Operating Criteria

In general, utilities with lower costs and rates will be in the best position to retain their customer base. Two statistics that measure a company's costs and rates are average cost per unit sold to ultimate customers, and average annual bill data. The section provides calculations of these statistics as well as a five-year history of New York State's average rates for the electric, gas, telephone and water industries.

Average Cost per Unit Sold to Ultimate Customers

The average cost per unit sold to ultimate customers statistic considers only end users of energy, while the cost per total units sold include sales to other utilities (sales for resale) and large customers receiving contract rates. The average cost per unit sold to ultimate customers statistic is a better measure of what a utility's average residential, commercial and industrial customers pay for their electric and gas service. Total costs per unit ratios are somewhat misleading because they include wholesale sales at just above the seller's fuel costs.

For each company and industry, we show the major cost elements, such as operating expenses and taxes, that make up the utility's cost of service. The graphs on pages 29 and 31 provide a comparison of the average cost to ultimate customer statistic of each major company in the electric and gas industries. The graphs on pages 33 and 35

provide the average cost per access line in the telephone industry[1] and the average cost per thousand gallons for the water industry. For comparison purposes, we have included the average costs for all New York State, a sample of companies located in the Northeastern U.S. (electric industry only), and the United States average.

The breakdown of the major cost elements is based on total company expenses. Please note the following adjustments were made to the electric and gas industry graphs. For the electric industry, an adjustment was made to remove expansion and replacement sales made by the New York State Power Authority because these sales are more indicative of a transmission sale than a sale of electricity. For the gas industry, a similar adjustment was made to remove transportation and off-system sales that were classified as commercial or industrial sales of gas.

We advise caution when comparing one utility with another because of differences in how companies account for revenues and expenses. One example of dissimilar revenue accounting is that certain companies classify transportation service customers as industrial sales if the utility still provides backup service to that customer. Other utilities report these transactions as transportation revenues. One example of inconsistent expense classification is the accounting for wages and benefits of companies which jointly own a facility. For the utility operating the facility, labor costs would be classified as wages and

1 For the telecommunications industry, Class [illegible] anies are listed separately while the 37 Class B companies are aggregated to provide [illegible] posite rate per access line.

benefits on the graph. However, for the non-operating co-tenant of the facility, its share of the wages would be classified as other operation and maintenance expense on the graph.

Customer Data

As mentioned earlier, average annual bill data provides a measure of the relative affordability of a company's service. For each utility, the average annual customer bill data shows the average customer's annual usage and the relative amounts paid for it. The average annual bill per customer is calculated by dividing total annual sales revenue by the average number of customers. An analysis of average annual bill data is shown on the tables on pages 38 through 42. Also shown on the tables is an estimate of average usage per customer, calculated by dividing the average number of customers by the number of units sold (kWh for electric, Mcf for gas and thousand gallons for water).

Sources and Uses of Revenues

The graphs on pages 45 through 51 provide the source of revenues for each industry. The electric and gas industries' revenues are broken down by residential, commercial, industrial and other ultimate customers. For the telecommunications industry, the percentage of revenues derived from local service, network access, long distance and miscellaneous is provided. For the water industry, metered sales and sales to others are shown.

The breakdown of the uses for each utility revenue dollar is also provided. The major costs of service are identified on pages 45 through 51 and include fuel & purchased power, purchased gas, water, wages and benefits, taxes, depreciation, and capital costs.

Transportation of Gas Owned by Others

The table on page 54 compares transportation revenues and volumes for each gas company for 2004 and 2000. As illustrated by the table, both the total revenues from the transportation of gas and the number of Mcf transported have increased from 2000 to 2004, with revenue growth outpacing Mcf growth. This increase in revenue per Mcf is due primarily to the fact that smaller commercial and residential customers are using transportation tariffs. These customers transportation tariffs are higher than those of the large industrial customers who were the first to pay the local distribution companies (LDC) solely for the cost of the distribution system used to transport third-party gas from the interstate pipeline to the customer's premises. Transportation sales are expected to continue to increase as more customers take advantage of the ability to purchase third-party gas and transport it over the LDC network.