \$24.3 million for 2018 and \$24.0 million for 2017.

Debentures, bonds and bank borrowings: Bonds, debentures and bank borrowings are recorded as a liability equal to the proceeds of the borrowings. The difference between the proceeds and the face amount of the issued liability is treated as discount or premium and is accreted as interest expense or income over the life of the instrument. Incremental costs associated with issuance of the debt instruments are deferred and amortized over the same period as debt discount or premium. Bonds, debentures and bank borrowings are presented net of unamortized discount, premium and debt issuance costs on the balance sheets.

Inventory: Inventory comprises fuel and natural gas in storage and materials and supplies. We own natural gas that is stored in third-party owned underground storage facilities. This gas is recorded as inventory. Injections of inventory into storage are priced at the market purchase cost at the time of injection, and withdrawals of working gas from storage are priced at the weighted-average cost in storage. We continuously monitor the weighted-average cost of gas value to ensure it remains at, or below net realizable value. Inventories to support gas operations are reported on the balance sheet within "Fuel and natural gas in storage."

We also have materials and supplies inventories that are used for construction of new facilities and repairs of existing facilities. These inventories are carried and withdrawn at the lower of cost and net realizable value and reported on the balance sheets within "Materials and supplies." Inventory items are combined for the statement of cash flows presentation purposes.

Government grants: We record government grants as a reduction to utility plant to be recovered through rate base, in accordance with the prescribed FERC accounting.

In accounting for government grants related to operating and maintenance costs, we recognize amounts receivable as an offset to expenses in the statements of income in the period in which the expenses are incurred.

Deferred income: Apart from government grants, we occasionally receive revenues from transactions in advance of the resulting performance obligations arising from the transaction. It is our policy to defer such revenues on the balance sheets and amortize them to earnings when revenue recognition criteria are met.

Asset retirement obligations: We record the fair value of the liability for an asset retirement obligation (ARO) and a conditional ARO in the period in which it is incurred, and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability periodically to reflect revisions to either the timing or the amount of the original estimated undiscounted cash flows over time. We accrete the liability to its present value each period and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense and accretion as either a regulatory asset or a regulatory liability.

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The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

Our ARO at December 31, including our conditional ARO, was \$13.5 million for 2018 and \$14.0 million for 2017. The ARO is associated with our long-lived assets and primarily consists of obligations related to removal or retirement of: asbestos, polychlorinated biphenyl contaminated equipment, gas pipeline and cast iron gas mains.

The following table reconciles the beginning and ending aggregate carrying amount of the ARO for the years ended December 31, 2018 and 2017.

Year ended December 31,	2018	2017
(Thousands)		
ARO, beginning of year	\$14,021	\$14,478
Liabilities settled during the year	(1,263)	(1,231)
Accretion expense	748	774
ARO, end of year	\$13,506	\$14,021

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydroelectric dams due to structural inadequacy or for decommissioning; the removal of property upon termination of an easement, right-of-way or franchise; and costs for abandonment of certain types of gas mains.

Accrued removal obligations: We meet the requirements concerning accounting for regulated operations and recognize a regulatory liability for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

Environmental remediation liability: In recording our liabilities for environmental remediation costs the amount of liability for a site is the best estimate, when determinable; otherwise it is based on the minimum liability or the lower end of the range when there is a range of estimated losses. We record our environmental liabilities on an undiscounted basis. Our environmental liability accruals are expected to be paid through the year 2050.

Post-employment and other employee benefits: We sponsor defined benefit pension plans that cover the majority of our employees. We also provide health care and life insurance benefits through various postretirement plans for eligible retirees.

We evaluate our actuarial assumptions on an annual basis and consider changes based on market conditions and other factors. All of our qualified defined benefit plans are funded in amounts calculated by independent actuaries, based on actuarial assumptions proposed by management.

We account for defined benefit pension or other postretirement plans, recognizing an asset or liability for the overfunded or underfunded plan status. For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. We reflect all unrecognized prior service costs and credits and unrecognized actuarial gains and losses as regulatory assets rather than in other comprehensive income, as management believes it is probable that such items will be recoverable through the ratemaking process. We use a

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December 31st measurement date for our benefits plans.

We amortize prior service costs for both the pension and other postretirement benefits plans on a straight-line basis over the average remaining service period of participants expected to receive benefits. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred as required by the NYPSC. Our policy for the pension plans is to calculate the expected return on plan assets using the market-related value of assets. Our policy for the postretirement health care benefit plans is to calculate the expected return on plan assets using the market value of assets. We determine that value by recognizing the difference between actual returns and expected returns over a five year period.

Income tax: AGR, the parent company of Networks, files consolidated federal and state income tax returns including all of the activities of its subsidiaries. Each subsidiary company is treated as a member of the consolidated group and determines its current and deferred taxes based on the separate return with benefits for loss method. As a member, NYSEG settles its current tax liability or benefit each year directly with AGR pursuant to a tax allocation agreement between AGR and its members.

The aggregate amount of the related party income tax receivable balance due from AGR at December 31 is \$20.9 million for 2018 and \$41.8 million for 2017.

We use the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities reflect the expected future tax consequences, based on enacted tax laws, of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts. In accordance with generally accepted accounting principles for regulated industries, we have established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary differences. We defer the investment tax credits when earned and amortize them over the estimated lives of the related assets. We also recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs.

Deferred tax assets and liabilities are measured at the expected tax rate for the period in which the asset or liability will be realized or settled, based on legislation enacted as of the balance sheet date. We charge or credit changes in deferred income tax assets and liabilities that are associated with components of OCI directly to OCI. Significant judgment is required in determining income tax provisions and evaluating tax positions. Our tax positions are evaluated under a more-likely-than-not recognition threshold before they are recognized for financial reporting purposes. Valuation allowances are recorded to reduce deferred tax assets when it is not more likely than not that we will realize all or a portion of a tax benefit. Deferred tax assets and liabilities are classified as non-current in the balance sheets.

State franchise tax, computed as the higher of a tax based on income or a tax based on capital, is recorded in "Taxes other than income taxes" and "Taxes accrued" in the accompanying financial statements.

Positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, are recognized in the financial statements when it is more likely than not the tax position can be sustained based solely on the technical merits of the position. The amount of a tax return position that is not recognized in the financial statements is disclosed as an unrecognized tax benefit. Changes in assumptions on tax benefits may also impact interest expense or interest income and may result in the recognition of tax penalties. Interest and penalties related to unrecognized tax benefits are recorded within "Interest expense, net of capitalization" and "Other Income" and "Other Deductions" of the statements of income.

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Uncertain tax positions have been classified as non-current unless expected to be paid within one year. Our policy is to recognize interest and penalties on uncertain tax positions as a component of interest expense in the statements of income.

Our income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Significant judgments and estimates are required in determining the income tax components of the financial statements.

Upon enactment of the "Tax Cuts and Jobs Act" (the Tax Act) on December 22, 2017, we remeasured our existing deferred income tax balances as of December 31, 2017, to reflect the decrease in the corporate income tax rate from 35% to 21%, which resulted in a material decrease to our net deferred income tax liability balances. In connection with the Tax Act, the U.S. Securities and Exchange Commission (SEC) issued guidance in Staff Accounting Bulletin 118, or SAB 118, which clarified accounting for income taxes under Topic 740, Income Taxes, if information was not yet available or complete and provided up to a one year measurement period in which to complete the required analyses and accounting. Following SAB 118 guidance, we recorded provisional income tax amounts as of December 31, 2017, related to the Tax Act based on reasonable estimates that could be determined at that time. As of December 31, 2018, we have completed the measurement and accounting of certain effects of the Tax Act which we have reflected in the December 31, 2018 financial statements.

Limited voting junior preferred stock: We have a class of preferred stock having one share and a par value of \$1, which is issued and outstanding and has voting authority only with respect to whether NYSEG may file a voluntary bankruptcy petition.

Stock-based compensation: Stock-based compensation represents costs related to AGR stock-based awards granted to NYSEG employees. We account for stock-based payment transactions based on the estimated fair value of awards reflecting forfeitures when they occur. The recognition period for these costs begin at either the applicable service inception date or grant date and continues throughout the requisite service period, or until the employee becomes retirement eligible, if earlier.

Reclassifications: Certain amounts reported in the financial statements in previous periods have been reclassified to conform to the current year presentation.

New Accounting Standards and Interpretations: New accounting standards issued by the Financial Accounting Standards Board (FASB) that we either adopted or have not yet adopted are explained below. Although we are not a public business entity, our parent company is a public business entity; therefore, we adopt new accounting standards based on the effective date for public entities.

(a) Revenue from contracts with customers

In May 2014 the FASB issued Accounting Standards Codification (ASC), Topic 606, Revenue from Contracts with Customers (Topic 606) replacing the existing accounting standard and industry-specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The FASB further amended Topic 606 through various updates issued thereafter. The core principle is for an entity to recognize revenue to represent the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. We adopted Topic 606 effective January 1, 2018, and applied the modified retrospective method, for which we did not have a cumulative effect adjustment to retained earnings for initial application of the guidance. Refer to Note 4 for further details.

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We also adopted the following standards as of their effective date of January 1, 2018, none of which had a material effect on our results of operations, financial position, cash flows, and disclosures.

(b) Certain classifications in the statement of cash flows

In August 2016 the FASB issued amendments to address existing diversity in practice concerning the classification of certain cash receipts and payments in the statement of cash flows, which must be applied on a full retrospective basis. Upon adoption, we had no changes to our cash flow classifications and disclosures in our financial statements.

(c) Improving the presentation of net periodic benefit costs

In March 2017 the FASB issued amendments to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. We retrospectively adopted the amendments that require us to present the service cost component separately from the other (non-service) components of net benefit cost, to report the service cost component in the income statement line item where we report the corresponding compensation cost, and to present all non-service components outside of operating cost. As a result, we have reclassified the non-service components – interest cost, expected return on plan assets, amortization of prior service cost (benefit), amortization of net loss, and settlement charge – from Operations and maintenance to Other income/(expense) within the statement of income. Prospectively, upon adoption, we will capitalize only the service cost component when applicable (for example, as a cost of a self-constructed asset). We elected to apply the practical expedient that allows us to retrospectively apply the amendments on adoption to net benefit costs for comparative periods by using the amounts disclosed in our notes to financial statements for Post-retirement and Similar Obligations as the basis for those periods. In connection with applying the practical expedient, in periods after adoption we will continue to include in operating income all legacy net benefit costs previously capitalized as a cost of self-constructed assets and other deferred regulatory costs. Our adoption of the amendments did not affect prior period net income. Beginning in 2018, non-service cost components we incur are no longer eligible for construction capitalization, but such costs can be deferred and included as a component of customer rates if permitted by our regulator. For the year ended December 31, 2018, we incurred additional immaterial expense as a result of the adoption of this standard.

The effect of the change in retrospective presentation related to the net periodic cost of our defined benefit pension and other postretirement employee benefits plans on our statement of income was as follows:

Statement of Income (Thousands)	Year Ended December 31, 2017		
	As Revised	As Previously Reported	Effect of Change Higher/(Lower)
Operations and maintenance	\$ 576,293	\$ 621,973	\$ (45,680)
Other Deductions	\$ (46,834)	\$ (1,154)	\$ (45,680)

(d) Customer accounting for implementation costs incurred in a cloud computing arrangement

The FASB issued amendments in August 2018 to clarify the accounting for implementation costs of a cloud computing arrangement (also referred to as a hosting arrangement) that is a service contract. Implementation costs, which include implementation, setup and other upfront costs, are

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either to be deferred or expensed as incurred, in accordance with existing internal-use software guidance for similar costs. The amendments require a customer to expense capitalized implementation costs over the contractual term of the arrangement, including any optional renewal periods the customer is reasonably certain it will exercise. An entity is to present deferred implementation costs on the balance sheet, income statement and cash flows consistent with the subscription fees associated with the arrangement. The amendments enhance disclosures to include certain qualitative and quantitative information about implementation costs for internal-use software and all hosting arrangements, not just hosting arrangements that are service contracts. The amendments are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period for which financial statements have not been issued. An entity may apply the amendments either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We early adopted the amendments as of October 1, 2018, and are applying the amendments prospectively to all implementation costs after the date of adoption. Upon adoption, there were no material effects to our results of operations, financial position, cash flows and disclosures.

Accounting Pronouncements Issued But Not Yet Adopted

The following are new accounting pronouncements issued as indicated, that we have evaluated or are evaluating to determine their effect on our financial statements.

(a) Leases

In February 2016 the FASB issued new guidance, and issued subsequent amendments during 2018, that affects all companies and organizations that lease assets, and requires them to record on their balance sheet right-of-use assets and lease liabilities for the rights and obligations created by those leases. Under the new guidance, a lease is an arrangement that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The amendments retain a distinction between finance leases and operating leases, while requiring both types of leases to be recognized on the balance sheet. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the criteria for distinguishing between capital leases and operating leases in legacy U.S. GAAP. Lessor accounting will remain substantially the same as legacy U.S. GAAP, but with some targeted improvements to align lessor accounting with the lessee accounting model and with the revised revenue recognition guidance under Topic 606. The standard and amendments require new qualitative and quantitative disclosures for both lessees and lessors. The new leases guidance, including the subsequent amendments issued during 2018, is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early application is permitted.

We adopted the new leases guidance effective January 1, 2019, and have elected the optional transition method under which we will initially apply the standard on that date without adjusting amounts presented for prior periods, and record the cumulative effect of applying the new guidance as an adjustment to beginning retained earnings. We expect the adjustment to retained earnings will be immaterial. Concerning certain transition and other practical expedients:

- we did not elect the package of three practical expedients available under the transition provisions, including (i) not reassessing whether expired or existing contracts contain leases, (ii) lease classification, and (iii) not revaluing initial direct costs for existing leases;
- we elected a land easement expedient and did not reassess land easements that we did not account for as leases prior to our adoption of the new leases guidance;
- we used hindsight for specified determinations and assessments in applying the new leases guidance;
- we will not recognize lease assets and liabilities for short-term leases (less than one year),

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- for all classes of underlying assets; and
- we did not separate lease and associated nonlease components for transitioned leases, but will instead account for them together as a single lease component.

(b) Measurement of credit losses on financial instruments

The FASB issued an accounting standards update in June 2016 that requires more timely recording of credit losses on loans and other financial instruments. The amendments affect entities that hold financial assets and net investments in leases that are not accounted for at fair value through net income (loans, debt securities, trade receivables, off-balance-sheet credit exposures, etc.). They require an entity to present a financial asset (or group of financial assets) that is measured at amortized cost basis at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. An entity must use judgment in determining the relevant information and estimation methods appropriate in its circumstances. In November 2018 the FASB issued an update to this new guidance to clarify that receivables arising from operating leases are not within the scope of the credit losses standard. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with the leases standard. The amendments are effective for public entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. Entities are to apply the amendments on a modified retrospective basis for most instruments. We expect our adoption will not materially affect our results of operations, financial position, and cash flows.

(c) Targeted improvements to accounting for hedging activities

In August 2017 the FASB issued targeted amendments with the objective to better align hedge accounting with an entity's risk management activities in the financial statements, and to simplify the application of hedge accounting. The amendments address concerns of financial statement preparers over difficulties with applying hedge accounting and limitations for hedging both nonfinancial and financial risks, and concerns of financial statement users over how hedging activities are reported in financial statements. Changes to the hedge accounting guidance to address those concerns will: 1) expand hedge accounting for nonfinancial and financial risk components and amend measurement methodologies to more closely align hedge accounting with an entity's risk management activities; 2) eliminate the separate measurement and reporting of hedge ineffectiveness, to reduce the complexity of preparing and understanding hedge results; 3) enhance disclosures and change the presentation of hedge results to align the effects of the hedging instrument and the hedged item in order to enhance transparency, comparability, and understandability of hedge results; and 4) simplify the way assessments of hedge effectiveness may be performed to reduce the cost and complexity of applying hedge accounting. The amendments are effective for public entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For cash flow and net investment hedges existing at the date of adoption, a company must apply a cumulative-effect adjustment related to the separate measurement of ineffectiveness to AOCI with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year of adoption. The amended presentation and disclosure guidance is required only prospectively. In October 2018 the FASB issued amendments that are effective concurrently with the above targeted improvements. These additional amendments permit use of the Overnight Index Swap rate based on the Secured Overnight Financing Rate as a U.S. benchmark interest rate for hedge accounting

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purposes. Use of that rate is in addition to the already eligible benchmark interest rates, which are: interest rates on direct Treasury obligations of the U.S. government, the London Interbank Offered Rate swap rate, the OIS Rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association Municipal Swap Rate. Our adoption of the amendments on January 1, 2019, will not materially affect our results of operations, financial position, or cash flows, but the amendments will ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness going forward.

(d) Reclassification of certain tax effects from accumulated other comprehensive income

In February 2018 the FASB issued amendments to address a narrow-scope financial reporting issue that arose as a consequence of the Tax Cuts and Jobs Act of 2017 (the Tax Act) enacted on December 22, 2017, by the U.S. federal government. Under current guidance, the adjustment of deferred taxes for the effect of a change in tax laws or rates is required to be included in income from continuing operations, thus the associated tax effects of items within AOCI (referred to as stranded tax effects) do not reflect the appropriate tax rate. The amendments allow a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Act. As a result, the amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the Tax Act, and do not affect the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations. The amendments are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted including, for public entities, adoption in any interim period for which financial statements have not been issued. An entity has the option to apply the amendments either in the period of adoption or retrospectively to each period (or periods) in which it recognizes the effect of the change in the U.S. federal corporate income tax rate in the Tax Act. An entity is required to disclose its accounting policy election, including its policy for reclassifying material stranded tax effects in AOCI to earnings (specific identification or portfolio method). Our adoption of the amendments on January 1, 2019, will not materially affect our results of operations, financial position, cash flows, and disclosures.

(e) Changes to the disclosure requirements for fair value measurement and defined benefit plans

In August 2018 the FASB issued amendments related to disclosure requirements for both fair value measurement and defined benefit plans. The amendments concerning fair value measurement remove, modify and add certain disclosure requirements, in order to improve the overall usefulness of the disclosures and reduce unnecessary costs to companies to prepare the disclosures. The amendments to fair value measurement disclosures are effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted as specified. Certain amendments are to be applied prospectively, and all others are to be applied retrospectively. We do not expect our adoption of the amendments to materially affect our disclosures.

The amendments concerning disclosure requirements for defined benefit plans are narrow in scope and apply to all employers that sponsor defined benefit pension or other postretirement plans. They remove disclosures that are no longer considered cost beneficial, add certain new relevant disclosures and clarify specific requirements of disclosures concerning information for defined benefit pension plans. The amendments to defined benefit plan disclosures are effective for fiscal years ending after December 15, 2020. Early adoption is permitted and application is to be on a retrospective basis. We do not expect our adoption of the amendments to materially affect our disclosures.

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Use of estimates and assumptions: The preparation of our financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for doubtful accounts and unbilled revenues; (2) asset impairments; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; (8) earnings sharing mechanism (ESM); (9) environmental remediation liabilities; (10) pension and other postretirement employee benefits (OPEB); (11) fair value measurements and (12) AROs. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside specialists to assist in our evaluations, as considered necessary. Actual results could differ from those estimates.

Union collective bargaining agreements: Approximately 76% of our employees are covered by a collective bargaining agreement. We have no agreements that will expire within the coming year.

Note 2. Industry Regulation**Electricity and Natural Gas Distribution**

Our revenues are regulated, being based on tariffs established in accordance with administrative procedures set by the NYPSC. The tariffs applied to regulated activities are approved by the NYPSC and are based on the cost of providing service. Our revenues are set to be sufficient to cover all of our operating costs, including energy costs, finance costs, and the costs of equity, the last of which reflect our capital ratio and a reasonable return on equity (ROE).

Energy costs that are set on the New York wholesale markets are passed on to consumers. The difference between energy costs that are budgeted and those that are actually incurred is offset by applying reconciliation procedures that result in either immediate or deferred tariff adjustments. Reconciliation procedures apply to other costs, which are in many cases exceptional, such as the effects of extreme weather conditions, environmental factors, regulatory and accounting changes, and treatment of vulnerable customers. Any revenues that allow us to exceed target returns, usually the result of better than expected cost efficiency, are generally shared with customers, resulting in future tariff reductions.

NYSEG Rate Plans

On May 20, 2015, NYSEG and Rochester Gas and Electric Corporation ("RG&E") (together, "the companies") filed electric and gas rate cases with the NYPSC. We requested rate increases for NYSEG electric and NYSEG gas.

On February 19, 2016, NYSEG and the other signatory parties filed a Joint Proposal (Proposal) with the NYPSC for a three-year rate plan for electric and gas service at NYSEG commencing May 1, 2016. The Proposal, which was approved on June 15, 2016, balanced the varied interests of the signatory parties including but not limited to maintaining the company's credit quality and mitigating the rate impacts to customers. The Proposal reflects many customer benefits including: acceleration of the company's natural gas leak prone main replacement programs and enhanced electric vegetation management to provide continued safe and reliable service. The delivery rate

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increase in the Proposal can be summarized as follows:

	May 1, 2016		May 1, 2017		May 1, 2018	
	Rate Increase (Millions)	Delivery Rate Increase %	Rate Increase (Millions)	Delivery Rate Increase %	Rate Increase (Millions)	Delivery Rate Increase %
Electric	\$29.6	4.10%	\$29.9	4.10%	\$30.3	4.10%
Gas	\$13.1	7.30%	\$13.9	7.30%	\$14.8	7.30%

The allowed rate of return on common equity for NYSEG Electric and NYSEG Gas is 9.00%. The equity ratio for each company is 48%; however, the equity ratio is set at the actual up to 50% for earnings sharing calculation purposes. The customer share of any earnings above allowed levels increases as the ROE increases, with customers receiving 50%, 75% and 90% of earnings over 9.5%, 10.0% and 10.5% ROE, respectively, in the first rate year covering the period May 1, 2016 - April 30, 2017. The earnings sharing levels increased in rate year two (May 1, 2017 - April 30, 2018) to 9.65%, 10.15% and 10.65% ROE, respectively. The earnings sharing levels have further increased in rate year three (May 1, 2018 - April 30, 2019) to 9.75%, 10.25% and 10.75% ROE, respectively. The rate plans also include the implementation of a rate adjustment mechanism ("RAM") designed to return or collect certain defined reconciled revenues and costs, implementation of new depreciation rates, and continuation of the existing Revenue Decoupling Mechanism ("RDM") for each business.

The Proposal reflects the recovery of deferred NYSEG Electric storm costs of approximately \$262 million, of which \$123 million will be amortized over ten years and the remaining \$139 million will be amortized over five years. The Proposal also continues reserve accounting for qualifying Major Storms (\$21.4 million annually). Incremental maintenance costs incurred to restore service in qualifying divisions will be chargeable to the Major Storm Reserve provided they meet certain thresholds for each storm event.

The Proposal maintains current electric reliability performance measures (and associated potential negative revenue adjustments for failing to meet established performance levels) which include the system average interruption frequency index (SAIFI) and the customer average interruption duration index (CAIDI). The Proposal also modifies certain gas safety performance measures at the company, including those relating to the replacement of leak prone main, leak backlog management, emergency response, and damage prevention. The Proposal establishes threshold performance levels for designated aspects of customer service quality and continues and expands bill reduction and arrears forgiveness Low Income Programs with increased funding levels. The Proposal provides for the implementation of NYSEG's Energy Smart Community ("ESC") Project in the Ithaca region which will serve as a test-bed for implementation and deployment of Reforming the Energy Vision (REV) initiatives. The ESC Project will be supported by NYSEG's planned Distribution Automation upgrades and Advanced Metering Infrastructure (AMI) implementation for customers on circuits in the Ithaca region. Other REV-related incremental costs and fees will be included in the RAM to the extent cost recovery is not provided for elsewhere. Under the Proposal, we will implement the RAM, which will be applicable to all customers, to return or collect RAM Eligible Deferrals and Costs, including: (1) property taxes; (2) Major Storm deferral balances; (3) gas leak prone pipe replacement; (4) REV costs and fees which are not covered by other recovery mechanisms; and (5) Electric Pole Attachment revenues.

The Proposal provides for partial or full reconciliation of certain expenses including, but not limited to: pension and other postretirement benefits; property taxes; variable rate debt and new fixed rate debt; gas research and development; environmental remediation costs; Major Storms; nuclear electric insurance limited credits; economic development; and Low Income Programs. The Proposal also includes a downward-only Net Plant reconciliation. In addition, the Proposal

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includes downward-only reconciliations for the costs of: electric distribution and gas vegetation management; pipeline integrity; and other incremental maintenance programs. The Proposal provides that we continue the electric RDMs on a total revenue per class basis and the gas RDMs on a revenue per customer basis.

Reforming the Energy Vision (REV)

In April 2014, the NYPSC commenced a proceeding entitled REV, which is a wide ranging initiative to reform New York State's energy industry and regulatory practices. REV has been divided into two tracks, Track 1 for Market Design and Technology, and Track 2 for Regulatory Reform. REV and its related proceedings have and will continue to propose regulatory changes that are intended to promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar and wider deployment of distributed energy resources, such as micro grids, on-site power supplies and storage.

REV is also intended to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. Track 1 of this initiative involves a collaborative process to examine the role of distribution utilities in enabling market based deployment of distributed energy resources to promote load management and greater system efficiency, including peak load reductions. NYSEG is participating in the initiative with other New York utilities and are providing their unique perspective. The NYPSC issued a 2015 order in Track 1, which acknowledges the utilities' role as a Distribution System Platform (DSP) provider, and required the utilities to file an initial Distribution System Implementation Plan (DSIP) by June 30, 2016, followed by bi-annual updates. The companies filed the initial DSIP, which also included information regarding the potential deployment of AML across its entire service territory. The companies, in December 2016, filed a petition to the NYPSC requesting approval for cost recovery associated with the full deployment of AML, and a collaborative associated with this petition began in the first quarter of 2017, was suspended in the second quarter of 2017, and was resumed in the first quarter of 2018. The companies also filed their first bi-annual update of the DSIP on July 31, 2018.

Other various proceedings have also been initiated by the NYPSC which are REV related, and each proceeding has its own schedule. These proceedings include the Clean Energy Standard, Value of Distributed Energy Resources (VDER) and Net Energy Metering, Demand Response Tariffs, and Community Choice Aggregation. As part of the Clean Energy Standard proceeding, all electric utilities were ordered to begin payments to New York State Energy Research and Development Authority (NYSERDA) for Renewable Energy Credits ("RECs") and Zero Emissions Credits beginning in 2017. A separate Offshore Wind was ordered by the NYPSC in July 2018.

Track 2 of the REV initiative is also underway, and through a NYPSC Staff Whitepaper review process, is examining potential changes in current regulatory, tariff, market design and incentive structures which could better align utility interests with achieving New York state and NYPSC's policy objectives. New York utilities will also be addressing related regulatory issues in their individual rate cases. A Track 2 order was issued in May 2016, and includes guidance related to the potential for Earnings Adjustment Mechanisms (EAMs), Platform Service Revenues, innovative rate designs, and data utilization and security. The companies, in December 2016, filed a proposal for the implementation of EAMs in the areas of System Efficiency, Energy Efficiency, Interconnections, and Clean Air. A collaborative process to review the companies' petition began in the first quarter of 2017 and was suspended in the third quarter of 2017.

In March, 2017, the NYPSC issued three separate REV-related orders. These orders created a series of filing requirements for NYSEG beginning in March 2017 and extending through the end of 2018. The three orders involve: 1) modifications to the electric utilities' proposed interconnection earnings adjustment mechanism framework; 2) further DSIP requirements,

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including confirmation of the filing of an updated DSIP plan by mid-2018 and implementing two energy storage projects at NYSEG by the end of 2018; and 3) Net Energy Metering Transition including implementation of Phase One of VDER. In September 2017, the NYPSC issued another order related to VDER, requiring tariff filings, changes to Standard Interconnection Requirements, and planning for the implementation of automated consolidated billing. NYSEG has participated with the other NY state electric utilities in jointly filing updates to the interconnection earnings adjustment mechanism, has implemented two energy storage projects, and has participated with the other NY state electric utilities in the VDER transition effort, including tariff updates and application of VDER principles.

The March 2017 Order in the VDER proceeding approved a transition from traditional Net Energy Metering (NEM) towards a more values-based approach (Value Stack) for compensating Distributed Energy Resources (DER). The March 2017 Order approved an interim methodology for more precise DER valuation and compensation for NEM-eligible technologies. The interim methodology approved by the NYPSC provides for a market transition consistent with the principles of gradualism and predictability, and established a tranche system to manage impacts on non-participants.

The March 2017 Order also directed a Phase Two of the VDER proceeding. Phase Two would encompass improvements to the interim methodology established in Phase One, seek to expand Value Stack eligibility to technologies not included in Phase One, and review rate designs for mass market (i.e., residential and small non-residential) on-site DERs whose project would be interconnected after January 1, 2020. Working groups were established for further discussions regarding Value Stack, Rate Design and Low Income. The working groups met toward the latter half of 2017 and all of 2018 to discuss, review and analyze several issues regarding each subject. The working groups culminated with a series of whitepapers developed by NYPSC Staff a) Standby and Buyback Service Rate Design, b) Future Value Stack Compensation, and c) Capacity Value Compensation. The whitepapers were submitted between December 12 and December 14, 2018 in the VDER proceeding. Public comments on the whitepapers were submitted by February 25, 2019. A Staff whitepaper on rate design for mass market on-site DER projects interconnected after January 1, 2020 is scheduled to be submitted in 2019.

New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm

On March 11, 2017, the New York State Department of Public Service (the Department) commenced an investigation of NYSEG's preparation for and response to the March 2017 windstorm, which affected more than 219,000 customers at NYSEG and RG&E. The Department investigation included a comprehensive review of NYSEG's preparation for and response to the windstorm, including all aspects of the company's filed and approved emergency plan. The Department held public hearings on April 12 and 13, 2017.

On November 16, 2017, the NYPSC announced that the Department Staff had completed their investigation into the March 2017 Windstorm and the NYPSC issued an Order Instituting Proceeding and to Show Cause. The Staff's investigation found that NYSEG had allegedly violated certain parts of its emergency response plan, which makes the Company subject to possible financial penalties. NYSEG responded to the order in a timely manner and has conducted settlement discussions with the Department of Public Service Staff and other parties. These settlement discussions culminated with the filing of two Joint Proposals for settling the issues raised by the Department in June 2018, with several parties signing on to the Joint Proposals. These Joint Proposals have NYSEG and RG&E implementing a combined \$3.9 million of storm resiliency and restoration projects which will not be paid for by ratepayers. The Joint Proposals are currently before the Commission, and a ruling is expected in 2019.

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New York State Department of Public Service Investigation of the Preparation for and Response to the March 2018 Winter Storms

On March 13, 2018, the New York State Department of Public Service (the Department) commenced an investigation of NYSEG's preparation for and response to the March 1 and March 8, 2018 winter storms, which affected more than 300,000 customers at NYSEG and RG&E. The Department investigation will include a comprehensive review of NYSEG's preparation for and response to the winter storms, including all aspects of the company's filed and approved emergency plan. The Department held 21 public hearings between April 16 and April 26, 2018. The companies received and responded to numerous data requests and have participated in dozens of interviews related to the investigation over the last several months. We cannot predict the outcome of this regulatory action.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. The Tax Act contains significant changes to the federal tax structure, including among other things, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. The NYPSC has instituted proceedings in New York to review and address the implications associated with the Tax Act on the utilities providing service in state of New York. The Department of Public Service (DPS) Staff, on March 29, 2018, submitted a proposal to the NYPSC indicating that any companies which have not included the impacts from the Tax Act in a recent rate proceeding should submit a filing to initiate a surcredit beginning October 1, 2018 to pass back benefits to customers. The proposal invited all companies to comment on the proposal prior to June 29, 2018, and to include comments about alternative mechanisms to return the benefits to customers. NYSEG has submitted comments in response to the DPS Staff proposal, identifying that it would be premature to begin a surcredit which could cause rate volatility when major expenditures may be forthcoming. On August 9, 2018, the NYPSC issued an order in case 17-M-0815 and as part of that order instituted surcredits for NYSEG customers beginning October 1, 2018. The surcredits include the annual 2018 tax expense savings for both electric and gas businesses and include an amortization of previously deferred tax savings through September 30, 2018 for NYSEG Gas business. The annual amounts of the surcredits beginning October 1, 2018 for NYSEG are approximately \$31 million.

Minimum Equity Requirements for Regulated Subsidiaries

NYSEG is subject to a minimum equity ratio requirement that is tied to the capital structure assumed in establishing revenue requirements. Pursuant to these requirements, NYSEG must maintain a minimum equity ratio equal to the ratio in its currently effective rate plan or decision measured using a trailing 13-month average. On a monthly basis, NYSEG must maintain a minimum equity ratio of no less than 300 basis points below the equity ratio used to set rates. The minimum equity ratio requirement has the effect of limiting the amount of dividends that may be paid and may, under certain circumstances, require that the parent contribute equity capital. NYSEG is prohibited by regulation from lending to unregulated affiliates. NYSEG has also agreed to minimum equity ratio requirements in certain borrowing agreements. These requirements are lower than the regulatory requirements.

Note 3. Regulatory Assets and Liabilities

Pursuant to the requirements concerning accounting for regulated operations we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric and natural gas rates. We base our assessment of whether recovery is probable on the existence of regulatory orders that allow for recovery of certain costs over a specific period, or allow for reconciliation or deferral of certain costs. When costs are not treated in a specific order we use

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regulatory precedent to determine if recovery is probable.

We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. Of the total regulatory assets net of regulatory liabilities, approximately \$535.4 million represents the offset of accrued liabilities for which funds have not been expended. The remainder is either included in rate base or accruing carrying costs.

Details of other regulatory assets and other regulatory liabilities are shown in the tables below. They result from various regulatory orders that allow for the deferral and/or reconciliation of specific costs. Regulatory assets and regulatory liabilities are classified as current when recovery or refund in the coming year is allowed or required through a specific order or when the rates related to a specific regulatory asset or regulatory liability are subject to automatic annual adjustment.

On June 15, 2016, the NYPSC approved the Proposal in connection with a three-year rate plan for electric and gas service at NYSEG effective May 1, 2016. Following the approval of the proposal most of these items related to NYSEG are amortized over a five-year period, except the portion of storm costs to be recovered over ten years, and plant related tax items which are amortized over the life of associated plant. Annual amortization expense for NYSEG is approximately \$16.5 million per rate year.

Current and non-current regulatory assets at December 31, 2018 and 2017 consisted of:

December 31,	2018	2017
(Thousands)		
Current		
Environmental remediation costs	\$5,705	\$5,705
Electric supply reconciliation	1,744	144
Property tax	-	9,766
Revenue decoupling mechanism	5,919	12,447
Pension and other postretirement benefits cost deferrals	23,886	23,887
Unamortized loss on re-acquired debt	1,968	2,037
Storm cost	58,226	40,129
Low income programs	1,826	1,826
Hedge gains/losses	-	1,155
Rate change levelization	4,657	8,252
Other	9,279	8,055
Total current regulatory assets	\$113,210	\$113,403
Non-current		
Federal tax depreciation normalization adjustment	\$90,405	\$92,988
Asset retirement obligation	13,577	14,055
Property tax deferrals	2,135	14,370
Pension and other retirement benefits cost deferrals	71,108	71,949
Merger capital expenditure	983	1,720
Low income programs	5,547	7,487
Unamortized loss on re-acquired debt	14,499	12,047
Pension and other postretirement benefits	393,787	398,341
Environmental remediation costs	85,014	93,155
Storm costs	209,085	165,623
Other	11,798	16,520
Total non-current regulatory assets	\$897,938	\$888,255

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Environmental remediation costs include spending that has occurred and is eligible for future return/recovery in customer rates. Environmental costs are currently recovered through a reserve mechanism whereby projected spending is included in rates with any variance recorded as a regulatory asset or a regulatory liability. The amortization period will be established in future proceedings and will depend upon the timing of spending for the remediation costs. It also includes the anticipated future rate recovery of costs that are recorded as environmental liabilities since these will be recovered when incurred. Because no funds have yet been expended for the regulatory asset related to future spending, it does not accrue carrying costs and is not included within rate base.

Federal tax depreciation normalization adjustment represents the deferral of the normalization of change impacts in book lives and the pass back of theoretical reserves associated with deferred income tax.

Merger capital expense target customer credit account was created as a result of NYSEG not meeting certain capital expenditure requirements established in the order approving the purchase of Energy East by Iberdrola. The amortization period is five years following the approval of the proposal by the NYPSC.

Low income programs represent deferrals related to over/under spending on Low-Income customer assistance programs.

Pension and other postretirement benefits represent the actuarial losses on the pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future pension expenses. Because no funds have yet been expended for this regulatory asset, it does not accrue carrying costs and is not included within the rate base. Pension and other postretirement benefits cost deferrals include the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. The recovery of these amounts will be determined in future proceedings.

Storm costs for NYSEG are allowed in rates based on an estimate of the routine costs of service restoration. NYSEG is also allowed to defer unusually high levels of service restoration costs resulting from major storms when they meet certain criteria for severity and duration. Since the approval of the 2010 rate plan in New York (see Note 2), we have experienced unusually high levels of restoration costs resulting from various storms including Hurricane Sandy, Hurricane Irene and tropical storm Lee. NYSEG's total deferral, including carrying costs was \$267.3 million at December 31, 2018 and \$205.8 million at December 31, 2017. Pursuant to the most recent Joint Proposal approved by the Commission, which began May 1, 2016, NYSEG will recover \$139.0 million of the balance over five years for non-super-storms and the super-storm balance of \$123.0 million over 10 years.

Unamortized losses on reacquired debt represent deferred losses on debt reacquisitions that will be recovered over the remaining original amortization period of the reacquired debt.

Asset retirement obligations represents the differences in timing of the recognition of costs associated with our AROs and the collection of such amounts through rates. This amount is being amortized at the related depreciation and accretion amounts of the underlying liability.

Deferred property taxes represent the customer portion of the difference between actual expense for property taxes and the amount provided for in rates. The New York (NY) amount is being amortized over a five year period following the approval of the proposal by the NYPSC.

Rate change levelization represents NY delivery rate levelization to smooth the rate increase across the three year plan to avoid unnecessary spikes and offsetting dips in customer rates.

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Other includes items such as post-term amortization.

Deferred income taxes regulatory: see Note 1.

Current and non-current regulatory liabilities at December 31, 2018 and 2017 consisted of:

December 31, (Thousands)	2018	2017
Current		
Energy efficiency programs	\$25,315	\$15,368
Non by-passable charges	3,456	4,515
Gas supply charge and deferred natural gas cost	2,751	3,654
Carrying costs on deferred income tax depreciation	18,107	18,107
Pension and other postretirement benefits cost deferral	13,601	13,601
Economic development	3,487	3,487
Theoretical reserve flow through impact	5,367	5,367
Reliability support services	-	26
Debt rate reconciliation	2,825	2,825
Positive benefit adjustment	2,685	2,685
NYS excess DIT – in rates	2,676	2,676
Hedge gains/losses	3,248	-
Other	8,156	5,987
Total current regulatory liabilities	\$91,674	\$78,298
Non-current		
Carrying costs on deferred income tax bonus depreciation	\$13,248	\$26,183
Economic development	5,596	12,919
Positive benefit adjustment	3,579	6,264
Debt rate reconciliation	25,987	17,295
Unfunded future income taxes	23,424	21,484
New York State tax rate change	-	1,738
Tax Act-remeasurement	496,381	476,855
Pension and other postretirement benefits	29,841	12,180
Pension and other postretirement benefits cost deferral	21,520	33,646
Accrued removal obligation	521,175	516,905
Other	56,476	64,864
Total non-current regulatory liabilities	\$1,197,227	1,190,333

Non by-passable charges represent the non by-passable charge paid by all customers. An asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered. This liability will be refunded to customers within the next year.

Energy efficiency portfolio standard represents the difference between revenue billed to customers through an energy efficiency charge and the costs of our energy efficiency programs as approved by the state authorities. This may be refunded to customers within the next year.

Accrued removal obligations represent the differences between asset removal costs recorded and amounts collected in rates for those costs. The amortization period is dependent upon the asset removal costs of underlying assets and the life of the utility plant.

Carrying costs on deferred income tax bonus depreciation represent the carrying costs benefit of increased accumulated deferred income taxes created by the change in tax law allowing bonus depreciation. The amortization period is five years following the approval of the proposal by the NYPSC.

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Pension and other postretirement benefits represent the actuarial gains on pension and other postretirement plans that will be reflected in customer rates when they are amortized and recognized in future expenses. Because no funds have yet been received for this a regulatory liability is not reflected within rate base. They also represent the difference between actual expense for pension and other postretirement benefits and the amount provided for in rates. Recovery of these amounts will be determined in future proceedings.

Positive benefit adjustment resulted from Iberdrola's 2008 acquisition of Energy East. This is being used to moderate increases in rates. The amortization period is five years following the approval of the proposal by the NYPSC and included in the Ginna RSSA settlement. Variable Rate Debt represents the over/under collection of costs related to variable rate debt instruments identified in the rate case. Costs include interest, commissions and fees versus amounts included in rates.

NYS excess DIT – in rates represents changes in accumulated deferred income tax balances due to the reduction in the NY State corporate income tax rate of 0.6%, from 7.1 percent to 6.5 percent. Amounts previously collected from utility customers for these deferred taxes are refundable to such customers, generally through reductions in rates.

Debt rate reconciliation represents the over/under collection of costs related to fixed and variable rate debt instruments identified in the rate case. Costs include interest, commissions and fees versus amounts included in rates.

Unfunded future income taxes represent unrecovered federal and state income taxes primarily resulting from regulatory flow through accounting treatment. The income tax benefits or charges for certain plant related timing differences, such as removal costs, are immediately flowed through to, or collected from, customers. This amount is being amortized as the amounts related to temporary differences that give rise to the deferrals are recovered in rates.

Theoretical reserve flow through impact represents the differences from the rate allowance for applicable federal and state flow through impacts related to the excess depreciation reserve amortization. It also represents the carrying cost on the differences. The amortization period is five years following the approval of the proposal by the NYPSC.

Economic development represents the economic development program which enables NYSEG to foster economic development through attraction, expansion, and retention of businesses within its service territory. If the level of actual expenditures for economic development allocated to NYSEG varies in any rate year from the level provided for in rates, the difference is refunded to ratepayers. The amortization period is five years following the approval of the proposal by the NYPSC.

New York State tax rate change represents excess funded accumulated deferred income tax balance caused by the 2014 New York state tax rate change from 7.1% to 6.5%. The amortization period is five years following the approval of the proposal by the NYPSC.

Tax Act - remeasurement represents the impact from remeasurement of deferred income tax balances as a result of the Tax Act enacted by the U.S. federal government on December 22, 2017. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates from 35% to 21% under the provisions of the Tax Act will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates. The NYPSC has instituted separate proceedings to review and address the implications associated with the Tax Act on the utilities providing service in state of New York.

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Other includes various items subject to reconciliation including low income, earnings sharing provision and asset retirement obligations.

Note 4. Revenue

On January 1, 2018, we adopted ASC 606 and all related amendments using the modified retrospective method, which we applied only to contracts that were not completed as of January 1, 2018. For reporting periods beginning on January 1, 2018, we present revenue in accordance with ASC 606, and have not adjusted comparative prior period information, which we continue to report under the legacy accounting standards in effect for those prior periods. For the year ended December 31, 2018, the effect of applying ASC 606 to recognize revenue as compared to applying the legacy accounting standards was not material.

We recognize revenue when we have satisfied our obligations under the terms of a contract with a customer, which generally occurs when the control of promised goods or services transfers to the customer. We measure revenue as the amount of consideration we expect to receive in exchange for providing those goods or services. Contracts with customers may include multiple performance obligations. For such contracts, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. Certain revenues are not within the scope of ASC 606, such as revenues from leasing, derivatives, other revenues that are not from contracts with customers and other contractual rights or obligations, and we account for such revenues in accordance with the applicable accounting standards. We exclude from revenue amounts collected on behalf of third parties, including any such taxes collected from customers and remitted to governmental authorities. We do not have any material significant payment terms because we receive payment at or shortly after the point of sale.

The following describes the principal activities from which we generate revenue.

NYSEG derives its revenue primarily from tariff-based sales of electricity and natural gas service to customers in New York with no defined contractual term. For such revenues, we recognize revenues in an amount derived from the commodities delivered to customers. Other major sources of revenue are electricity transmission and wholesale sales of electricity and natural gas.

Tariff-based sales are subject to the corresponding state regulatory authorities, which determine prices and other terms of service through the ratemaking process. In New York customers have the option to obtain the electricity or natural gas commodity directly from the utility or from another supplier. For customers that receive their commodity from another supplier, the utility acts as an agent and delivers the electricity or natural gas provided by that supplier. Revenue in those cases is only for providing the service of delivery of the commodity. NYSEG calculates revenue earned but not yet billed based on the number of days not billed in the month, the estimated amount of energy delivered during those days and the estimated average price per customer class for that month. Differences between actual and estimated unbilled revenue are immaterial.

Transmission revenue results from others' use of the utility's transmission system to transmit electricity and is subject to FERC regulation, which establishes the prices and other terms of service. Long-term wholesale sales of electricity are based on individual bilateral contracts. Short-term wholesale sales of electricity are generally on a daily basis based on market prices and are administered by the NYISO or PJM Interconnection, LLC (PJM) as applicable. Wholesale sales of natural gas are generally short-term based on market prices through contracts with the specific customer.

The performance obligation in all arrangements is satisfied over time because the customer

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simultaneously receives and consumes the benefits as NYSEG delivers or sells the electricity or natural gas or provides the transmission service. We record revenue for all of those sales based upon the regulatory-approved tariff and the volume delivered or transmitted, which corresponds to the amount that we have a right to invoice. There are no material initial incremental costs of obtaining a contract in any of the arrangements. NYSEG does not adjust the promised consideration for the effects of a significant financing component if it expects, at contract inception, that the time between the delivery of promised goods or service and customer payment will be one year or less. NYSEG does not have any material significant payment terms because it receives payment at or shortly after the point of sale. NYSEG assesses its deferred payment arrangements at each balance sheet date for the existence of significant financing components, but has had no material adjustments as a result.

NYSEG records revenue from Alternative Revenue Programs (ARPs), which is not ASC 606 revenue. Such programs represent contracts between the utilities and their regulators. The NYSEG ARPs include revenue decoupling mechanisms, other ratemaking mechanisms, annual revenue requirement reconciliations, and other demand side management programs. NYSEG recognizes and records only the initial recognition of "originating" ARP revenues (when the regulatory-specified conditions for recognition have been met). When we subsequently include those amounts in the price of utility service billed to customers, we record such amounts as a recovery of the associated regulatory asset or liability. When we owe amounts to customers in connection with ARPs, we evaluate those amounts on a quarterly basis and include them in the price of utility service billed to customers and do not reduce ARP revenues.

NYSEG also has various other sources of revenue including billing, collection, other administrative charges, sundry billings, rent of utility property, and miscellaneous revenue. We classify such revenues as other ASC 606 revenues to the extent they are not related to revenue generating activities from leasing, ARPs, or other activities.

We have contract liabilities for revenue from transmission congestion contract (TCC) auctions, which we receive payment for at the beginning of an auction period, and amortize ratably each month into revenue over the applicable auction period. The auction periods range from six months to two years. TCC contract liabilities totaled \$8.8 million at December 31, 2018, and \$8.0 million at January 1, 2018, and are presented in "Other current liabilities." We recognized \$16.5 million as revenue during 2018, of which \$7.8 million was included in contract liabilities at January 1, 2018.

We apply a practical expedient to expense as incurred costs to obtain a contract when the amortization period is one year or less. We record costs incurred to obtain a contract within operating expenses, including amortization of capitalized costs.

Revenues disaggregated by major source for the year ended December 31, 2018 are as follows:

Year Ended December 31, 2018:

(Thousands)

Regulated operations – electricity	\$ 1,323,626
Regulated operations – natural gas	318,344
Other ^(a)	29,589
Revenue from contracts with customers	1,671,559
Leasing revenue	12,335
Alternative revenue programs	10,647
Other revenue	(249)
Total operating revenues	\$ 1,694,292

Notes to Financial Statements

- (a) Primarily includes certain intra-month trading activities, billing, collection, and administrative charges, sundry billings, and other miscellaneous revenue.

As of December 31, 2018, nearly all of the accounts receivable balances included in “Accounts receivable and unbilled revenues, net” on our condensed balance sheet are related to contracts with customers.

Note 5. Income Taxes

The Tax Act changes significantly the federal taxation of business entities, including among other things, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017. In connection with the Tax Act, the U.S. Securities and Exchange Commission issued guidance in Staff Accounting Bulletin 118, or SAB 118, which clarified accounting for income taxes under ASC 740, Income Taxes, if information was not yet available or complete and provided up to a one year measurement period in which to complete the required analyses and accounting. Following SAB 118 guidance, the Company recorded provisional income tax amounts as of December 31, 2017 related to the Tax Act based on reasonable estimates that could be determined at that time. As of December 31, 2018, the Company has completed the measurement and accounting of certain effects of the Tax Act which have been reflected in the December 31, 2018 financial statements.

Current and deferred taxes charged to expense for the years ended December 31, 2018 and 2017 consisted of:

Years Ended December 31,	2018	2017
(Thousands)		
Current		
Federal	\$5,707	\$15,456
State	(6,440)	4,684
Current taxes charged to (benefit)/expense	(733)	20,140
Deferred		
Federal	23,762	51,821
State	15,364	7,368
Deferred taxes charged to expense	39,126	59,189
Investment tax credit adjustments	(510)	(510)
Total Income Tax Expense	\$37,883	\$78,819

The differences between tax expense per the statements of income and tax expense at the 21% and 35% statutory federal tax rate for the years ended December 31, 2018 and 2017, respectively, consisted of:

Years Ended December 31,	2018	2017
(Thousands)		
Tax expense at statutory rate	\$31,492	\$64,325
Investment tax credit amortization	(510)	(510)
Statutory state taxes net of federal benefit	7,701	7,834
Other, net	(800)	7,170
Total Income Tax Expense	\$37,883	\$78,819

Income tax expense for the year ended December 31, 2018 was \$6.4 million higher than it would have been at the statutory federal income tax rate of 21% due predominately to state taxes, (net of federal benefit). This resulted in an effective tax rate of 26.2%. Income tax expense for the year ended December 31, 2017 was \$14.4 million higher than it would have been at the statutory federal income tax rate of 35% due predominately to tax return and related adjustments, and state taxes, (net of federal benefit). This resulted in an effective tax rate of 42.9%.

Notes to Financial Statements

Deferred tax assets and liabilities as of December 31, 2018 and 2017 consisted of:

December 31, (Thousands)	2018	2017
Non-current Deferred Income Tax Liabilities (Assets)		
Property related	\$573,148	\$530,396
Storm costs	69,938	53,773
Federal and state tax credits	(49,148)	(2,665)
Accumulated deferred investment tax credits	(1,020)	(510)
Pension and other postretirement benefits	55,570	28,933
Regulatory liability due to "Tax Cuts and Jobs Act"	(130,399)	(124,626)
Federal and state NOL's	(738)	(738)
Environmental	(36,911)	(15,317)
Power tax DIT	24,329	-
Other	(25,136)	(2,540)
Total Non-current Deferred Income Tax Liabilities	\$479,633	\$466,706
Deferred tax assets	\$243,352	\$146,396
Deferred tax liabilities	722,985	613,102
Net Accumulated Deferred Income Tax Liabilities	\$479,633	\$466,706

The reconciliation of unrecognized income tax benefits for the years ended December 31, 2018 and 2017 consisted of:

Years Ended December 31, (Thousands)	2018	2017
Balance as of January 1	\$17,861	\$16,994
Increases for tax positions related to prior years	46,484	867
Reduction for tax positions related to prior years	(19,076)	-
Balance as of December 31	\$45,269	\$17,861

Unrecognized income tax benefits represent income tax positions taken on income tax returns but not yet recognized in the financial statements. The accounting guidance for uncertainty in income taxes provides that the financial effects of a tax position shall initially be recognized in the financial statements when it is more likely than not based on the technical merits that the position will be sustained upon examination, assuming the position will be audited and the taxing authority has full knowledge of all relevant information.

There were no additional accruals for interest and penalties on tax reserves as of December 31, 2018. Accruals for interest and penalties on tax reserves were \$0.4 million as of December 31, 2017. Gross unrecognized tax benefits increased by \$27.5 million in 2018 primarily due to NY State tax credits claimed for open tax years.

Note 6. Long-term Debt

At December 31, 2018 and 2017, our long-term debt was:

Notes to Financial Statements

As of December 31,	2018			2017	
(Thousands)	Maturity Dates	Balances	Interest Rates	Balances	Interest Rates
Senior unsecured debt	2022-2042	\$ 850,000	3.24%-5.75%	\$ 850,000	3.24%-5.75%
Unsecured pollution control notes – fixed	2020-2029	374,000	2.00%-3.50%	200,000	2.00%-2.375%
Obligations under capital leases	2019-2036	25,659		7,348	
Unamortized debt issuance costs and discount		(11,364)		(15,490)	
Total Debt		\$1,238,295		\$1,041,858	
Less: debt due within one year, included in current liabilities		20,305		322	
Total Non-current Debt		\$1,217,990		\$1,041,536	

On June 29, 2018, NYSEG remarketed \$174 million in aggregate principal amount of Pollution Control Revenue Bonds, issued through the New York State Energy Research and Development Authority, with mandatory tender dates ranging from 2023 to 2029 and interest rates ranging 2.625% - 3.50%.

At December 31, 2018, long-term debt, including sinking fund obligations and capital lease payments (in thousands) that will become due during the next five years are:

2019	2020	2021	2022	2023
\$20,305	\$201,437	\$397	\$75,332	\$300,332

Note 7. Bank Loans and Other Borrowings

NYSEG had a total of \$40.4 million and \$274.6 million of notes payable at December 31, 2018 and 2017, respectively. NYSEG funds short-term liquidity needs through an agreement among Avangrid's regulated utility subsidiaries (the Virtual Money Pool Agreement), a bi-lateral intercompany credit agreement with Avangrid (the Bi-Lateral Intercompany Facility) and a bank provided credit facility to which NYSEG is a party (the AGR Credit Facility), each of which are described below.

The Virtual Money Pool Agreement is an agreement among the investment grade-rated, regulated utility subsidiaries of Avangrid under which the parties to this agreement may lend to or borrow from each other. This Agreement allows Avangrid to optimize cash resources within the regulated utility companies which are prohibited by regulation from lending to unregulated affiliates. The interest rate on transactions under this agreement is the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. NYSEG has a lending/borrowing limit of \$100 million under this agreement. NYSEG had \$14.6 million outstanding under this agreement at December 31, 2018 and \$5.9 million outstanding at December 31, 2017.

The Bi-Lateral Intercompany Facility provides for borrowing of up to \$500 million from Avangrid at the A2/P2 non-financial 30-day commercial paper rate published by the Federal Reserve. There was \$25.8 million and \$118.7 million outstanding under this agreement as of December 31, 2018 and December 31, 2017, respectively.

On June 29, 2018, AGR and its investment-grade rate utility subsidiaries (NYSEG, RG&E, Central Maine Power Company ("CMP"), The United Illuminating Company ("UI"), Connecticut Natural Gas Corporation ("CNG"), The Southern Connecticut Gas Company ("SCG") and The Berkshire Gas Company ("BGC")) increased the maximum borrowing terms of the facility from \$1.5 billion to \$2.5 billion (in aggregate) and extended the maturity date from April 5, 2021 to June 29, 2023. The revolving credit facility is comprised of a syndicate of banks. Under the terms of the AGR Credit Facility, each joint borrower has a maximum borrowing entitlement, or sublimit, which can

Notes to Financial Statements

be periodically adjusted to address specific short-term capital funding needs, subject to the maximum limit established by the banks. AGR's maximum sublimit is \$2 billion, NYSEG, RG&E, CMP and UI have maximum sublimits of \$400 million, CNG and SCG have maximum sublimits of \$150 million and BGC has a maximum sublimit of \$40 million. Under the AGR Credit Facility, each of the borrowers will pay an annual facility fee that is dependent on their credit rating. The facility fees will range from 10.0 to 17.5 basis points. The maturity date for the AGR Credit Facility is June 29, 2023. NYSEG had no outstanding balance as of December 31, 2018 and borrowed \$150.0 million under this agreement as of December 31, 2017.

In the AGR Credit Facility we covenant not to permit, without the consent of the lender, our ratio of total indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. For purposes of calculating the maximum ratio of indebtedness to total capitalization, the facility excludes from net worth the balance of accumulated other comprehensive loss as it appears on the balance sheet. The facility contains various other covenants, including a restriction on the amount of secured indebtedness we may maintain. Continued un-remedied failure to comply with those covenants for five business days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Our ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.47 to 1.00 at December 31, 2018. We are not in default as of December 31, 2018.

Note 8. Preferred Stock Redeemable Solely at the Option of the Company

At December 31, 2018, NYSEG had 2,455,000 shares of \$100 par value preferred stock, 10,800,000 shares of \$25 par value preferred stock and 1,000,000 shares of \$100 par value preference stock authorized but unissued.

Note 9. Commitments and Contingencies**New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm**

On March 11, 2017, the New York State Department of Public Service (the Department) commenced an investigation of NYSEG's preparation for and response to the March 2017 windstorm, which affected more than 219,000 customers at NYSEG and RG&E. The Department investigation included a comprehensive review of NYSEG's preparation for and response to the windstorm, including all aspects of the company's filed and approved emergency plan. The Department held public hearings on April 12 and 13, 2017.

On November 16, 2017, the NYPSC announced that the Department Staff had completed their investigation into the March 2017 Windstorm and the NYPSC issued an Order Instituting Proceeding and to Show Cause. The Staff's investigation found that NYSEG had allegedly violated certain parts of its emergency response plan, which makes the Company subject to possible financial penalties. NYSEG responded to the order in a timely manner and has conducted settlement discussions with the Department of Public Service Staff and other parties. These settlement discussions culminated with the filing of two Joint Proposals for settling the issues raised by the Department in June 2018, with several parties signing on to the Joint Proposals. These Joint Proposals have NYSEG and RG&E implementing a combined \$3.9 million of storm resiliency and restoration projects which will not be paid for by ratepayers. The Joint Proposals are currently before the Commission, and a ruling is expected in 2019.

Leases

On January 16, 2014, as required by its regulator, NYSEG renewed a Reliability Support Services Agreement (RSS Agreement) with Cayuga Operating Company, LLC (Cayuga) for Cayuga to

Notes to Financial Statements

provide reliability support services to maintain necessary system reliability through June 2017. Cayuga owns and operates the Cayuga Generating Facility (Facility), a coal-fired generating station that includes two generating units. Cayuga operated and maintained the RSS units and managed and complied with scheduling deadlines and requirements for maintaining the Facility and the RSS units as eligible energy and capacity providers and complied with dispatch instructions. NYSEG paid Cayuga a monthly fixed price and also paid for capital expenditures for specified capital projects. NYSEG was entitled to a share of any capacity and energy revenues earned by Cayuga. We accounted for this arrangement as an operating lease. The net expense incurred under this operating lease was \$17.6 million for the year ended December 31, 2017.

Total future minimum lease payments as of December 31, 2018 consisted of:

Year (Thousands)	Operating Leases	Capital Leases	Total
2019	\$1,696	\$21,951	\$23,647
2020	1,520	1,437	2,957
2021	998	397	1,395
2022	894	332	1,226
2023	930	332	1,262
Thereafter	6,688	2,614	9,302
Total	\$12,726	\$27,063	\$39,789

Purchase power and natural gas contracts, including nonutility generators

NYSEG is the provider of last resort for customers. As a result, the company buys physical energy and capacity from the NYISO. In accordance with the NYPSC's February 26, 2008 Order, NYSEG is required to hedge on behalf of non-demand billed customers. The physical electric capacity purchases we make from parties other than the NYISO are to comply with the hedge requirement for electric capacity. The company enters into financial swaps to comply with the hedge requirement for physical electric energy purchases. NYSEG also makes purchases from other independent power producers and New York Power Authority (NYPA) under existing contracts or long-term supply agreements in order to comply with the company's Public Utility Regulatory Policies Act (PURPA) purchase obligation.

NYSEG satisfies its natural gas supply requirements through purchases from various producers and suppliers, withdrawals from natural gas storage, capacity contracts and winter peaking supplies and resources. The company operates diverse portfolios of gas supply, firm transportation capacity, gas storage and peaking resources. Actual gas costs incurred by the company are passed through to customers through state regulated purchased gas adjustment mechanisms, subject to regulatory review.

The company purchases the majority of its natural gas supply at market prices under seasonal, monthly or mid-term supply contracts and the remainder is acquired on the spot market. The company acquires firm transportation capacity on interstate pipelines under long-term contracts and utilizes that capacity to transport both natural gas supply purchased and natural gas withdrawn from storage to the local distribution system. The company acquires firm underground natural gas storage capacity using long-term contracts and fills the storage facilities with gas in the summer months for subsequent withdrawal in the winter months.

We recognized expenses of approximately \$80.6 million for Normal Purchase Normal Sale (NPNS) purchase power and natural gas contracts including non-utility generators in 2018 and \$87.9 million in 2017.

Notes to Financial Statements**Note 10. Environmental Liability**

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric and natural gas service.

Waste sites

The Environmental Protection Agency (EPA) and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, have notified us that we are among the potentially responsible parties that may be liable for costs incurred to remediate certain hazardous substances at twelve waste sites. The twelve sites do not include sites where gas was manufactured in the past, which are discussed below. With respect to the twelve sites, eleven sites are included in the New York State Registry of Inactive Hazardous Waste Disposal Sites and four sites are also included on the National Priorities list. Any liability may be joint and several for certain of those sites.

We have a liability recorded of \$5.4 million as of December 31, 2018, related to the twelve sites. We have paid remediation costs related to the twelve sites. It is possible that the ultimate cost to remediate the sites may be significantly more than the accrued amount. Our estimate for costs to remediate these sites ranges from \$5.3 million to \$5.9 million as of December 31, 2018. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us. Any cost will be flowed through to NYSEG ratepayers.

Manufactured gas plants

We have a program to investigate and perform necessary remediation at our 39 sites where gas was manufactured in the past. In 1994 and 1996 we entered into orders on consent with the NYSDEC. Those orders require us to investigate and, where necessary, remediate 38 of our 39 sites. Eight sites are included in the New York State Registry.

Our estimate for all costs related to investigation and remediation of the 39 sites ranges from \$114.6 million to \$232.9 million at December 31, 2018. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites was \$135.7 million at December 31, 2018 and \$152.1 million at December 31, 2017. We recorded a corresponding regulatory asset, net of insurance recoveries and the amount collected from FirstEnergy described below, because we expect to recover the net costs in rates.

Our environmental liability accruals are recorded on an undiscounted basis and are expected to be paid through the year 2050.

FirstEnergy

NYSEG sued FirstEnergy under the Comprehensive Environmental Response, Compensation, and Liability Act to recover environmental cleanup costs at sixteen former manufactured gas sites, which are included in the discussion above. In July 2011, the District Court issued a decision and order in NYSEG's favor. Based on past and future clean-up costs at the sixteen sites in dispute, FirstEnergy would be required to pay NYSEG approximately \$60 million if the decision were

Notes to Financial Statements

upheld on appeal. On September 9, 2011, FirstEnergy paid NYSEG \$30 million, representing their share of past costs of \$27 million and pre-judgment interest of \$3 million.

FirstEnergy appealed the decision to the Second Circuit Court of Appeals. On September 11, 2014, the Second Circuit Court of Appeals affirmed the District Court's decision in NYSEG's favor, but modified the decision for nine sites, reducing NYSEG's damages for incurred costs from \$27 million to \$22 million, excluding interest, and reducing FirstEnergy's allocable share of future costs at these sites. NYSEG refunded FirstEnergy the excess \$5 million in November 2014.

FirstEnergy remains liable for a substantial share of clean up expenses at nine manufactured gas plant (MGP) sites. Based on current projections, FirstEnergy's share is estimated at approximately \$20 million. This amount is being treated as a contingent asset and has not been recorded as either a receivable or a decrease to the environmental provision. Any recovery will be flowed through to NYSEG ratepayers.

Century Indemnity and OneBeacon

On August 14, 2013, NYSEG filed suit in federal court against two excess insurers, Century Indemnity and OneBeacon, who provided excess liability coverage to NYSEG. NYSEG seeks payment for clean-up costs associated with contamination at twenty-two former manufactured gas plants. Based on estimated clean-up costs of \$282 million, the carriers' allocable share is approximately \$89 million, excluding pre-judgment interest, although this amount may change substantially depending upon the determination of various factual matters and legal issues during the case.

Century Indemnity and OneBeacon have answered admitting issuance of the excess policies, but contesting coverage and providing documentation proving they received notice of the claims in the 1990s. On March 31, 2017, the District Court granted motions filed by Century Indemnity and OneBeacon dismissing all of NYSEG's claims against both defendants on the grounds of late notice. NYSEG filed a motion with the District Court on April 14, 2017 seeking reconsideration of the Court's decision. On March 27, 2018, the District Court denied NYSEG's request for reconsideration; NYSEG filed a notice of appeal on April 9, 2018. We cannot predict the outcome of this matter.

Note 11. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations. The primary risk we manage by using derivative instruments is commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

The financial instruments we hold or issue are not for trading or speculative purposes.

Commodity price risk: Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. We manage this risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it. Owned electric generation and long-term supply contracts reduce our exposure to market fluctuations.

We have electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the normal purchases and normal sales exception in accordance with the accounting requirements concerning derivative

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instruments and hedging activities.

We currently have a non by-passable wires charge adjustment that allows us to pass through rates any changes in the market price of electricity. We use electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. We include the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value of electric hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2018 and 2017, the amount recognized in regulatory assets/liabilities for electricity derivatives was a gain of \$3.4 million and a loss of \$0.4 million, respectively. For the years ended December 31, 2018 and 2017, the amount reclassified from regulatory assets/liabilities into income, which is included in electricity purchased, was a gain of \$5.1 million and a loss of \$24.3 million, respectively.

We have a purchased gas adjustment clause that allows us to recover through rates any changes in the market price of purchased natural gas, substantially eliminating our exposure to natural gas price risk. We use natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. We include the cost or benefit of natural gas futures and forwards in the commodity cost that is passed on to customers when the related sales commitments are fulfilled. We record changes in the fair value of natural gas hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2018 and 2017, the amount recognized in regulatory assets/liabilities for natural gas hedges was a gain of \$0.1 million and a loss of \$0.7 million, respectively. For the years ended December 31, 2018 and 2017, the amount reclassified from regulatory assets/liabilities into income, which is included in natural gas purchased, was a gain of \$0.3 million and a loss of \$0.1 million, respectively.

Our derivative volumes by commodity type that are expected to settle each year are:

	Electricity Contracts	Natural Gas Contracts	Other Fuel Contracts
Year to settle	Mwhs	Dths	Gallons
As of December 31, 2018			
2019	2,597,550	2,120,000	1,061,900
2020	761,600	350,000	-
As of December 31, 2017			
2018	2,381,125	1,580,000	1,043,400
2019	219,000	330,000	-

The offsetting of derivatives, location in the balance sheet and amounts of derivatives as of December 31, 2018 and 2017, respectively, consisted of:

December 31, 2018	Derivative Assets - Current	Derivative Assets - Noncurrent	Derivative Liabilities - Current	Derivative Liabilities - Noncurrent
(In thousands)				
Not designated as hedging instruments				
Derivative assets	\$9,991	\$2,467	\$6,743	\$2,267
Derivative liabilities	(6,743)	(2,267)	(6,743)	(2,267)
	<u>3,248</u>	<u>200</u>	<u>-</u>	<u>-</u>

Notes to Financial StatementsDesignated as hedging
instruments

Derivative assets	-	-	-	-
Derivative liabilities	-	-	(824)	-
	-	-	(824)	-
Total derivatives before offset of cash collateral	3,248	200	(824)	-
Cash collateral receivable	-	-	-	-
Total derivatives as presented in the balance sheet	\$3,248	\$200	\$(824)	\$-

	Derivative Assets – Current	Derivative Assets - Noncurrent	Derivative Liabilities - Current	Derivative Liabilities – Noncurrent
December 31, 2017				
(In thousands)				
Not designated as hedging instruments				
Derivative assets	\$8,859	\$515	\$8,859	\$405
Derivative liabilities	(8,859)	(405)	(10,015)	(456)
	-	110	(1,156)	(51)
Designated as hedging instruments				
Derivative assets	36	-	36	-
Derivative liabilities	(36)	-	(75)	-
	-	-	(39)	-
Total derivatives before offset of cash collateral	-	110	(1,195)	51
Cash collateral receivable	-	-	1,156	(51)
Total derivatives as presented in the balance sheet	\$-	\$110	\$(39)	\$-

As of both December 31, 2018 and 2017, the derivative assets – noncurrent are presented within other non-current assets of the balance sheet.

The effect of hedging instruments on OCI and income was:

Year Ended December 31,	(Loss) Gain Recognized in OCI on Derivatives	Location of (Loss) Gain Reclassified From Accumulated OCI into Income	Loss Reclassified From Accumulated OCI into Income
Derivatives in Cash Flow Hedging Relationships	Effective Portion	Effective Portion	
(Thousands)			
2018			
Interest rate contracts	\$-	Interest expense	\$(105)
Commodity contracts:			
Other	(738)	Other operating expenses	47
Total	(\$738)		\$(58)

Notes to Financial Statements**2017**

Interest rate contracts	\$-	Interest expense	\$(105)
Commodity contracts:			
Other	(271)	Other operating expenses	(377)
Total	\$(271)		\$(482)

The amounts in AOCI related to previously settled forward starting swaps, and accumulated amortization, as of December 31, 2018, is a net loss of \$0.5 million as compared to a net loss of \$0.6 million for 2017. For the year ended December 31, 2018, we recorded \$0.1 million in net derivative losses related to discontinue cash flow hedges. We will amortize approximately \$0.1 million of discontinued cash flow hedges in 2019.

As of December 31, 2018, \$0.8 million in losses are reported in AOCI because the forecasted transaction is considered to be probable. We expect that those losses will be reclassified into earnings within the next 12 months, the maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted energy transactions. There was no ineffective portion of hedge recognized during the year ended December 31, 2018.

We face risks related to counterparty performance on hedging contracts due to counterparty credit default. We have developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or Standard & Poor's). When our exposure to risk for counterparty exceeds the unsecured credit threshold, the counterparty is required to post additional collateral or we will no longer transact with the counterparty until the exposure drops below the unsecured credit threshold.

We have various master netting arrangements in the form of multiple contracts with various single counterparties that are subject to contractual agreements that provide for the net settlement of all contracts through a single payment. Those arrangements reduce our exposure to a counterparty in the event of default on or termination of any one contract. For financial statement presentation, we offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2018 is \$5.3 million for which we have posted collateral.

Note 12. Fair Value of Financial Instruments and Fair Value Measurements

The estimated fair value of debt amounted to \$1,249 million and \$1,095 million as of December 31, 2018 and 2017, respectively. The estimated fair value was determined, in most cases, by discounting the future cash flows at market interest rates. The interest rate curve used to make these calculations takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The fair value hierarchy for the fair value of debt is considered as Level 2.

Assets and liabilities measured at fair value on a recurring basis

The financial instruments measured at fair value as of December 31, consist of:

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Description (Thousands)	(Level 1)	(Level 2)	(Level 3)	Netting	Total
2018					
Assets					
Noncurrent investments available for sale, primarily money market funds	\$8,081	\$-	\$-	\$-	\$8,081
Derivatives					
Commodity contracts:					
Electricity	12,045	-	-	(8,676)	3,369
Natural Gas	413	-	-	(334)	79
Other	-	-	-	-	-
Total	\$20,539	\$-	\$-	\$(9,010)	\$11,529
Liabilities					
Derivatives					
Commodity contracts:					
Electricity	\$(8,676)	\$-	\$-	\$8,676	\$-
Natural gas	(334)	-	-	334	-
Other	-	-	(824)	-	(824)
Total	\$(9,010)	\$-	\$(824)	\$9,010	\$(824)
2017					
Assets					
Noncurrent investments available for sale, primarily money market funds	\$10,411	\$-	\$-	\$-	\$10,411
Derivatives					
Commodity contracts:					
Electricity	9,356	-	-	(9,246)	110
Natural Gas	19	-	-	(19)	-
Other	-	-	36	(36)	-
Total	\$19,786	\$-	\$36	\$(9,301)	\$10,521
Liabilities					
Derivatives					
Commodity contracts:					
Electricity	\$(9,726)	\$-	-	\$9,726	-
Natural gas	(744)	-	-	744	-
Other	-	-	(75)	36	(39)
Total	\$(10,470)	\$-	\$(75)	\$10,506	\$(39)

We had no transfers to or from Level 1 and 2 during the years ended December 31, 2018 and 2017. Our policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstances that causes a transfer, if any.

Valuation techniques: We measure the fair value of our noncurrent investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments which are Rabbi Trusts for deferred compensation plans primarily consist of money market funds.

We determine the fair value of our derivative assets and liabilities utilizing market approach valuation techniques:

Notes to Financial Statements

- We enter into electric energy derivative contracts to hedge the forecasted purchases required to serve their electric load obligations. We hedge our electric load obligations using derivative contracts that are settled based upon Locational Based Marginal Pricing published by the NYISO. We hedge approximately 70% of their electric load obligations using contracts for a NYISO location where an active market exists. The forward market prices used to value the companies' open electric energy derivative contracts are based on quoted prices in active markets for identical assets or liabilities with no adjustment required and therefore we include the fair value in Level 1.
- We enter into natural gas derivative contracts to hedge the forecasted purchases required to serve our natural gas load obligations. The forward market prices used to value our open natural gas derivative contracts are exchange-based prices for the identical derivative contracts traded actively on the New York Mercantile Exchange. Because we use prices quoted in an active market, we include those fair value measurements in Level 1.
- We enter into fuel derivative contracts to hedge our unleaded and diesel fuel requirements for our fleet vehicles. Exchange based forward market prices are used but because a basis adjustment is added to the forward prices, we include the fair value measurement for these contracts in Level 3.

Instruments measured at fair value on a recurring basis using significant unobservable inputs

Year Ended December 31, (Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Derivatives, Net 2018	2017
Beginning balance	\$39	\$145
Total gains (losses) (realized/unrealized)		
Included in earnings	47	(377)
Included in other comprehensive income	738	271
Ending balance	\$824	\$39

The gains and losses included in earnings for the periods above are reported in Operations and maintenance of the statements of income.

Note 13. Accumulated Other Comprehensive Loss

	Balance January 1, 2017	2017 Change	Balance December 31, 2017	2018 Change	Balance December 31, 2018
(Thousands)					
Amortization of pension cost for nonqualified plans, net of income tax (benefit)/expense of \$(48) for 2017 and \$50 for 2018	\$(471)	\$(74)	\$(545)	\$131	\$(414)
Unrealized (loss) on derivatives qualified as hedges:					
Unrealized (loss) during period on derivatives qualified as hedges, net of income tax expense (benefit) of \$(107) for 2017 and \$(203) for 2018		(164)		(535)	
Reclassification adjustment for loss included in net income, net of income tax expense (benefit) of \$150 for 2017 and \$(13) for 2018		228		(34)	

Notes to Financial Statements

Reclassification adjustment for loss on settled cash flow treasury hedges, net of income tax expense of \$42 for 2017 and \$29 for 2018		63		76	
Net unrealized gain (loss) on derivatives qualified as hedges	(487)	127	(360)	(493)	(853)
Accumulated Other Comprehensive Loss	\$(958)	\$53	\$(905)	\$(362)	\$(1,267)

Note 14. Post-retirement and Similar Obligations

We have funded noncontributory defined benefit pension plans that cover all of the eligible employees. For most employees, generally those hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013 we announced that we would stop the cash balance accruals for all non-union employees covered under the cash balance plans effective December 31, 2013. NYSEG's unionized employees covered under the cash balance plans ceased to receive accruals as of December 31, 2015. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for those employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. There was no change to the defined benefit plans for employees covered under the plans that provide defined benefits based on years of service and final average salary.

The company maintains a 401(k) Savings and Retirement Plan (the Plan) for all eligible employees as defined in the Plan agreement. Participants in the Plan may contribute a percentage of their compensation and the company may match a predetermined percentage of the participant contributions. Expenses under the Plan for the Company totaled approximately \$6.3 million for 2018 and \$6.0 million for 2017.

We also have pension and other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

Obligations and funded status:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	\$1,601,569	\$1,531,453	\$181,111	\$186,093
Service cost	16,516	16,718	1,836	2,180
Interest cost	56,498	61,280	6,354	7,402
Plan participants' contributions	-	-	3,993	3,399
Actuarial loss/(gain)	(69,054)	85,229	(26,404)	(185)
Benefits paid	(97,447)	(93,111)	(15,732)	(17,793)
Federal subsidy on benefits paid	-	-	-	15
Benefit obligation at December 31	\$1,508,082	\$1,601,569	\$151,158	\$181,111
Change in plan assets				
Fair value of plan assets at January 1	\$1,474,106	\$1,370,779	\$83,838	\$83,595
Actual return on plan assets	(61,675)	196,438	(3,287)	7,243
Employer & plan participants' contributions	-	-	8,453	10,778
Federal subsidy on benefits paid	-	-	-	15
Benefits paid	(97,447)	(93,111)	(15,732)	(17,793)
Fair value of plan assets at December 31	\$1,314,984	\$1,474,106	\$73,272	\$83,838
Funded status	\$(193,098)	\$(127,463)	\$(77,886)	\$(97,273)

Notes to Financial Statements

Amounts recognized in the balance sheet December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2018	2017	2018	2017
Noncurrent liabilities	\$(193,098)	\$(127,463)	\$(77,886)	\$(97,273)

We have determined that we are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans. Amounts recognized as regulatory assets or regulatory liabilities consist of:

December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2018	2017	2018	2017
Net loss	\$389,296	\$392,773	\$(16,071)	\$7,186
Prior service cost (credit)	\$4,491	\$5,568	\$(13,770)	\$(19,367)

Our accumulated benefit obligation for all defined benefit pension plans was \$1.4 billion as of both December 31, 2018 and 2017. NYSEG's postretirement benefits were partially funded as of December 31, 2018 and 2017.

The projected benefit obligation and the accumulated benefit obligation exceeded the fair value of pension plan assets for our plans as of both December 31, 2018 and 2017. The following table shows the aggregate projected and accumulated benefit obligations and the fair value of plan assets as of December 31, 2018 and 2017.

December 31,	2018	2017
(Thousands)		
Projected benefit obligation	\$1,508,082	\$1,601,569
Accumulated benefit obligation	\$1,445,266	\$1,531,218
Fair value of plan assets	\$1,314,984	\$1,474,106

**Components of net periodic benefit cost and other amounts
recognized in regulatory assets and regulatory liabilities:**

Years Ended December 31,	Pension Benefits		Postretirement Benefits	
(Thousands)	2018	2017	2018	2017
Net periodic benefit cost				
Service cost	\$16,516	\$16,718	\$1,836	\$2,180
Interest cost	56,498	61,280	6,354	7,402
Expected return on plan assets	(103,271)	(103,106)	(3,521)	(3,553)
Amortization of prior service cost (credit)	1,077	1,201	(5,597)	(5,596)
Amortization of net loss	99,370	84,732	3,661	3,320
Net periodic benefit cost	\$70,190	\$60,825	\$2,733	\$3,753
Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities				
Net loss (gain)	\$95,892	\$(8,103)	\$(19,596)	\$(3,875)
Amortization of net (loss)	(99,370)	(84,732)	(3,661)	(3,320)
Amortization of prior service (cost) credit	(1,077)	(1,201)	5,597	5,596
Total recognized in regulatory assets and regulatory liabilities	\$(4,555)	\$(94,036)	\$(17,660)	\$(1,599)
Total recognized in net periodic benefit cost and regulatory assets and regulatory liabilities	\$65,635	\$(33,211)	\$(14,927)	\$2,154

Notes to Financial Statements

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents.

Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ending

December 31, 2019	Pension Benefits	Postretirement Benefits
(Thousands)		
Estimated net loss	\$78,769	\$(796)
Estimated prior service cost (credit)	\$919	\$(5,597)

We expect that no pension benefit or postretirement benefit plan assets will be returned to us during the fiscal year ending December 31, 2019.

Weighted-average assumptions used to determine benefit obligations at December 31,	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rate	3.93%	3.63%	3.93%	3.63%
Rate of compensation increase	3.80%	3.90%	N/A	N/A

The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate developing a yield curve derived from a portfolio of high grade non-callable bonds with above median yields that closely matches the duration of the expected cash flows of our benefit obligations.

Weighted-average assumptions used to determine net periodic benefit cost for Years ended December 31,	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Discount rate	3.63%	4.12%	3.63%	4.12%
Expected long-term return on plan assets	7.30%	7.30%	-	-
Expected long-term return on plan assets - nontaxable trust	-	-	6.40%	6.50%
Expected long-term return on plan assets - taxable trust	-	-	4.20%	4.25%
Rate of compensation increase	3.90%	3.90%	N/A	N/A

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. Our policy is to calculate the expected return on plan assets using the market related value of assets. We amortize unrecognized actuarial gains and losses over 10 years from the time they are incurred.

Assumed health care cost trend rates to determine benefit obligations at December 31,

	2018	2017
Health care cost trend rate (pre 65/post 65)	7.00%/7.75%	6.75%/8.50%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2029/2027	2026/2028

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
(Thousands)		
Effect on total of service and interest cost	\$1	\$-
Effect on postretirement benefit obligation	\$60	\$(41)

Notes to Financial Statements

Contributions: In accordance with our funding policy we make annual contributions of not less than the minimum required by applicable regulations. We do not expect to contribute to our pension benefit plans in 2019.

Estimated future benefit payments: Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2019	\$89,590	\$12,056	-
2020	\$91,849	\$11,484	-
2021	\$93,844	\$11,289	-
2022	\$95,751	\$11,087	-
2023	\$97,294	\$10,877	-
2024-2028	\$495,991	\$50,928	-

Plan assets: Our pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Our primary investment objective is to ensure that current and future benefit obligations are adequately funded and with volatility commensurate with our tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Our primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

Networks' asset allocation policy is the most important consideration in achieving our objective of superior investment returns while minimizing risk. We have established a target asset allocation policy within allowable ranges for our pension benefits plan assets within broad categories of asset classes made up of Return-Seeking and Liability-Hedging investments. Within the Return-Seeking category, we have targets of 35%-53% in equity securities, 40%-45% for Liability-Hedging assets and 7%-20% for alternative investments. Return-Seeking investments generally consist of domestic, international, global, and emerging market equities invested in companies across all market capitalization ranges. Return-Seeking assets also include investments in real estate, absolute return, and strategic markets. Liability-Hedging investments generally consist of long-term corporate bonds, annuity contracts, long-term treasury STRIPS, and opportunistic fixed income investments. Systematic rebalancing within the target ranges increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair values of Networks' pension benefits plan assets at December 31, 2018 and 2017, by asset category are shown in the following table. NYSEG's share of the total consolidated assets is approximately 52% for 2018 and 2017:

Notes to Financial Statements

		Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category	Total			
(Thousands)				
2018				
Cash and cash equivalents	\$51,661	\$ -	\$51,661	\$-
U.S. government securities	15,137	15,137	-	-
Common stocks	90	90	-	-
Registered investment companies	216,508	216,508	-	-
Corporate bonds	412,703	-	412,703	-
Preferred stocks	3,512	270	3,242	-
Common collective trusts	813,186	179,510	633,676	-
Other investments, principally annuity and fixed income	71,412	-	71,412	-
	\$1,584,209	\$411,515	\$1,172,694	\$-
Other investments measured at net asset value	925,888			
Total	\$2,510,097			
2017				
Cash and cash equivalents	\$17,531	\$-	\$17,531	\$-
U.S. government securities	13,338	13,338	-	-
Common stocks	129,312	129,312	-	-
Registered investment companies	105,037	105,037	-	-
Corporate bonds	447,124	-	447,124	-
Preferred stocks	4,381	299	4,082	-
Equity commingled funds	435,635	185,989	249,646	-
Other investments, principally annuity and fixed income	548,957	-	548,957	-
	\$1,701,315	\$433,975	\$1,267,340	\$-
Other investments measured at net asset value	1,126,017			
Total	\$2,827,332			

Valuation techniques: We value our pension benefits plan assets as follows:

- Cash and cash equivalents - Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, common stocks and registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds - based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks - at the closing price reported in the active market in which the individual investment is traded.
- Equity commingled funds – the fair value is primarily derived from the quoted prices in active markets of the underlying securities. Because the fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.

Notes to Financial Statements

- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.
- Other investments measured at net asset value (NAV) – alternative investments, such as private equity and real estate oriented investments, partnership/joint ventures and hedge funds are valued using the NAV as a practical expedient.

Our postretirement benefits plan assets are held with trustees in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes to achieve sufficient diversification in accordance with our risk tolerance. This is achieved for our postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. Approximately twenty-five-percent of the postretirement benefits plan assets are invested in VEBA and 401(h) arrangements that are not subject to income taxes with the remainder being invested in arrangements subject to income taxes.

We have established a target asset allocation policy within allowable ranges for postretirement benefits plan assets of 46%-66% for equity securities, 30%-31% for fixed income, and 3%-23% for all other investment types. The target allocations within allowable ranges are further diversified into 27%-66% large cap domestic equities, 5% small cap domestic equities, 8% international developed market, and 6% emerging market equity securities. Fixed income investment targets and ranges are segregated into core fixed income at 24%-31%, global high yield fixed income at 4%, and international developed market debt at 3%. Other alternative investment targets are 6% for real estate, 6% for tangible assets, and 3%-11% for other funds. Systematic rebalancing within target ranges increases the probability that the annualized return on investments will be enhanced, while realizing lower overall risk, should any asset categories drift outside their specified ranges.

The fair value of other postretirement benefits plan assets, by asset category, as of December 31, 2018 consisted and 2017 are shown in the following table. NYSEG's share of the total assets is approximately 50% for 2018 and 51% for 2017:

		Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category	Total			
(Thousands)				
2018				
Money market funds	\$9,197	\$4,804	\$4,393	\$-
Registered investment companies	109,128	107,513	1,615	-
Common collective trusts	21,742	21,742	-	-
Mutual funds, other	7,379	-	7,379	-
Total assets measured at fair value	\$147,446	\$134,059	\$13,387	\$-

Notes to Financial Statements**2017**

Money market funds	\$3,978	\$3,978	\$-	\$-
Mutual funds, fixed	35,419	35,419	-	-
Government & corporate bonds	1,658	-	1,658	-
Mutual funds, equity	76,444	49,089	27,355	-
Common stocks	19,800	19,800	-	-
Mutual funds, other	27,172	19,573	7,599	-
Total assets measured at fair value	\$164,471	\$127,859	\$36,612	\$-

Valuation Techniques

We value our postretirement benefits plan assets as follows:

- Money market funds and mutual funds - based upon quoted market prices in active markets.
- Government bonds, and common stocks - at the closing price reported in the active market in which the security is traded.
- Corporate bonds - based on yields currently available on comparable securities of issuers with similar credit ratings.

Pension and postretirement benefit plan equity securities did not include any AGR and Iberdrola common stock as of both December 31, 2018 and 2017.

Note 15. Other Income and Other Deductions

Years Ended December 31, (Thousands)	2018	2017
Interest and dividend income	\$67	\$37
Carrying costs on regulatory assets	9,316	4,809
Allowance for funds used during construction	3,006	7,315
Gain on sale of property	899	1,080
Miscellaneous	113	2,131
Total other income	\$13,401	\$15,372
Pension non-service components	\$(52,058)	\$(45,680)
Miscellaneous	(1,157)	(1,154)
Total other deductions	\$(53,215)	\$(46,834)

Note 16. Related Party Transactions

Certain Networks subsidiaries, including NYSEG, borrow from AGR, the parent of Networks, through intercompany revolving credit agreements. For NYSEG, the intercompany revolving credit agreements provide access to supplemental liquidity. See Note 7 for further detail on the credit facility with AGR.

Avangrid Service Company provides administrative and management services to Networks operating utilities, including NYSEG, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The charge for operating and capital services provided to NYSEG by AGR and its affiliates was approximately \$102.4 million for 2018 and \$89.8 million for 2017 and charge for services provided by NYSEG to AGR and its subsidiaries were approximately \$11.0 million for 2018 and \$22.2 million for 2017. All charges for services are at cost. The balance in accounts payable to affiliates of \$82.4 million at December 31, 2018 and \$78.5 million at December 31, 2017 is mostly payable to Avangrid Service Company.

Notes to Financial Statements

Networks holds an approximate 20% ownership interest in the regulated New York TransCo. Through New York TransCo, Networks has formed a partnership with Central Hudson Gas and Electric Corporation, Consolidated Edison, Inc., National Grid, plc and Orange and Rockland Utilities, Inc. to develop a portfolio of interconnected transmission lines and substations to fulfill the objectives of the New York energy highway initiative, which is a proposal to install up to 3,200 MW of new electric generation and transmission capacity in order to deliver more power generated from upstate New York power plants to downstate New York. In 2016 NYSEG received approximately \$67 million from New York TransCo in the form of \$43 million for assets constructed and transferred to the New York TransCo, \$22 million in contributions in aid of construction and approximately \$2 million in advanced lease payments for a 99 year lease of land and attachment rights. The amount receivable from New York TransCo was \$1.0 million at December 31, 2018 and \$6.3 million at December 31, 2017.

Note 17. Subsequent Events

The company has performed a review of subsequent events through March 29, 2019, which is the date these financial statements were available to be issued, and no subsequent events have occurred from January 1, 2019 through such date.

Response to IR NYRC-0948 (DPS-442)
Attachment 3 of Exhibit__(SIR-1) Redacted

Response to IR NYRC-0948 (DPS-442)
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Requesting Party: DPS Staff

Request No.: NYRC-0540 (DPS-201)

Date of Request: July 2, 2019

Response Due Date: July 12, 2019

Date of Reply: July 12, 2019

Witness: Steve Mullin

Subject: Waste Treatment, Storage and Disposal Facilities (TSDFs)

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

Cost-effective waste management practices at remedial sites is listed as one of the items for Inventory of Best Practices for Utility SIR Programs that was established in Case 11-M-0034.

1. Do the Companies own or operate any TSDFs internally?
 - a. If yes, provide a list in a tabular format, that includes the facility name, location, facility type, waste type, State or Federal ID/Permit Number(s) and other relevant information for each facility.
 - b. Have any of these TSDF facilities received any written violations as a result of regulatory inspections or audits in the past five years?
 - c. If yes, describe each incident and indicate whether the violation resulted in a fine and the amount of any fines.
 - d. How often do the Companies perform audits or inspections of the facilities? Provide any applicable documentation.
2. With regard to externally operated TSDF facilities utilized by the Companies' SIR program: Do the Companies manage and track waste disposal and transportation operations associated with the SIR Program?
 - a. If the response is no, who manages and tracks this information? Is it managed by a consultant, a contractor, or an agent for the Company?
 - b. Provide a list in tabular format, that indicates the facility name, location, facility type, waste type, State or Federal ID/Permit Number(s) and other relevant information for each external facility.

- c. How often do the Companies perform audits or inspections of the facilities? Provide any applicable documentation.
 - d. Have any of the external TSDFs utilized by the Companies received any written violations or fines in the past five years? If yes, state the date, the amount and the reason for each fine.
3. Do the Companies, their consultants, contractors or agents consider geographic distance and other options when procuring waste transportation contracts?
- a. Append any list or documentation for waste transporters utilized for each Company.
 - b. Describe how permits for transporters are verified.
 - c. Describe how transporters are reviewed for compliance, violations or fines.
 - d. Describe how the Company or its agent utilizes the most cost-effective waste management methods such as minimizing waste volume, seeking competitive bids, combining waste shipments and maximize shipping efficiency?

Response:

- 1. No.
- 1.a.- d. Not Applicable.
- 2. Yes. Waste quantities shipped from a Site are logged and documented in the Final Engineering Report or in the appropriate investigation study report(s) for wastes derived during investigation activities. Waste transporters are also recorded and tracked.
- 2.a. Not Applicable
- 2.b.

Facility Name	Location	Facility Type	Waste Type	Permit No.
ESMI of New York LLC.	Fort Edward, NY	Thermal Treatment and Disposal Facility	MGP Contaminated Soil – Thermal Treatment and Disposal	5-5330-00038/00019
Waste Management of New York LLC. – High Acres Landfill	Fairport, NY	Landfill	MGP Contaminated Soil – Landfill Disposal	8-9908-00162/00032
Waste Management of New York LLC. – Mill Seat Landfill	Bergen, NY	Landfill	MGP Contaminated Soil – Landfill Disposal	8-2648-00014/00001
Seneca Meadows Inc. - Seneca Meadows Landfill	Waterloo, NY	Landfill	MGP Contaminated Soil – Landfill Disposal	8-4532-00023/00001

- 2.c. Audits are performed during the competitive bid procurement process to evaluate the supplier's qualifications, financial assurance, insurance, and environmental compliance including permits and/or violations. The competitive bid process for Disposal services (including Transportation if provided by the Disposal/Treatment Facility) is typically solicited on a three year frequency. An example of a request for information (RFI) questionnaire provided to the vendors during the Request for Proposal (RFP) process is included in Attachment 1. Transportation services not provided directly by the Waste Disposal or treatment facility are retained and coordinated by the selected vendor retained for the remedial action.
- 2.d. Yes one NOV was recorded at one of the TSDFs listed in Table 2b as follows:
- Waste Management High Acres Landfill received a Notice of Violation (NOV) in respect to odor complaints from surrounding residents. The NOV did not include any fines; however, included a series of expectations and requirements:
 - Ambient air monitoring at the Dudley/Northside Elementary School campus and in areas surrounding the landfill,
 - Several steps to improve landfill gas collection at the facility, including expediting measures that previously would not have been implemented until as late as 2023.
 - DEC further enhanced its presence at the landfill by deploying Law Enforcement details, including weekend patrols and immediate response to residents' complaints
3. Yes. Waste from a given project is shipped to the geographically closest TSDF (that can accept a given waste stream and has been approved for use) listed in Table 2b above to minimize transportation costs.
- 3.a. Transportation is not contracted directly by the Company and is subcontracted by the selected TSDF or the remedial contractor retained to implement a remedial action.
- 3.b. Transporter permits are verified by the on-site field construction management firm that represents the Company (i.e., the construction oversight engineer) prior to loading a given transporter's vehicle at a project site.
- 3.c. Transporter permits are reviewed by a representative of the Company (i.e., the construction oversight engineer); however, other compliance matters including fines and/or violations are the responsibility of the selected TSDF or the remedial contractor which contracts with the transporter.
- 3.d. The Company solicits competitive bid Master Service Agreement (MSA) contracts to limit the number of suppliers and levy the most competitive pricing for Disposal and Transportation (when offered by the Disposal Facility) Services. Waste is minimized by performing analytical testing on soil excavated as part of each remedial action and if it meets

acceptable regulatory criteria is reused on-site as backfill. Material deemed unacceptable for re-use is shipped for off-site disposal at the selected TSDF. Remediation waste is shipped by bulk carrier (dump truck or dump trailer) to maximize efficiency.

Request for Information to Accompany RFP

1. This RFP is for thermal treatment/destruction of MGP impacted soils. Does your facility's operating permit, and/or any Beneficial Use Determination or similar document, allow soils that have not been thermally treated to be disposed of in *any* manner other than thermally treating those soils? _____ (Yes or No).
2. If "Yes" to # 1, please provide a management plan that describes how it will be documented that 100% of Avangrid's soil will be thermally treated.
3. Is your facility permitted to accept at least 700 tons of MGP impacted soils per day? _____ (Yes or No).
4. What is the maximum number of tons per day of MGP impacted soils your facility is permitted to thermally treat? _____ tons.
5. If "Yes" to # 3 above, is your facility capable of receiving at least 700 tons of MGP impacted soils, five days per week, for a period of eight consecutive weeks (40 work days).? _____ (Yes or No).
6. Is your system capable of treating soils at a minimum temperature of 875 degrees Fahrenheit for a period of at least ten (10) minutes? _____ (Yes or No)?
7. This RFP is also for transportation of MGP impacted soils from Avangrid's MGP sites located throughout New York State to your facility. Knowing that Avangrid's MGP sites are located within New York State, and taking into consideration all applicable local, State, and Federal transportation regulations and laws, what is the maximum NET weight each transport vehicle is allowed to haul from Avangrid's MGP sites within New York State to your facility? _____ tons.
8. Has your firm been accused and/or received any criminal, civil or regulatory citations from a state or federal agency within the last 15 years? _____ (Yes or No) If yes please clarify below:

Requesting Party: DPS Staff

Request No.: NYRC-0539 (DPS-200)

Date of Request: July 2, 2019

Response Due Date: July 19, 2019

Date of Reply: July 16, 2019

Witness: Steve Mullin

Subject: Third Party Cost Sharing

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

Cost-effective waste management practices at remedial sites is listed as one of the items for Inventory of Best Practices for Utility SIR Programs that were established in Case 11-M-0034.

1. It appears NYSEG was able to transfer liability at the Albion manufactured gas plant (MGP) site in Schedule C of Work Paper NC-RRP-2-WP-17. Describe any other incidents where the Companies transferred liability for future remediation costs. Create a summary listing each applicable site providing: a description of each site (including Albion), the proceeds or estimated savings from the transfer of liability, and a description of how the costs will be recovered and applied to the SIR Programs.
2. Have the Companies used forensic analysis or determined background levels of regulated compounds at SIR sites to differentiate contamination inadvertently associated with the Companies former operations that may have been caused by another party or off-site property (e.g. dry-cleaning facilities, former manufacturing facilities, automotive repair facilities or fuel distribution companies)?
 - a. Discuss each instance where forensic testing been successfully utilized, the associated cost savings, site and the time frame when it occurred.
 - b. If forensic or fingerprint testing has not been used, explain the rationale.
 - c. Are there any instances that are currently pending?

3. Have the Companies been able to successfully share costs or reduce work scope by identifying other responsible parties as a result of due diligence conducted during property transfers or historic research of MGP or other sites?
 - a. Discuss each instance where the Companies have successfully used due diligence or historic research, the associated cost savings, the associated site and the time frame when it occurred.
 - b. Are there any instances that are currently pending?
 - c. Have the Companies been unsuccessful in any of the cost sharing attempts? If yes, please explain why they were unsuccessful.
 - d. If due diligence or historic research has not been utilized, explain the rationale for not doing so.
4. Have the Companies been able to successfully coordinate construction and remedial activities with property developers, capital construction projects or other parties?
 - a. List each incident or site by Company, the cost saved or avoided, the nature of the work and how the cost savings were applied to the SIR program or budget. Describe any instances that are currently pending?
 - b. Will the Company utilize these relationships in future scopes of work and have savings been projected in the historic test year costs and subsequent rate years?
5. On page 44 of the Direct Testimony of the Revenue Requirements Panel, the Companies describe recovering costs from First Energy.
 - a. Provide a general description or background explaining why First Energy became responsible for clean-up costs.
 - b. Provide a summary that quantifies the payments received and how they have been applied to the reserve and reduced the regulatory liability of the Companies.
 - c. Will the Company utilize this relationship in future scopes of work and have the savings been projected in the historic test year and subsequent rate years?

Response:

1. Liability for the Albion site was not transferred, it was shared with another utility (National Grid) that previously owned and operated the MGP and currently owns part of the former MGP site. The cost sharing between NYSEG and National Grid was negotiated based on historic ownership of the site and what site operations were occurring during those ownership years. As such, there were no “proceeds or savings” because NYSEG only paid for its share of the negotiated liability.

The Companies have not strictly transferred liability to a third party, rather it has obtained cost savings through pursuit of cost recovery efforts from previous owners/operators and through participation in PRP groups to help allocate responsibility equitably among the

PRPs. Savings or cost recovery contributions from these efforts are summarized in Question 3 of this Request for Information.

2. As part of the investigation work at sites, where information is not available on background soil levels of regulated compounds, the Companies collect background soil samples to aid in Site specific clean-up criteria and identify compounds that may not be site derived. Forensic methods have also been used, when appropriate for source attribution of common regulated compounds, principally PAHs at a number of sites to help establish clean up goals for surface soils and aquatic sediments.
- 2.a. – c. Response to these questions are Tabulated on the tables included as Attachment 1.
3. Yes. When buying or selling real property with potential environmental risk, the Companies attempt to mitigate liability for environmental contamination in the purchase or sale agreement. When purchasing or leasing a property, the Companies generally perform a Phase 1 Environmental Assessment or equivalent due diligence to identify potential environmental risk associated with the parcel. If the risk appears manageable, the purchase agreement will require that the seller indemnify the Companies against future clean-up costs and third party liability associated with existing contamination. When selling property with environmental risk, the Companies are generally required by the sales agreement to retain the future liability associated with existing contamination and indemnify the buyer against this risk if contamination cannot be reasonably mitigated in advance of a sale. When possible and reasonable, the Companies have required that the buyer accept the liability for existing contamination.

Historic research has been employed to identify other PRPs principally to share costs rather than reduce work scope. Work scope is negotiated with regulators typically by proposing a remedial alternative in the context of a feasibility study; however, the regulators make the final decision regarding work scope. Costs to the Companies have been reduced at a number of the sites due to cost recovery efforts with predecessor owners and through negotiating and coordinating responsibilities with other PRPs.

- 3.a. – d. Response to these questions are Tabulated on the tables included as Attachment 2.
- 4.a. The NYSEG Binghamton Washington Street is currently the only site where the Companies have had the opportunity to coordinate remedial activities with a property developer or other non-remedial project activity. At this site, the developer was developing the site into student housing. NYSEG did not and currently does not own the site and agreed with the developer to perform required remedial activities in advance of development of the property. The developer razed the buildings on the site (work he would have otherwise had to perform) which cleared the way for NYSEG to conduct remedial activities unencumbered by structures which we would have otherwise had to

perform. Once the remedial action was complete the developer proceeded with site development. The cost of razing the building was not tracked.

- 4.b. Since the Binghamton Washington Street is remediated (except for periodic OM&M sampling) there is no opportunity to utilize the relationship with the developer for future cost savings. However, the Companies do seek synergies in combining remedial site activities with other non-site or project work (such as development, redevelopment, etc.) when the opportunity exists, is cost effective and schedules allow.
- 5.a. The Companies sued FirstEnergy Corporation separately under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) seeking contribution for MGP clean-up costs. The Companies’ claims were based upon a legal theory that Associated Gas and Electric Corporation (AGECO), FirstEnergy’s predecessor, illegally controlled operations of certain companies, including NYSEG and RG&E, for extended time periods spanning from 1906 to 1942 in the case of NYSEG, and from 1929 through 1932 in the case of RG&E. This illegal control justified piercing AGECO’s corporate veil, making AGECO liable for a portion of the clean-up costs. FirstEnergy, as AGECO’s successor, is liable to pay AGECO’s share. The Companies won these suits, which were affirmed on appeal.
- 5.b.i. NYSEG has received the following payments from FirstEnergy:

Date	Amount	Refund	Comment
09/09/2011	\$29,715,225		FirstEnergy’s share of pre-2010 clean-up costs pending appeal of judgment.
11/20/2014		(\$5,789,813)	Refund due to modification of final judgment by appellate court.
10/07/2015	12,858,018		FirstEnergy’s share of clean-up costs from January 2010 to November 2014
02/01/2016	\$2,417,629		FirstEnergy’s share of additional clean-up costs from January 2010 to November 2014
07/05/2016	\$2,540,214		FirstEnergy’s share of clean-up costs from December 2014 through December 2015
3/10/2017	\$426,770.65		First Energy’s share of clean-up costs from Q1/Q2 2016
10/17/2017	\$611,839.67		First Energy’s share of clean-up costs Q1 2017
12/5/2017	\$216,698.10		First Energy’s share of clean-up costs Q2 2017
1/24/2018	\$120,000.00		First Energy Litigation Settlement
	\$43,116,581		= Total Received to date

- (ii) NYSEG has applied the payments noted above as a credit to the SIR program.
- (iii) RG&E has received the following payments from FirstEnergy:

Date (received)	Amount	Refund	Comment
2009	\$146,913.67		First Energy's share of costs (2007-2009)
2010	\$38,389.83		First Energy's share of costs (Q1-Q3 2010)
2011	\$69,028.93		First Energy's share of costs (Q4.2010-Q3.2011)
2012	\$40,313.31		First Energy's share of costs Q4.2011-Q3.2012)
2013	\$34,129.99		First Energy's share of costs (Q4.2012-Q3.2013)
2014	\$48,220.19		First Energy's share of costs (Q4.2013-Q3.2014)
2015	\$9,371.33		First Energy's share of costs (Q4.2014-Q2.2015)
2016	\$3,348.34		First Energy's share of costs (Q2.2015-Q2.2016)
2017	\$1,098.13		First Energy's share of costs (Q3.2016-Q4.2016)
2018	\$2,484.51		First Energy's share of costs (Q1.2016-Q4.2017)
2019 (YTD)	\$15,317.60		First Energy's share of costs (Q1.2018-Q4.2018)
	\$408,615.82		= Total Received to date

- (iv) RG&E has applied the payments noted above as a credit to the SIR program.

5.c. Yes. The Companies will continue to seek cost recovery from First Energy per the terms of the Settlement Agreements specific to each Company and project/site. The expenses shown in the historic test year include payments received from First Energy during that year. Savings (or credits) from recovering future costs from First Energy as part of the settlement agreements have not been factored into the rate year projections. While the Companies bill First Energy on a routine basis, the timing of the receipt of those payments vary and may not be obtained in the same year billed. As the credits are received from First Energy they are netted against qualified remediation expenses to each project/Company and applied directly to the remedial program.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: NYSEG

Site (NYSEG)	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Albion	Unknown	Unknown	Unknown	Unknown	Unknown	National Grid was the lead for investigation and remediation of this Site.
Auburn Clark Street	Y	2008 and 2013	Y	Approximately \$22,000 saved	N	Scope of Owasco Outlet sediment excavations reduced by about 125 cubic yards at \$175/cy
Auburn Green Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Auburn McMaster Street	Y	2011	N	NA	N	Samples collected in sediments did exhibit MGP characteristics.
Binghamton Court Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Binghamton Washington St	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Clyde	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Corning	N	NA	NA	NA	N	RI yet to be implemented. Given the history of the site and Corning's post-MGP era operations, future use of forensics is likely.
Cortland/Homer	Y	2004-2005	N	N	N	DEC rejected argument that clean up level in sediments should be equal to PAH concentrations at storm sewer outfall.
Cortland Charles St.	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Dansville	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Elmira Madison Avenue	Y	2007	N	NA	N	Characteristics of coal tar processes found in most site soil samples
Elmira Water Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Geneva Border City	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Geneva Wadsworth Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: NYSEG

Site (NYSEG)	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Goshen	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Granville	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Ithaca Cayuga Inlet	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Ithaca Court Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Ithaca First Street	Y	2010-2011	Y	Not tracked	N	PAH impact in Cascadilla Creek attributed to background sources. Sediment excavation completely avoided, reducing scope of project and cost.
Reynolds Road (Johnson City)	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Lockport State Road	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Lockport Transit Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Lyons	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Mechanicville Central Avenue	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Mechanicville Coons Crossing	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Newark	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Norwich	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Oneonta	Y	2002-2004	Y	Not tracked	N	PAH impact in Mill Race attributed to background sources. Significant reduction in scope of Mill Race sediments that required removal was achieved.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: NYSEG

Site (NYSEG)	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Owego	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Palmyra	Y	2015-present	NA	NA	Y	PAH impact in Mill Race adjacent to site appear attributed to background sources. The findings of the investigation are still under regulatory review.
Penn Yan Jackson Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Penn Yan Water Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Plattsburgh Bridge Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Plattsburgh Saranac Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Seneca Falls	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Warsaw	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Waterloo	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Waterville	Y	2001	Y	Not tracked	N	Excavation was limited as a result of PAHs being attributed to an Ash Landfill rather than MGP.
Non-MGP						
Bern Metals/Clinton Bender Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Booth Oil Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: NYSEG

Site (NYSEG)	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Frontier Royal Ave. Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Lindley Landfill Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Lockport City Landfill Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Mercury Refining Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
PCB, Inc. Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Peter Cooper Corp. Gowanda Superfund	N	NA	NA	NA	N	Chemical forensics was not performed. NYSEG's involvement as a PRP was based on site ownership only.
Pfohl Bros. Landfill Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Quanta, Syracuse Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Rosen Bros. Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: NYSEG

Site (NYSEG)	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Torrey Landfill Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Wide Beach Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Binghamton former service ctr.	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Canandaigua former gas service ctr.	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Chatham former service center	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Elmira former service center	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Mahopac service center	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Norwich service center disposal area	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Oneonta Brown St. disposal area	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Walton former service center	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
South Edmiston Substation	N	NA	NA	NA	N	Chemical forensics was not performed; NYSEG was the sole owner of the property and waste stream.
Shulman	N	NA	NA	NA	N	Chemical forensics evaluation was not performed. DEC conducted the investigation. Thus far, NYSEG and Shulman are the only two PRPs identified

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: RG&E

Site	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Brockport	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Clark St - Canandaigua	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
East Station	Y	2012-2014	TBD	TBD	N	Hydrocarbon source evaluation was performed at an adjacent off-site property where coal tar and petroleum impacts were observed. Some of the off-site impacts were shown to be non-MGP related.
Front Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
West Station	Y	2009	N	N	N	Characteristics of coal tar processes found in most site sediment samples
Station 5 Tunnel	Y	~2004/2007	N	N	N	Characteristics of coal tar-like attribution observed and/or were inconclusive.
Canal St	Y	2016	NA	NA	N	Forensic review of low levels of PAHs observed indicate that site impacts were likely attributable to historical urban fill and industrial use and were not representative of former MGP operations, but the DEC would not alleviate RGE's responsibility at this site.
Main St - Canandaigua	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Park St - Geneseo	Y	2015-2016	N	N/A	N	Sampling for gasoline contaminants, specifically MTBE, indicated that some of the VOC and PAH contamination at the site could be attributed to an off-site source (i.e., petroleum spill). The remedy at the site is limited to removal of MGP DNAPL and monitored natural attenuation so this finding did not impact the cost of the remedy for the site.
Riverside Dr - Geneseo	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Pavilion	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.

Attachment 1: NYRC-0539 (DPS-200) - Questions 2.a. - c.

Company: RG&E

Site	Forensic Methods Used (Y/N)	Time Period	Scope Reduction Achieved	Cost Savings	Cases Pending	Comments
Brewer Street	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
10 Blossom Road	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.
Non-MGP						
Brooks Avenue	Y	2015-present	pending	NA	Y	Sampling for gasoline contaminants, specifically ethanol and MTBE, indicated that some of the VOC contamination at the site could be attributed to an off-site source (i.e., petroleum spill). The off-site investigation is ongoing and currently being managed by the NYSDEC.
Russell Station Slater Creek	N	NA	NA	NA	N	Contaminants identified did not warrant source attribution using chemical forensic methods.
Quanta, Syracuse Superfund	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Maxey Flats	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Volunteers/Heinrich Chevy	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, data collected during the site studies was sufficient to determine equitable allocation of clean up cost.
Frontier Chemical-Pendleton	N	NA	NA	NA	N	Formal chemical forensics were not performed; however, evaluations of the waste streams were conducted to determine equitable allocation of clean up costs among the PRPs.
Saltonstall St - Canandaigua	N	NA	NA	NA	N	Contaminants identified during the RI did not warrant source attribution using chemical forensic methods.

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
MGP Sites						
Albion	Y	N	N	conducted during site prioritization in mid/late 1980's	identified National Grid as a responsible party and agreed to cost sharing.	NA
Auburn Clark Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Auburn Green Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Auburn McMaster Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Binghamton Court Street	N	N	N	early 1990s	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Binghamton Washington St	N	N	N	early 1990s	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Clifton Springs	Y	N		conducted during site prioritization in mid/late 1980's	determined NYSEG has no liability at this site	NA
Clyde	Y	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Corning	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Cortland/Homer	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Cortland Charles St.	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Dansville	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Delhi	N	N	N	conducted during site prioritization in mid/late 1980's	determined NYSEG has no liability at this site	NA
Elmira Madison Avenue	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Elmira Water Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Geneva Border City	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Geneva Wadsworth Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Goshen	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Granville	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Hornell	N	N	N	conducted during site prioritization in mid/late 1980's	determined NYSEG has no liability at this site	NA
Ithaca Cayuga Inlet	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Ithaca Court Street	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Ithaca First Street	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Reynolds Road (Johnson City)	N	N	N	early 1990s	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Lockport State Road	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Lockport Transit Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Lyons	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Mechanicville Central Avenue	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Mechanicville Coons Crossing	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Medina	N	N	N	conducted during site prioritization in mid/late 1980's	determined NYSEG has no liability at this site	NA
Newark	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Norwich	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Oneonta	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Owego	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Palmyra	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Penn Yan Jackson Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Penn Yan Water Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Plattsburgh Bridge Street	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Plattsburgh Saranac Street	Y	N	N	conducted during site prioritization in mid/late 1980's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.i.
Seneca Falls	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Warsaw	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Waterloo	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Watkins Glen	Y	N	N	conducted during site prioritization in mid/late 1980's	determined NYSEG has no liability at this site	NA
Waterville	N	N	N	conducted during site prioritization in mid/late 1980's	historic research performed but did not identify any other PRP or opportunity to reduce work scope	NA
Non-MGP Sites						

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Bern Metals/Clinton Bender Superfund	Y	N	N	1992-1998	Extensive historical research was undertaken by the PRP group identified by USEPA and NYSDEC, which enabled a large number of other parties to be brought in. In addition, NYSEG undertook extensive research of its use of the sites, which resulted in a substantially lower allocation for the company in an allocation before a third party neutral. Negotiating as a group with EPA and NYSDEC led to additional savings in remediation costs. Net savings to the company were between several hundred thousand and two million dollars.	Estimated Net savings to the company were between several hundred thousand and \$2 million dollars.
Booth Oil Superfund	Y	N	N	1993-2000	Extensive historical research by PRP group identified by NYSDEC brought it several additional PRPs. Successful allocation before third party neutral. Negotiating as a group with NYSDEC led to significant savings in remediation costs. Net savings to company: from several hundred thousand to four million dollars.	Estimated net savings to the company were between several hundred thousand and \$4 million dollars.
Frontier Royal Ave. Superfund	Y	N	N	2008-2010	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYSEG entered into a de minimis settlement with the PRP group.	de minimis settlement
Lindley Landfill Superfund	Y	N	N	2006-2008	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYSEG entered into a settlement with NYS for a payment of \$45,000. (Total remediation cost was over \$6 million.)	\$45k
Lockport City Landfill Superfund	Y	N	N	1988-1993	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYS initiated a cost recovery lawsuit, which NYSEG settled for a payment of \$100,000 (Total remediation cost was over \$4 million)	\$100k
Mercury Refining Superfund	Y	N	N	2005-2009	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYSEG entered into a de minimis settlement with USEPA for a payment of \$190,000. (Total remediation cost was over \$14 million.)	\$190k

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
PCB, Inc. Superfund	Y	N	N	1995-1999	The PRP group and joint counsel developed a very extensive database of the contributions of various companies to the site. These sites (3 in all) involved thousands of PRPs. More than one thousand parties paid de minimis settlements based on this research. In addition, extensive investigation of the involvement of government entities led to a global settlement with all such entities. The combination of the de minimis and government settlements, plus the considerable cost savings achieved by negotiating with EPA and the state agencies, meant that NYSEG and the other participating PRPs were able to complete site remediation without costs above legal and transactional costs.	Estimated net savings to NYSEG were at least \$2 million and possibly as high as \$10 million.
Peter Cooper Corp. Gowanda Superfund	Despite the lack of success of research described at right, the ability of the PRPs to negotiate as a group with USEPA and the successful negotiation of a cooperative agreement with the local government led to substantial reductions in remedial costs.	N	Y	1992-2002	As opposed to other Superfund sites where NYSEG's involvement was due to arranging for disposal of hazardous substances at sites owned by others, NYSEG owns a portion of the designated Peter Cooper site, which was contaminated by the neighboring glue factory's dumping of waste. NYSEG and some of the other PRPs undertook a factual investigation to determine the corporate successor to the company that operated the factory that was the source of the contamination. NYSEG retained an international investigation expert to develop information on this issue. It was found that the company had been sold to a French company that is owned by the French government. USEPA, when given this information, stated it was unable to bring a foreign governmental entity in as a responsible party. It was further determined that NYSEG's chances of successfully suing that company or the French government were nonexistent. In addition, NYSEG expended considerable efforts in historical research to show that it was entitled to the statutory defense of an innocent adjacent landowner. This theory was rejected by USEPA.	Estimated net savings to the company working through the PRP were between several hundred thousand and \$2 million.

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Pfohl Bros. Landfill Superfund	Y	N	N	1992-1997	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. PRP group allocation before a third party neutral resulted in savings of several hundred thousand to 2.4 million dollars. Negotiation by PRP group led to substantial savings in remedial scope of work. Research from the allocation process aided in successful defense of private tort actions.	Estimated net savings to the company working through the PRP were between several hundred thousand and \$2 million.
Quanta, Syracuse Superfund	N	N	Historical research was unable to establish a "waste in" database to establish an allocation. Given the large number of PRPs (over 160 viable) and the relatively low cost of the site remediation, it was agreed to use a tiered per capita allocation. NYSEG paid approximately \$25,000.	1992-1995		
Rosen Bros. Superfund	Y	N	N	1994-1998	NYSEG was brought into the litigation very late in the case by defendant PRPs. NYSEG was not permitted to challenge assumptions made by this other group of PRPs and ultimately forced to agree to a per capita allocation. However, in view of the company's avoiding the costs of earlier remediation activities completed by the plaintiff PRPs the end result did not affect the company's ultimate liability.	NA
Torrey Landfill Superfund	Y	N	N	2007-2008	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYSEG entered into a settlement with NYS for a payment of \$105,000. (Total remediation cost was over \$5 million.)	\$105K
Wide Beach Superfund	Y	N	N	Late 1980's/early 1990's	Historic research was used to demonstrate that NYSEG did not significantly contribute waste to the site. NYSEG entered into a de minimis settlement with USEPA and NYSDEC for a payment of \$82.K. (Total remediation cost was over \$40 million.)	\$82.5K

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.

Company: NYSEG

Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Binghamton former service ctr.	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Canandaigua former gas service ctr.	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Chatham former service center	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Elmira former service center	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Mahopac service center	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Norwich service center disposal area	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Oneonta Brown St. disposal area	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Walton former service center	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
South Edmiston Substation	N	N	N	not applicable	NYSEG owned the site at the time of disposal and was the only source of the waste.	NA
Shulman	TBD	NYSEG is attempting to identify other PRPs at this site. Those efforts have not, to date, been successful.	NYSEG is attempting to identify other PRPs at this site. Those efforts have not, to date, been successful.	2014-2015	NYSEG and the site owner are cooperating on a joint remediation proposal that, if ultimately successful, will result in substantial savings to NYSEG. This case is currently pending and any prediction of savings to NYSEG would be unduly speculative.	TBD

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.						
Company: RG&E						
Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
MGP Sites						
Brockport	Y	N	N	Late 1990's/Early 2000's	Identified New York State Canal Corp as a responsible party for impacts from the former MGP located on their Property. This resulted in decreased scope and cost savings to RGE (not tracked). Additionally, NYSCC paid RG&E \$90K for removal of impacted material on its property by RG&E as part of the remedial action.	\$90K
Clark St - Canandaigua	Y	N	N	Late 1990's/early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
East Station	Y	N	N	Late 1990's/early 2000's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.iii.
Front Street	Y	N	N	Late 1990's/early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
West Station	Y	N	N	Late 1990's/early 2000's	identified First Energy as a responsible party	Contributions from FE are shown in Response 5.b.iii.
Canal St	Y	N		Late 1990's/early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
Main St - Canandaigua	Y	N	N	Late 1990's/early 2000's	historical review performed identify NYSEG, as a former owner of the property, as a responsible party with de minimis involvement. Sharing of in-kind services and materials by NYSEG during remediation reduced costs to cover there share.	~\$75K-\$100K
Park St - Geneseo	Y	N	N	Early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
Riverside Dr - Geneseo	Y	N	N	Early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
Pavilion	Y	N	N	Early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
Brewer Street	Y	N	N	1990's/early 2000's	Identified Monroe County as an entity that participated in cost sharing at a split of 80/20 (MC/RGE).	
10 Blossom Road	Y	N	N	Early 2000's	due diligence performed but did not identify any other PRP or opportunity to reduce work scope	NA
Non-MGP Sites						

Attachment 2: NYRC-0539 (DPS-200) - Questions 3.a. - d.						
Company: RG&E						
Site	Due diligence or historic research successful in cost sharing or reducing work scope?	Pending instances of due diligence or historic research?	Cost sharing attempts that were unsuccessful?	Time Frame Due Diligence or Historic Research conducted	Comments	Cost Savings / Cost Avoided
Brooks Avenue	Y	Y	N	Early 2000's	RG&E through purchase of the property was responsible for on-site impacts. NYSEDEC is currently conducting an off-site investigation to evaluate if an off-site PRP is responsible for a portion of petroleum contamination present at the site.	NA
Russell Station Slater Creek	N	N	N	not applicable	RG&E owned the site at the time of impact.	NA
Quanta, Syracuse Superfund	Y	N	N	1990's	Cost savings through PRP group. Saving not tracked.	Not tracked
Maxey Flats	Y	N	N	Late 1980's	Cost savings through PRP group. Saving not tracked.	Not tracked
Volunteers/Heinrich Chevy	Y	N	N	1990's/early 2000's	A third party placed claim against RG&E for historic impacts on property it had former ownership. Through settlement negotiations identified the owner at the time also had responsibility which reduces RG&Es liability slightly.	Not tracked
Frontier Chemical-Pendleton	Y	N	N	1990's	Cost savings through PRP group. Saving not tracked.	Not tracked
Saltonstall St - Canandaigua	NA	N	N	Early 2000's	RG&E is identified as a PRP responsible for a portion of contamination at a third party owned site	NA

Requesting Party: DPS Staff

Request No.: NYRC-0364 (DPS-109)

Date of Request: June 18, 2019

Response Due Date: June 28, 2019

Date of Reply: June 26, 2019

Witness: Steve Mullin

Subject: Value Engineering

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

1. Describe how the Companies use Value Engineering (VE) principals such as utilizing alternative work methods, using innovative technology, combining remedial construction with other development or construction activities, reusing excavated materials on-site or for a Beneficial Use Determination, seeking permit flexibility, utilizing third party reviews or combining similar work tasks, in order to minimize costs for individual SIR sites.
2. Cite any specific examples of using VE methods to achieve cost savings. Indicate the amount saved or avoided, how it was achieved, the site it was utilized at and the approximate date.
 - a. If the Companies have utilized any third-party reviews for VE, please indicate the specific site it was conducted for, a description of the study, the outcome and any resulting cost savings.
 - b. Provide an overall total or estimated total that the Companies have achieved for the entire SIR program in the past five years (2014-2018) using VE techniques.

Response:

1. The Companies approach to SIR projects is to find approaches and solutions that can bring best value to the projects and the concepts of Value Engineering (VE) are intrinsic to that effort.

The Companies VE approaches include practices as those mentioned in the question above, such as: 1) alternative work practices and methods including adjusting work days

and duration to and the use of non-standard equipment such as use of Gilken and low frequency sheet pile drivers to minimize ground vibration and noise; 2) using modern (or innovative) technology approaches such as in-situ soil stabilization (ISS) and in-situ chemical oxidation (ISCO) where cost effective and/or standard excavation isn't feasible and or practicable, and utilization of TarGOST during investigations to help delineate the presence of coal-tar NAPL; 3) reusing excavated materials on-site as much as possible consistent with agency approved remedial action plans and working with landfills to have disposed material used for cover material as opposed to waste within a cell resulting in a reduced disposal fee; 4) working with agencies, when reasonable and practicable, to seek relief on permit conditions, with notable examples including extending of in-stream river work at the Saranac River and Granville MGP sites; 5) convening "Focus Meetings" (or brainstorming reviews) at the remedial planning and Feasibility Study (FS) stages to garner input and ideas from other retained consultants or contractors on projects that don't have a clear presumptive-based remedy or present a more complex setting or remedial challenge, and performing constructability reviews with Remedial Contractors; 6) evaluating opportunities to "bundle" projects during bidding; 7) seeking synergies in combining site activities with other non-site or project work, when cost effective and schedules allow; and 8) staying engaged with investigation and remediation trends and practices through involvement in SIR utility group forums such as the Environmental Energy Alliance of New York and the MGP Consortium, and through attendance to technical conferences.

2. The Companies do not track the cost benefits of employing VE practices or approaches and believe the utilization of VE concepts and practices drive best value through the life cycle of a project. The benefits (and value) of VE practices are captured in selecting investigation techniques and methods based on anticipated site conditions and investigation goals, identifying preferred remedial approaches through FS and remedial selection processes, during remedial design and analysis, during implementation of remedial actions and during post remedial monitoring and site management plan requirements.
 - a. As noted, the Companies utilize third-party reviews in the form of "Focused Meetings" and Constructability reviews on projects that don't have a clear presumptive-based remedy and/or have more complex site settings and/or remedial challenges. Below the Companies have provided a table which contains a list of projects in which third party reviews were utilized.
 - b. As noted, the Companies do not track the cost benefits of employing VE techniques but believes the efforts embodied in VE drive best value for the projects.

Table for Question 2.a.				
Co.	Site	Date	Type of 3 rd Party Review	Description / Summary
NYSEG	Homer OU-2	5/22/19	Focused Meeting at Remedial Planning / FS Stage	Remedial Contractor (Sevenson) reviewed and commented on conceptual remedial approach prepared by engineering contractor (Arcadis).
NYSEG	Saranac River OU-3	4/11/19	Focused Meeting at Remedial Investigation stage	Remediation Contractor (Sevenson) who is very familiar with working in the Saranac River consulted with Parsons (engineering firm performing RI) about best techniques for conducting test pits in river sediments.
NYSEG	Saranac River OU-2	12/11/18	Constructability Review	Remedial Contractor (Sevenson) performed constructability review of the remedial design.
NYSEG	Clyde MGP	11/2018	Constructability Review	Remediation Contractor (Sevenson) reviewed design for excavations and installation of shoring systems immediately adjacent to a NYSEG substation.
NYSEG	Penn Yan Water St.	2/2017-11/2017	Design Review	Retained engineering firm independent of EOR to review and comment on gas house designs for underpinning, wall crack repair and bank area excavation.
NYSEG	Granville	12/ 2016	Constructability Review	Solicited review from Remediation Contractors to be invited to bid on the remediation phase of the project to review the 95% design documents. The goal was to obtain feedback (e.g., comments, ideas, considerations, etc.) from the Contractor's perspective to enhance constructability and clarity on the design. Four (4) of eight (8) contractors responded with feedback.
NYSEG	Penn Yan Water St.	May-Sept., 2016	Design Review	Retained engineering firm independent of Engineer of record (EOR) to review the secant wall design.
NYSEG	Binghamton Court St OU-2	1/26/16	Focused Meeting at Remedial Planning / FS Stage	Arcadis (design engineer) and Sevenson (remedial contractor) brainstormed with regard to most efficient ways to access isolated river sediments

Table for Question 2.a.				
Co.	Site	Date	Type of 3 rd Party Review	Description / Summary
RG&E	West Station	10/2012	Focused Meeting at Remedial Planning / FS Stage	Meeting held with engineering and remedial experts (not core on the project team) and the Consulting firm retained for the FS to review RI findings and develop a short list of remedial alternatives for detailed analysis. The meeting, in concept, was a “brainstorming” session to have open dialogue and harness the experience and lessons learned from other experts. The outcome was a list of remedial alternatives practicable and realistic for the Site challenges.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

Request for Information

Requesting Party: DPS Staff

Request No.: NYRC-0538 (DPS-199)

Date of Request: July 2, 2019

Response Due Date: July 19, 2019

Date of Reply:

Witness: Steve Mullin

Subject: SIR Insurance Reimbursement

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

Regarding Work Paper NC-RRP-2WP-17 submitted by NYSEG, item number 42 indicates “NYSEG is also pursuing insurance recovery for MGP costs and over the rate case period these costs are expected to be the bulk of the legal expense.”

1. Provide the following with regard to historic insurance providers associated with the Companies or the legacy Companies SIR related policies.
 - a. Provide a list in a tabular format for each Company, that includes: historical insurance carriers, sites the policies applied to, indemnity status, limits of each policy, any distributions, amount remaining to be recovered, any applicable settlements, if any policies were unsuccessfully indemnified, status of litigation and any other relevant information.
 - b. Append documentation that is relevant to question a., that has occurred within the last five years, or if the policies were never successfully indemnified.
 - c. Provide further explanation for policies that were never exhausted or indemnified.
 - d. Have any historic insurance providers been placed into liquidation? If yes, have the Companies attempted any recovery and have the full amounts been recovered?
2. With regard to active insurance providers associated with the Companies SIR program.
 - a. Explain the status of any claims for indemnification against any current policies, the specific sites, reason for seeking indemnification, the amount and the status.
 - b. Append any relevant material for current insurance policies or describe ongoing litigation further.

Response:

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

Request for Information

1. a. Table 1, below, describes pollution claims made by the Companies against historical insurance carriers, the sites included in the claims, the status of the claims, and any payments received from insurers for pollution claims filed by the Companies. Please note that portions of the data provided in Table 1 is confidential.
 - b. NYSEG vs. Century Indemnity & OneBeacon: NYSEG's suit was dismissed by a decision and order of the U.S. District Court dated March 31, 2017 (Attachment 1). NYSEG appealed the dismissal to the U.S. Second Circuit Court of Appeals and the appeal was denied by a summary order dated April 25, 2019 (Attachment 2). NYSEG requested review of the dismissal by the full Second Circuit panel of judges, which was denied by an order dated May 20, 2019 (Attachment 3). Copies of the District Court's order dismissing the case, the Second Circuit's decision affirming dismissal, and the denial of full panel review are attached as noted by Attachments 1-3.
 - c. The Companies have not attempted to file claims against historical policies where; i) the Companies have inadequate evidence of coverage and /or, ii) the policies contain pollution exclusion clauses.
 - d. A number of the Companies' historical liability insurance carriers are insolvent or have been in liquidation. The Companies have not attempted to seek recovery against insolvent or liquidating carriers because: (i) the Companies have inadequate evidence of coverage or occurrences sufficient to assert a claim in liquidation, and/or (ii) the underlying policy from the insolvent\liquidating carrier contains pollution exclusion language precluding coverage.
2. a. See Response above.
 - b. See Response above.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

Request for Information

Table 1. Insurance Claims

NEW YORK STATE ELECTRIC & GAS CORPORATION			
Date	Amount	Insurer	Sites Covered
May 12, 1998	<p style="text-align: center;">BEGIN CONFIDENTIAL INFORMATION < [REDACTED] > END CONFIDENTIAL INFORMATION</p>	<p>BEGIN CONFIDENTIAL INFORMATION < [REDACTED] [REDACTED] > END CONFIDENTIAL INFORMATION</p> <p><u>Policies:</u> 019 019A 019NJ 019ANJ 019CNJ 0XL0019A86 0XL0019A87 0XL0019A88 X0019A1A89 X0019A1A90 X0019A1A91 X0019A1A92 X0019A1A93 X0019A1A94 X0019A1A95 X0019A1A96 X0019A1B97 006A 006NJ 006 NJ XL 006 A86 XL 006 A87</p>	<p><u>MGP Sites:</u> Albion MGP Auburn-Clark St. MPG Auburn-Green St. MGP Auburn-McMaster Street MGP Binghamton-Court St. MGP Binghamton-Washington St. MGP Clyde MGP Corning MGP Cortland-Homer MGP Elmira-Madison MGP Geneva-Border City MGP Geneva-Wadsworth St. MGP Goshen MGP Granville MGP Ithaca-Cayuga Inlet MGP Ithaca-Court St. MGP Ithaca-First St. MGP Johnson City Disposal Site Lockport-Transit St. MGP Lyons MGP Mechanicville-Central MGP Mechanicville-Coons Crossing Site Newark MGP Norwich MGP Oneonta MGP Owego MGP Palmyra MGP Penn Yan-Jackson St. MGP Penn Yan-Water St. MGP Plattsburgh-Bridge St. MGP Plattsburgh-Saranac St. MGP Seneca Falls MGP Warsaw MGP Waterloo MGP Waterville-Babbott St. MGP</p>

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

Request for Information

NEW YORK STATE ELECTRIC & GAS CORPORATION			
Date	Amount	Insurer\Policies	Sites Covered
August 1, 2001	<p style="text-align: center;">BEGIN CONFIDENTIAL INFORMATION < [REDACTED] > END CONFIDENTIAL INFORMATION</p>	<p>BEGIN CONFIDENTIAL INFORMATION < [REDACTED] [REDACTED] > END CONFIDENTIAL INFORMATION</p> <p><u>Policies:</u> 019 019A 019NJ 019ANJ 019CNJ 0XL0019A86 0XL0019A87 0XL0019A88 X0019A1A89 X0019A1A90 X0019A1A91 X0019A1A92 X0019A1A93 X0019A1A94 X0019A1A95 X0019A1A96 X0019A1B97</p>	<p><u>Superfund Sites:</u> A. Shapiro & Sons Bern Metals Corp./Universal Iron Booth Oil Chatham Service Center Clinton St./Bender Avenue East Norwich Substation Lockport City Landfill North Broad St., Binghamton Oneonta Browne St. PCB Treatment, Inc. Peter Cooper Site Pfohl Brothers Landfill Rosen Brothers Schreck Scrap Yard Walton Service Center Wide Beach</p>
NEW YORK STATE ELECTRIC & GAS CORPORATION			
Date	Amount\ Status	Insurer\Policies	Sites Covered
August 13, 2013	<p>Unspecified</p> <p>Case dismissed on summary judgment motion of insurance companies; dismissal upheld on appeal to the Second Circuit Court of Appeals.</p>	<p>NYSEG vs. Century Indemnity Company (Formerly: The Indemnity Insurance Company of North America), and OneBeacon America Insurance Company (Formerly: Employers Liability Assurance Corp.)</p> <p><u>Policies:</u> Century – XPL3587 (10/1/1951 to 10/1/1964) OneBeacon – E16-E091-004 (10/1/1964 to 10/1/1970)</p>	<p><u>MGP Sites</u> Auburn Clarke St. Auburn McMaster Clyde Corning Cortland-Homer Dansville Elmira Madison Geneva Border City Goshen Granville Ithaca Court St. Lockport Transit St. Lyons Mechanicville Central Avenue Newark Norwich Oneonta Owego Palmyra Penn Yan – Water St. Plattsburgh Saranac St. Seneca Falls</p>

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

Request for Information

NEW YORK STATE ELECTRIC & GAS CORPORATION			
Date	Amount\ Status	Insurer	Sites Covered\Scope
July 28, 2015	Unspecified\ The carrier has acknowledged the claim and reserved all rights and defenses under the policies.	Associated Electric & Gas Insurance Services Limited (AEGIS) <u>Policies:</u> 019 019A 019NJ 019ANJ 019CNJ	Shulman's Salvage Yard, Elmira, N.Y.

ROCHESTER GAS AND ELECTRIC CORPORATION			
Date	Amount	Insurer	Sites Covered\Scope
November 22, 2000	BEGIN CONFIDENTIAL INFORMATION < [REDACTED] > END CONFIDENTIAL INFORMATION	BEGIN CONFIDENTIAL INFORMATION < [REDACTED] [REDACTED] > END CONFIDENTIAL INFORMATION	<u>MGP Sites:</u> West Station MGP East Station MGP Front Street Station MGP Canandaigua MGP Pavilion MGP
March 6, 2001	BEGIN CONFIDENTIAL INFORMATION < [REDACTED] > END CONFIDENTIAL INFORMATION	BEGIN CONFIDENTIAL INFORMATION < [REDACTED] [REDACTED] > END CONFIDENTIAL INFORMATION	All past, present, and future personal injury, property damage, and natural resource/clean-up costs relating to environmental pollution or contamination of any kind arising from a site at which gas was manufactured. All past, present, and future personal injury or property damage claims arising from exposure to or the presence of asbestos dusts or asbestos hazards of any kind.

Response to Question 1.b.

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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF NEW YORK**

NEW YORK STATE ELECTRIC & GAS CORPORATION,**Plaintiff,****v.****5:13-CV-976
(TJM/ATB)****CENTURY INDEMNITY COMPANY, and
ONEBEACON AMERICA INSURANCE COMPANY,****Defendants.**

Thomas J. McAvoy, S.U.S.D.J.**DECISION & ORDER**

Before the Court are the parties' motions for summary judgment in this case concerning insurance coverage for environmental cleanup at a number of Manufactured Gas Plant ("MGP") sites in upstate New York. See *dk.*,. #s 119, 126, 155, 158.¹ The parties have briefed the issues fully and provided voluminous documentation, and the Court has determined to decide the matter without oral argument.

I. BACKGROUND

This case grows out of the operation of certain power facilities by Plaintiff New York State Electric & Gas Corporation ("NYSEG") and its predecessors in various towns in upstate New York. See NEW YORK STATE'S APPROACH TO THE REMEDIATION OF FORMER MANUFACTURED GAS PLANT SITES, Exh. 5 to Declaration of David E. Elkind

¹As will become clear from the Court's decision in this matter, the Court will decline to address Plaintiff's second motion for summary judgment, *dk.* # 155, and Defendant OneBeacon's motion for summary judgment, *dk.* # 158. Those motions are moot, as the Court's decision here disposes of the case.

(“Elkind Dec.”), dkt. # 119-1. According to the New York State Department of Environmental Conservation (“DEC”), MGPs have long been present in New York State, beginning with an 1826 demonstration plant in New York City that produced gas from whale oil. Id. at 1. While the first gas produced supplied mostly street lights, by the 1880s and 1890s, utilities had discovered how to manufacture gas that could be use for lighting, heating, and cooking. Id. Such plants required a great deal of water to operate, and most of them were located along a body of water. Id. The gas made in these facilities was stored in tanks and distributed by pipes throughout towns and cities. Id.

DEC reports that MGPs were in widespread use throughout New York by the end of the 19th century; most towns larger than 5,000 people had one or more plants. Id. Today, as many as 300 former MGP sites may exist across New York. Id. The development of pipelines to deliver natural gas across state lines eventually drove MGPs out of business. Id. at 2. Most such plants had closed by the 1950s, and the last MGP plant in the State shut down in 1972. Id.

The gas manufacturing process created waste that the DEC and other state and federal agencies began to address in the 1970s. Id. The waste was a result of the gas manufacturing processes used in the plants. Id. Those plants used two main methods. Id. The first process the plants used was coal carbonization; plants heated coal in closed retorts or beehive ovens. Id. at 2. This burning caused “volatile constituents of the coal” to become a gas. Id. The plants collected, cooled, and purified the gas, which was then piped to customers for use. Id. After the Civil War, a new process emerged: carburetted water gas. Id. While there were a variety of methods to create

gas this way, all of them heated coke or coal in the presence of steam. Id. Such heating created a flammable gas mixture of methane and carbon monoxide, which was then sprayed with petroleum products to create more methane. Id. at 2-3. These processes produced a gas mixture that burned hotter and brighter than the gas produced by carbonization. Id. at 2. By 1900, most MGPs in New York used the carburetted water gas process. Id.

These processes created waste which is often still present at MGP sites. Id. The most common byproduct of the processes is “coal tar,” a “dense, oily liquid.” Id. at 3. Coal tar “condensed out of the gas at various stages during its production, purification and distribution.” Id. Utilities sometimes collected the coal tar for sale or reuse, but much of the waste remained at the MGP sites. Id. Such wastes often leaked from storage or processing facilities. Id. Manufacturers also often discharged the waste into nearby lakes and rivers. Id. These wastes contaminated the soil, groundwater, and sediments that surrounded the MGPs, and such contamination remains at many such sites today. Id. Coal tar produced by carbonization was more viscous than coal tar produced from gas carburation and manufacturers found less value in its recovery. Id. As a result, most of the waste that remains at sites today is “water gas tar” from that process, and is “actually derived from liquid petroleum products, not coal.” Id. Being more liquid than true coal tar, the waste is more likely to contaminate groundwater.

Both processes caused waste that concerned regulators, however. The tar wastes include chemicals from a family known as “polycyclic aromatic hydrocarbons” (“PAHs”). Id. Such compounds do not easily dissolve in water, and are usually found

near the tar itself. Id. Tars also have BTEX in them, a “family of volatile organic compounds” made up of benzene, toluene, ethylbenzene and xylene. Id. These compounds, more soluble than PAHs, often contaminate the groundwater near MGPs. Id. According to DEC, “[t]ars often contain enough benzene to meet the legal definition of hazardous waste.” Id.

Other waste also emerged from gas manufacturing. Id. at 3-4. Such waste, called “purifier waste” or “box waste,” usually consisted of mixed wood chips, iron filings and clumps of solidified tar. Such waste is solid, and does not move through the subsurface like liquid tar might. Id. That waste, however, can contaminate groundwater and gives off a strong, offensive odor if exposed at ground level. Id. at 4. Today, MGP wastes are rarely found on the surface, largely because most exposure took place 5-20 feet below grade, and also because of redevelopment at sites that covered the surface. Id. at 6. Some sites contain exposed waste, and some migration to the surface has occurred. Id.

Since the 1970s, state and federal agencies have identified former MGP sites as potential sources of hazardous waste. Agencies like the Environmental Protection Agency (EPA) and the DEC have worked with utilities who own the sites, like the Plaintiff, in an effort to remediate them by removing and containing the waste. The evidence produced in this case demonstrates that NYSEG has made considerable efforts to investigate and remediate former MGP sites since the 1970s. NYSEG developed a program and spent millions of dollars in this effort, sometimes on its own initiative and sometimes at the behest of the agencies. Eventually, NYSEG sought coverage from its insurers for the cost of these efforts. This case grew out of the

response to the insurance claims by the Defendant insurers, Century Indemnity Company (“Century”) and OneBeacon American Insurance Company (“OneBeacon”). Both companies reserved and then disclaimed coverage on various grounds, including lack of notice pursuant to the policy terms and lack of coverage under the policy.

Plaintiff filed a Complaint in this matter on August 14, 2013. See dk. # 1. The Complaint alleges that Plaintiff “has conducted, or will conduct, investigations and cleanup activities at the MGP Sites pursuant to both” state law and the oversight directives of the DEC. Id. at ¶ 12. Moreover, Plaintiff alleges that it has “incurred costs to mitigate its damages by pursuing another third party for contribution to the investigation and cleanup of MGP Sites.” Id. The Complaint contains two claims. The first seeks a declaratory judgment that the Defendants are obliged to reimburse Plaintiff for defense costs and liability for the MPG sites. Plaintiff “seeks a judicial determination by this Court of the obligation of Defendants to indemnify NYSEG with regard to defense costs and liability arising form the MGP Sites [sic].” Id. at ¶ 23. Count Two alleges breach of contract. Plaintiff avers that Defendants breached their contracts by refusing “to indemnify NYSEG for, or pay any of, NYSEG’s defense costs in connection with the investigations of environmental property damages associated with the MGP Sites [sic][.]” Id. at ¶ 25(a). Plaintiff also contends that Defendants breached the parties’ contracts by “fail[ing] and/or refus[ing] to indemnify NYSEG for, or pay any of, NYSEG’s liability in connection with the cleanup of environmental property damage associated with the MGP Sites [sic].” Id. at ¶ 25(b). Plaintiff seeks money damages on that claim.

After the parties completed discovery, Plaintiff filed a motion for summary

judgment solely on the issue of whether NYSEG's notice to insurers was timely. See dk. # 119. Defendants responded in opposition to that claim, and at the same time moved for summary judgment on the issues of notice and the statute of limitations. See dk. # 126. Before the Court could rule on these motions, Plaintiff filed another motion for summary judgment, this time contending that the Court should find that the pollution at MGP sites was an "accident or occurrence" under the applicable policies, and that the Defendants were therefore obligated to provide coverage for the cleanup costs. See dk. # 155. Finally, Defendant OneBeacon, filed a motion for summary judgment seeking a declaratory judgment from the Court that the OneBeacon policy in question did not provide coverage under the circumstances. See dk. # 158. As the Court is persuaded that the issue of notice and the statute-of-limitations resolves all the questions in this case, the Court will address only the motions that address these two issues.

II. LEGAL STANDARD

A. Summary Judgment

The parties here move for summary judgment. It is well settled that on a motion for summary judgment, the Court must construe the evidence in the light most favorable to the non-moving party, see Tenenbaum v. Williams, 193 F.3d 581, 593 (2d Cir. 1999), and may grant summary judgment only where "there is no genuine issue as to any material fact and ... the moving party is entitled to a judgment as a matter of law." FED. R. CIV. P. 56(a). An issue is genuine if the relevant evidence is such that a reasonable jury could return a verdict for the nonmoving party. Anderson v. Liberty Lobby, 477

U.S. 242, 248 (1986).

A party seeking summary judgment bears the burden of informing the court of the basis for the motion and of identifying those portions of the record that the moving party believes demonstrate the absence of a genuine issue of material fact as to a dispositive issue. Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). If the movant is able to establish a *prima facie* basis for summary judgment, the burden of production shifts to the party opposing summary judgment who must produce evidence establishing the existence of a factual dispute that a reasonable jury could resolve in his favor. Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986). A party opposing a properly supported motion for summary judgment may not rest upon "mere allegations or denials" asserted in his pleadings, Rexnord Holdings, Inc. v. Bidermann, 21 F.3d 522, 525-26 (2d Cir. 1994), or on conclusory allegations or unsubstantiated speculation. Scotto v. Almenas, 143 F.3d 105, 114 (2d Cir. 1998).

B. Contract Interpretation

The matter here involves coverage under an insurance policy, which is a contract. In New York, “the cardinal principal for the construction and interpretation of insurance contracts—as with all contracts—is that the intentions of the parties should control.” World Trade Ctr. Props., L.L.C. v. Hartford Fire Ins. Co., 345 F.3d 154, 184 (2d Cir. 2003) (quoting Newmont Mines Ltd. v. Hanover Ins. Co., 784 F.2d 127, 135 (2d Cir. 1986)). Unless the parties state otherwise, “words should be given the meanings ordinarily ascribed to them and absurd results should be avoided.” Id. Language in insurance policies “should be examined in light of the business purposes sought to be

achieved by the parties and the plain meaning of the words chosen by them to effect those purposes.” Id. (internal quotations omitted). The language used in the contract generally controls, unless ambiguity exists in that language. Id. Ambiguity exists when “a contract term ‘could suggest more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business.’” Id. (quoting Morgan Stanley Group Inc. v. New England Ins. Co., 225 F.3d 270, 275 (2d Cir. 2000)).

III. ANALYSIS

This case involves insurance coverage for six former MGP sites, which the parties have identified in the following ways: Plattsburgh-Saranac Street, Auburn Clark Street, Cortland/Homer, Ithaca Court Street, Norwich, and Oneonta.

A. The Insurance Policies

There are a number of insurance policies involved in this case. First, Century Indemnity issued NYSEG an excess insurance liability policy, no. XPL 3587, covering the period 10/1/51 to 10/1/64. Plaintiff’s Statement of Material Facts in Support of Its Motion for Summary Judgment (“Plaintiff’s Statement”), dkt. # 120, at ¶ 1.² The parties agree that this policy had coverage after a \$20,000 self-insured retention, but they disagree as to the total amount of coverage available. Id. at ¶ 2; Defendants’ Joint

²The parties all submitted the statements of material fact with citations to the record required by the local rules in reference to their motions. The Court will cite to the statement filed in connection with the motion being considered for relevant statements that are uncontested. Where statements are contested or other statements of material fact contain relevant information not cited in the Plaintiff’s original statement, the Court will cite to other sources and explain any disagreement.

Response to Plaintiff's Statement of Material Facts ("Defendants' Response"), dkt. # 162-2 at ¶ 2. Plaintiff contends that the policy limits varied during the period from \$500,000 to \$1.5 million per occurrence or accident. Plaintiff's Statement at ¶ 2. Defendants argue that the limits on these policies varied from \$500,000 to \$2.01 million per occurrence or accident. Defendants' Statement at ¶ 2.

That policy provided coverage for property damage caused by an "accident." Plaintiff's Statement at ¶ 3. Later, that coverage applied to an "occurrence." Defendants' Statement at ¶ 3. On May 17, 1957, the policy was amended to replace the term "accident" with "occurrence." Plaintiff's Statement at ¶ 4. The policy defined an "occurrence" as:

either an accident or a continuous and repeated exposure to conditions which result during the policy period in injury to or destruction of property, including the loss of use thereof, which is accidentally caused. All damages arising out of such exposure to substantially the same general conditions shall be considered as arising out of one occurrence.

Id.

The policy also contained a notice provision, which Plaintiff contends in relevant part provided that:

Upon the happening of an occurrence or accident that appears reasonably likely to involve liability on the part of the company written notice shall be given by or on behalf of the insured to the company or any of its authorized agents as soon as practicable . . . If thereafter suit or other proceeding is instituted against the insured to enforce such claim the insured shall, when requested by the company, forward to the company every demand, notice, summons or other process or true copies therefore.

Id. at ¶ 5. Defendants add other portions of the notice requirement they deem relevant. Defendants' Response at ¶ 5. They note that the policy also requires that "[s]uch notice

shall contain particulars sufficient to identify the insured and also the fullest information available at the time. The insured shall give like notice, with full particulars, of any claim made on account of such occurrence or accident.” Id.

Defendant OneBeacon’s predecessor in interest, Employer’s Liability Assurance Corporation (“ELAC”), sold Plaintiff an excess insurance policy, no. E16-9091-004 for the period 10/1/64 to 10/1/70. Plaintiff’s Statement at ¶ 6. The policy was for \$2.01 million above a \$20,000 self-insured retention. Id. at ¶ 7. Defendants add that the policy provides coverage for an “occurrence,” defining such an event as:

The word “occurrence” as it applies to Property Damage Liability, other than Automobile Damage Liability, shall mean either an event or a continuous or repeated exposure of conditions which result during the policy period in the injury to or destruction of property including the Loss of use of thereof which is accidentally caused. All damages arising out of such exposure to substantially the same General Conditions shall be considered as arising out of one occurrence.

Defendants’ Response at ¶ 7. The policy also states that, “except as herein provided” the terms and conditions of ELAC’s primary policy apply to the excess policy here at issue. Plaintiff’s Statement at ¶ 8. The parties disagree about whether the terms of the primary policy defining an occurrence apply, or whether the terms in the excess policy do. See Plaintiff’s Statement at ¶ 9; Defendants’ Response at ¶ 9. The difference between the primary policy and the excess policy is that the primary policy does not contain a qualifier requiring that any injury must occur “during the policy period.” Id. Coverage for property damage under the primary policy is limited to only certain specified sites, while the excess policy lacks those limitations. Plaintiff’s Statement at ¶ 10. The Plaintiff and One Beacon disagree about whether those differences apply to all property coverage or to third-party property damages. Compare Plaintiff’s Statement at

¶ 10 with Defendants' Response at ¶ 10.

Plaintiff insists that OneBeacon asserts that the excess policy in question incorporates the notice provision from the primary policy, which provides:

Notice of Accident. When an accident occurs written notice shall be given by or on behalf of the insured to the company or any of its authorized agents as soon as is practicable . . . Notice of Claim or Suit. If claim is made or suit is brought against the insured, the insured shall immediately forward the company every demand, notice summons or other process received by him or his representative.

Plaintiff's Statement at ¶ 11. OneBeacon responds that the provision that applies is from the excess policy, which provides:

Notice of Occurrence. When an occurrence occurs written notice shall be given by or on behalf of the insured to the company or any of its authorized agents as soon as practicable. Such notice shall contain particulars sufficient to identify the insured and also reasonably obtainable information respecting the time, place and circumstances of the occurrence, the names and address of the insured and the available witnesses.

Notice of Claim or Suit. If claim or suit is brought against the insured, the insured shall immediately forward to the company every demand, notice, summons or other process received by him or his representative.

Defendants' Response at ¶ 11.

These policy requirements provide the background for the elements material to this action and the bases of the parties' arguments, as the Court will explain below.

B. Waiver of Notice Requirements

Anticipating that the Defendants will argue that Plaintiff breached the notice requirements in the policies, Plaintiff first contends that summary judgment is appropriate for NYSEG on this issue because, in communicating with Plaintiff after Plaintiff provided notice, Defendants did not properly raise the notice issue, and have

therefore waived it. Plaintiff's opening brief contends only that Defendant OneBeacon waived notice, but in reply to Defendants' response, Plaintiff also asserts that Defendant Century Indemnity also waived that coverage defense.

In New York "[w]aiver may be found 'where there is direct or circumstantial proof that the insurer intended to abandon the defense.'" New York v. Amro Realty Corp., 936 F.2d 1420, 1431 (2d Cir. 1991) (quoting Albert J. Schiff Associates, Inc. v. Flack, 51 N.Y.2d 692, 698, 435 N.Y.S.2d 972, 975 (1980)). Thus, the key question here is "if, under common-law principles, triable issues of fact exist whether defendants clearly manifested an intent to abandon their late-notice defense." KeySpan Gas E. Corp. v. Munich Reins. Am., Inc., 23 N.Y.3d 583, 591, 15 N.E.3d 1194, 1198 (N.Y. 2014)).³ New York insurance law holds that "waiver of rights under a contract 'should not be lightly presumed.'" Globecon Group, LLC v. Hartford Fire Ins. Co., 434 F.3d 165, 176 (2d Cir. 2006) (quoting Gilbert Frank Corp. v. Fed. Ins. Co., 70 N.Y.2d 966, 520 N.E.2d

³Plaintiff attempts to argue that a higher standard for waiver applies than the common-law standard stated here. New York Insurance Law § 3420(d)(2) provides that "If under a liability policy issued or delivered in this state, an insurer shall disclaim liability or deny coverage for death or bodily injury arising out of a motor vehicle accident or any other type of accident occurring within this state, it shall give written notice as soon as is reasonably possible of such disclaimer of liability or denial of coverage to the insured and the injured person or any other claimant." NY Ins. Law § 3420(d)(2). "Compared to traditional common-law waiver and estoppel defenses, section 3420(d)(2) creates a heightened standard for disclaimer that 'depends merely on the passage of time rather than on the insurer's manifested intention to release a right as in waiver, or on prejudice to the insured as in estoppel.'" KeySpan, 23 N.Y.3d at 590 (quoting Allstate Ins. Co. v. Gross, 27 N.Y.2d 263, 267 (1970)). That heightened standard does not apply to this case, however, since the statute "applies only in a particular context: insurance cases involving death and bodily injury claims arising out of a New York accident and brought under a New York liability policy." Id. No such claims are made here, and the Court will apply the traditional common-law standard.

512, 514 (N.Y. 1988)). A party asserting waiver “must put forward evidence of a ‘clear manifestation of intent’ to waive by the other party.” Id. (quoting Gilbert Frank, 520 N.E.2d at 514). Waiver comes when the “waiving party . . . ‘[lulls] [the other party] into sleeping on its rights under the insurance contract.’” Id. (quoting Gilbert Frank, 520 N.E.2d at 214). If a party has “repeatedly and expressly reserved its rights in its communications with” the insured, those “reservations preclude arguments both as to waiver and as to equitable estoppel.” Id.

The parties agree that Plaintiff gave notice of the MGP sites in November, 1991. Plaintiff’s Statement at ¶ 42. The letters Plaintiff wrote the insurers included an attachment that set out the current status of the dozens of sites where contamination allegedly occurred, including the sites at issue in this litigation. Id. OneBeacon also points out that it received notice about the Plattsburgh-Saranac Street site on July 30, 1991. Defendants’ Response at ¶ 42. The letter mailed to the Defendants on November 12, 1991, stated that “NYSEG has undertaken an investigation and cleanup effort for former Manufactured Gas Plant Sites in New York State where certain byproduct wastes were generated.” See Exh. 32 to Elkind Dec. The utility further related that “Project Summary Reports have been developed for each site. Required remedial and/or cleanup costs will be incurred pursuant to applicable” standards. Id. NYSEG also sent Century a letter on June 1, 1992 that notified Defendant “that NYSEG has identified damage in the form of containment and cleanup costs associated with the Plattsburgh, New York former manufactured gas plant coal tar site” that required action for remediation and cleanup. See Defendants’ Corrected Statement of Material Facts in Support of their Motion for Summary Judgment (“Defendants’ Statement”), dkt. #

133-1, at ¶ 422.

Each insurer responded to these notices. The Court will address Century's responses first, and then address OneBeacon's interactions with NYSEG. On November 25, 1991, Century wrote to acknowledge NYSEG's letter of November 12, 1991. See Exh. 154 to Declaration of Robert F. Walsh ("Walsh Dec."), dkt. # 126-7. The letter asked for copies of all policies which might apply to the damage and reminded Plaintiff that "this request for further information is not intended to, and does not, indicate any decision concerning coverage has been made by us." Id. Defendant might decide, after investigation, to disclaim coverage or entertain claims under a reservation of rights. Id. At the same time, however, "the fact that we are conducting this investigation of the underlying facts . . . should not be considered as a waiver by us of any of the rights that we may have when responding to these claims." Id. Century promised to inform Plaintiff in writing of the specific reasons for any coverage decision. Id. Century wrote NYSEG again on June 23, 1992. See Exh. 169 to Walsh Dec. In that letter, Defendant again asked for additional information and assistance in locating any applicable policies. Id. Defendant informed NYSEG that it "expressly reserves any and all of its rights whcih it may have under any alleged policy." Id. The effort to locate policies "shall not prejudice" Defendant from "asserting any and all defenses under the alleged policies." Id.

On July 20, 1992, Defendant wrote NYSEG to disclaim coverage on several policies on various grounds. See Exh. 177 to Walsh Dec. This letter addressed all of the sites at issue in this case. Id. See Exh. A to letter. As to the policies at issue, Defendant still sought copies of the particular policies. Exh. 177 to Walsh Dec. The

letter warned, however, that “the policies may give rise to coverage issues, including, but not limited to,” a number of issues. Id. Those issues included whether the policies actually provided coverage for the injuries claimed, whether certain exclusions in the policy prevented coverage, and “whether late notice bars coverage.” Id. The letter informed Plaintiff that “[f]or these reasons, as well as any others which might exist under these or any other policies, we will continue to conduct our policy search and investigation pursuant to a full and complete reservation of rights[.]” Id. This letter applied to all of the potential MGP sites for which Plaintiff provided notice. Id.

The parties addressed the Plattsburgh site directly. On July 17, 1992, NYSEG wrote Century to inform the insurer that NYSEG planned “to file individual claims on each site when the total effort at each site has progressed to the point where claim costs have been adequately defined.” See Exh. 175 to Walsh Dec. According to correspondence from Defendant to NYSEG on May 11, 1993, NYSEG had informed Defendant on May 7, 1993 that the company intended “to file an actual claim only” with reference to the Plattsburgh site at that time. See Exh. 182 to Walsh Dec. As to the other sites, NYSEG had informed Century that the “prior correspondence” about those sites “constitutes notice of a potential claim only, and that” the utility would “provide [Century] with written notice if and when you choose to file an actual claim on said sites.” Id.

Defendant Century wrote to NYSEG on November 24, 1993 about the Plattsburgh site. See Exh. 193 to Walsh Dec. The letter noted that an applicable policy had been discovered, but asked for additional policies if available that covered the site. After discussing the history of the Plattsburgh site, the evidence of pollution, and the

investigations surrounding that site, the letter discussed coverage issues based on the language in the recently unearthed policy. Id. Noting that the activities which caused the damage may not have been accidental in nature, Defendant “reserve[d] our rights to disclaim coverage based upon the absence of ‘property damage liability’ as this term is used in the policy.” Id. The letter also contended that the policy covered damage that occurred in the policy period, which ran from 1951-1964, and that “MGP wastes were disposed on in the on-Site unlined lagoon from 1896 to 1960.” Id. Thus, “there is a question as to whether any of the alleged damage to the property can be attributed to activities that took place during the policy period.” Id. Defendant reserved its right to disclaim coverage on that basis as well. Id. Defendant also reserved because the policy language excluded coverage for damage to the insured’s own property. Id. Finally, citing the notice provision in the policy, Defendant stated:

The information we have obtained indicates that NYSEG was aware by the late 1970s that MGP wastes had contaminated the soil and groundwater at the Site, and that they were conducting extensive remedial programs by the early 1980s in response to the same. However [Defendant] was not provided with first notice of this matter until 1991. Therefore, there is a question as to whether notice of this claim was provided to [Defendant] in accordance with the above-cited policy provisions, and we reserve our rights to disclaim coverage under said provisions.

Id. Defendant disclaimed coverage for the Plattsburgh site on this and other bases on April 22, 1994. See Exh. 205 to Walsh Dec.

OneBeacon also responded to the notice provided by Plaintiff concerning MGP claims. NYSEG wrote OneBeacon on July 30, 1991, explaining that “substantial expenses have been incurred to control coal tar contamination of the Saranac River and remediation of future damage” at the Plattsburgh site and asserting a claim under

the policy. See Exh. 141 to Walsh Dec. OneBeacon responded to the letter on August 5, 1991 by acknowledging that notice had been provided about the Plattsburgh site and requesting a copy of the policy in question. See Exh. 143 to Walsh Dec. A copy of the policy was necessary before OneBeacon could “determine the extent of our obligations, if any[.]” Id. The letter also informed Plaintiff that “[t]his communication is not intended nor should it be construed as an exhaustive recitation of all policy terms and conditions.” Id. The letter further stated that “[n]othing herein shall be deemed as a waiver of any policy provision and” defendant “reserve[d] all rights and coverage defenses available under the applicable policy, including the right to assert positions at a later date.” Id. On September 17, 1991, Defendant’s counsel wrote NYSEG. See Exh. 147 to Walsh Dec. That letter disclaimed coverage for the Plattsburgh site. Id. Defendant cited several reasons for disclaiming. Id. The pollution exclusion clause in the relevant policy applied, Defendant contended, as did the owned-property exclusion. Id. Further, Defendant asserted, no occurrence and no property damage had occurred during the policy period. Id. The letter also stated that “[t]his disclaimer is based on presently available information. Commercial Union reserves its right to supplement this letter at any time.” Id. Defendant also averred that “[n]othing contained herein shall be considered a waiver, alteration or modification of any of the terms, conditions, exclusions or limitations” in the policy. Id.

After OneBeacon received notice concerning the other sites on November 12, 1991, Defendant’s counsel wrote NYSEG on February 12, 1992. See Exh. 156 to Walsh Dec. That letter referenced additional policies which Plaintiff contended covered

the environmental damage in question.⁴ Id. The letter stated that the insurer had been unable to find the policies in question and requested that Plaintiff forward any copies to Defendant. Id. The letter also contained a “reservation of rights,” which states that the Defendant “reserves its rights under the terms, conditions, exclusions or limitations set forth in the above-referenced alleged policies.” Id. Defendant also warned that the matter in question “may seek the imposition of liability which may exceed the applicable limits of liability coverage available under” the policies. Id. The letter directed NYSEG to “place all of its primary and excess carries which may be impacted by this matter on notice” of the claim. Id. Finally, “[n]othing contained herein, including Commercial Union’s willingness to investigate this matter, shall be considered a waiver of any of the terms, conditions, limitations and/or exclusions in the alleged policies.” Id.

On March 6, 1992, OneBeacon disclaimed coverage with reference to all MGP sites for the policy that covered the period from October 1, 1970 to October 1, 1973, and reserved its rights to any other policies not yet located. See Exh. 158 to Walsh Dec. This letter discussed all of the sites at issue in this litigation except the Plattsburgh site, for which Defendant had already disclaimed coverage. Id. Using information provided by the Plaintiff, the letter discussed the investigation and remediation work which had been performed at each site, as well as the dates when the first inquiries from regulators occurred. Id. The letter also listed the policies in question, noting that several had not yet been located and requesting that NSEG

⁴The Court notes that this policy specifically references the Plattsburgh site, but it also specifically references a number of policies which NYSEG asserts cover the sites in question and for which Defendant had not yet made a determination.

forward any copies discovered. Id. The letter then listed the reasons for disclaimer under the policy that had been found. Id. The Defendant disclaimed because of the pollution exclusion, the lack of occurrences within the policy period, lack of damages within the policy period, the owned property exclusion, an alienated property exclusion, and because of “late notice.” Id. The letter related that:

Our review of the project summary reports indicate that NYSEG was not only aware of the existence of the MGP sites but also that these sites would require remedial and/or cleanup costs many years prior to NYSEG’s November 12, 1991 letter to [Defendant]. These sites include: Owego, Cortland/Homer, Oneonta, Mechanicville/Central Avenue, Ithaca (Court Street), Penn Yan (Water Street), Elmira (Madison Avenue), Geneva/Border city, Warsaw, Ithaca/Cayuga Inlet, Ithaca (First Street), Palmyra, Dansville, Mechanicsville-Coons Crossing, Auburn (Clark Street), Auburn (McMaster Street), Auburn (Green Street) and Lockport. Accordingly, to the extent that the notice of occurrence was not given to Commercial Union as soon as practicable under the language of the policy, coverage may not exist under the relevant policy.

Id. The letter also noted that the “disclaimer is based upon presently available information.” Defendant “reserve[d] the right to supplement this letter at any time.” Id. Moreover, “[n]othing herein shall be considered a waiver, alteration or modification of any of the terms, conditions, exclusions or limitations” in the policy. Id. The letter contained two other similar reservations of rights, the second of which stated that “[n]othing stated herein, including” Defendant’s “willingness to investigate this matter, shall be considered a waiver of any of the terms, conditions, limitations and/or exclusions in the alleged policies.” Id.

A separate letter sent the same day to NYSEG requested copies of other policies in question and restated that Defendant did not intend to waive any defenses and “continue[d] to reserve all of its rights and defenses under any such policy.” See Exh.

159 to Walsh Dec. NYSEG responded by promising to continue to search for the missing policies and requested additional time to do so. See Exh. 160 to Walsh Dec. Defendant agreed to permit that extension in a letter dated April 14, 1992. See Exh. 163 to Walsh Dec. That letter reiterated that “[n]othing contained herein shall be considered a waiver of the terms, conditions, limitations or exclusions of any alleged” policy. Id.

Correspondence over the missing policies continued for much of the next two years. See Defendants’ Statement at ¶ 469-499; Plaintiff’s Response to Defendants’ Statement of Undisputed Facts (“Plaintiff’s Response”), dkt. # 138 at ¶ 469-499. Plaintiff wrote Defendant in June, 1992, that the policies in question applied for coverage, and that they could be identified by secondary evidence. Defendants’ Statement at ¶ 470-471. Plaintiff sent an annual report on MGP sites on June 8, 1992, informing OneBeacon that NYSEG intended to seek coverage for each individual site at an appropriate time; OneBeacon responded that it could not locate the policies in question and requested secondary evidence. Id. at ¶¶ 473-474. OneBeacon reiterated its position that it could not respond to the request for coverage without reviewing the policies. Id. at ¶ 475. In a letter dated July 30, 1992, Defendant again reiterated its earlier disclaimers and reservations of rights with reference to the Plattsburgh site and the other MGP sites. See Exh. 179 to Walsh Dec. The letter reiterated that “[u]ntil tangible secondary evidence of the alleged policies is produced,” Defendant “ha[d] no obligation” to participate in any settlement negotiations in reference to the sites. Id. Another letter, sent December 4, 1992, continued to seek policies and repeated the statement that Defendant did not “[intend] to waive any rights or obligations” and

“hereby continue[d] to reserve all of its rights and defenses under any such policy.” See Exh. 181 to Walsh Dec.

On June 17, 1993, OneBeacon wrote NYSEG at the conclusion of its investigation of the Plattsburgh site. Defendants’ Statement at ¶ 480. The letter supplemented Defendant’s reasons for disclaiming coverage on the one policy in Defendant’s possession. Id. The letter added to the earlier identified notice issues by stating:

NYSEG was aware of coal tar seepage from its facility to the Saranac River at least by 1972. NYSEG was aware of the toxicity of the coal tar substances to aquatic life by at least 1974. In 1978, the Clinton County Department of Health advised NYSEG that seepage of coal tar into the Saranac River was in violation of public health laws and in 1981, the New York State Department of Environmental Conservation advised NYSEG that the seepage of coal tar was a violation of the Environmental Conservation Law. NYSEG engaged in extensive investigation and took remedial actions during the 1970's [sic] and 1980's [sic]. It was not until July 30, 1991, however, that NYSEG purported to notify [Defendant] of the claims asserted in this matter. As a result of over 17 years of delay in providing notice to [Defendant], [Defendant] is not obligated to provide any coverage whatsoever to NYSEG under [the] [Defendant's] policy [in question].

Exh. 183 to Walsh Dec. The Defendant warned that the disclaimer was based on information then available and requested any information that would alter OneBeacon’s view. Id. Defendant also “reserve[d] its right to supplement this disclaimer under the terms, conditions, limitations and exclusions set forth in the . . . policies enumerated herein if new or additional information becomes available.” Id. The Defendant also informed Plaintiff that no copies of additional policies had been located and that Defendant was “closing its files and will no longer investigate this matter under the Alleged Policies.” Id. NYSEG wrote in response, noting that it had provided evidence

of claims and intended to file claims for individual sites when the costs of claims were adequately identified. Defendants' Statement at ¶ 483. OneBeacon repeated the basis for its disclaimers in a letter dated August 4, 1993. Id. at ¶ 484. OneBeacon added that "[n]othing contained herein shall be considered a waiver or modification of the reasons for disclaimer and our reservation of rights set forth in our March 6, 1992 letter." Id. at ¶ 485.⁵ OneBeacon sent Plaintiff a similar letter on August 26, 1993. Id. at ¶ 486.

Correspondence, meetings, and disputes continued about the existence of the policies through the rest of 1993. Id. at ¶¶ 486-490. The parties met, and NYSEG provided Defendant with secondary evidence of the policies. Id. at ¶¶ 487-489. OneBeacon was not satisfied with Plaintiff's evidence of the policies. Id. at ¶ 490. Defendant wrote on December 23, 1993 that "[t]he terms, conditions, exclusions, definitions and endorsements of all of the alleged policies remain unknown." See Exh. 196 to Walsh Dec. Because of that lack of information, Defendant denied coverage. Id. Defendant restated OneBeacon's position in a January 26, 1994 letter. See Exh. 199 to Walsh Dec. The company did not disclaim coverage under the policies, but it did "[continue] to reserve its rights as set forth under our previous Reservation of Rights letters and will not agree to participate in a defense or indemnification of NYSEG under

⁵ Plaintiff's disputes the Defendants' statement here, claiming "NYSEG does not dispute that Defendants' statement accurately quotes a portion of the referenced letter. However, Defendants' statement contains selective citations from the document they cite, omits meaningful portions of the document, and mischaracterizes what the full document says. Additionally, NYSEG disputes the validity of OneBeacon's purported reservation of rights." Plaintiff's Response at ¶ 485. This response is boilerplate, and repeated throughout Plaintiff's Response. Such a response is hardly helpful to the Court, as it does not identify the parts of the letter that are actually in dispute. The Court has examined the letter itself and finds the quotation to be accurate.

the alleged policies.” Id. Defendant promised to continue its efforts to locate the policy terms. Id.

In its January 26, 1994 letter, OneBeacon offered to settle the lost policy issue with the Plaintiff, but for an amount much less than the value of the policy claims. Defendants’ Statement at ¶ 494. Plaintiff claims to have responded to that letter, but points to no evidence. Plaintiff’s Response at ¶ 495. On March 15, 1994, Plaintiff sent OneBeacon notice that NYSEG had “negotiated and is planning to sign an Order on Consent” with the DEC. Defendants’ Statement at ¶ 495. Ten days later, Plaintiff executed the Order on Consent. Id. at ¶ 496. Plaintiff then wrote OneBeacon, stating that “[w]e have requested both defense and indemnity coverage for [the MPG sites] in accordance with the provisions of the policies and applicable law.” Id. at ¶ 497. After entering into this Consent Order, NYSEG continued to send monthly and yearly progress reports on the MGP sites. Id. at ¶ 498. Defendant responded by reiterating its requests for information and its disclaimers and reservations of rights. Id. at ¶ 498. The last such communication cited by the parties occurred on August 10, 1999. See Exh. 217 to Walsh Dec. That letter to NYSEG from Defendant acknowledged the progress reports, but noted that the reports “have not responded to our requests for information, sent to you on January 12, 1994 and November 26, 1996.” Id. Such information was “necessary for us to review in order to make a coverage determination.” Id. The letter further incorporated the earlier reservation of rights and inquiry letters, and noted that the letter did not represent any waiver of rights or defenses; Defendant “reserve[d] all of its rights and defenses under the terms, conditions, limitations, endorsements and/or exclusions” of the policies in question. Id.

The parties agree that NYSEG next communicated with OneBeacon through the summons and Complaint filed in this action, on August 14, 2013. Defendants' Statement at ¶ 499.

This evidence establishes that Defendants never manifested an intent to abandon the waiver defense in any of their communications with the Plaintiff. As to Century, the evidence recited above makes clear that, after initially reserving all rights under the coverage, Century expressly disclaimed on several grounds, including notice. Century continued to reiterate these reservations and disclaimers in correspondence with Plaintiff in the intervening years. No jury could fail to conclude from this evidence that Century never expressed a clear intent to abandon the defense. While OneBeacon was slower to disclaim coverage fully, none of the evidence recited above would provide a juror with a basis to conclude that OneBeacon expressed a clear intent to abandon the defense. First, after receiving notice, OneBeacon clearly and expressly reserved all rights under the policy. When disclaiming on the specific policy that Plaintiff was able to supply OneBeacon clearly articulated notice as one of the bases for that disclaimer. At the same time, OneBeacon continued to provide Plaintiff with an opportunity to provide additional policies that covered the period in question, reserving all rights under those policies in the meantime. Even when declining to provide coverage because of a failure to produce the policy language in question, OneBeacon continued both to provide Plaintiff an opportunity to produce the policies and to reserve any rights after they were produced. Thus, to the extent that OneBeacon disclaimed under the produced policies, OneBeacon cited notice as one basis for denying coverage. No rational juror could find that OneBeacon ever manifested an intent to

abandon the defense.

Plaintiff asserts that Defendants have waived lack of notice as a defense by failing to specify that defense when they disclaimed coverage on other grounds. A recitation of grounds without mention of notice can be evidence of abandonment, but an insurer does not always waive that defense by failing to state it. See Commercial Union Insurance Co. v. International Flavors & Fragrances, Inc., 822 F.2d 267, 273-74 (2d Cir. 1987). The common law makes clear that “[w]aiver of a defense is proven by evidence that the insurer intended to abandon that defense.” Id. at 274. Plaintiff is correct that some courts have found that “a repudiation of liability by an insurer on the ground that the loss is not covered by the policy operates as a waiver of the notice requirements contained in the policy.” Burt Rigid Box v. Traverers Prop. Cas. Corp., 302 F.3d 83, 96 (2d Cir. 2002) (quoting H.S. Equities, Inc. v. Hartford Accident & Indemn. Co., 661 F.2d 264, 270-71 (2d Cir. 1981)). “Courts may find waiver where, for example, an insurance company disclaims coverage for failure to satisfy one condition precedent but neglects to assert other such conditions.” Id. at 95. “By electing to disclaim on the merits” and failing to mention notice, an insurer “waive[s] the notice requirement of the policy.” Rock Transport Properties Corp. v. Hartford Fire Ins. Co., 433 F.2d 152, 153 (2d Cir. 1970); see also, Amro Realty, 936 F.3d at 1431 (“New York law establishes that an insurer is deemed, as a matter of law, to have intended to waive a defense to coverage where other defenses are asserted, and where the insurer possesses sufficient knowledge (actual or constructive) of the circumstances regarding the unasserted defense.”).

Here, the insurers did not assert a number of defenses and then fail to reserve

any additional rights. The evidence that disclaimer included notice for Century is abundantly clear. OneBeacon, too, issued a disclaimer on the policy it had in its possession that included notice. Even if OneBeacon denied coverage for failure to produce the policy terms on those policies which were missing, OneBeacon continued to maintain a reservation of rights on those missing policies. OneBeacon can hardly be found to have abandoned a defense based on notice language in the policy when Plaintiff was unable to produce the policy language upon which such a defense would apply. OneBeacon claimed it lacked sufficient knowledge to state all bases. This is especially true because OneBeacon asserted notice grounds based on the policy language and facts for the one policy available; Plaintiff was surely aware that OneBeacon intended to raise this defense. This is not a case, like Burt Rigid, where the insurer disclaimed coverage on specific grounds, failed to name any other grounds or offer any sort of general reservation, and then tried later to assert notice. The reservations of rights offered by the Defendants were sufficient to preserve their notice defense, and the Plaintiff's motion will be denied in this respect.

C. Notice

Having resolved that question, the Court turns to the issue of whether Plaintiff provided notice as required by the policies recited above. This failure to provide notice is the primary basis for the Defendants' motion for summary judgment. They contend that Plaintiff knew that MGP sites were polluted for years before they notified their insurers, and that this practice failed to satisfy the provisions in the policy requiring notice of an injury "as soon as practicable." Defendants also contend that Plaintiff failed to provide timely notice of claims raised against them by government agencies,

and that NYSEG therefore also violated the notice-of-claim provision in the policies.

Plaintiff responds that notice was timely, as mere knowledge of potential contamination is insufficient to trigger the policies' notice provisions. Moreover, NYSEG was unaware of whether regulators would actually impose any liability on them for the pollution, and thus no obligation to provide notice attached.

In New York, "an insured's failure to comply with a notice-of-occurrence provision is generally a complete defense even if the insurer was not prejudiced by the untimely notification." Olin Corp. v. Insurance Co. of N. Am., 966 F.2d 718, 723 (2d Cir. 1992).

"Compliance with a notice-of-occurrence provision in an insurance policy is a condition precedent to an insurer's liability under the policy." Id. (quoting Commercial Union Ins. Co. v. International Flavors & Fragrances, Inc., 822 F.2d 267, 271 (2d Cir. 1987)).

Such provisions have an important function, as they "allow insurances companies to make an early investigation into the particular circumstances of an occurrence[.]" which can "aid . . . future litigation" and help to eliminate dangerous conditions that caused the accident. Id. Early notice also helps insurers set a proper reserve, determine

premiums, and detect fraud. Id. Notice is required when "the circumstances known to the insured at the time would have suggested to a reasonable person the possibility of a claim." Id. (quoting Commercial Union, 822 F.2d 272). A policy provision requiring

notice "as soon as practicable . . . requires that notice be given within a reasonable time under all the circumstances." Id. (quoting Security Mut. Inc. Co. v. Acker-

Fitzsimmons Corp., 31 N.Y.2d 436, 441, 340 N.Y.S.2d 902, 293 N.E.2d 76 (1972)). "In

some cases, even short delays will render a notice untimely." Id. "Under New York

Law, delays of even one or two months are routinely held unreasonable." Indian Harbor

Ins. Co. v. City of San Diego, 586 Fed. Appx. 726, 729 (2d Cir. 2014). “The burden is on the insured to show that a delay was reasonable under the circumstances.”

American Ins. Co. v. Fairchild Indus., 56 F.3d 435, 438 (2d Cir. 1995). “[N]otice requirements are to be liberally construed in favor of the insured[.]” Morris Park Contr. Corp. v. National Union Fire Ins. Co. of Pittsburgh, 33 A.D.3d 763, 764 (2d Dept. 2006).

The policies in question here were excess policies. If the notice involves an excess carrier, “the focus is on when the insured reasonably should have known that the claim against it would likely exhaust its primary insurance coverage and trigger its excess coverage, and whether any delay between acquiring that knowledge and giving notice to the excess carrier was reasonable under the circumstances.” Morris Park Contr. Corp. v. National Union Fire Ins. Co. of Pittsburgh, 33 A.D.3d 763, 765 (2d Dept. 2006).

Two types of notice were required by the policies in question. The first required notice to be provided upon an “occurrence.” Under a notice-of-occurrence provision, failure to provide such notice may be excused “by proof that the insured either lacked knowledge of the occurrence or had a reasonable belief of nonliability.” Commercial Union, 822 F.2d at 272. A court may grant judgment based on failure to provide notice “when (1) the facts bearing on the delay in providing notice are not in dispute and (2) the insured has not offered a valid excuse for the delay.” New York v. Blank, 27 F.3d 783, 795 (2d Cir. 1994).

Defendants also contend that Plaintiff violated the provisions in the policies requiring notice of claims raised against the insured. Courts in New York find that notice requirements in insurance policies that address claims are triggered before the

filing of a formal legal action. “Giving the term its ordinary meaning, a claim is an assertion by a third party that in the opinion of that party the insured may be liable to it for damages within the risks covered by the policy.” American Ins. Co. v. Fairchild Indus., 56 F.3d 435, 439 (2d Cir. 1995). Such notice “must relate to an assertion of legally cognizable damage, and must be a type of demand that can be defended, settled and paid by the insurer.” Id. (quoting Evanston Ins. Co. v. GAB Business Servs., Inc., 521 N.Y.S.2d 692, 695, 132 A.D.2d 180, 185 (1st Dept. 1987)). No “formal proceeding” is necessary to make a claim. Id. Moreover, a claim can exist even without “reason to believe that there actually is liability.” Id. “[V]irtually any assertion of an exposure to liability within the risks covered by the insurance policy is a claim.” Id. Only when “the assertion is made in circumstances so unusual that they negate the possibility of a formal proceeding involving defense costs as well as liability,” can assertion of liability fail to constitute a claim. Id. Indeed, a notice of claim provision can “be triggered by an unreasonable—even sanctionable—assertion of liability.” Id. Thus, “[a]n assertion of possible liability, no matter how baseless, is . . . all that is needed to trigger a notice of claim provision.” Id.

While notice is necessary to obtain coverage, “an insured’s good-faith belief in nonliability, when reasonable under the circumstances, may excuse a delay in notifying an insurer of an occurrence or potential claim’ . . . The same holds true for a reasonably held belief of noncoverage.” Reynolds Metal Co. v. Aetna Cas. & Sur. Co., 259 A.D.2d 195, 199-200 (3d Dept. 1999) (quoting Marinello v. Dryden Mut. Ins. Co., 237 A.D.2d 795, 796 (3d Dept. 1997)). “Whether a plaintiff’s belief of nonliability and noncoverage under the relevant circumstances was reasonable is ordinarily a question of fact.” Id. at

200. This standard applies whether the notice arises from an occurrence or a claim. Id. at 201-202. “[T]he insured bears the burden of establishing the reasonableness of the proffered excuse” for failing to provide timely notice. Great Canal Realty Corp. v. Seneca Falls Ins. Co., Inc., 5 N.Y.3d 742, 744, 800 N.Y.S. 521, 521, 522 (2005).

Defendants here argue that Plaintiff failed to provide notice for any of the six MGP sites in question. Notice came in 1991, and Plaintiff had knowledge of both occurrences and claims, Defendants insist, long before that notice. Defendants divide their arguments between the Plattsburgh site and the other five sites as the facts are distinct between them. The Court agrees that this is the most logical approach and will address the facts related to notice in that way.⁶

i. Plattsburgh Site

The Plattsburgh MGP site produced gas between about 1892 and 1960.

⁶The Court notes that the parties have provided thousands of pages of documents in connection with their motions. These documents consist in large part of reports of dozens of investigations performed by environmental consultants at the MGP sites, internal NYSEG memoranda concerning investigation and remediation at the sites, correspondence between NYSEG and regulatory agencies, and correspondence between insurers and NYSEG. The Court has carefully reviewed these submissions but will cite largely to the parties’ statements of material facts in addressing the motion in this respect. The Court makes the general observation, however, that the evidence provided by the parties demonstrates that NYSEG was aware of potential contamination at MGP sites in the 1970s, developed a program in the 1980s for investigating the sites and negotiating with regulators that involved setting aside considerable sums for which NYSEG now seeks reimbursement, and only gave notice to the insurers in the 1990s, well after NYSEG had developed an approach for attempting to deal with any potential liability at the sites. The Court notes the findings by Judge Forrest in Travelers Indem. Co. v. Northrop Grumman Corp., 3 F.Supp.3d 79, 97 (S.D.N.Y. 2014): “[t]he mere fact that submissions on summary judgment are extensive (even requiring a moving truck) does not mean that there is a genuine issue for trial. Such extensive submissions may mean that the record is simply a large one. The facts material to resolution of the motion may nonetheless be undisputed by competent evidence.”

Defendants' Statement at ¶ 143. The parties disagree about the exact amount of coal-tar waste produced at the site, but agree that the amount could have been as much as 2,000,000 pounds. Id. at ¶ 144; Plaintiff's Response at ¶ 144. The operators of the MGP site placed the coal tar into two unlined lagoons. Defendants' Statement at ¶ 145. The lagoons played an important role in the plant's operation. Id. at ¶ 146. This operation caused substantial contamination. Id. at ¶ 148. The Plattsburgh site contained spent oxide wastes such as wood chips containing cyanide, which were found in the subsurface soil. Id. at ¶ 149. When the plant closed, the lagoons were filled in, but material contaminated with tar remained in the bottom of the lagoon. Id. at ¶ 150.

A NYSEG environmental manager who visited the Plattsburgh site in the 1970s reported that he saw tar "bubbling up out of the ground and into the river." Id. at ¶ 153.⁷ He saw a "mess" that would be difficult to clean up. Id. at ¶ 154.⁸ An internal NYSEG memo dated May 14, 1980 found that coal tar in the Saranac River (which adjoined the MGP site) was first documented in the early 1970s but speculated that contamination

⁷Plaintiff "disputes" this statement, citing generally to the entire deposition of Peter G. Carney, the environmental manager entire. Plaintiff's Response at ¶ 153. The "dispute" does not point to any particular language that undermines this statement. Indeed, when asked during his deposition about a "preliminary look" he took at the Plattsburgh site, he reported that he would "tell NYSEG that they had a mess on their hands." See Exh. 226 to Walsh Dec. At both Plattsburgh and another location, an observer could see "visible indications of tar, iron, [and] ferroferric cyandie." Id. When he visited the site in the early 1970s he saw tar globules in the Saranac River. Id.

⁸Plaintiff agrees that quotations to the testimony are accurate, but argues that "Defendants' statement contains selective citations from the document they cite, omits meaningful portions of the document, and mischaracterizes what the full document says." Plaintiff's Response at ¶ 124. Plaintiff offers no citations to the record to explain these misuses of the testimony.

likely occurred far earlier. Id. at ¶ 155. NYSEG's investigation of the site came in part from complaints about visible tar deposits by people fishing on the River. Id. at ¶ 156. Plaintiff does not dispute that by January 20, 1975, NYSEG was aware of the possibility that it may have violated as many as five state and federal laws at the site: (1) the Federal Water Pollution Control Act; (2) the Rivers and Harbors Act of 1899; (3) the New York Fish and Wildlife Law, (4) the New York Water Pollution Control Law; and (5) the New York Navigation Law. Id. at ¶ 157. In September 1978, after hearing of complaints from anglers, a DEC biologist visited the Saranac River and saw an oil-like substance that emerged from the river sediments while wading. Id. at ¶ 158. The biologist noted that the "toxicity of fuel oil, tar and other similar substances to fish is well documented." Id. at ¶ 158. A NYSEG consultant's report from October 1975 found "acute toxicity" for fish because of coal tar seeping into the River from the lagoon. Id. at ¶ 159. A NYSEG environmental engineer made similar findings in October 1974. Id. at ¶ 160. The Clinton County, New York, Department of Health warned of the dangers to fish from waste entering the Saranac River in November 1978. Id. at ¶ 161. The Department warned that "discharge of the material into the Saranac River" would be a "direct violation of Section 1300(b) of the Public Health Law" and informed NYSEG that "all reasonable actions should be taken to remove the material presently in the river and to prevent further seepage in subsequent years." Id.

Plaintiff disputes these statements regarding knowledge of contamination only generally, while also contending that NYSEG did not know, "at the time, that any contamination resulted from the operations area." Plaintiff's Response at ¶¶ 157-161. Nevertheless, Plaintiff admits that on March 28, 1979 NYSEG approved spending

\$100,000 to investigate and hire consultants regarding the Plattsburgh site.

Defendants' Statement at ¶ 163. This expenditure came from "increased pressure from government agencies and environmentalists to stop the seepage of coal tar" from NYSEG's property "into the Saranac River[.]" Id. Plaintiff, in acknowledging this document, "disputes that it knew, at that time, that any contamination resulted from the operations area." Plaintiff's Response at ¶ 163. Plaintiff does not dispute that the DEC and the New York State Department of Health ("DOH") had "insisted that NYSEG determine 'the extent of the coal tar presence and what methods might be taken to stop the damage.'" Defendants' Statement at ¶ 164.

Over the next two years, the investigation contemplated by this approved expenditure occurred, as well as continued contacts with regulators concerning the property. See Defendants' Statement at ¶¶ 164-177. A report commissioned by NYSEG and issued by Acres American in December 1979 found that "coal tar has migrated over most of the site area as well as into areas north and northeast of the site." Id. at ¶ 167. The report also warned that "the current situation is in violation of several regulations." Id. at ¶ 169. An internal NYSEG memo issued at the same time warned that "coal tar may be considered a hazardous waste," and also warned that "the New York State Public Health law prohibits allowing coal tar to enter a water body," and violating other state regulations. Id. DEC wrote NYSEG on July 22, 1980, warning that "coal tar contamination of the Saranac River is a violation of" section 17-0501 of the State Environmental Conservation Law, regardless of whether it violates the Federal Superfund Statute, and that DEC could "require NYSEG to 'carry out any instream borings and/or sampling which will contribute to the definition of the extent of coal tar

migration under the river and the magnitude of the quantities of the pollutants involved.” Id. at ¶ 170. By August 1, 1980, NYSEG had concluded in an internal memo that the company had “very little choice about whether” to accede to DEC’s demands, and that “if the coal tar is found offsite [NYSEG] might be required to spend several millions of dollars for containment measures.” Id. at ¶ 171. In a May 12, 1981 discussion of the Plattsburgh issue, NYSEG noted that both DEC and DOH had concluded that NYSEG would be required to spend to clean up the River in any remediation project. Id. at ¶¶ 172-173.

DEC wrote to NYSEG on May 18, 1981, stating that “[t]he discharge of coal tar into the Saranac River is a violation of the Environmental Conservation Law,” that DEC had concluded that “permanent containment system” had to “be constructed on the property to prevent” further coal-tar contamination, that coal-tar in the Saranac River bed had to be removed, and that “Due to the complexity and scope of this project and the nature of the violations, the Department must enter into a formal agreement with NYSEG for the containment/clean up project.” Id. at ¶ 174. DEC provided a draft Consent Order for NYSEG to sign on May 18, 1981. Id. at ¶ 175. NYSEG lawyers noted that the draft order required NYSEG to both stop discharging into the River and to clean up contaminated portions of the River. Id. at ¶ 176. They also found that the coal tar seepage violated Section 17-0501 of the Environmental Conservation Law, which could leave NYSEG liable for potential prosecution and fine of more than \$1 million. Id. The lawyers concluded that NYSEG had no choice but to clean up the River, as DEC had “indicated that they are not willing to negotiate on that matter.” Id. The lawyers estimated that the recommended remedy would cost \$1.28 million. NYSEG executed

the Consent Order on June 26, 1981 without seeking the consent of either insurer. Id. at ¶ 177. The work pursuant to this order ended in 1982. Id. at ¶ 178. NYSEG spent more than \$2 million to complete that work. Id. at ¶ 179.

That remediation was not entirely successful, and NYSEG and regulators worked during the 1980s to contain contamination from the Plattsburgh site and to finalize the status of the site. See Id. at ¶¶ 180-188. Continued leakage led NYSEG to begin negotiating another Consent Order with DEC by September 17, 1984. Id. at ¶ 181. NYSEG executed a Second Consent Order regarding the site on September 25, 1985. Id. at ¶ 182. NYSEG neither notified nor sought the consent of either insurer. Id. at ¶ 182. Still, DEC continued to express concerns about the site. Id. at ¶ 183. On January 13, 1987, DEC notified NYSEG that the Plattsburgh Site had been placed on a Registry of Inactive Hazardous Waste Sites (the “Registry”) as a “Class 4” site, which signified that the site had been properly closed but required continued management. Id. at ¶ 184. On April 12, 1988, NYSEG objected to this classification, claiming that coal-tar was non-hazardous. Id. at ¶ 185. NYSEG petitioned to have the site de-listed. Id. The DEC rejected this request on July 13, 1988 and instead named the Plattsburgh site as a “Class 2” site because DEC contended the site had not been properly remediated and still posed a significant environmental threat. Id. at ¶ 186. DEC granted a second de-listing petition on July 11, 1989, finding that the earlier consent order was sufficient to permit DEC to correct any deficiencies at the site. Id. at ¶ 188. Plaintiff points out that the DEC found that “[s]ince no hazardous waste disposal has been documented, and the original administrative consent order was executed pursuant to ECL Article 17, it is my determination that at this time the Plattsburgh Coal Gasification Site . . . be

delisted[.]” Plaintiff’s Response at ¶ 188.

Plaintiff has attempted to raise a factual issue as to the sources of pollution and waste at the Plattsburgh site. Plaintiff contends that waste at the site came from two sources: the lagoons and the actual gas manufacturing plant, and that such pollution should be considered a separate occurrence. The parties dispute whether Carney testified that he first visit noticed coal tar bubbling from both the lagoon area and the plant area during his early visit to the site. Compare Defendants’ Statement at ¶ 189, Plaintiff’s Response at ¶ 189. Plaintiff points out that he could not specifically recall that he saw coal tar bubbling from the plant area. See Carney Dep., Exh. 256 to Walsh Dec. at 25. When asked if he saw “the bubbling of tar on the—in the area of the former MGP site,” Carney responded that “I didn’t differentiate between the specifics of where the lagoon was or where the actual site was. Probably didn’t know it at the time. To me, those were, you know, all one operation.” Id. Defendants point out that some testing in the late 1980s found coal tar contamination and other gasification waste around the vicinity of the former gas plant. Defendants’ Statement at ¶¶ 190-203. Plaintiff disputes these findings in part, arguing that knowledge of contamination specifically related to the gas plant was equivocal and uncertain. Plaintiff’s Response at ¶¶ 190-203. In any case, the Plattsburgh site was included as one of the 33 MGP sites that were to be investigated and remediated under NYSEG’s March 30, 1994 Order on Consent with the DEC. Id. at ¶ 204. Remedial activities have since been conducted at the site. Defendants’ Statement at ¶ 204.

The Court finds that the evidence here can lead to only one conclusion: that the Plaintiff did not provide notice as required by the policy. In its briefing, the Plaintiff

appears to have abandoned any argument that it provided timely notice on claims regarding contamination from the lagoons from which NYSEG and regulators had discovered waste seeped into the Saranac River in the 1970s. Plaintiff could not prevail on any such argument. The issue here is when notice was required. Courts in New York have found that “[w]hile the duty to provide notice does not begin on the basis of mere speculation, rumor, or remote contingencies far removed from the particular policy in question,” notice is required “when an insured complying with its duty to use due diligence in investigating potential claims against it would believe from the information available that its policy would be involved[.]” Christiania General Ins. Corp. of New York v. Great American Ins. Co., 979 F.2d 268, 275-76 (2d Cir. 1992). If the policy in question requires notice if it “‘appears likely’ that a claim will or ‘may’ involve a policy,” notice is necessary when there “is a ‘reasonable probability’ of such happening, based on an objective assessment of the information available. Id. at 276. That reasonable possibility exists “even though there are some factors that tend to suggest the opposite.” Id.

“Clauses in insurance contracts requiring ‘prompt notice,’ notice ‘as soon as practicable,’ or ‘immediate notice’ are generally construed to require notice within a reasonable time after the duty to give notice has arisen.” Id. at 275. When the duty begins “requires an objective evaluation of the facts known to the insured.” Id. This standard “is one of reasonableness.” Id. The insured is not required to provide notice “on the basis of mere speculation, rumor, or remote contingencies far removed from the particular policy in question,” and “when an insured complying with its duty to use due diligence in investigating potential claims against it would believe from the information

available that its policy would be involved, the notice obligation arises.” Id.

The notice requirement may be excused if the insured has “a good-faith belief of nonliability” but such “belief must be reasonable under all the circumstances, and it may be relevant on the issue of reasonableness, whether and to what extent, the insured has inquired into the circumstances of the accident or occurrence.” Security Mut. Ins. Co., 31 N.Y. 2d at 441; see also, Illinois Nalt. Ins. Co. v. Zurich Am. Ins. Co., 107 A.D.3d 608, 609, 969 N.Y.S.2d 11 (1st Dept. 2013) (three-month delay in reporting excusable because insured “needed to investigate the claim in order to determine the basic facts, such as where the claim occurred, the nature of the injury, and the insurer responsible for covering the claim.”).

The evidence described above indicates that NYSEG was first aware of complaints about pollution seeping from the Plattsburgh site into the Saranac River in the early 1970s. NYSEG environmental personnel noted tar-like substances in the river and other waste on the property. State and local regulators contacted the Plaintiff in the 1970s, citing statutes and regulations that could lead to liability. NYSEG itself determined that the potential for liability necessitated an expenditure of \$100,000 to investigate the situation. As explained above, NYSEG seeks coverage not just for cleanup costs, but for the costs of investigation. No reasonable juror could come to any conclusion but that NYSEG knew that there was reasonable probability that the excess policy would be implicated by this activity, and that notice was required years before NYSEG provided that notice in 1991.

NYSEG was also required by its policies to provide notice of a claim upon “an assertion by a third party that in the opinion of that party the insured may be liable to it

for damages within the risks covered by the policy.” Fairchild Indus., 56 F.3d at 439. Such notice “must relate to an assertion of legally cognizable damage, and must be a type of demand that can be defended, settled and paid by the insurer.” Id. (quoting Evanston Ins. Co., 521 N.Y.S.2d at 695. Here, as explained above, there were assertions throughout the 1970s that NYSEG could be liable for violating various State laws and regulations, a potential liability acknowledged by NYSEG’s lawyers. NYSEG did not provide the insurers with notice of these claims, however. Instead, NYSEG signed two Consent Orders that obligated Plaintiff to engage in extensive investigation and remediation. NYSEG eventually spent \$2 million fulfilling its obligations under one such order. NYSEG admits it did not provide notice of that claim to the insurer before signing the Order. NYSEG thus failed to provide notice as required by the policy, and the motion must be granted in this respect.

Plaintiff’s argument that notice was timely at least with respect to the former manufactured gas plant is unpersuasive. Plaintiff contends that the former plant was a source of waste independent from the lagoons, and thus subject to a different notice requirement. Plaintiff points to New York cases that apply an “unfortunate event” test to argue that the two events were separate and thus had a different notice requirement. That test applies to determine “whether a set of circumstances amounts to one accident or occurrence, or multiple accidents or occurrences, for purposes of resolving how much coverage is available under a third-party liability insurance policy.” Appalachian Ins. Co. v. General Elec. Co., 8 N.Y.3d 162, 170, 863 N.E.2d 994 (2007). Determining whether an event is a single occurrence requires consideration of: “whether there is a close temporal and spatial relationship between the incidents giving rise to injury or

loss, and whether the incidents can be viewed as part of the same causal continuum, without intervening agents or factors.” Id. at 171-172. Here, Plaintiff seeks coverage for environmental damages caused by coal-tar leaks from the operation of a manufactured gas plant in Plattsburgh, New York. Plaintiff contends that there was more than one occurrence because the coal tar that contaminated the site came from the lagoons and from the former plant site. NYSEG had no responsibility to provide notice on leakage from the former plant until that leakage was discovered, Plaintiff claims.

The Court is unpersuaded by that argument. Here, there was certainly a close temporal and spacial relationship between the plant and the lagoons. The waste that is the subject of regulation and remediation is of the same type, whether in the lagoon or near the plant. Regulators and investigators could not easily separate the specific source of contamination, particularly the contamination that leached into the Saranac River. The common process of manufacturing gas produced coal tar as a primary waste, and separating whether the waste for which remediation was required came from the plant or the lagoons would likely be impossible. This case is not like Com. Edison v. Employers Ins. of Wasau, 1997 WL 727486, at *2 (S.D.N.Y. Nov. 21, 1997), where the Court was able to apply the unfortunate event test to determine that contamination caused by handling toxic substances at two sites two miles apart constituted separate events. Neither is the case like Argonaut Ins. Co. v. Travelers Ins. Co., 6 Misc. 3d 1006(A), 800 NYS2d 342 (Table), 2005 WL 66778, at *2 (N.Y. Sup. Ct. Jan. 5, 2005), where the Court found separate occurrences because “the damages which arose from environmental problems at . . . [insured’s] approximately 140 sites

throughout the United States cannot properly be aggregated into one occurrence because the damages arising at each site resulted from exposure to the particular conditions existing at that site, and not from some ‘general conditions’ that were ‘substantially the same at all of the different sites.’” (internal citations omitted).⁹ The Court will grant the motion in this respect.

ii. Other Sites

Defendants argue that Plaintiff also failed to provide timely notice with reference to the other five sites. NYSEG had knowledge of DEC claims related to the MGP sites by 1986, and did not provide notice for five years. Moreover, Defendants contend, NYSEG’s program for investigating the sites and reporting to DEC in the 1980s demonstrates that NYSEG knew of occurrences which required notice. Plaintiff’s position is that no claim by the DEC occurred before NYSEG and DEC signed a Consent Order in 1994 covering the sites in question, and that NYSEG had no duty to provide notice of occurrences until the utility knew that any obligation regarding a site exceeded the \$20,000 self-insured retentions in the policies.

Defendant points to an internal NYSEG memorandum issued on November 10, 1986. See Exh. 59 to Walsh Dec. That document provides an extensive discussion of NYSEG’s involvement with MGP sites and interaction with regulators about them. Id. The document describes a five-step process NYSEG intended to follow at each former

⁹Moreover, as Defendant points out, Plaintiff did not provide any separate notice for the Plattsburgh former gas plant site, and thus would lose on that count even if the Court found separate occurrences. Moreover, the 1981 consent order, for which Plaintiff admit it did not provide notice, covered the Plattsburgh site and was not confined to the lagoons.

MGP site. Id. “Task 1” involved the collection of “historic data” about the site, which would allow NYSEG to point to potential “problems” and to craft the “Task 2” testing program which would investigate that problem. Id. “Task 2” consisted of “preliminary boring” and other soil and water sampling to gauge the potential problem and consider whether further study was necessary. Id. “Task 3” followed on those sites where preliminary study indicated a need; NYSEG aimed “to collect all information needed to properly perform a risk assessment and to develop conceptual designs for problem resolution.” Id. “Task 4” completed the “risk assessment.” Id. “Task 5” consisted of “the development of a conceptual design package which, similar to the risk assessment, has been ongoing throughout the project.” Id. The memorandum noted that “General Counsel has been incorporated at key points to provide guidance and understanding as to the need for action on NYSEG’s part, as well as the legal consequences should no action be taken by NYSEG.” Id.

The memorandum also addressed the role of the DEC in the process. NYSEG noted that throughout the process of investigating the sites the company had “attempted to keep NYSDEC informed of our investigative activities.” Id. Plaintiff met with regional and central office staff, engaged in site visits, offered responses to DEC’s inquiries, and sent DEC “copies of final reports and work plans.” Id. NYSEG found this engagement useful because the company had more control over the process. Id. NYSEG could “choose the order in which sites are investigated, . . . control the contacts and public relations issues . . . and . . . establish a reasonable investigative schedule, thereby cost.” Id. NYSEG noted that DEC had not been very active in regulating the sites to that point. Id. At a meeting on October 15, 1986, however, “central office staff

provided an indication of a change in approach on NYSDEC's part." Id. Utilities had begun to take an active role at many of the 200 or so MGP sites in the state, and these actions had caused DEC's "central office . . . to take a more central role." Id. DEC had decided to "advocat[e] a common approach to each utility, utilizing orders on consent, the inclusion of all sites on the state registry of inactive hazardous waste sites, the development of hazard ranking scores for each site, and the incorporation of their review of the reports, work plans, and at each decision point." Id. DEC "has stated that if NYSEG does not investigate the sites, they will do the investigation and come to NYSEG as a responsible party for the reimbursement." Id. Costs sought by DEC "would exceed NYSEG investigative costs." Id.

As explained above, "a claim is an assertion by a third party that in the opinion of that party the insured may be liable to it for damages within the risks covered by the policy." Fairchild Indus., 56 F.3d at 439. Such notice "must relate to an assertion of legally cognizable damage, and must be a type of demand that can be defended, settled and paid by the insurer." Id. (internal citations omitted). No "formal proceeding" is necessary to make a claim. Id. Moreover, a claim can exist even without "reason to believe that there actually is liability." Id. "[V]irtually any assertion of an exposure to liability within the risks covered by the insurance policy is a claim." Id. Only when "the assertion is made in circumstances so unusual that they negate the possibility of a formal proceeding involving defense costs as well as liability," can assertion of liability fail to constitute a claim. Id. Indeed, a notice of claim provision can "be triggered by an unreasonable—even sanctionable—assertion of liability." Id. Thus, "[a]n assertion of possible liability, no matter how baseless, is therefore all that is needed to trigger a

notice of claim provision.” Id.

Here, NYSEG’s own documents establish a knowledge that DEC had asserted claims which would implicate the coverage that Plaintiff asserts in this case.¹⁰ NYSEG recognized in 1986 that all of the MGP sites it controlled would likely be the subject of regulatory action that would require the expenditure of funds for investigation and remediation, the subject of the coverage dispute in this case. Moreover, NYSEG knew in 1986 that DEC intended to press claims against the company that would lead to investigations on the property. NYSEG determined that if the company did not do the investigations itself, DEC would undertake them and submit a bill in excess of the costs NYSEG would incur to perform them itself. Since no formal proceedings are necessary to implicate a claim, and NYSEG recognized that DEC would act formally against NYSEG if NYSEG did not act, DEC asserted a claim which NYSEG had an obligation to report to the insurers.

Plaintiff’s position is that “[a] ‘claim’ against NYSEG was first made in 1994 through the consent order entered into with DEC.” Plaintiff’s Brief in Response to Defendant’s Motion, dkt. # 137, at 16. “This was the first regulatory compulsion that NYSEG faced at its MGP sites.” Id. Plaintiff’s understanding of a “claim” is too narrow here. The Orders on Consent signed between NYSEG and DEC in this case are formal agreements obligating the Plaintiff to perform certain work and undertake certain

¹⁰Additional information in the record and in the parties’ moving papers also supports the notion that DEC was closely involved in supervising the MGP sites during the 1980s and had asserted regulatory authority on different bases, particularly discussion of the establishment of the DEC’s Registry. See, e.g., Defendants’ Statement and Plaintiff’s Response, ¶¶ 30-47.

activities. In that sense, they are agreements settling a claim against the Plaintiff. Plaintiff urges the Court to consider such agreements as the events that assert claims. If the Court were to adopt this perspective, a claim requiring notice would not occur until after the insured negotiated an agreement to settle that claim. The illogic of this position is obvious. The purpose of notice is to permit the insurer to be involved in negotiating the claim and, perhaps, to institute a process leading to a more cost-effective resolution of the matter. To allow an insured to wait to provide notice of a claim until after the claim has been settled would undermine the purpose of notice provisions. As such, the Court will find that Plaintiff failed to provide notice under the policies and Defendants are not obligated to provide coverage.

Defendants also argue that Plaintiff failed to meet the occurrence or accident notice provisions in the policy as well. They point to a number of facts to support their claim that NYSEG had spent considerable time, effort and money to investigate the five sites in question before providing notice. As a general matter, the Court notes that the thousands of pages of documents in the record for this case clearly demonstrate that NYSEG engaged in a robust program of investigation years before providing notice of the MGP site claims to the insurers. These investigations employed environmental consultants and other experts, and were clearly designed to head off any regulatory efforts by State and federal agencies. Indeed, NYSEG supplied the regulators with records of their investigations throughout the 1980s and early 1990s. The funds that NYSEG seeks to recover in this case arise in large part from such investigations. NYSEG went a long way down the road of such investigations before notifying the Defendants of occurrences.

Defendants point to a number of facts which support their claim that Plaintiff was well aware of pollution at the five MGP sites in question. Defendants note that Plaintiff notified the EPA of potential hazardous waste activity at all five of the sites here in question on June 9, 1981. Defendants' Statement at ¶ 5. Plaintiff points out that such notification did not admit that the waste was actually hazardous, but in fact argued the opposite. Plaintiff's Response at ¶ 5. Still, Plaintiff admits that an evaluation of the sites was necessary even if the wastes were not hazardous. Defendants' Statement at ¶ 6. NYSEG engaged in soil sampling at 19 former MGP sites by December 3, 1981. Id. at ¶ 7. Such soil samples were designed, at least in part, to determine whether coal tar was in the soil. Defendants' Statement at ¶ 8; Plaintiff's Response at ¶ 8. By 1983, NYSEG began to discuss an internal plan to investigate 17 MGP sites from January 1984 to December 1988. Defendants' Statement at ¶ 11. One evaluator speculated that at worst, all 17 sites would require investigation and remediation. Id. at ¶ 12. This evaluator estimated the cost for such investigations at \$4 million. Id. at ¶ 13. An interoffice memorandum, dated February 27, 1984, recommended a five-year plan to investigate the sites, stating that:

There is an increased concern for potential damage to the environment due to reside at manufactured gas plant sites. This is evidenced by recent news media coverage of former sites in New Jersey. Also the potential exists that New York standards for discharge are being exceeded in the case of our sites. It is reasonable to assume that any long-term investigation plan would result in intervention by some regulatory agency, which could prove more expensive than following our own plan. It is therefore my recommendation that a five-year investigation plan be adopted.

Exh. 25 to Walsh Dec. The memo estimated the cost of the investigation to be \$273,400 per site. Id.

A December 20, 1984 work order issued by NYSEG covered 17 MGP sites, specifying the dollar amount to be spent for each site. See Exh. 33 to Walsh Dec. The work order for the Cortland-Homer site, for instance, was designed “[t]o evaluate the former Coal Gasification Site to determine if pollution problems exist; define the magnitude of any problems; and to recommend appropriate conceptual remedial actions, if they are required, commensurate with site specific conditions and the nature and magnitude of the problem at the site.” Id. Tests performed at the Cortland-Homer site had found that “the site has the potential to be discharging contaminants in contravention of NYSDEC regulations. Federal and state regulations require NYSEG to evaluate and monitor the site.” Id. NYSEG anticipated the cost of the Cortland-Homer study in 1985 to approximate \$120,000. Id. NYSEG anticipated spending \$110,000 at Ithaca-Court Street that year, \$100,000 in Oneonta, and \$10,000 at Auburn-Clark Street. Id. A report the next year estimated that NYSEG would spend \$5 million to “investigate the seventeen coal gasification sites.” See Exh. 35 to Walsh Dec. Only the Norwich site was not included in this program. Id. The parties agree that by September 10, 1986, “NYSEG was actively investigating 13 MGP sites. Defendants’ Statement at ¶ 29.¹¹ These studies continued into 1986 and 1987, with the DEC playing an increasing supervisory role. See Defendants’ Statement and Plaintiff’s Response at ¶¶ 48-55. NYSEG interacted with DEC about the status of sites on the Registry, including

¹¹The source for this statement is somewhat equivocal about the number of sites under “active investigation.” See Exh. 59 to Walsh Dec. The text of the report, issued on September 10, 1986, states that “[t]he present investigation began in 1985 utilizing two consulting firms to investigate 17 sites over five years. At the present time 13 are under active investigation.” Id. Later in the report, however, a table indicates that NYSEG has 15 “Sites with Active Investigation.” Id.

Ithaca-Court Street, Cortland-Homer, Owego and Plattsburgh, during 1986, 1987 and 1988. Id. at ¶¶ 58-78.

Investigations at the sites continued through 1991, and by early/mid 1991 NYSEG had spent considerable sums at each of the five sites in question. See Defendants' Statement at ¶ 106. Plaintiff does not dispute the following expenses for each site:

Auburn-Clark Street:	\$28,471.11 as of 7/1991
Cortland-Homer:	\$489,252 as of 4/91
Ithaca-Cort Street	\$497,930.84 as of 5/31/1991
Norwich	\$30,000 as of 6/91
Oneonta	\$569,298 as of 5/31/91

Id.; Plaintiff's Response at ¶ 106.

The Court finds that Plaintiff's involvement in investigating these sites, particularly when combined with Plaintiff's interactions with DEC about them, demonstrates clearly that Plaintiff knew for years before providing notice that each of the sites in question contained a serious potential for a damage claim from MGP operations. Moreover, Plaintiff had engaged in investigations which demonstrated an event stronger likelihood of the potential for a claim. Giving the insurers notice of those potential claims in the 1980s would have meet the purpose of the notice provisions contained in the policies, giving the insurers the opportunity to shape interactions with regulators, make decisions about how to deal with the pollution at the sites, and to limit the damage to the property caused by the pollution. Instead, Plaintiff attempted to deal with the pollution on its own and then present the insurer with a bill, years later.

This case is strikingly similar to Travelers Indem. Co. v. Orange and Rockland Utilities, Inc., where the New York Appellate Division found that a utility failed to give its

excess insurer timely notice of pollution claims. 73 A.D.3d 576 (1st Dept. 2010). The

Court noted that the utility's:

ongoing contacts with environmental regulators about the . . . site dated back to 1981, and there was even a site inspection by the Environmental Protection Agency in 1985, yet defendant never provided any notice to its insurer of these contacts or the questions they raised until 1995. Defendant's argument that it never had actual notice of any pollution was insufficient. The many reports, including internal reports of a likelihood of contamination at the subject site, as well as inquiries from regulators, placed it on notice.

Id.

The Court of Appeals in 2015 reached the same conclusion in a case involving different sites but the same parties, finding that the utility's:

argument that it never had actual notice of any pollution was insufficient. The record abounds with documents demonstrating that pollution likely existed at each of the sites considered herein. These documents, along with repeated interactions with both state and federal regulators, were sufficient to place defendant on notice. Moreover, defendant's willful failure to investigate, i.e., its apparent strategy of waiting to be directed by the appropriate regulatory agencies to investigate the sites and remediate pollution, despite the overwhelming evidence of potential contamination, negates its contention of a lack of awareness of the pollution.

Travelers Indem. Co. v. Orage and Rockland Utilities, Inc., 124 A.D.3d 436, 436, 1

N.Y.S.3d 56, 57 (2015). Like those cases, the Plaintiff here acted in a fashion that demonstrated knowledge of the potential of a claim years before actually providing notice to the insurer. While the Plaintiff contends that its actions represented a laudatory attempt to take action when faced with pollution, the question here is when a duty to provide notice attached, not whether the Plaintiff acted as a good corporate citizen. That duty attached years before Plaintiff provided notice in 1991, and Plaintiff's notice was untimely.

Plaintiff's argument that the notice requirement in the policies would not be

triggered unless NYSEG had knowledge that the company's damages from any one policy period would exceed \$20,000 is equally unpersuasive. First, the argument is contradictory. Plaintiff contends the policies would not be implicated unless the aggregate of the \$20,000 self-insured retention for each year that the policies were in place were reached. As such, Plaintiff insists, damages would have to reach more than \$1.8 million for notice to be required. See Plaintiff's Brief in Reply/Response, dkt. # 137 at 26. Despite this argument, Plaintiff seeks damages from sites where NYSEG spent less than \$1.8 million in total to investigate and remediate damages. Second, courts applying New York law have rejected the notion that notice is not triggered until an insured knows of damage in each particular policy period: "[a]ll that is required is the possibility or potential of a claim." Household Intern., Inc. v. Liberty Mut. Ins. Co., 749 N.E.2d 1, 11 (Ill. App. Ct. 5th Div. 2001) (applying New York law).

Plaintiff also fails to provide any evidence that its decision to delay notice was an attempt to ascertain whether the excess policies would be implicated. In Long Island Lighting Co. v. Allianz Underwriters Ins. Co., 24 A.D.3d 172, 172 (1st Dept. 2005), the court rejected plaintiff's attempt to claim that its notice to excess insurers regarding environmental cleanup claims was timely because "there was a reasonable possibility that the subject policies, both excess, would not be reached by the" underlying claim, since "plaintiff offers no evidence that the timing of its notice was the result of a deliberate determination to that effect, and not, as the record suggests, the belief that it was not responsible for the . . . cleanup costs." Id. Nothing in the record indicates that NYSEG's failure to provide notice grew out of a reasonable assessment that damages would not reach the excess policies.

As such, the Court finds that Plaintiff failed to provide timely notice as required by the policies for each of the sites involved. Because notice was a condition precedent for coverage under the policies in question and no reasonable juror could find for the Plaintiff on that issue, the Court will grant the Defendants' motion for summary judgment and dismiss the case.¹²

IV. CONCLUSION

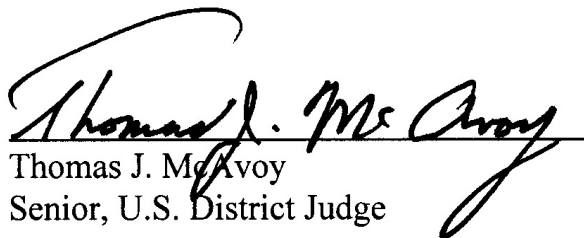
For the reasons stated above, the Court will GRANT Defendants' motion for summary judgment, dkt. # 126. Because the Court finds that no reasonable trier of fact could find for the Plaintiff on any cause of action against the Defendants, the Court will DENY the Plaintiff's motion for summary judgment on the issue of timely notice, dkt. # 119, and DENY the Plaintiff's motion for summary judgment on the accident/occurrence issue, dkt. # 155. Defendant OneBeacon America's second motion for summary

¹²As an alternate ground for summary judgment, the Defendant points to the statute of limitations to argue that Plaintiff's Complaint, filed in 2013, was brought outside the statute of limitations. "The New York six-year statute of limitations begins to run when the contract is breached." Combs v. International Ins. Co., 163 F.Supp.2d 686, 695 (E.D. Ky. 2001). "A breach occurs when the insurer denies liability under the contract." Id. Accrual also occurs in New York contract cases when the defendant "fail[s] to perform their obligations under the contract," after a demand. Matter of Carranza v. Prinz, 240 A.D.2d 405, 405, 658 N.Y.S.2d 1011, 1011 (2d Dept. 1997). Moreover, "the plaintiff will not be permitted to prolong the statute of limitations simply by refusing to make a demand." State v. City of Binghamton, 72 A.D.2d 870, 871, 421 N.Y.S.2d 950, 952 (3d Dept. 1979). The Defendants' position is that the Plaintiff's claims accrued when the Defendants disclaimed coverage, which occurred well more than 6 years before the Plaintiff filed the cause of action. As explained above, Century Indemnity clearly disclaimed on notice grounds on the policies in question in the early 1990s, and would likely prevail before a jury on statute of limitations grounds. OneBeacon's disclaimer, and thus denial of coverage, is less clear but of no matter as Plaintiff very clearly failed to provide the notice the parties agree the policies required.

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judgment, dkt. # 158, is DENIED as moot.¹³ Plaintiff's letter motion to file the Elkind Declaration, dkt. # 141, which was filed, is DENIED as moot. The case is hereby DISMISSED.

Dated: March 31, 2017



Thomas J. McAvoy
Senior, U.S. District Judge

¹³Both of those motions seek judgments from the Court on coverage issues. Since the Court has determined that coverage is unavailable under the policies because Plaintiff breached the notice issue, the Court will decline to issue any sort of declaratory judgment about those policies as a waste of the Court's resources.

Response to Question 1.b.

18-1012-cv

N.Y. State Elec. & Gas Corp. v. Century Indem. Co. et al.

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

SUMMARY ORDER

RULINGS BY SUMMARY ORDER DO NOT HAVE PRECEDENTIAL EFFECT. CITATION TO A SUMMARY ORDER FILED ON OR AFTER JANUARY 1, 2007, IS PERMITTED AND IS GOVERNED BY FEDERAL RULE OF APPELLATE PROCEDURE 32.1 AND THIS COURT'S LOCAL RULE 32.1.1. WHEN CITING A SUMMARY ORDER IN A DOCUMENT FILED WITH THIS COURT, A PARTY MUST CITE EITHER THE FEDERAL APPENDIX OR AN ELECTRONIC DATABASE (WITH THE NOTATION "SUMMARY ORDER"). A PARTY CITING TO A SUMMARY ORDER MUST SERVE A COPY OF IT ON ANY PARTY NOT REPRESENTED BY COUNSEL.

At a stated term of the United States Court of Appeals for the Second Circuit, held at the Thurgood Marshall United States Courthouse, 40 Foley Square, in the City of New York, on the 25th day of April, two thousand nineteen.

PRESENT: GUIDO CALABRESI,
RAYMOND J. LOHIER, JR.,
RICHARD J. SULLIVAN,
Circuit Judges.

NEW YORK STATE ELECTRIC &
GAS CORPORATION,

Plaintiff-Appellant,

v.

No. 18-1012-cv

CENTURY INDEMNITY COMPANY,
ONEBEACON AMERICA INSURANCE
COMPANY,

Case 18-1012, Document 130-1, 04/25/2019, 2547970, Page2 of 8

Defendants-Appellees.

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FOR APPELLEE ONEBEACON
AMERICA INSURANCE
COMPANY:

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Appeal from a judgment of the United States District Court for the
Northern District of New York (Thomas J. McAvoy, *Judge*).

New York State Electric & Gas Corporation (NYSEG) appeals from a
judgment of the District Court granting summary judgment to Century
Indemnity Company and OneBeacon America Insurance Company (together, the
Insurers) and dismissing the case. NYSEG brought suit against the Insurers,

1 seeking indemnity for costs associated with investigating and remediating
2 contamination at twenty-two former manufactured gas plant (MGP) sites. The
3 Insurers contend primarily that they are not obligated to indemnify NYSEG
4 because NYSEG provided them late notice of occurrence. We assume the
5 parties' familiarity with the underlying facts and the record of prior proceedings,
6 to which we refer only as necessary to explain our decision to affirm.

7 1. Waiver

8 NYSEG argues that Century and OneBeacon each waived its right to
9 disclaim coverage on late-notice grounds. To demonstrate waiver, NYSEG
10 "must put forward evidence of a clear manifestation of intent to waive by the
11 other party." Globecon Grp., LLC v. Hartford Fire Ins. Co., 434 F.3d 165, 176 (2d
12 Cir. 2006) (quotation marks omitted); see also KeySpan Gas E. Corp. v. Munich
13 Reins. Am., Inc., 23 N.Y.3d 583, 591 (2014). NYSEG has not done so.

14 For Century, NYSEG points to a letter drafted by a claims handler for
15 Century's predecessor. The draft letter disclaimed coverage for all sites,
16 including on late-notice grounds, but was never sent to NYSEG. NYSEG argues
17 that the decision not to send the letter constituted a waiver. But NYSEG does

1 not dispute that the claims handler simply copied and pasted a different
2 disclaimer letter, stopped work without making a coverage decision when he
3 realized that NYSEG had not asked Century to take action on the sites, and never
4 presented the letter to anyone for approval. An unreviewed, unsent letter
5 cannot have “lulled [NYSEG] into sleeping on its rights,” Globecon, 434 F.3d at
6 176 (quotation marks omitted), especially where Century generally reserved its
7 rights under the policy and informed NYSEG that one issue could be “[w]hether
8 late notice bars coverage,” App’x 1176.

9 NYSEG claims that OneBeacon waived its late-notice defense because it
10 denied coverage on late-notice grounds under a different policy but did not
11 specifically disclaim coverage on late-notice grounds under the policy at issue
12 here. But neither NYSEG nor OneBeacon was able to locate the relevant policy
13 until the start of this litigation. OneBeacon therefore did not have knowledge of
14 the facts upon which the existence of its right to disclaim coverage under the
15 relevant policy depended. See S. & E. Motor Hire Corp. v. N.Y. Indem. Co., 255
16 N.Y. 69, 72 (1930) (“[W]aiver is an intentional relinquishment of a right and
17 ordinarily must be predicated upon full knowledge of all the facts upon which

the existence of the right depends.”); Granite State Ins. Co. v. Transatl. Reins. Co., 19 N.Y.S.3d 13, 18 (1st Dep’t 2015) (waiver could not be established as a matter of law where it was unclear when a party obtained full knowledge of the terms of a reinsurance transaction); cf. Emp’rs Ins. of Wausau v. Duplan Corp., No. 94-CV-3143 (CSH), 1999 WL 777976, at *39 n.20 (S.D.N.Y. Sept. 30, 1999) (an insurer did not abandon other defenses to missing policy when it argued that no policy had been produced). In any event, OneBeacon explicitly reserved all of its rights under the relevant policy even though it was initially unable to locate it.

2. Late Notice of Occurrence

Under New York law, compliance with the notice provisions of an insurance contract is a condition precedent to an insurer's liability. See Commercial Union Ins. Co. v. Int’l Flavors & Fragrances, Inc., 822 F.2d 267, 271 (2d Cir. 1987); Great Canal Realty Corp. v. Seneca Ins. Co., 5 N.Y.3d 742, 743 (2005). Both Century’s and OneBeacon’s policies required NYSEG to provide notice of an occurrence. While NYSEG and OneBeacon dispute whether NYSEG owed OneBeacon notice of an occurrence “as soon as practicable” or only once NYSEG reasonably should have known that liability from the occurrence was

1 likely to implicate OneBeacon's policy, we need not resolve the issue because,
2 under either standard, we agree that NYSEG failed to provide timely notice of
3 occurrence to the Insurers.

4 NYSEG reasonably should have known of occurrences at all its MGP sites
5 by July 1991 at the latest. All of NYSEG's MGP sites had historically engaged in
6 the production of manufactured gas and produced the same contaminating
7 wastes. Evidence of contamination at a number of MGP sites should have
8 alerted NYSEG to the likelihood of contamination at others. In 1981 NYSEG had
9 already signed a consent order with the New York State Department of
10 Environmental Conservation (DEC) to remediate hazardous waste at one of the
11 MGP plants; in 1982 NYSEG notified the United States Environmental Protection
12 Agency that twenty-two of its MGP sites contained potentially hazardous waste;
13 in December 1986 NYSEG reported contamination at every site for which
14 investigation had advanced enough to reach a conclusion; in 1987 the DEC told
15 NYSEG that MGP sites were categorically "a significant contamination problem";
16 by 1989 NYSEG had projected \$25 million in costs to investigate and remediate
17 twenty-three MGP sites; and by July 1991 NYSEG's investigations had either

Case 18-1012, Document 130-1, 04/25/2019, 2547970, Page 7 of 8

1 confirmed or indicated contamination at twenty-one of the twenty-two sites at
2 issue in this case.

3 NYSEG hardly disputes that it should have known of occurrences at its
4 MGP sites. It instead argues that it could not have reasonably known that the
5 Insurers' policies would be implicated because, under New York's pro rata
6 allocation rule, the Insurers' policies would not have been triggered until
7 allocated damages for a site exceeded \$20,000 per year, which for one
8 representative site required \$1,960,000 in damages. But the New York Court of
9 Appeals did not establish the pro rata allocation rule until 2002, see Consol.
10 Edison Co. of N.Y. v. Allstate Ins. Co., 98 N.Y.2d 208, 223 (2002), and NYSEG
11 points to no evidence suggesting that, during the relevant period, it was
12 reasonable for it to believe that a pro rata allocation rule applied to the Insurers'
13 contracts.

14 Because NYSEG reasonably should have known of occurrences likely to
15 implicate the Insurers' policies at all its MGP sites by July 1991 at the latest, its
16 November 1991 notice to the Insurers was untimely as a matter of law. See Am.
17 Home Assurance Co. v. Republic Ins. Co., 984 F.2d 76, 78 (2d Cir. 1993). The

Case 18-1012, Document 130-1, 04/25/2019, 2547970, Page8 of 8

1 District Court therefore correctly held that NYSEG provided late notice of
2 occurrence to Century and OneBeacon for all sites, and it was justified in
3 dismissing the case in its entirety.

4 We have considered NYSEG's remaining arguments and conclude that
5 they are without merit. For the foregoing reasons, the judgment of the District
6 Court is AFFIRMED.

7 FOR THE COURT:

8 Catherine O'Hagan Wolfe, Clerk of Court

The block contains a handwritten signature in blue ink that reads "Catherine O'Hagan Wolfe". Overlaid on the signature is a circular official seal. The seal has a red outer ring with the words "UNITED STATES" at the top and "DISTRICT OF APPALOOSA" at the bottom. Inside the ring, the words "SECOND JUDGE" are written in blue.

Response to Question 1.b.

Case 18-1012, Document 139, 05/20/2019, 2568014, Page1 of 1

**UNITED STATES COURT OF APPEALS
FOR THE
SECOND CIRCUIT**

At a stated term of the United States Court of Appeals for the Second Circuit, held at the Thurgood Marshall United States Courthouse, 40 Foley Square, in the City of New York, on the 20th day of May, two thousand nineteen.

New York State Electric and Gas Corporation,

Plaintiff - Appellant,

v.

Century Indemnity Company, OneBeacon America
Insurance Company,

Defendants - Appellees.

ORDER

Docket No: 18-1012

Appellant, New York State Electric and Gas Corporation, filed a petition for panel rehearing, or, in the alternative, for rehearing *en banc*. The panel that determined the appeal has considered the request for panel rehearing, and the active members of the Court have considered the request for rehearing *en banc*.

IT IS HEREBY ORDERED that the petition is denied.

FOR THE COURT:

Catherine O'Hagan Wolfe, Clerk

The image shows a handwritten signature in blue ink that reads "Catherine O'Hagan Wolfe". The signature is written over a circular official seal of the United States Court of Appeals for the Second Circuit. The seal is blue and white, with the words "UNITED STATES", "SECOND CIRCUIT", and "COURT OF APPEALS" visible around the perimeter.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0899 (DPS-414)

Date of Request: August 1, 2019

Response Due Date: August 9, 2019

Date of Reply: August 8, 2019

Witness: Steve Mullin

Subject: Follow up to DPS-131 and DPS-199

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

1. In the last paragraph of Response b. to NYRC-0417 – DPS-131, the response indicated the following: “Approximately \$1,250,000 was allocated to pursue insurance recovery. Recently, NYSEG learned the case was overturned on appeal and NYSEG is not going to pursue additional legal action. Removing \$1,250,000 to pursue insurance recovery, the current estimate for legal services during this RY is approximately \$400,000 which is similar in amount with other years. NYSEG will make a formal update and revision of the work paper to reflect the change.”
 - a. Does the response above correspond to the court decision for Century Indemnity and One Beacon America discussed in response to NYRC-0538 – DPS-199 response 1b?
 - b. If a. does correspond, provide a revised work paper or indicate the Work Paper that contains the amount of legal fees removed to address the cost of litigation.
 - c. If the statement referenced above is not related to NYRC-0538 – DPS-199 provide further explanation of what insurers, litigation and time period it applies to.
 - d. Are any litigation costs that have been incurred within in the past five years included in the \$1,250,000 or are these costs for future projections?
2. Provide further clarification or information regarding NYSRC-0538 (DPS-199). On page 10 of 53, in Attachment 1, it is indicated that the limits of the policies vary per occurrence or accident.
 - a. Provide the limits of coverage for Century Indemnity Company for Policy XPL3587. Explain how the how the coverage would be broken down on a site-by-site and/or per occurrence basis.

**New York State Electric & Gas Corporation
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Request for Information

- b. Provide the limits of coverage for One Beacon America Insurance for Policy E16-E091-004. Explain how the coverage would be broken down on a site-by-site and/or per occurrence basis.
 - c. If there are ranges in the limits of coverage, explain what determines a lower limit versus a higher limit.
 - d. Attachment 1 discusses the Plattsburgh Saranac Street site and 5 others. However, in Table 1, the response appears to indicate that many sites are covered by the Century Indemnity Company and One Beacon America Insurance policies specified above. Explain the discrepancy between the number of sites indicated in Attachment 1 and Table 1 of the response.
3. On page 24 of 53 for Attachment 1 of NYRC-0538 (DPS-199) it is stated “One Beacon offered to settle the lost policy issue with the Plaintiff, but for an amount much less than the value of the policy claims.”
- a. Provide further information on the proposed settlement, including:
 - amount of settlement offered by One Beacon;
 - date of settlement offer;
 - reason(s) the settlement offer was not accepted by NYSEG;
 - details (including amount(s) and date(s)) of any counter offers proposed by NYSEG.
 - b. Were there any other settlements offered to NYSEG by either insurer during the course of litigation. If yes, provide dates and amounts.
4. Provide a breakdown of legal costs incurred by NYSEG year by year and what stage of litigation was occurring at the time.

Response:

- 1.a. Yes.
- 1.b. An updated Work Paper is attached as Attachment 1. In addition to rate year one (1) being adjusted, rate years two (2) & three (3) have been adjusted to remove funding that was estimated for appeals.
- 1.c. N/A
- 1.d. The \$1,250,000 was for estimated future cost in RY1.
- 2.a. See the table below titled “Century Limits” for the limits of the policy. NYSEG believes that each Site constituted a separate occurrence under the policy and that the policy would be obligated to pay the full policy limit per year for each Site in the case.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases

Request for Information

- 2.b. See the table below titled “One-Beacon Limits” for the limits of the policy. NYSEG believes that each Site constituted a separate occurrence under the policy and that the policy would be obligated to pay the full policy limit per year for each Site in the case.
- 2.c. Policy limits were not expressed as a range.
- 2.d. In order to address the potentially overwhelming cost and complexity of completing discovery and trial of a coverage case involving all Sites listed in Table 1, the magistrate judge in the case issued a scheduling and case management order that fact discovery would focus on 6 exemplar Sites selected by the parties, which are the Sites listed in Attachment 1. The scheduling order also stated that expert discovery would be limited to two of the Sites in Attachment 1 - Plattsburgh and Ithaca Court Street - and trial would focus on coverage, defenses, and damages related to Plattsburgh and Ithaca Court Street.

Century Limits		
Policy Year	Policy Limit\Occurrence	Self-Insured Retention
1951	\$1,500,000	\$20,000
1952	\$ 500,000	\$20,000
1953	\$ 500,000	\$20,000
1954	\$ 500,000	\$20,000
1955	\$ 500,000	\$20,000
1956	\$ 500,000	\$20,000
1957	\$1,000,000	\$20,000
1958	\$1,000,000	\$20,000
1959	\$1,000,000	\$20,000
1960	\$2,000,000	\$20,000
1961	\$2,000,000	\$20,000
1962	\$2,020,000	\$20,000
1963	\$2,020,000	\$20,000
1964	\$2,020,000	\$20,000

OneBeacon Limits		
Policy Year	Policy Limit\Occurrence	Self-Insured Retention
1964	\$2,010,000	\$20,000
1965	\$2,010,000	\$20,000
1966	\$2,010,000	\$20,000
1967	\$2,010,000	\$20,000
1968	\$2,010,000	\$20,000
1969	\$2,010,000	\$20,000
1970	\$2,010,000	\$20,000

- 3.a. The quoted extract from Attachment 1 refers to an alleged settlement proposed by OneBeacon in 1994 dealing with potential coverage only for Plattsburgh. This settlement

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

does not relate to the litigation filed by NYSEG against Century and OneBeacon in 2013, and NYSEG was unable to identify sources with which to verify the statements cited from Attachment 1 relating to the alleged 1994 proposal from OneBeacon.

- 3.b. Neither Century nor OneBeacon made any offer of settlement to NYSEG during the course of the litigation.
4. See Confidential Attachment 2 for the Litigation Costs.

Cases 19-E-0378, et al.
NYRC-0899 - DPS 414 (19-E-0378 et.al.)
Attachment 1

New York State Electric & Gas Corporation
2019 Rate Case
Docket No:
NC-RRP-2-WP-17_rev1_2019-0708

Schedule A
Electric & Gas Summary

Environmental Remediation
(\$000)

		A	B	C	D	E	F	G	H	I	J	K	L
			Per Books				Normalized		Rate Year 1		Rate Year 2		Rate Year 3
Forecasting Method		2016	2017	Historic Test Year 2018	Normalizing Adjustments	Historic Test Year	Forecasted Change	4/1/20 to TME 3/31/21	Forecasted Change	4/1/21 to TME 3/31/22	Forecasted Change	4/1/22 to TME 3/31/23	
Common External by MGP Site													
1	Albion	Specific	\$ -	\$ -	\$ 148	\$ -	\$ 148	\$ (148)	\$ -	\$ -	\$ -	\$ -	\$ -
2	Auburn Clark St.	Specific	3,618	8	5,775	-	5,775	(5,723)	52	(32)	20	-	20
3	Auburn Green St.	Specific	(1)	65	1	-	1	99	100	(80)	20	214	234
4	Auburn McMaster St.	Specific	2,534	4,545	2,640	-	2,640	(2,588)	52	(32)	20	-	20
5	Clyde	Specific	9	45	167	-	167	1,074	1,241	1,168	2,409	(2,399)	10
6	Cortland/Homer	Specific	(66)	84	143	-	143	(123)	20	14,785	14,805	(14,765)	40
7	Cortland Charles St.	Specific	2	-	1	-	1	4	5	-	5	-	5
8	Corning	Specific	5	14	7	-	7	93	100	(16)	84	66	150
9	Dansville	Specific	21	13	118	-	118	1,288	1,406	(1,331)	75	-	75
10	Elmira Madison Ave.	Specific	99	81	96	-	96	(27)	69	-	69	-	69
11	Elmira Water St.	Specific	23	9	182	-	182	(32)	150	850	1,000	727	1,727
12	Geneva Border City	Specific	229	132	8	-	8	876	884	1,480	2,364	(2,205)	159
13	Geneva Wadsworth St.	Specific	-	18	450	-	450	(425)	25	-	25	-	25
14	Goshen	Specific	1,234	20	20	-	20	30	50	(15)	35	-	35
15	Granville	Specific	256	200	134	-	134	3,622	3,756	(3,656)	100	-	100
16	Ithaca Court St.	Specific	(216)	34	8	-	8	170	178	(28)	150	-	150
17	Ithaca First St	Specific	(44)	27	(21)	-	(21)	1,539	1,518	(736)	782	(582)	200
18	Lockport State Rd.	Specific	-	4	37	-	37	(37)	-	1	1	2	3
19	Lockport Transit Rd.	Specific	518	191	183	-	183	(133)	50	-	50	-	50
20	Lyons	Specific	22	18	124	-	124	1,876	2,000	(1,958)	42	(25)	17
21	Mechanicville Central Ave	Specific	(55)	10	18	-	18	7	25	(15)	10	-	10
22	Newark	Specific	13	22	138	-	138	3,412	3,550	(3,466)	84	(49)	35
23	Norwich	Specific	185	2,807	131	-	131	(79)	52	(32)	20	-	20
24	Oneonta	Specific	7	48	34	-	34	29	63	-	63	-	63
25	Owego	Specific	12	15	10	-	10	10	20	(20)	-	-	-
26	Palmyra	Specific	18	38	16	-	16	354	370	455	825	2,175	3,000
27	Penn Yan Jackson St.	Specific	-	3	3	-	3	(1)	2	-	2	-	2
28	Penn Yan Water St.	Specific	6,257	4,014	1,770	-	1,770	(1,020)	750	(650)	100	(90)	10
29	Plattsburgh Bridge St.	Specific	1	15	17	-	17	(7)	10	-	10	-	10
30	Plattsburgh Saranac St.	Specific	3,356	3,887	790	-	790	7,730	8,520	(1,270)	7,250	(230)	7,020
31	Seneca Falls	Specific	120	95	50	-	50	(7)	43	(23)	20	-	20
32	Waterville	Specific	18	233	18	-	18	2	20	-	20	-	20
33	Legal for MGP	Specific	-	-	404	-	404	(4)	400	(325)	75	-	75
34	General Expenses/Materials/Misc.	Specific	-	-	14	-	14	36	50	-	50	-	50
35	DEC MGP Oversight Cost	Specific	476	683	477	-	477	23	500	-	500	-	500
36	Total Common External - MPG Sites		\$ 18,650	\$ 17,378	\$ 14,111	\$ -	\$ 14,111	\$ 11,920	\$ 26,031	\$ 5,054	\$ 31,085	\$ (17,161)	\$ 13,924

New York State Electric & Gas Corporation
 2019 Rate Case
 Docket No:
 NC-RRP-2-WP-17_rev1_2019-0708

Schedule A
 Electric & Gas Summary

Environmental Remediation
 (\$000)

	A	B	C	D	E	F	G	H	I	J	K	L	
		Per Books				Normalized		Rate Year 1		Rate Year 2		Rate Year 3	
	Forecasting Method	2016	2017	Historic Test Year 2018	Normalizing Adjustments	Historic Test Year	Forecasted Change	4/1/20 to TME 3/31/21	Forecasted Change	4/1/21 to TME 3/31/22	Forecasted Change	4/1/22 to TME 3/31/23	
Electric External													
37	Electric Portion of Common	Allocated	\$ 14,993	\$ 13,970	\$ 11,344	\$ -	\$ 11,344	9,582	\$ 20,926	4,063	\$ 24,989	(13,796) \$	11,194
38	Shulman (non-MGP)	Specific	-	-	-	-	-	100	100	-	100	4,900	5,000
39	Legal for Superfund	Specific	-	-	-	-	-	50	50	-	50	-	50
40	Other (Note 1)	othing Projected	1,538	97	42	-	42	(42)	-	-	-	-	-
41	Total Electric External		<u>\$ 16,531</u>	<u>\$ 14,067</u>	<u>\$ 11,386</u>	<u>\$ -</u>	<u>\$ 11,386</u>	<u>\$ 9,690</u>	<u>\$ 21,076</u>	<u>\$ 4,063</u>	<u>\$ 25,139</u>	<u>\$ (8,896)</u>	<u>\$ 16,244</u>
42	Forecast Based on Average of 3 Rate Years							<u>\$ 20,820</u>					
Gas External													
43	Gas portion of Common	Allocated	\$ 3,657	\$ 3,408	\$ 2,767	\$ -	\$ 2,767	\$ 2,338	\$ 5,105	\$ 991	\$ 6,096	\$ (3,365) \$	2,730
44	Bing. Court St	Specific	215	169	893	-	893	(843)	50	(25)	25	-	25
45	Bing. Washington St.	Specific	28	16	23	-	23	(13)	10	-	10	-	10
46	Johnson City	Specific	16	77	-	-	-	200	200	(50)	150	816	966
47	Other (Note 1)	othing Projected	138	(8)	(27)	-	(27)	27	-	-	-	-	-
48	Total Gas External		<u>\$ 4,054</u>	<u>\$ 3,662</u>	<u>\$ 3,656</u>	<u>\$ -</u>	<u>\$ 3,656</u>	<u>\$ 1,709</u>	<u>\$ 5,365</u>	<u>\$ 916</u>	<u>\$ 6,281</u>	<u>\$ (2,549)</u>	<u>\$ 3,731</u>
49	Forecast Based on Average of 3 Rate Years							<u>\$ 5,126</u>					
Electric/Gas Split for Common													
50	Electric	80.39%											
51	Gas	19.61%											

Notes: (1) 2016 amounts are primarily Legal / Regulatory expenses not included in other 2016 line items.

New York State Electric & Gas Corporation
 2019 Rate Case
 Docket No:
 NC-RRP-2-WP-17

Schedule B
 MGP Conceptual Schedule

Schedule B
 MGP Conceptual Schedule

Environmental Remediation

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE
DEC	Avang	rid	Sites ¹	2019				2020				2021				2022				2023				2024				2025			
PM	PM			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	WE	TB	Plattsburgh OU-1 River/Site				Restorati			Restorati		OM				OM				OM											
2	WE	TB	Plattsburgh OU-2 River		RD	Contractor procurement				RA			RA				RA - II work not completed in 2020 &														
3	WE	TB	Plattsburgh OU-3 Bay		draft FS			FS		@			dRD			RD	Contractor procurement				RA			RA		FER					
4	NA	JR	Dansville OU-2		RD		Contractor procurement		RA		FER					OM					OM				OM						
5	JS	TB	Cortland-Homer OU-2		RD			RD	Contractor procurement				RA			FER															
6	JM	JI	Lockport Transit		RA		FER				OM				OM				OM												
7	JS	TB	Auburn Clark		FER		OM				OM				OM				OM												
8	JS	TB	Auburn McMaster		FER		OM				OM				OM				OM												
9	GP	JR	Penn Yan Water		RA		FER				OM				OM				OM												
10	JM	JR	Granville		RA		FER				OM				OM				OM												
11	DM	JW	Geneva B.C.		ending NYSDEC 50% ap		Contractor procurement		RA		FER				OM											OM					
12	DM	JW	Geneva Wadsworth		FER		OM				OM				OM				OM												
13	NA	TB	Binghamton OU-2 (River)		IRM/RA		@																								
14	DM	JW	Seneca Falls		RA		FER				OM				OM				OM												
15	DM	JR	Ithaca First St.		RD		Contractor procurement		RA		FER								OM												
16	MS	JW	Newark		RD		Contractor procurement		RA		FER				OM				OM						OM						
17	LS	JR	Clyde		RD		Contractor procurement		RA		FER																				
18	KT	JW	Lyons		RD		Contractor procurement		RA		FER								OM					OM			OM				
19	MK	JW	Palmyra		dRD		PDI		dRD			RD				RA		FER					OM				OM				OM
20	PA	JR	Elmira Water St.		dRD		RD				Contractor procurement		RA		FER								OM								
21	WE	JR	Auburn Green St.		@	procurement		dRD		PDI	dRD		RD		Contractor procurement		RA		FER			OM									
22	WV	JR	Corning			RI				dFS			FS		@	procurement		dRD			RD		Contractor procurement		RA						
23	WV	TB	Reynolds Road (Johnson City)		PDI		FS		@	dRD		RD		procurement			RA		FER												
24	NA	JR	Waterville				OM				OM				OM				OM				OM								
25	SD	JR	Oneonta				OM				OM				OM				OM				OM								

Environmental Remediation

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE
26	JS	TB	Mechanicville				OM				OM				OM				OM				OM								
27	MK	TB	Ithaca Court OU-1	FER			OM				OM				OM				OM				OM								
28	MK	TB	Ithaca Court OU-2	FER			OM				OM				OM				OM				OM								
29	NA	TB	Binghamton Court OU-1												I&ECC																
30	KT	TB	Binghamton Washington St.												I&ECC																
31	JM	JR	Elmira Madison Ave.												I&ECC																
32	NA	JR	Dansville OU-1												I&ECC																
33	NA	TB	Cortland-Homer OU-1				I&ECC												I&ECC												
34	NA	TB	Penn Yan Jackson St.				I&ECC												I&ECC												
35	NA	TB	Cortland Charles St.				I&ECC												I&ECC												
36	SD	TB	Owego																												
37	SD	TB	Goshen				OM				OM				OM				OM												
38	DL	TB	Norwich				OM				OM				OM				OM												
39	AC	TB	Plattsburgh Bridge Street				OM					OM					OM				OM										

40 RI-Remedial Investigation

41 FS - Feasibility Study

42 @ - ROD

43 PDI - Pre Design Investigation

44 RD - Remedial Design

45 RA - Remedial Action

46 OM - Operation, Monitoring, & Maintenance

47 IRM-Interim Remedial Measure

48 EC - Electric Construction

49 I&ECC - Institutional & Engineering Control Construction

50 ISM - Interim Site Management

51 FER - Final Engineering Report

This target schedule has been prepared based on current assumptions that may or may not be accurate, and by no means shall be considered a schedule for completion of the activities identified. The actual schedule to complete the investigation, remediation or construction activities at each Site will be continually developed based on information generated throughout the course of each project. It is RG&E's intent to complete the projects as expeditiously as possible using available

¹ Amended and Restated Multi-Site Consent Order (ARMSCO), Index #: D0-0002-9309

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation**

MGP Site Notes: Rate Case MGP estimates are based on work projected in the 2019 NYSDEC Target Schedule submitted to the NYSDEC on December, 28 2018. A list of Acronyms used are provided on the last page.

MGP Sites**1 Albion**

NYSEG reached a “cash out” settlement agreement with National Grid who is primarily liable and took the lead on conducting the remediation which was completed in May 2012. NYSEG only owns a portion of the site and NYSEG’s agreement with National Grid eliminates NYSEG’s future liability for the site.

2 Auburn Clark

Remediation completed in fall of 2018. Remaining costs are for post-remedy documentation (FER, EE, SMP) and for quarterly O&M sampling thru 2023.

3 Auburn Green

Site only used for a distribution holder, now an electric substation. Draft FS report was submitted to DEC in August 2017 which recommended Enhanced Natural Attenuation and monitoring; however, DEC has not yet responded. For Best Estimate used AECOM FS estimate of \$403,510 with 30% contingency (OM&M undiscounted). Small – simple commercial/industrial site with very limited off-site impacts.

4 Auburn McMaster

Remediation completed in fall of 2018. Remaining costs are for post-remedy documentation (FER, EE, SMP) and for quarterly O&M sampling thru 2022.

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****5 Binghamton Court**

Landside (OU-1): completed RI, several removal actions, storm sewer replacement and installed coal tar barrier wall. ROD issued in March 2013 called for no further action except barrier wall O&M, estimated to cost \$67K/yr for 5 yrs and then \$20K/yr for Sediment (OU-2): contractor bids were received in early 2018 and the work is targeted to cost \$2.6M. Work was started in fall 2018 (only site prep was completed) and had to be postponed until 2019 due to high river flow conditions. Best estimate is thus \$2.3million (remedial bid estimate minus remedial spend in 2018, plus O&M costs for 24 years).

Rate year 1 costs are estimated at \$20K for OU-1 O&M, plus \$30K to finalize OU-2 remedial construction reporting costs. Rate years 2 and 3 costs are estimated at \$20K for OU-1 O&M, plus \$5K for OU-2 remedial construction reporting costs.

6 Binghamton Washington

Remediation completed in summer 2010. Remaining cost is for periodic monitoring and certification, estimated to cost \$10 K/yr for 24 years (starting in 2018), which totals \$120K, plus \$15K for well closure.

7 Clyde

RI completed, slight to moderate contamination. FS approved by DEC in March 2013 and DEC selected site remedy. Currently, the site features a NYSEG electric substation and vacant land. There are no sediment issues since former Erie Canal section adjacent to the site was filled in and relocated. For the Best Estimate used GEI prepared FS estimate of \$3,775,800 (OM&M undiscounted). Work conceptualized during the rate case years includes remediation, reporting and OM&M.

8 Cortland/Homer

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation**

OU-1 and OU-2 landside remediation (targeted excavation w/ ISS for deeper soil) completed spring 2013. LNAPL investigation for petroleum products identified during the remedial activity was completed in November 2013. O&M of OU-1 continues at \$15K/year. Sediment re-evaluation (necessary due to 2006 & 2011 flooding events) was completed in fall 2017. Remedial Design for OU-2 sediments (estimated \$150K) remains to be completed. Based on draft supplemental sediment RI data, it appears contaminants were redistributed by the floods and the volume of material requiring remediation is greater than what was identified in the FS and ROD. The current draft estimate based on delineations yet to be approved by NYSDEC is \$14,790,000 which includes a 30% contingency. Work conceptualized during the rate case years include remedial design, remediation, reporting

9 Cortland Charles St.

Site only used for a distribution holder, now owned by NYSEG. Remediation completed spring 2011. Remaining cost is \$5K/yr long term maintenance and certifications for 19 years = \$95K.

Corning

Site was added to the Consent Order in 2016 and is the current location of Corning, Inc.'s world headquarters. NYSEG hopes the Site Investigation begins in 2019; however, negotiations with Corning to secure an access agreement are pending. Currently, site specific data is not available. Based on experience, investigation costs for a typical site range in the order of \$250K-\$500K. Prior to current use, Corning had built a manufacturing plant on the site. For planning work, NYSEG has assumed medium – simple commercial/industrial site, and investigation, remediation and OM&M could range between \$3 million to \$13 million. (This cost is similar to the high end cost estimate for Auburn Clark St. w/o sediment issues). Work conceptualized during the rate case years includes investigation, FS and initiation

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****# Dansville**

NYSDEC selected OU-1 site remedy in March 2008 (extensive excavation/disposal of soil) plus long term O&M for groundwater. OU-1 site remedy was completed in 2015. The ROD issued for OU-2 in March 2017 includes enhanced natural attenuation and groundwater monitoring/NAPL recovery as the selected remedy. Best Estimate for implementation of OU-2 remedy is \$1.97 million (undiscounted), which is based on a September 2016 FS estimate (ARCADIS). For Best Estimate, used cost estimate with 10% contingency. (Medium – simple commercial/industrial site with off-site impacts).

Elmira Madison Ave

Remediation (targeted excavation/disposal of soil, in-situ soil stabilization-ISS, pipe removal) was completed January 2012. Coal tar collection and groundwater treatment/monitoring were installed in November 2012. For O&M Best Estimate used 2019 ARCADIS engineering proposal of \$60,000/yr for 24 years and 15% contingency for an estimated cost of = \$1,656 Million. Work conceptualized during the rate case years includes OM&M.

Elmira Water

The site is currently a paved lot. RI Report complete and a ROD issued in 2017. For best estimate, used selected remedy in ROD - Alt 4 (GEI 2015 FS Estimate) of \$3,535,600 (OM&M undiscounted) = \$3,535,600. Work conceptualized during the rate case years includes remedial design, remediation, reporting and OM&M.

Geneva Border City

A FS (URS) was finalized in December 2008 and NYSDEC accepted the recommended remedy in March 2009 with an estimated cost of \$3.3 million. Best estimate cost of recommended remedy with 20% contingency (targeted excavation/disposal and capping) and undiscounted O&M is \$4.265 million. The project is currently (2019) in remedial design phase and work conceptualized during the rate case years includes remediation, reporting and OM&M.

Geneva Wadsworth

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation**

Remedial Construction completed in 2018 - Remaining Construction Commitments are approximately \$367,000. Anticipate six years of groundwater monitoring and Vapor Intrusion OM&M at a cost of \$25,000/yr. (2019-2025) and \$6,000 per year for 30 years thereafter. Assumes no further investigation or corrective action related to VI at Site.

Goshen

Remediation was completed at the end of 2016. FER, SMP, and EE have been finalized. Periodic OM&M monitoring is underway including NAPL monitoring and removal. Remaining costs are for groundwater and NAPL monitoring which started in Q4 2018 (quarterly for 3 years, then semi-annually for 2 years followed by annually for 2 subsequent years).

Granville

Extensive coal tar plume detected off-site, including under river and in bedrock. NYSDEC selected site remedy in March 2014, involving site excavation, in-situ stabilization and NAPL recovery. Estimate based on remedial construction bids of \$22,509,300 (OM&M undiscounted; includes 5% additional contingency). Work conceptualized during the rate case years includes OM&M activities.

Ithaca-Cayuga Inlet

Remediation completed in 1999 -no further action determination issued by NYSDEC.

Ithaca Court St.

OU -1: Remediation is complete except for periodic monitoring, inspections and reporting.

OU-2 (Off-site): Remediation is complete except for periodic monitoring, inspections and reporting. Monitoring will be quarterly for two years beginning in mid-2019, then annual for three years. Pending monitoring results, additional ISCO injections may be required.

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****# Ithaca First**

In March 2011 NYSDEC selected a remedy that consisted of coal tar NAPL recovery, barrier wall and site controls (GEI FS 2011) at an estimated cost of \$4,369,800. Work targeted for the rate years includes implementation of the RA, reporting and OM&M activities.

Johnson City (Rynolds Road) Disposal site

This was a site used for placement of gas holder tank bottoms when Binghamton Court St. site was demolished. Some removal was completed in 2007 and a RI is needed to determine if additional removal is needed. It is anticipated limited additional removal will be required. Based on experience an estimated cost of \$1.625 million has been assumed. Work conceptualized during the rate case years include remedial design, remediation and

Lockport State Road

Remediation completed May 2008. Periodic Review Reports (PRR) will be completed on a 5 year basis at a cost of \$3,500 per each PRR over the next 30 years

Lockport Transit St.

First phase of remedial activities commenced in 2014 and was completed in 2015. The second phase of the remedy, which includes Canal sediment remedial action and 36 S Transit Rd demolition and remedial action, is currently in progress at a contractor estimated cost of \$2.7M (competitive bid). Remedial work will be completed in 2019 with engineering reporting and site management plans to be submitted around first quarter 2020. Future rate case costs include \$50K/year for O&M activities.

Lyons

Draft FS report was submitted to the NYSDEC July 2013. For Best Estimate, used proposed Alternative in FS (Alt 3) of \$3,066,800 (OM&M undiscounted). The project is currently (2019) in remedial design phase. Work conceptualized during the rate case years include remediation, reporting and OM&M.

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****# Mechanicville Central Ave.**

Remediation began in November 2008 and was completed in June 2009. The current estimate for long term O&M for bedrock NAPL monitoring is \$425,000 (\$25,000/yr for 9 years [2013-2020] and \$10,000/yr for 20 years [beginning in 2021]).

Mechanicville Coons Crossing

This was a small, isolated area used for the surface disposal of purifier waste from Central Ave. An Interim Remedial Action (IRM) consisting of excavation of visually impacted material followed by soil sampling was completed in summer 2011. Final Engineering Report was submitted to DEC in September 2013. No further action Record of Decision was issued in March 2014. Monitoring wells were closed in July 2014. DEC issued proper closure letter in December 2014. No further work required at this site.

Newark

Site Investigation completed May 2012. Feasibility Study is complete and DEC selected the site remedy (targeted deep soil removal and cover system) in March 2013. For Best Estimate, used the selected remedy cost of \$5,441,000 (OM&M undiscounted). The project is currently (2019) in remedial design phase and work conceptualized during the rate case years includes remediation, reporting and OM&M.

Norwich

On site remediation (in-situ soil stabilization (ISS)) completed June 2011. Off-site remediation (ISS) completed in 2017. Based on SMP which is currently being prepared O&M is estimated to cost approximately \$92K over a three year period.

Oneonta

Remediation complete in 2007, passive groundwater treatment (ORC application) has been temporarily suspended to determine if further treatment is required. For Best Estimate, used ARCADIS proposal cost for 2019 O&M of \$55K/yr for monitoring for 7 years and 15% contingency, plus \$20K/yr for 10 years (assume reduced sampling due to shrinking plume) and 15% contingency = \$672,000.

Owego

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation**

Remediation complete in 1995, 15 year monitoring summary report submitted to DEC in April 2018 recommends no further monitoring. \$20K in Rate year 1 is to properly close the site monitoring wells assuming DEC approves the recommendation of no further monitoring.

Palmyra

FS submitted to NYSDEC in September 2009 and the NYSDEC selected on-site remedy in March 2011 (targeted excavation and NAPL interceptor wells) with an estimated to cost \$5.8 million. NYSDEC is requiring additional sediment investigation and it's estimated the investigation will cost \$200,000. For Best Estimate used FS estimate of \$7,375,900 (OM&M undiscounted, inflated to 2013, includes \$200K for additional sediment investigation). Work conceptualized during the rate case years includes remedial design, remediation and reporting.

Penn Yan Jackson

RI completed with minimal impacts found. Focused FS was submitted to NYSDEC in October 2010 and the NYSDEC selected the remedy in March 2011 (site management plan (SMP) and environmental easement). The SMP has been completed and the remaining work going forward per the SMP includes annual certification at approximately \$2,000/yr.

Penn Yan Water Street

Currently in the Remediation phase and is expected to be completed in 2019/20 with submittal of the FER in 2020. Expected cost during the rate case years includes remedial action report, OM&M and reporting.

Plattsburgh Bridge St.

Remediation complete in 2001, assumed continued monitoring for an additional 4 events over 5 years (15-month intervals) at \$10K/year then close wells and annual certification for \$2K/yr for 20 years.

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****# Plattsburgh Saranac St.**

On site: Remediation was completed May 2009, except for placement of soil cover and bedrock wells estimated to cost \$0.5 million and long term O&M estimated at \$0.5 million.

Near Site River (OU-1): OU-1 river remediation work completed in 2017 except for river bank restoration vegetative plantings which is estimated to cost \$750K.

River OU-2: An investigation in 2013 identified MGP contamination throughout the OU-2 (downstream) reach of the river. In December 2013 an engineering contractor prepared engineer's estimate. Remedial design submitted to DEC in December 2018. Best estimate for this work is the engineer's estimate of \$12.620 million.

Cumberland Bay (OU-3): GEI Consultants prepared a draft FS for off-site Cumberland Bay sediments in January 2008, which included two viable alternatives ranging in cost from \$1.2 - \$20 million (excluded no action and \$125 million alternatives as not reasonable). NYSDEC rejected the FS in March 2013 since it did not address the lower Saranac River. In December 2013 an engineering contractor prepared estimates based on 100-year flood zone removal and removal of impacts. Best estimate for the 100-year flood zone removal estimate is \$16.030 million with \$66.540 million as an upper range estimate.

Based on the current conceptual target schedule work at the site during the rate years includes remedial action in OU-2 (sediment removal) and remedial design for OU-3.

Seneca Falls

Remedial Construction bids received late 2018 at an actual remedial estimate of \$3,800,000. Remediation scheduled for 2019. Reporting remedial closeout cost in 2020 estimated at \$50,000. OM&M for 30 years thereafter at an estimated cost of \$20,000/year.

Warsaw

Remediation complete 1999-no further action determination issued by NYSDEC.

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation****# Waterloo**

RI completed of this former remote distribution holder-no remediation needed, wells were closed in 2011. No further action required.

Waterville

Remediation completed in 1998. DEC is requiring groundwater monitoring indefinitely due to localized groundwater impacts that exceed groundwater standards. For Best Estimate, used 2018 ARCADIS O&M estimate of \$16,200/yr and 15% contingency for 20 years = \$372,000K

Non-MGP Site**# Shulman Salvage Yard Site**

PCB Site Cleanup in Elmira, NY. NYSEG and Shulman are currently the only PRPs named in this Superfund cleanup. The scrap yard accepted numerous PCB contaminated transformers from NYSEG in the 1970s and 1980s. NYSEG is working with Shulman's attorney to lower the cleanup standard by changing the property zoning from commercial to industrial. The current assumption is that this can be accomplished. A final remedy and timing have not been determined at this time but NYSEG estimates it could occur in the 2022/2023 time frame.

Other Direct Program Costs**# DEC Oversight cost**

NYSDEC oversight cost for the past year (2018) was \$474K/yr and will likely remain the same for the next several years then begin to decline as the remedial aspects of the projects wind down. For the rate case years we have estimated \$500,000/yr.

Legal costs

Several NYSEG sites involve third parties and require legal support for access, claims, negotiations and settlements. In addition, legal support is required for deed filings and notices at completion of projects. For the rate case we have estimated these services to be approximately \$450,000 for year 1, and \$125,000 for each of years 2 and 3 (MGP / non-MGP electric common).

LIST OF ACRONYMS

AECOM	Engineering consulting firm
ARCADIS	Engineering consulting firm

NYRC-0899 - DPS 414 (19-E-0378 et.al.)**Attachment 1****New York State Electric & Gas Corporation****Schedule C****2019 Rate Case****Environmental Remediation Estimate Notes****Docket No:****NC-RRP-2-WP-17****Environmental Remediation**

ARR	Alternatives Analysis Report
BCP	Brownfield Cleanup Program
DEC	Department of Environmental Conservation (New York State)
DNAPL	Dense Non-Aqueous Phase Liquid
EE	Environmental Easement
FER	Final Engineering Report
FS	Feasibility Study
GAAP	Generally Accepted Accounting Practices
GEI	Engineering consulting firm
IFRS	International Financial Reporting Standards
ISCO	In-Situ Chemical Oxidation
ISS	In-Situ Solidification
LNAPL	Light Non-Aqueous Phase Liquid
MGP	Manufactured Gas Plant
MW	Monitoring Well
NAPL	Non-Aqueous Phase Liquid
NYSDEC	New York State Department of Environmental Conservation
O&M	Operations & Maintenance
OM&M	Operations, Maintenance & Monitoring
OU-1	Operable Unit # 1
OU-2	Operable Unit # 2
OU-3	Operable Unit # 3
PCB	Polychlorinated biphenyl
PRP	Potentially Responsible Party
PRR	Periodic Review Report
RI	Remedial Investigation
ROD	Record of Decision
SIR	Site Investigation & Remediation
SMP	Site Management Plan
SVI	Soil Vapor Intrusion
TSDF	Treatment, Storage, Disposal Facility
URS	Engineering consulting firm
VI	Vapor Intrusion

Response to IR NYRC-0899 (DPS-414)
Attachment 2 of Exhibit__(SIR-1) Redacted

Requesting Party: Department of Public Services Staff

Request No.: NYRC-1085 (DPS-522)

Date of Request: August 16, 2019

Response Due Date: August 23, 2019

Date of Reply: August 22, 2019

Witness: Steve Mullin

Subject: Follow up to 414 (Century and OneBeacon)

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

- a. For each insurance policy, specify whether it includes an owned-property exclusion. If it does include this exclusion, explain how on-site versus off-site contamination factor in the policies and associated legal proceedings.
- b. With respect to the Companies' response to DPS-414(2), confirm that the Companies interpret their insurance policies to mean that each site has the indicated policy limit (e.g., the Company's aggregate annual policy limit = individual site policy limit * number of sites). If not confirmed, explain your response in detail.
 - i. Have the Companies discussed their interpretation of the policy with each insurance carrier? If so, explain whether each insurance company agrees with this policy interpretation and, if it does not agree, why not.
 - ii. Has the Companies' interpretation of the insurance policy limits, as explained in the response to DPS-414(2), ever been the subject of litigation? If this interpretation has been litigated, identify each such proceeding and explain whether the Companies' interpretation was successful.
- c. Specify the carrying charges that the Companies assessed to the program deferral balance for costs associated with litigation relating to the Century and OneBeacon insurance policies.

Response:

- a. The excess insurance policies contain owned property exclusions. NYSEG believed it could overcome this exclusion based upon legal precedent in New York that the owned property exclusion does not apply where costs are incurred to remedy contamination that threatens third-party property or groundwater. Generally, costs associated with cleanup of former manufactured gas plant sites, including those at issue in this case, could be described as necessary to prevent or remedy contamination of third-party property or groundwater.
- b. NYSEG was prepared to argue at trial that each site constituted a separate occurrence under each policy requiring that each policy pay its limit per year, per site.
 - i. Except in the context of this litigation, NYSEG has not discussed its interpretation of these policy provisions with the insurance carriers. It was expected that the insurance carriers would not have agreed with NYSEG's position at trial. Instead, they would have argued that each policy constituted a single, continuous contract of coverage over multiple years. Under this theory, the policy would pay its limit once per site over the term of years, not per year.
 - ii. Though NYSEG has not litigated this point in the past, there is legal authority supporting NYSEG's interpretation. In cases where the insured paid a separate premium per year coupled with policy language permitting the insurance carrier to terminate the policy on its anniversary or at its discretion, a number of courts, including appellate courts in New York, have interpreted the policy in the insured's favor and found that the policy limit is payable in full per year.
- c. The litigation costs are incremental deferrable expenses and are deferred as part of the environmental remediation reconciliation. Carrying charges are accrued on a monthly basis using the average net of tax balance at the rate agreed upon in the company's joint proposal.

Requesting Party: Department of Public Services Staff

Request No.: NYRC-1094 (DPS-529)

Date of Request: August 21, 2019

Response Due Date: August 28, 2019

Date of Reply: August 28, 2019

Witness: Steve Mullin

Subject: Revenue Requirements

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

1. NYSEG's response to Question 2.d of interrogatory request NYRC-0899 (DPS-414) includes tables showing the policy years, policy limit/occurrence and self-insured retention for the Century Indemnity and One Beacon America Insurance policies. For each of the 22 sites identified in Table 1 corresponding to NYRC-0538 (DPS-199), provide the following:
 - a. Identify the policy years for which NYSEG was eligible to file a claim based on historical operations and contamination at the site and/or adjacent properties that were affected by MGP site contamination;
 - b. Indicate the maximum claim amount for each year of eligibility based on the policy limits and NYSEG's understanding of the historic operations and contamination at the site; and
 - c. Indicate the total eligible claim amount for each policy (per site) based on NYSEG's understanding of historic operations, contamination at the site, total costs of SIR activities, and payments received for claims with other insurance policies.
2. If NYSEG does not believe that it would be eligible to file a claim for the maximum allowable claim amount for any individual site and/or policy year, please provide the amount and justification.

Response:

1. NYSEG would have advocated at trial that contamination of each site and adjacent property constituted property damage within the meaning of the policies purchased from Century and OneBeacon, and that the total cost of investigating and cleaning such contamination is covered under all such policies that were in effect during the time in which the damage had been occurring. Because environmental contamination associated with MGP sites is part of a continuous process that begins when pollutants first come in contact with the ground and ends only when the pollutants are cleaned up, NYSEG's position at trial would have been that coverage under all of the Century and OneBeacon policies in effect during that time period had been triggered and were obligated to cover the claim, excluding those that contained pollution exclusion language.
 - a. Based upon this coverage argument, NYSEG's position at trial would have been that Century and OneBeacon policies for the following policy years would have been triggered and obligated to pay on the claim filed by NYSEG since they did not contain pollution exclusion language:
 - i. Century: Policy Years from 1951 to 1964
 - ii. OneBeacon: Policy Years from 1964 to 1970
 - b. NYSEG would have advocated at trial that environmental contamination at each of the 22 sites listed in Table 1 constituted a separate accident or occurrence under each of the triggered policies purchased from Century and OneBeacon during the Policy Years listed in the response to 1(a), above. Under this theory, each policy would have been obligated to pay its maximum limit (as set forth in NYSEG's response to Question 2.d of interrogatory request NYRC-0899 (DPS-414) per site, per year, less the self-insured retention per year. NYSEG likely would have advocated other methods for allocating policy limits based upon facts developed at trial and the defenses offered by the insurance companies; the insurance companies would doubtless have advocated their own theories that would have resulted in no payment or much lower payments under each policy. It is difficult to predict, had the case reached trial, whether the court would have agreed with NYSEG's position or with the insurance companies' position. Appellate courts in New York recognize a number of alternative allocation and coverage valuation techniques, which hinge upon intensive fact-based analysis.
 - c. The amount of the claim per site would be capped at the clean-up costs per site, less amounts paid by FirstEnergy for sites where FirstEnergy shares cost responsibility. The total damage award against the defendants, had NYSEG won at trial, would likely have been reduced by the portion of the \$43,116,581 received from First Energy to date for those sites included in this litigation, and the expected value of future costs FirstEnergy is obligated to pay at these sites. (Reference NYSEG's response to NYRC-0539 (DPS-200))

at Section 5.b.i.) NYSEG would have argued at trial that AEGIS's settlement payment should not offset NYSEG's claim since AEGIS's settlement was not site-specific. (Reference NYSEG's response to NYRC-0538 (DPS-199), Section 1.)

2. NYSEG filed a claim against Century and OneBeacon in November 1991 seeking the maximum amount of coverage under the policies. Both carriers denied coverage and reserved all policy rights and defenses. NYSEG sued the insurance companies in an attempt to obtain coverage under the policies identified in response 1(a), above, consistent with applicable insurance coverage law in New York. At trial, NYSEG would have advocated that coverage damages equaled the maximum policy limits per site, capped at total costs per site, as described above. NYSEG would likely have advanced alternative valuation theories based upon facts developed at trial and the defenses offered by the defendants, which could have resulted in a lower damage award from the court had NYSEG won the case. The insurance companies would have advanced different arguments of their own in support of no coverage or even lower damages. Had NYSEG won at trial, it is difficult to predict which damage calculation methodology the court ultimately would have adopted, as appellate courts in New York recognize a number of alternative allocation and coverage valuation techniques, which hinge upon intensive fact-based analysis.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

Requesting Party: Department of Public Service Staff

Request No.: NYRC-0884 (DPS-400)

Date of Request: July 30, 2019

Response Due Date: August 9, 2019

Date of Reply: August 12, 2019

Witness: Steve Mullin

Subject: AEGIS Insurance

Question:

In these interrogatories, all requests for workpapers or supporting calculations should be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact.

Provide background on the Associated Electric and Gas Insurance Services Limited (AEGIS) for Shulman's Salvage Yard and the associated policies. Your answer should include, but not be limited to, the following information:

- a. A description of the Shulman Salvage remediation site, type of remediation site (e.g., MGP, Superfund, etc.), present stage of work (e.g., Remedial Investigation), and how it has been used in the past;
- b. The current status and range for limits of the policies;
- c. An overview of litigation to date and summary of future litigation milestones, including a discussion of possible settlement opportunities.

Response:

NYSEG's records indicate that NYSEG sold electric transformers as scrap to Shulman during the time period from 1976 to 1981. The New York Department of Environmental Conservation (DEC) has determined that the Shulman Site is impacted with PCBs and metals from salvage operations involving the dismantling of PCB-contaminated transformers. On this basis, NYSEG believes historical AEGIS liability policies issued from the mid-1970s, when the transformers were sold, through the late 1980s, when pollution exclusions were added to the liability policies, are triggered to cover clean-up costs at this Site.

**New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation**

**19-E-0378, 19-G-0379, 19-E-0380 & 19-G-0381 Rate Cases
Request for Information**

- a. The Site is an approximately 7.34-acre parcel owned by Shulman Co., Inc. located in Elmira, New York. The Site is currently used for the storage and handling of salvage materials and metal recycling operations, and has been used for metal salvaging operations since the 1970s, which resulted in the release of polychlorinated biphenyls (PCBs). In 1986, the Site was identified as a Class 2 Inactive Hazardous Waste Disposal Site in DEC's Inactive Hazardous Waste Disposal Site (IHWDS) program (State Superfund program) Site No. 808013. The Remedial Investigation was completed by DEC and a Record of Decision was issued in March 2015, which selected the remedial action (excavation and a cover system) to be implemented. NYSEG is currently pursuing a modification to the PCB clean-up standard, which will reduce the extent of the remediation, if accepted.
- b. The effective dates and policy limits, including self-insured retention limits, are shown in the table below.

AEGIS Policy No.	Effective Dates	Limits	Self-Insured Retention Limits
019	10/1/1975-1978	\$1,000,000	\$100,000
019	10/1/1978-1979	\$5,000,000	\$100,000
019	10/1/1979-1980	\$10,000,000	\$100,000
019A	10/1/1980-07/01/1983	\$10,000,000	\$100,000
019NJ	07/01/1983-10/1/1984	\$10,000,000	\$100,000
019ANJ	10/1/1984-1985	\$25,000,000	\$100,000
019CNJ	10/01/1985-1986	\$20,000,000	\$300,000 with pollution endorsement of \$5,000,000 and SIR of \$500,000, with an aggregate limit of \$6,000,0000

- c. NYSEG has not sued AEGIS. It issued a notice of claim to AEGIS on August 13, 2015 and AEGIS responded with a letter dated August 25, 2015 reserving its rights under the policies. NYSEG and AEGIS met to discuss the claim in October 2016; no further settlement discussions have occurred, pending development of complete estimates of total investigation and clean-up costs for the Site.